Specialty Distribution Industry Advisor

Winter 2013

Investment Banking Solutions for the Middle Market

1100 Superior Avenue East Suite 1650 Cleveland, OH 44114 | 216.455.9985 PHONE | 216.455.9986 FAX | www.leaguepark.com

Industry Report

Investment Banking Solutions for the Middle Market

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The U.S. specialty distribution industry encompasses one of the largest components of GDP and is estimated to generate nearly $5 trillion in annual revenue. Specialty distribution includes a multitude of sub-segments such as healthcare, chemicals/industrial gas, foodservice, building materials, and office products.

Given that specialty distribution growth essentially resembles GDP growth, industry participants are approaching the New Year with uncertainty based on concerns over the global economic outlook, rising commodity prices, and uncertainties connected with policy issues, including healthcare reform. However, despite these uncertainties, participants within specialty distribution continue to experience steady year-over-year growth and are generally optimistic about their near-term outlook. Due to unique end market requirements, the sub-segments of the specialty distribution industry need to be assessed individually. For example, the building materials sector is benefiting from the improving residential and non-residential construction and mortgage financing markets, while other segments are not.

The favorable long-term growth profiles, combined with the following dynamics, are likely to increase the level of specialty distribution mergers and acquisitions ("M&A") activity:

- Customer requirements to have an expanded geographic presence and portfolio of SKUs to better service national accounts;
- Increased supplier and customer demands for additional value-added services;
- Need for improved purchasing power and supplier programs; and
- Heightened requirements for more sophisticated information technology systems by suppliers and customers.

Regardless of specific end market or general economic conditions, the highly fragmented nature of the specialty distribution industry should drive consolidation. There are over 250,000 specialty distributors in the U.S.; however, it is estimated that only 10% have revenue over $25 million.

The level of fragmentation has historically been driven by the demand for short lead times, customized products and services, and regional and industry-specific requirements. In an effort to position themselves for long-term growth, specialty distribution companies are anticipated to capitalize on the high degree of industry fragmentation to address the shifting end market dynamics and changing competitive environment. As a tactical measure, the majority of the consolidators' acquisitions will be focused on (i) product line extensions, (ii) increasing geographic coverage, (iii) enhancing their position in the supply chain, and (iv) driving both sales and cost synergies. We believe that most of the smaller distributors, regardless of sub-sector, are predominantly focused on driving sales and largely ignore other facets of the organization, which provides meaningful opportunities for more sophisticated acquirers.

Figure 1: Specialty Distribution Sub-Segments

Specialty Distribution Composition	% of Market
Grocery and foodservice	11.5%
Oil and Gas	10.7%
Pharmaceutical	9.4%
Motor vehicle and motor vehicle parts	8.3%
Industrial	8.2%
Electrical and electronics	7.4%
Other consumer products	5.6%
Miscellaneous durable goods	5.4%
Computer equipment and software	4.3%
Commercial equipment and supplies	4.0%
Metal service centers	3.9%
Building materials and construction	3.5%
Apparel and piece goods	3.3%
Agricultural products	3.1%
Beer, wine, and liquor	2.6%
Office products	2.4%
Chemicals and plastics	2.4%
Hardware, plumbing, and heating equipment	2.3%
Furniture and home furnishing	1.7%
Total Specialty Distribution	**100.0%**

Sources: American Chemical Council, Equity Research, FMI, Freedonia, Frost & Sullivan, National Association of Wholesalers, and League Park Estimates

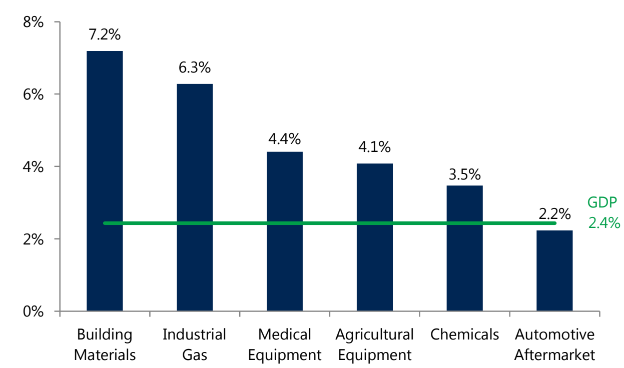
II. Industry Overview

Overview

Given the expansive nature of the specialty distribution industry, individual sub-segments need to be assessed individually. This section of the report will provide a general overview of the primary sub-segments of the specialty distribution industry and will also feature an in-depth review of a select few sub-segments. Holistically, the specialty distribution industry is expected to experience a healthy Compound Annual Growth Rate ("CAGR") of 5.1% from 2010 to 2015P, which is higher than the GDP CAGR of 2.4%. Over the long-run, the relatively low mortgage rates and cost of capital, increasing disposable income, and projected 9% U.S. population growth over the next 10 years should fuel long-term growth; however, the current situation in Washington or a drastic change in policies could more than offset any gains.

The sub-segments with the highest expected growth rates are hardware, plumbing, and heating equipment; commercial equipment and supplies; motor vehicle and parts; and building materials and construction with respective CAGRs of 14.6%, 13.0%, 7.7%, and 7.2%. Sub-segments with the lowest expected growth rates are apparel and piece goods; beer, wine, and liquor; office products; and electrical and electronics with respective CAGRs of (5.5%), 1.1%, 1.6%, and 2.6%.

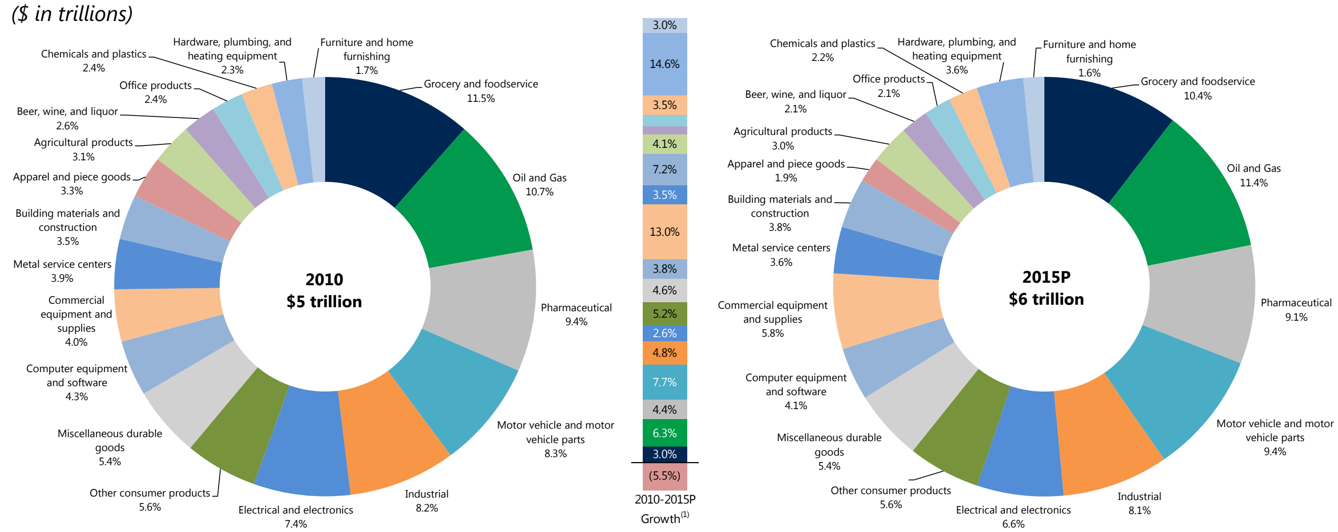
Figure 2: Select Industry versus GDP CAGR, 2010 – 2015P



Sources: American Chemical Council, Equity Research, FMI, Freedonia, Frost & Sullivan, and League Park Estimates

Figure 3: U.S. Specialty Distribution Market Growth, 2010 – 2015P

($ in trillions)



(1) Text is omitted for absolute growth rates of 2% and below

Sources: American Chemical Council, Equity Research, FMI, Freedonia, Frost & Sullivan, and League Park Estimates

Building Materials

The $175 billion U.S. building materials distribution segment services a broad breadth of manufacturers, fabricators, retailers, installers, and contractors of residential, non-residential, and infrastructure-related products. The domestic construction end market for building materials was approximately $815 billion in 2010 and is projected to grow at a CAGR of 7.2% to nearly $1,157 billion in 2015P.

Over the past few months, building materials distribution companies have been in a state of optimism from signs of improving residential and non-residential construction, more reasonable mortgage financing markets, and a stable infrastructure construction market. While the general industry trends tend to be stable, positive demographic trends and the aged infrastructure profile in the U.S. are likely to continue to support long-term growth for building materials distribution companies.

During the projection period from 2010 to 2015P, the building materials distribution market will be primarily driven by increased spending in residential and infrastructure construction, which are expected to grow at CAGRs of 11.9% and 5.3%, respectively. The commercial construction market is expected to lag the residential and infrastructure markets and generate a 4.5% CAGR through 2015P.

Residential Construction

The $250 billion residential construction market is comprised of new home construction ($131 billion) and residential improvements ($119 billion). Although we are yet to see clear signs that the residential construction market is in a sustained recovery, we believe that the current state of the market points to a near-term recovery. In addition, as home equity improves through higher home values, it is also anticipated that the residential improvement market will also pick up momentum.

Commercial Construction

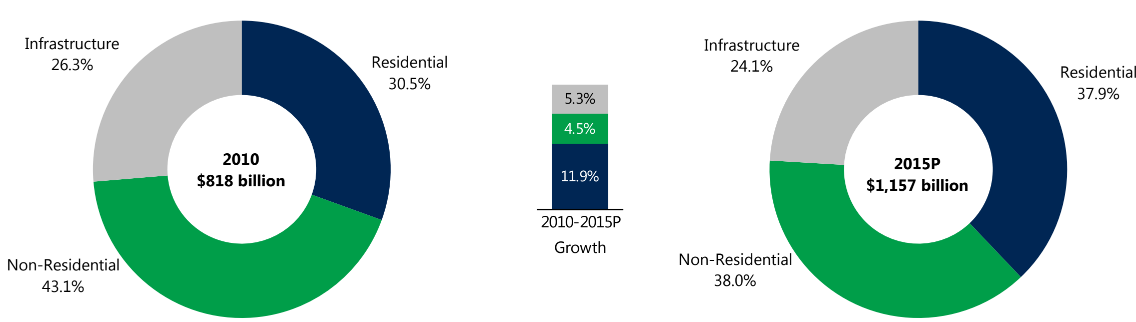
The $350-plus billion commercial construction market is comprised of office and commercial (30% of demand), institutional (45% of demand), and industrial buildings (25% of demand). The commercial construction market relies on fixed investment spending, which is dependent on economic growth, population increases, employment levels, vacancy rates, and manufacturing activity. Therefore, we believe commercial construction should continue to improve, albeit at lower growth levels than residential and infrastructure construction.

Infrastructure Construction

The $215 billion infrastructure construction market is principally driven by highway and street and energy-related construction. Although uncertainty still surrounds highway and street construction funding due to a flat gasoline tax of 18.4 cents per gallon since 1993, the glut of aging highways and bridges is expected to drive demand over the long-run. It is estimated that the total underinvestment in transportation infrastructure is approximately $94 billion per year. As a result, we remain optimistic about the long-term growth of infrastructure construction.

Figure 4: U.S. Construction Spending, 2010 – 2015P

($ in billions)



Sources: FMI, Freedonia, and League Park Estimates

Medical Equipment

The medical equipment distribution market, a sub-sector of the commercial equipment and supplies sector, comprises surgical appliances and supplies, surgical and medical instruments, electromedical equipment, diagnostic products, and other products such as ophthalmic goods and dental equipment and supplies. The domestic market for medical equipment distribution was nearly $137 billion in 2010 and is projected to grow at a CAGR of 4.4% to nearly $170 billion in 2015P.

Domestic demand for medical equipment is correlated to trends observed in national health expenditures. Strongly influenced by demographic patterns, the medical equipment market has been increasing from both the larger number of older patients and the intensive care that is required to treat them. Unlike many industries, the medical equipment market is self-sustaining as new medical advances drive demand for new and innovative medical equipment.

During the projection period from 2010 to 2015P, the medical equipment market will be primarily driven by increasing demand for surgical appliances and supplies and electromedical equipment, which will grow at a CAGR of 5.6% and 5.2%, respectively.

Surgical Appliances & Supplies

Demand for surgical appliances and supplies is primarily driven by the prevalence of medical conditions and volume of patient activity, especially surgical procedures. Additional growth drivers include: (i) increasing number of ambulatory surgery centers; (ii) growth in orthopedic and cardiac implant procedures; (iii) demand for home medical equipment; and (iv) spending on infection prevention equipment.

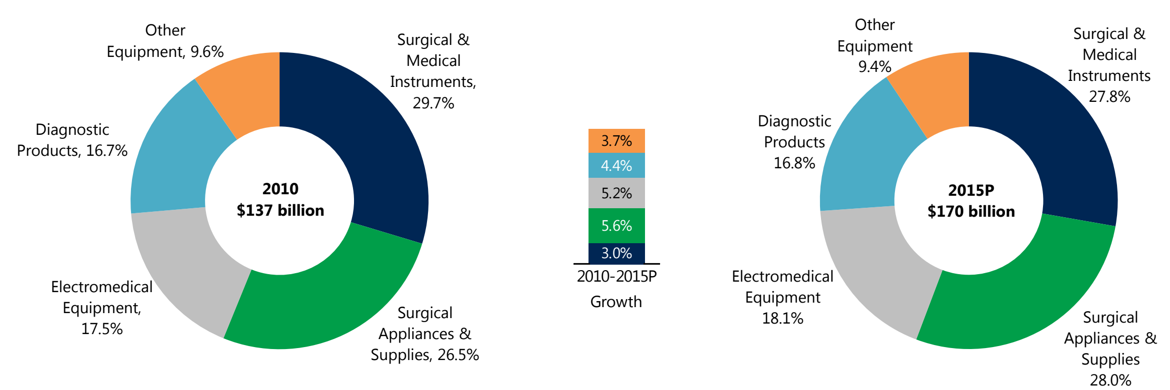
Electromedical Equipment

Demand for electromedical equipment is primarily driven by technological advances and a push towards electronic medical records, which provide more comprehensive data to assess patient conditions and treatment progress. Further growth drivers include: (i) evolving epidemiological trends; (ii) modernizing hospitals; (iii) continuing expansion and diversification of the outpatient sector; and (iv) increasing demand for audiology equipment.

In an effort to be properly positioned in the market and as patient care evolves, distributors within the sector are expected to focus on: (i) products used in orthopedic and cardiac implant procedures; (ii) equipment for the home medical market; (iii) imaging equipment; and (iv) audiology equipment.

Figure 5: U.S. Medical Equipment Demand, 2010 – 2015P

($ in billions)



Sources: Freedonia and League Park Estimates

Industrial and Specialty Gas

The $16 billion U.S. distribution market for industrial and specialty gases, a sub-sector of chemicals and plastics distribution, is highly diverse and includes a plethora of products. In addition, as end-user demands have become more specific and complex, the need for mixtures, specialty gases, and high purity gases has also increased. The increased requirements and purities are increasing the demands on distributors' product offerings and processing capabilities, which are heightening their importance in the supply chain. In addition, distributors are also benefiting from (i) improved economic and industrial activity; (ii) increasing energy demand; (iii) increased environmental consciousness and focus on regulating and monitoring activities; (iv) emerging market growth; (v) increased use of technology and digital devices; and (vi) an aging population with growing healthcare needs.

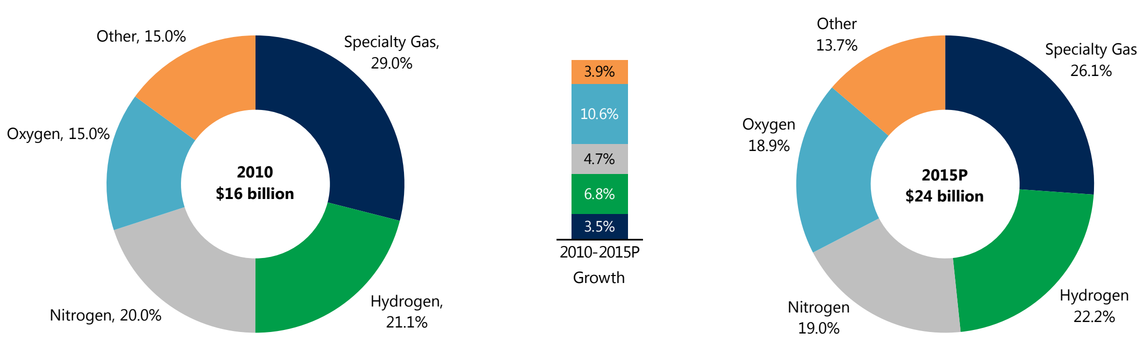
Using increased environmental consciousness and focus on regulating and monitoring activities as an illustrative example, we believe the global adoption of sustainable energy production has positioned the industrial and specialty gas market at a unique inflection point. Example growth drivers are: (i) continuation of hydrogen and oxygen as important components of the complex refining and gasification processes, which greatly reduce emissions and produce cleaner fuel; (ii) increased production of photovoltaics; (iii) increased focus on vehicle emission standards with BAR gases and EPA protocols; and (iv) purification benefits of carbon dioxide in water treatment and oxygen in wastewater treatment. The aforementioned drivers are anticipated to translate into accelerating sales and market penetration for gases with environmental applications. Although we utilized increased environmental consciousness and focus on regulating and monitoring activities as an illustrative example, League Park has also published a more in-depth industrial and specialty gas industry report.

The U.S. industrial and specialty gas market appears to be fairly concentrated, which is true for the large volume markets. However, the cylinder/packaged gas market remains highly fragmented in nature and represents an opportunity for consolidation. For example, within the domestic $13 billion packaged gas market, the five largest companies generate $6.5 billion in sales and control approximately 50% of the market, while the other 50% or $6.5 billion is comprised of nearly 1,000 independent companies. We believe that regardless of end-market or general economic conditions, the fragmented nature of the cylinder/packaged industrial and specialty gas industry should drive consolidation.

In an effort to position themselves for long-term growth, industrial and specialty gas companies are anticipated to capitalize on the high degree of industry fragmentation to address the shifting end market dynamics and changing competitive environment. As a tactical measure, the majority of the consolidators' acquisitions will be focused on (i) expanding product offerings; (ii) increasing geographic coverage; (iii) enhancing their position in the supply chain; (iv) capturing share in the higher margin cylinder/packaged gas market; and (v) driving both sales and cost synergies.

Figure 6: U.S. Industrial Gas Demand, 2010 – 2015P

($ in billions)



Sources: Air Products, Freedonia, and League Park Estimates

Chemicals

The $30 billion U.S. distribution market for chemicals, a sub-sector of chemicals and plastics distribution, is highly diverse and covers a broad-array of end markets including, but not limited to, food ingredients, fragrances, paints/coatings, aerospace, steel, and water treatment. As end-user demands have become more specific and complex, distributors have needed to adapt and provide specialty blending and mixing to compete in the market. In addition to customer specific demand, chemical distributors have also had to implement complex environmental, health, safety, and security programs to meet the requirements of an ever-increasing regulatory environment.

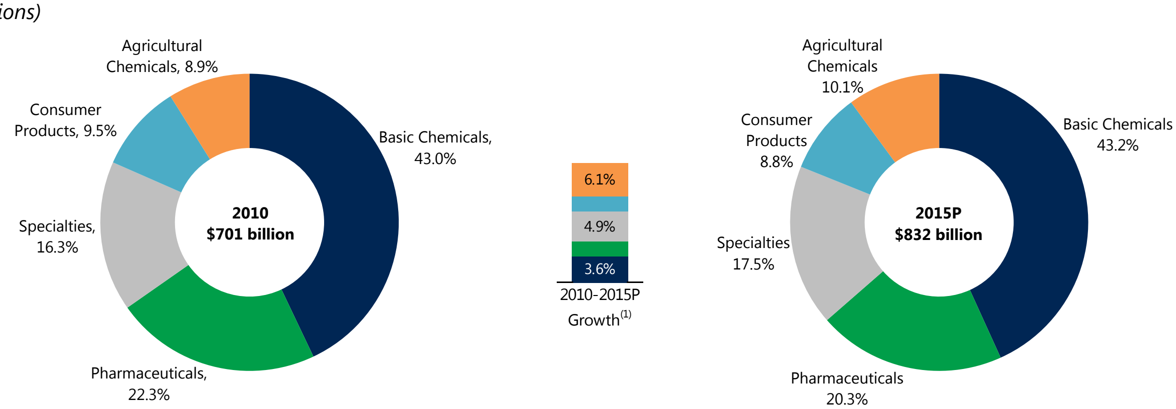
Due to the diverse nature of chemical distributors' end markets it is difficult to outline broad based growth drivers; however, shale gas represents a real "game changer" for the industry holistically. After years of high and highly volatile natural gas prices, the new economics with shale gas will create a real competitive advantage for high volume U.S. chemical manufacturers as power is a principal cost in chemical production. In addition, we continue to see the increased implementation of expensive chemical registration requirements in Europe and Asia. Obviously, these registration requirements will not materially impact production decisions for large volume chemicals, but we do believe that smaller volume chemical production will shift to the U.S. over time. As chemical manufacturers increase production in the U.S., we believe that demand for distributors will increase.

According to the National Association of Chemical Distributors, 2011 was one of the best years in the recent past for industry profitability, with sales per employee increasing over 20%. Historically, chemical distributors tended to be fairly localized and concentrated on a specific industry niche. With the exception of a few large chemical distributors such as the OM Group, the average chemical distributor generates approximately $25 million in annual sales and is a family-owned business. We believe that regardless of end-market or general economic conditions, the fragmented nature of the chemical distribution market should drive consolidation. In addition to the levels of fragmentation, an increasingly more complex regulatory environment will also push the smaller privately held companies towards sale transactions.

We also believe that private equity groups will be active acquirers in the chemical distribution sector – one example of this activity is the Jordan Company's acquisition of Vantage Specialty Chemicals in 2012.

Figure 7: U.S. Chemical Shipments, 2010 – 2015P

($ in billions)



(1)Text is omitted for absolute growth rates of 2% and below

Sources: American Chemical Council Freedonia, and League Park Estimates

Agricultural Equipment

The agricultural equipment market, a sub-sector of the agricultural distribution market, comprises farm tractors, harvesting machinery, planting and fertilizing machinery, parts and attachments, and other equipment. The domestic market for agricultural equipment was nearly $21 billion in 2010 and is projected to grow at a CAGR of 4.1% to nearly $26 billion in 2015P.

Following a decline in demand for agricultural equipment from 2001 to 2006, the industry rebounded with increasing sales from 2006 onward as a result of increasing advances in specialized equipment for varying farming techniques. Given its extensive areas of arable land and substantial farm sizes, the U.S. is the world's largest producer of farm equipment.

The farm tractors and harvesting machinery are projected to represent 26.4% and 21.8%, respectively, of the domestic agricultural equipment market in 2015P, and are expected to account for nearly half of total demand.

Although planted cropland is expected to stay flat at 315 million acres through 2015P over the next five years, growth in the agricultural equipment market will be primarily driven by increasing demand for harvesting machinery and other agricultural equipment, which will grow at CAGRs of 5.3% and 3.8%, respectively.

Harvesting Machinery

Demand for harvesting machinery is primarily driven by technological advances that are focused on the need to harvest larger tracts of farmland. Additional growth drivers include: (i) widespread large-scale corporate farming and (ii) supplemental technological features such as GPS tracking, remote operation, and troubleshooting capabilities.

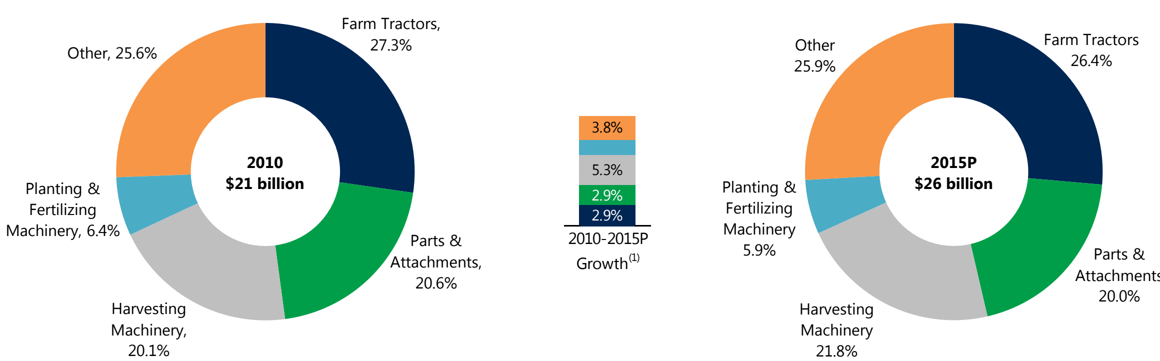
Other Equipment

Other agricultural equipment consists of haying machinery, plowing and cultivating equipment, feed grinders, crushers, and other similar items. As this segment includes specialized machinery for small niche agricultural markets, the average cost of purchasing such equipment is projected to rise faster than other segments, which is a component that is driving its above average growth.

Although the agricultural equipment sector is fairly localized, we anticipate only moderate levels of merger and acquisition activity. We also believe that much of the activity will be completed by strategic acquirers due to the lower than average margins in the sector as compared to the broader distribution market.

Figure 8: U.S. Agricultural Equipment Shipments, 2010 – 2015P

($ in billions)



(1)Text is omitted for absolute growth rates of 2% and below

Sources: Freedonia and League Park Estimates

Automotive Aftermarket

The $83 billion U.S. distribution market for automotive aftermarket, a sub-sector of motor vehicle and motor vehicle parts distribution, is driven by the 250 million light vehicles and 210-plus million licensed drivers across the U.S. Overall, the automotive aftermarket has exhibited highly stable growth and has grown at 3.5% CAGR since 1988. The aforementioned stability in the aftermarket sector is driven by multiple factors, including: (i) aftermarket parts are a relatively low cost item when compared to the cost of a new vehicle; (ii) demand for parts and service is typically non-discretionary/need-based; (iii) vehicle owners' desire to care for a significant personal investment; and (iv) demand is tied to the growing overall base of vehicles, not merely new vehicle sales.

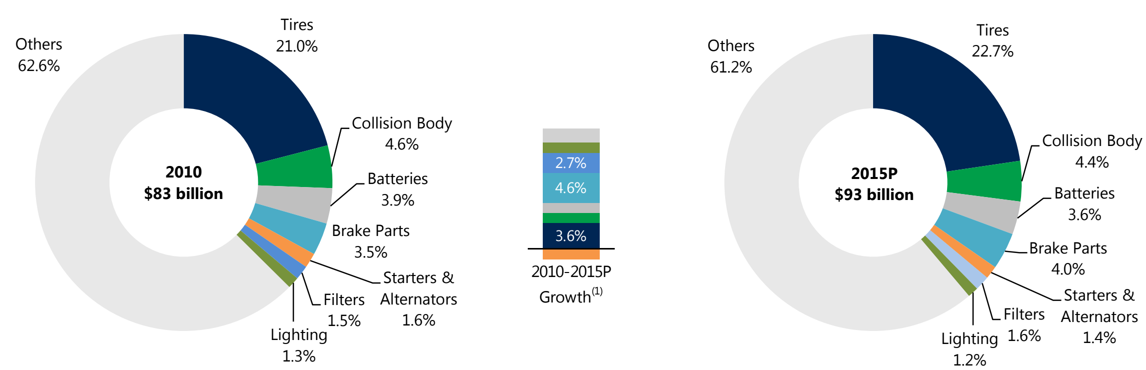
The aftermarket distribution channel tends to be segmented into two primary categories: (i) the commercial Do-It-For-Me ("DIFM") market and (ii) the retail Do-It Yourself ("DIY") market. The DIFM and DIY channels are serviced by 250,000 repair outlets that are supplied by 60,000 parts stores and over 200 distributors. The traditional or "three-step" system consists of the warehouse distributor ("WD"), the jobber, and the end-user or installer. Despite inroads made by retailers and to a small degree the Internet, the traditional system remains efficient and provides the broadest range of parts deliverable within the shortest amount of time.

The automotive aftermarket is traditionally driven by three primary measures: (i) the age of the vehicle population; (ii) the number of vehicles on the road, and (iii) the number of miles driven by consumers. Aftermarket growth has remained relatively steady over the past thirty years, with only periods of excessive fuel price inflation or overwhelming economic uncertainty creating a temporary market pause. The aftermarket has rebounded from relatively weak years in 2008 and 2009 and is set to resume its steady growth over the next decade. The AASA estimates the aftermarket will increase in aggregate size by 18% by 2020. Included in this estimate is a 31% growth contribution from an accelerated aging of the vehicle population, as lower new unit sales in the Great Recession have effectively lengthened the overall replacement cycle. That growth is expected to be offset by a continued decline in replacement rates, as part quality improvements have lowered repairs per vehicle and lengthened service intervals.

In an effort to position themselves for long-term growth, distributors within the aftermarket are anticipated to capitalize on the high degree of industry fragmentation to address the shifting end market dynamics and changing competitive environment. We believe that as a tactical measure, the majority of the consolidators' acquisitions will be focused on (i) expanding product offerings; (ii) increasing geographic coverage; (iii) enhancing their position in the supply chain; and (iv) exploring value-added offerings such as REMAN.

Figure 9: U.S. Automotive Aftermarket, 2010 – 2015P

($ in billions)



(1)Text is omitted for absolute growth rates of 2% and below

Sources: Freedonia, Frost & Sullivan, and League Park Estimates

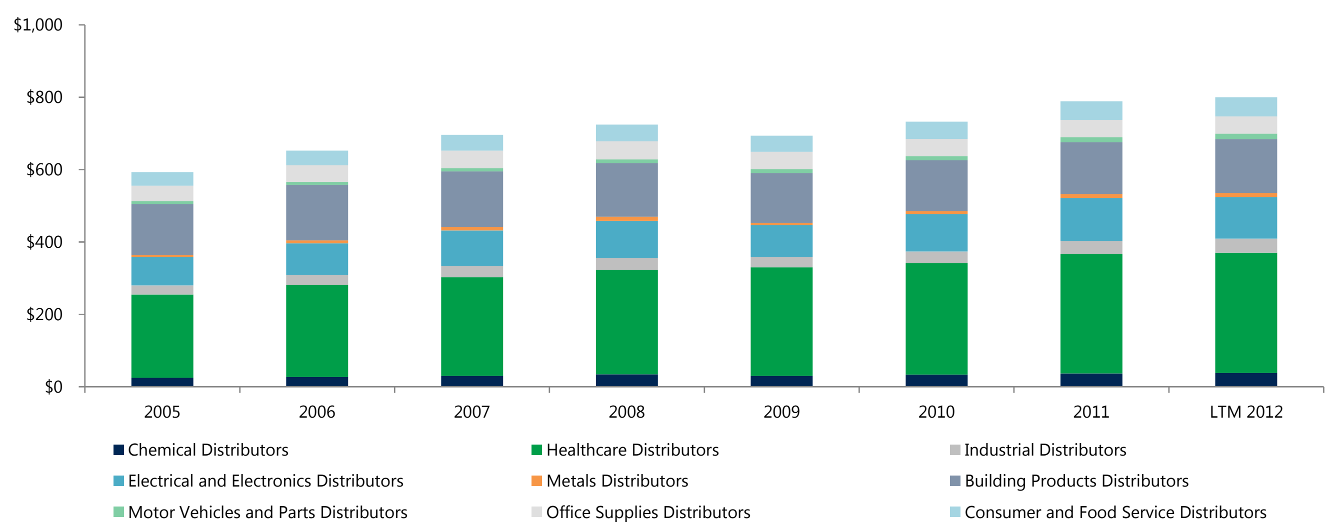
III. Financial Analysis

Despite the uncertain economic outlook, Last Twelve Months ("LTM") 2012 as of the last month of reported financials demonstrated revenue improvement for public specialty distribution companies. The positive results were widespread across all sectors of publicly traded specialty distributors. In addition to improving end market dynamics, certain sectors such as metal distributors have disproportionately benefited from inflation in unit selling prices.

Revenue growth for specialty distribution companies was broad based from 2005 to LTM 2012 and the majority of companies also reported consistent profit margins in LTM 2012. League Park believes that profitability margins will flatten out over the coming years due to increasing commodity prices and competition, which will result in acquirers turning to mergers and acquisitions to show company growth to Wall Street equity analysts.

Figure 10: Annual Specialty Distribution Revenue – Publicly-Traded Companies, 2005 – LTM 2012

($ in billions)



Note: Revenue figures are derived from the companies listed in Figure 11 and LTM as of the last month of reported financials, which may vary depending on the company
Source: Capital IQ

Figure 11: Industry Financial Analysis

As of December 31, 2012

($ in millions)

							YoY Change			
	Last Twelve Months			LTM Margins			LTM	LTM Margins		
	Revenue	EBIT	EBITDA	Gross	EBIT	EBITDA	Revenue	Gross	EBIT	EBITDA
Chemical Distributors										
Airgas, Inc.	$4,881.8	$591.8	$871.3	54.7%	12.1%	17.8%	5.9%	0.7%	6.6%	6.1%
L'Air Liquide SA	20,036.9	3,207.8	4,760.7	60.2%	16.0%	23.8%	3.0%	(0.5%)	2.2%	2.3%
OM Group Inc.	1,736.0	109.7	199.7	23.9%	6.3%	11.5%	14.6%	(1.3%)	(18.3%)	(2.7%)
Praxair Inc.	11,221.0	2,475.0	3,471.0	42.9%	22.1%	30.9%	(0.3%)	0.6%	1.6%	0.9%
Median	**$8,051.4**	**$1,533.4**	**$2,171.2**	**48.8%**	**14.1%**	**20.8%**	**4.5%**	**0.1%**	**1.9%**	**1.6%**
Healthcare Distributors										
AmerisourceBergen Corporation	$79,489.6	$1,283.7	$1,425.7	3.3%	1.6%	1.8%	(1.5%)	5.7%	3.3%	4.1%
Cardinal Health, Inc.	106,649.0	1,895.0	2,230.0	4.3%	1.8%	2.1%	(0.1%)	4.9%	5.9%	5.3%
Henry Schein, Inc.	8,871.7	616.2	738.0	28.1%	6.9%	8.3%	4.0%	(0.7%)	5.8%	5.7%
McKesson Corporation	123,186.0	2,398.0	2,960.0	5.5%	1.9%	2.4%	2.8%	1.0%	6.4%	5.5%
Owens & Minor Inc.	8,779.1	215.5	251.4	9.9%	2.5%	2.9%	1.8%	(0.5%)	0.7%	1.3%
Patterson Companies, Inc.	3,587.8	353.2	397.8	32.6%	9.8%	11.1%	5.1%	(2.8%)	(2.4%)	(1.0%)
PSS World Medical Inc.	2,160.0	131.6	169.4	32.4%	6.1%	7.8%	16.8%	0.6%	7.0%	9.9%
Median	**$8,871.7**	**$616.2**	**$738.0**	**9.9%**	**2.5%**	**2.9%**	**2.8%**	**0.6%**	**5.8%**	**5.3%**
Industrial Distributors										
Anixter International Inc.	$6,207.7	$363.4	$395.8	22.8%	5.9%	6.4%	1.0%	(0.5%)	(1.3%)	(1.4%)
Applied Industrial Technologies, Inc.	2,406.4	173.9	197.1	27.4%	7.2%	8.2%	4.4%	(1.4%)	4.7%	4.5%
DXP Enterprises, Inc.	1,022.5	81.1	96.8	28.8%	7.9%	9.5%	26.7%	0.2%	46.2%	47.7%
Fastenal Company	3,074.1	656.0	707.4	51.4%	21.3%	23.0%	11.1%	(0.8%)	14.1%	14.2%
Genuine Parts Company	12,909.0	991.6	1,086.9	29.1%	7.7%	8.4%	3.6%	0.6%	9.0%	8.9%
Kaman Corporation	1,587.5	98.1	125.2	27.8%	6.2%	7.9%	6.0%	(0.2%)	0.4%	3.5%
Lawson Products Inc.	295.2	(16.5)	(11.2)	54.4%	(5.6%)	(3.8%)	(6.3%)	(4.7%)	nm	nm
MSC Industrial Direct Co. Inc.	2,387.7	421.2	458.1	45.7%	17.6%	19.2%	14.0%	(1.9%)	14.0%	14.7%
W.W. Grainger, Inc.	8,800.8	1,102.4	1,242.2	43.8%	12.5%	14.1%	8.9%	0.7%	3.9%	4.3%
Median	**$2,406.4**	**$363.4**	**$395.8**	**29.1%**	**7.7%**	**8.4%**	**6.0%**	**(0.5%)**	**6.9%**	**6.7%**
Electrical and Electronics Distributors										
Arrow Electronics, Inc.	$20,442.9	$822.4	$936.1	13.6%	4.0%	4.6%	(4.4%)	(1.5%)	(13.7%)	(11.4%)
Avnet, Inc.	25,151.6	872.1	979.3	11.9%	3.5%	3.9%	(5.8%)	0.5%	(14.2%)	(11.2%)
Houston Wire & Cable Company	376.1	26.8	29.7	22.6%	7.1%	7.9%	(5.1%)	0.7%	(15.4%)	(14.3%)
Ingram Micro Inc.	36,400.4	492.2	548.3	5.3%	1.4%	1.5%	0.2%	0.9%	6.1%	5.2%
Premier Farnell plc	1,522.4	157.1	172.7	38.9%	10.3%	11.3%	(3.7%)	(3.2%)	(11.4%)	(10.4%)
Tech Data Corp.	25,010.2	321.8	376.5	5.2%	1.3%	1.5%	(5.6%)	(1.1%)	(11.0%)	(10.0%)
WESCO International Inc.	6,524.5	374.1	403.6	20.3%	5.7%	6.2%	6.5%	0.4%	12.3%	12.5%
Median	**$20,442.9**	**$374.1**	**$403.6**	**13.6%**	**4.0%**	**4.6%**	**(4.4%)**	**0.4%**	**(11.4%)**	**(10.4%)**
Metals Distributors										
A. M. Castle & Co.	$1,278.5	$39.9	$64.8	15.3%	3.1%	5.1%	12.9%	13.8%	322.0%	116.6%
Olympic Steel Inc.	1,411.9	32.6	53.6	19.6%	2.3%	3.8%	11.9%	(3.0%)	(29.9%)	(15.3%)
Reliance Steel & Aluminum Co.	8,587.2	635.7	779.4	25.1%	7.4%	9.1%	5.6%	2.9%	11.0%	10.4%
Median	**$1,411.9**	**$39.9**	**$64.8**	**19.6%**	**3.1%**	**5.1%**	**11.9%**	**2.9%**	**11.0%**	**10.4%**
Building Products Distributors										
Lowe's Companies Inc.	$51,104.0	$3,708.0	$5,301.0	34.3%	7.3%	10.4%	4.2%	(1.6%)	0.2%	0.3%
The Home Depot, Inc.	72,522.0	7,443.0	9,117.0	34.6%	10.3%	12.6%	4.3%	0.5%	16.9%	13.1%
Watsco Inc.	3,312.0	225.2	239.6	23.9%	6.8%	7.2%	11.2%	(2.2%)	12.4%	13.0%
Wolseley plc	21,596.3	978.4	1,256.7	27.6%	4.5%	5.8%	(1.8%)	(0.7%)	9.8%	2.7%
Median	**$36,350.1**	**$2,343.2**	**$3,278.9**	**31.0%**	**7.0%**	**8.8%**	**4.3%**	**(1.2%)**	**11.1%**	**7.9%**
Motor Vehicles and Parts Distributors										
AutoZone, Inc.	$8,670.6	$1,651.2	$1,865.1	51.7%	19.0%	21.5%	5.7%	1.1%	8.0%	7.8%
LKQ Corp.	3,994.6	411.4	479.1	41.4%	10.3%	12.0%	22.2%	(2.8%)	11.5%	13.1%
U.S. Auto Parts Network, Inc.	318.4	(5.6)	10.8	30.7%	(1.8%)	3.4%	(2.7%)	(6.2%)	nm	nm
Uni-Select Inc.	1,833.6	74.2	100.2	31.1%	4.0%	5.5%	3.0%	3.1%	(10.7%)	(4.8%)
Median	**$2,914.1**	**$242.8**	**$289.7**	**36.3%**	**7.2%**	**8.7%**	**4.3%**	**(0.8%)**	**8.0%**	**7.8%**
Office Supplies Distributors										
Office Depot, Inc.	$11,042.6	$169.8	$374.5	30.5%	1.5%	3.4%	(3.9%)	2.1%	85.0%	23.5%
OfficeMax Incorporated	7,055.7	120.1	196.3	25.5%	1.7%	2.8%	(0.9%)	0.6%	1.6%	(3.0%)
Staples, Inc.	24,544.3	1,516.9	1,985.0	26.7%	6.2%	8.1%	(0.7%)	(1.6%)	(5.2%)	(4.9%)
United Stationers Inc.	5,037.4	197.0	231.4	14.8%	3.9%	4.6%	0.6%	0.3%	(2.5%)	(2.0%)
Median	**$9,049.1**	**$183.4**	**$303.0**	**26.1%**	**2.8%**	**4.0%**	**(0.8%)**	**0.4%**	**(0.4%)**	**(2.5%)**
Consumer and Food Service Distributors										
Bunzl plc	$8,495.8	$487.9	$602.6	23.0%	5.7%	7.1%	3.3%	(2.2%)	4.2%	3.2%
Central Garden & Pet Co.	1,700.0	74.4	110.4	30.2%	4.4%	6.5%	3.1%	1.5%	(7.4%)	(3.4%)
Sysco Corporation	42,881.5	2,065.1	2,503.0	18.0%	4.8%	5.8%	4.5%	(2.4%)	1.8%	2.9%
Median	**$8,495.8**	**$487.9**	**$602.6**	**23.0%**	**4.8%**	**6.5%**	**3.3%**	**(2.2%)**	**1.8%**	**2.9%**

Source: Capital IQ

IV. Valuation Metrics

Publicly-traded chemical, healthcare, industrial, building products and motor vehicles and parts distributors outperformed the broader equity market (i.e., S&P 500 Index) over the past four years, which is correlated to their respective strong outlook. As illustrated in Figure 14, the equity markets are beginning to rebound since 2009; most industry groups were close to, or above, the performance of the broader index.

Valuation multiples for specialty distributors continued to remain stable or exhibit slight improvement throughout 2012, exemplifying the market's belief that the worst of the recession has likely passed. The median Earnings before Interest, Taxes, Depreciation, and Amortization ("EBITDA") multiple for the various subsectors of specialty distributors ranged between 5.6x and 10.7x. Several of the current valuation levels exceeded the period reviewed, which is based on the strong outlook.

Figure 15 depicts valuation analysis of select companies in the specialty distribution market. On average, chemical, industrial, building products, and automotive aftermarket distribution companies tend to receive higher valuations in the public markets in comparison to other specialty distribution companies. We believe that the public markets currently place a higher value on the consistency of earnings within these previously referenced sectors and their underlying fundamentals (i.e., barriers to entry, MRO product offering, annuity-like cash flow, fragmented supplier or customer base, etc.) compared to other specialty distributors such as building products. Industrial, automotive aftermarket, building products, and chemical focused distributors are continuing to experience continued strength in their end markets, and accordingly, are enjoying relatively high valuations from a historical standpoint. One notable exception from the positive long-term trend is the healthcare segment. We believe that the uncertainty of The Affordable Care Act has broadly suppressed valuations; however, healthcare distributors that are not subject to trends in reimbursement should continue to command premium valuations.

Additionally, it should be noted that companies in the specialty distribution industry generally garner higher valuation multiples than many industrial companies due to valuation drivers outlined in Figure 12. Most likely the aforementioned phenomenon is due to the relatively stable long-term growth, asset light business model, and the general overall size and scale of the various end markets. The relatively strong public valuations should enable strategic buyers to provide some benefits of acquisition synergies to potential sellers through a higher purchase price, yet still realize earnings accretion post-closing.

Figure 12: Strategic and Financial Valuation Drivers

Strategic Buyer - Valuation Drivers
• Additive Value-Added Services
• Channel Diversification
• End Market Diversification
• Leading Information Technology
• Leading Market Position
• Product Line Extension
• Unique Customer Penetration

Financial Buyer - Valuation Drivers
• Competitive Suite of Value-Added Services
• Customer Diversification
• Geographic Diversification
• High Free Cash Flow
• Leading Market Position
• Management Talent
• Market Fragmentation
• Niche Product or Market
• Strong Information Technology Platform
• Strong Sales and Marketing Presence

Source: League Park

Figure 13: Relative Stock Price Performance

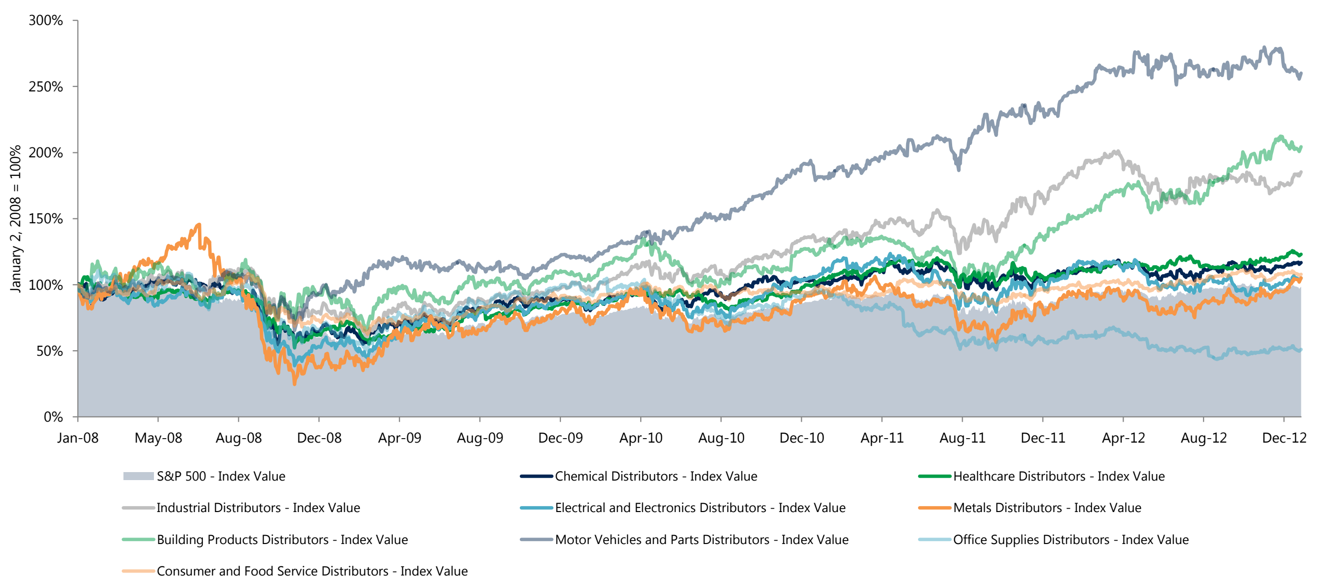
As of December 31, 2012

	Price as of 12/31/12	52 Week High	52 Week Low	% of High
Chemical Distributors				
Airgas, Inc.	$91.29	$93.46	$75.78	97.7%
L'Air Liquide SA	125.32	131.85	110.28	95.0%
OM Group Inc.	22.20	31.26	15.12	71.0%
Praxair Inc.	109.45	116.93	100.00	93.6%
Median	**$100.37**	**$105.20**	**$87.89**	**94.3%**
Healthcare Distributors				
AmerisourceBergen Corporation	$43.18	$44.02	$35.48	98.1%
Cardinal Health, Inc.	41.18	44.49	36.91	92.6%
Henry Schein, Inc.	80.42	82.91	64.74	97.0%
McKesson Corporation	96.96	100.00	74.89	97.0%
Owens & Minor Inc.	28.51	31.49	26.97	90.5%
Patterson Companies, Inc.	34.23	36.42	29.00	94.0%
PSS World Medical Inc.	28.88	28.90	18.64	99.9%
Median	**$41.18**	**$44.02**	**$35.48**	**97.0%**
Industrial Distributors				
Anixter International Inc.	$63.98	$74.00	$47.98	86.5%
Applied Industrial Technologies, Inc.	42.01	44.86	34.44	93.6%
DXP Enterprises, Inc.	49.07	51.68	31.78	94.9%
Fastenal Company	46.65	55.05	37.61	84.7%
Genuine Parts Company	63.58	66.91	55.58	95.0%
Kaman Corporation	36.80	37.79	26.10	97.4%
Lawson Products Inc.	9.90	17.92	5.84	55.2%
MSC Industrial Direct Co. Inc.	75.38	84.76	61.39	88.9%
W.W. Grainger, Inc.	202.37	221.84	172.50	91.2%
Median	**$49.07**	**$55.05**	**$37.61**	**91.2%**
Electrical and Electronics Distributors				
Arrow Electronics, Inc.	$38.08	$43.39	$30.84	87.8%
Avnet, Inc.	30.61	37.03	25.41	82.7%
Houston Wire & Cable Company	12.27	15.33	10.32	80.0%
Ingram Micro Inc.	16.92	19.80	14.42	85.5%
Premier Farnell plc	3.16	3.73	2.44	84.7%
Tech Data Corp.	45.53	59.29	42.25	76.8%
WESCO International Inc.	67.43	68.19	48.20	98.9%
Median	**$30.61**	**$37.03**	**$25.41**	**84.7%**

	Price as of 12/31/12	52 Week High	52 Week Low	% of High
Metals Distributors				
A. M. Castle & Co.	$14.77	$14.97	$6.99	98.7%
Olympic Steel Inc.	22.14	28.31	14.77	78.2%
Reliance Steel & Aluminum Co.	62.10	62.45	44.81	99.4%
Median	**$22.14**	**$28.31**	**$14.77**	**98.7%**
Building Products Distributors				
Lowe's Companies Inc.	$35.52	$36.47	$24.76	97.4%
The Home Depot, Inc.	61.85	65.92	41.92	93.8%
Watsco Inc.	74.90	80.34	64.13	93.2%
Wolseley plc	47.14	49.69	35.16	94.9%
Median	**$54.49**	**$57.80**	**$38.54**	**94.3%**
Motor Vehicles and Parts Distributors				
AutoZone, Inc.	$354.43	$399.10	$313.11	88.8%
LKQ Corp.	21.10	22.29	14.63	94.7%
U.S. Auto Parts Network, Inc.	1.83	5.40	1.71	33.9%
Uni-Select Inc.	23.72	30.00	22.23	79.1%
Median	**$22.41**	**$26.14**	**$18.43**	**83.9%**
Office Supplies Distributors				
Office Depot, Inc.	$3.28	$3.81	$1.51	86.1%
OfficeMax Incorporated	9.76	10.62	4.10	91.9%
Staples, Inc.	11.40	16.93	10.57	67.3%
United Stationers Inc.	30.99	35.00	23.93	88.5%
Median	**$10.58**	**$13.78**	**$7.34**	**87.3%**
Consumer and Food Service Distributors				
Bunzl plc	$16.40	$18.98	$13.77	86.4%
Central Garden & Pet Co.	10.02	12.61	8.25	79.5%
Sysco Corporation	31.66	32.40	27.05	97.7%
Median	**$16.40**	**$18.98**	**$13.77**	**86.4%**

Source: Capital IQ

Figure 14: Relative Stock Price Performance, January 2008 – December 2012



Source: Capital IQ

Figure 15: Industry Valuations

As of December 31, 2012

		Enterprise	Total Debt /		Enterprise Value / LTM		
	Market Cap	Value*	LTM EBITDA	Capital	Revenue	EBIT	EBITDA
Chemical Distributors							
Airgas, Inc.	$7,129.9	$9,248.9	2.5x	30.4%	1.9x	15.6x	10.6x
L'Air Liquide SA	39,009.8	47,427.2	2.0x	24.5%	2.4x	14.8x	10.0x
OM Group Inc.	718.8	1,030.9	3.0x	82.6%	0.6x	9.4x	5.2x
Praxair Inc.	32,520.4	40,122.4	2.1x	21.9%	3.6x	16.2x	11.6x
Median	**$19,825.2**	**$24,685.7**	**2.3x**	**27.4%**	**2.1x**	**15.2x**	**10.3x**
Healthcare Distributors							
AmerisourceBergen Corporation	$10,167.8	$10,548.0	1.0x	14.2%	0.1x	8.2x	7.4x
Cardinal Health, Inc.	13,992.1	14,383.1	1.3x	20.6%	0.1x	7.6x	6.4x
Henry Schein, Inc.	7,076.5	7,973.6	0.8x	8.6%	0.9x	12.9x	10.8x
McKesson Corporation	22,886.4	23,636.4	1.2x	15.6%	0.2x	9.9x	8.0x
Owens & Minor Inc.	1,807.5	1,943.7	0.9x	11.9%	0.2x	9.0x	7.7x
Patterson Companies, Inc.	3,718.5	3,993.4	1.9x	20.8%	1.1x	11.3x	10.0x
PSS World Medical Inc.	1,453.2	1,794.3	2.7x	31.6%	0.8x	13.6x	10.6x
Median	**$7,076.5**	**$7,973.6**	**1.2x**	**15.6%**	**0.2x**	**9.9x**	**8.0x**
Industrial Distributors							
Anixter International Inc.	$2,063.2	$2,960.6	2.6x	50.1%	0.5x	8.1x	7.5x
Applied Industrial Technologies, Inc.	1,766.4	1,709.7	nm	nm	0.7x	9.8x	8.7x
DXP Enterprises, Inc.	695.9	942.7	2.7x	37.2%	0.9x	11.6x	9.7x
Fastenal Company	13,823.4	13,600.6	nm	nm	4.4x	20.7x	19.2x
Genuine Parts Company	9,863.2	9,975.5	0.5x	5.1%	0.8x	10.1x	9.2x
Kaman Corporation	976.9	1,238.8	2.2x	28.1%	0.8x	12.6x	9.9x
Lawson Products Inc.	85.1	115.0	nm	36.0%	0.4x	nm	nm
MSC Industrial Direct Co. Inc.	4,760.2	4,530.0	0.0x	0.1%	1.9x	10.8x	9.9x
W.W. Grainger, Inc.	14,063.7	14,310.0	0.5x	4.0%	1.6x	13.0x	11.5x
Median	**$2,063.2**	**$2,960.6**	**1.3x**	**28.1%**	**0.8x**	**11.2x**	**9.8x**
Electrical and Electronics Distributors							
Arrow Electronics, Inc.	$4,035.0	$5,633.2	2.1x	48.4%	0.3x	6.8x	6.0x
Avnet, Inc.	4,200.7	5,506.1	2.4x	55.9%	0.2x	6.3x	5.6x
Houston Wire & Cable Company	218.8	287.3	2.3x	31.3%	0.8x	10.7x	9.7x
Ingram Micro Inc.	2,540.6	2,106.5	1.4x	30.3%	0.1x	4.3x	3.8x
Premier Farnell plc	1,151.8	1,561.1	3.3x	49.3%	1.0x	9.9x	9.0x
Tech Data Corp.	1,719.3	1,623.6	1.1x	24.4%	0.1x	5.0x	4.3x
WESCO International Inc.	2,949.9	3,621.6	1.9x	26.4%	0.6x	9.7x	9.0x
Median	**$2,540.6**	**$2,106.5**	**2.1x**	**31.3%**	**0.3x**	**6.8x**	**6.0x**
Metals Distributors							
A. M. Castle & Co.	$341.2	$624.8	4.7x	89.0%	0.5x	15.7x	9.6x
Olympic Steel Inc.	241.7	515.3	5.2x	114.8%	0.4x	15.8x	9.6x
Reliance Steel & Aluminum Co.	4,692.1	5,949.5	1.8x	29.1%	0.7x	9.4x	7.6x
Median	**$341.2**	**$624.8**	**4.7x**	**89.0%**	**0.5x**	**15.7x**	**9.6x**
Building Products Distributors							
Lowe's Companies Inc.	$39,948.5	$47,697.5	1.7x	22.7%	0.9x	12.9x	9.0x
The Home Depot, Inc.	92,476.8	100,735.8	1.2x	11.7%	1.4x	13.5x	11.0x
Watsco Inc.	2,302.7	2,754.8	0.8x	8.8%	0.8x	12.2x	11.5x
Wolseley plc	12,827.9	12,882.6	1.1x	10.5%	0.6x	13.2x	10.3x
Median	**$26,388.2**	**$30,290.1**	**1.1x**	**11.1%**	**0.9x**	**13.0x**	**10.7x**
Motor Vehicles and Parts Distributors							
AutoZone, Inc.	$12,876.8	$16,560.5	2.0x	29.5%	1.9x	nm	8.9x
LKQ Corp.	6,271.4	7,201.3	2.1x	15.9%	1.8x	17.5x	15.0x
U.S. Auto Parts Network, Inc.	57.0	73.1	1.6x	30.4%	0.2x	nm	6.8x
Uni-Select Inc.	511.1	939.1	4.3x	84.0%	0.5x	12.7x	9.4x
Median	**$3,391.3**	**$4,070.2**	**2.1x**	**29.9%**	**1.2x**	**15.1x**	**9.1x**
Office Supplies Distributors							
Office Depot, Inc.	$935.6	$1,373.6	1.8x	71.7%	0.1x	8.1x	3.7x
OfficeMax Incorporated	846.6	1,376.7	4.9x	114.7%	0.2x	11.5x	7.0x
Staples, Inc.	7,682.3	8,330.7	0.8x	21.6%	0.3x	5.5x	4.2x
United Stationers Inc.	1,246.6	1,683.0	2.0x	36.7%	0.3x	8.5x	7.3x
Median	**$1,091.1**	**$1,529.8**	**1.9x**	**54.2%**	**0.3x**	**8.3x**	**5.6x**
Consumer and Food Service Distributors							
Bunzl plc	$5,360.6	$6,492.3	2.1x	23.4%	0.8x	13.3x	10.8x
Central Garden & Pet Co.	487.7	867.2	4.1x	92.2%	0.5x	11.7x	7.9x
Sysco Corporation	18,609.8	21,078.9	1.2x	16.2%	0.5x	10.2x	8.4x
Median	**$5,360.6**	**$6,492.3**	**2.1x**	**23.4%**	**0.5x**	**11.7x**	**8.4x**

** Enterprise Value includes Preferred Equity and Cash*

Source: Capital IQ

Figure 16: Trends in Industry Valuations

As of LTM December 31, 2003 – 2012

	12/31/2012	12/31/2011	12/31/2010	12/31/2009	12/31/2008	12/31/2007	12/31/2006	12/31/2005	12/31/2004	12/31/2003
Chemical Distributors										
Airgas, Inc.	10.6x	10.1x	9.8x	8.0x	6.7x	10.2x	9.2x	9.5x	9.9x	9.4x
L'Air Liquide SA	10.0x	9.6x	10.4x	9.8x	7.9x	11.0x	10.1x	9.6x	8.4x	8.2x
OM Group Inc.	5.2x	5.5x	4.9x	21.3x	1.8x	7.1x	6.0x	7.0x	5.7x	5.6x
Praxair Inc.	11.6x	11.4x	12.5x	12.4x	8.0x	13.0x	10.4x	10.9x	10.6x	11.2x
Median	**10.3x**	**9.8x**	**10.1x**	**11.1x**	**7.3x**	**10.6x**	**9.7x**	**9.6x**	**9.2x**	**8.8x**
Healthcare Distributors										
AmerisourceBergen Corporation	7.4x	6.8x	7.7x	7.8x	6.5x	8.6x	10.3x	11.6x	7.2x	7.6x
Cardinal Health, Inc.	6.4x	7.4x	7.6x	5.0x	6.0x	9.2x	10.5x	11.5x	10.5x	10.8x
Henry Schein, Inc.	10.8x	9.6x	10.1x	9.1x	6.6x	13.2x	12.7x	13.4x	13.0x	12.0x
McKesson Corporation	8.0x	7.0x	6.8x	7.1x	6.0x	10.9x	9.6x	10.4x	9.1x	9.2x
Owens & Minor Inc.	7.7x	7.6x	8.2x	8.8x	9.0x	13.1x	11.3x	7.5x	8.7x	7.5x
Patterson Companies, Inc.	10.0x	8.9x	9.8x	9.9x	6.9x	12.2x	14.3x	14.4x	20.1x	22.0x
PSS World Medical Inc.	10.6x	8.8x	9.3x	10.1x	11.2x	13.5x	13.6x	14.0x	12.6x	17.8x
Median	**8.0x**	**7.6x**	**8.2x**	**8.8x**	**6.6x**	**12.2x**	**11.3x**	**11.6x**	**10.5x**	**10.8x**
Industrial Distributors										
Anixter International Inc.	7.5x	7.2x	9.4x	9.3x	4.4x	7.4x	8.7x	9.7x	11.8x	10.1x
Applied Industrial Technologies, Inc.	8.7x	7.7x	8.8x	8.5x	5.1x	7.6x	8.2x	8.9x	10.2x	10.0x
DXP Enterprises, Inc.	9.7x	9.1x	12.2x	6.8x	6.4x	13.0x	10.6x	12.3x	6.5x	7.0x
Fastenal Company	19.2x	21.8x	19.9x	16.4x	10.6x	15.1x	15.9x	20.7x	21.9x	25.7x
Genuine Parts Company	9.2x	9.7x	9.4x	8.2x	6.9x	8.8x	9.9x	10.1x	11.2x	9.2x
Kaman Corporation	9.9x	7.0x	12.3x	9.6x	6.4x	11.9x	8.5x	25.7x	nm	8.7x
Lawson Products Inc.	nm	12.8x	14.5x	11.9x	5.2x	9.1x	10.7x	8.5x	10.7x	10.0x
MSC Industrial Direct Co. Inc.	9.9x	11.7x	15.0x	12.7x	7.2x	8.8x	11.6x	13.8x	16.9x	17.3x
W.W. Grainger, Inc.	11.5x	11.5x	10.3x	8.9x	6.9x	9.2x	8.2x	10.0x	10.9x	9.1x
Median	**9.8x**	**9.7x**	**12.2x**	**9.3x**	**6.4x**	**9.1x**	**9.9x**	**10.1x**	**11.0x**	**10.0x**
Electrical and Electronics Distributors										
Arrow Electronics, Inc.	6.0x	5.6x	6.7x	8.7x	4.3x	8.1x	7.4x	na	na	na
Avnet, Inc.	5.6x	5.4x	7.3x	9.3x	4.4x	7.8x	7.6x	11.5x	9.3x	16.4x
Houston Wire & Cable Company	9.7x	8.8x	19.8x	14.4x	4.5x	5.7x	9.6x	na	na	na
Ingram Micro Inc.	3.8x	4.1x	4.8x	5.0x	3.5x	6.7x	7.4x	8.0x	8.2x	8.8x
Premier Farnell plc	9.0x	7.7x	11.4x	11.0x	8.2x	7.8x	10.7x	10.4x	8.7x	11.5x
Tech Data Corp.	4.3x	3.9x	5.3x	5.1x	3.4x	7.5x	9.6x	8.6x	10.2x	12.6x
WESCO International Inc.	9.0x	8.5x	12.7x	7.3x	4.8x	7.1x	8.5x	12.7x	10.4x	8.0x
Median	**6.0x**	**5.6x**	**7.3x**	**8.7x**	**4.4x**	**7.5x**	**8.5x**	**10.4x**	**9.3x**	**11.5x**
Metals Distributors										
A. M. Castle & Co.	9.6x	7.4x	nm	29.0x	3.8x	5.9x	6.7x	5.6x	7.9x	nm
Olympic Steel Inc.	9.6x	9.0x	20.9x	nm	2.5x	7.0x	4.2x	4.5x	3.9x	14.6x
Reliance Steel & Aluminum Co.	7.6x	7.5x	9.0x	11.2x	3.8x	6.6x	6.4x	6.6x	5.9x	16.1x
Median	**9.6x**	**7.5x**	**15.0x**	**20.1x**	**3.8x**	**6.6x**	**6.4x**	**5.6x**	**5.9x**	**15.4x**
Building Products Distributors										
Lowe's Companies Inc.	9.0x	7.1x	7.4x	7.7x	6.2x	6.0x	7.8x	10.0x	10.7x	12.1x
The Home Depot, Inc.	11.0x	9.1x	9.1x	8.2x	6.3x	5.6x	7.5x	8.3x	10.3x	10.3x
Watsco Inc.	11.5x	11.5x	11.8x	17.2x	9.4x	9.0x	9.4x	15.0x	11.2x	10.2x
Wolseley plc	10.3x	8.9x	10.5x	7.2x	5.8x	7.1x	10.1x	10.4x	9.4x	9.8x
Median	**10.7x**	**9.0x**	**9.8x**	**7.9x**	**6.2x**	**6.6x**	**8.6x**	**10.2x**	**10.5x**	**10.3x**
Motor Vehicles and Parts Distributors										
AutoZone, Inc.	8.9x	9.3x	9.5x	7.6x	7.9x	7.8x	na	na	na	na
LKQ Corp.	15.0x	12.5x	11.4x	13.1x	8.7x	23.1x	15.9x	16.4x	11.4x	13.1x
U.S. Auto Parts Network, Inc.	6.8x	7.9x	16.8x	16.9x	3.4x	16.0x	na	na	na	na
Uni-Select Inc.	9.4x	9.3x	9.2x	7.5x	8.3x	8.9x	8.8x	9.6x	10.7x	6.3x
Median	**9.1x**	**9.3x**	**10.4x**	**10.3x**	**8.1x**	**12.4x**	**12.3x**	**13.0x**	**11.1x**	**9.7x**
Office Supplies Distributors										
Office Depot, Inc.	3.7x	3.6x	7.1x	13.4x	3.1x	4.2x	10.3x	11.4x	6.1x	7.1x
OfficeMax Incorporated	7.0x	8.1x	11.0x	13.1x	5.9x	7.2x	14.4x	21.5x	7.0x	11.6x
Staples, Inc.	4.2x	5.1x	8.1x	9.5x	7.6x	7.9x	10.4x	10.2x	11.8x	13.0x
United Stationers Inc.	7.3x	7.3x	7.7x	8.2x	5.0x	5.0x	6.0x	8.3x	8.3x	8.9x
Median	**5.6x**	**6.2x**	**7.9x**	**11.3x**	**5.5x**	**6.1x**	**10.3x**	**10.8x**	**7.6x**	**10.3x**
Consumer and Food Service Distributors										
Bunzl plc	10.8x	10.6x	9.6x	9.9x	9.5x	11.7x	10.7x	8.9x	7.5x	7.4x
Central Garden & Pet Co.	7.9x	6.7x	6.0x	6.4x	6.8x	7.4x	10.6x	9.9x	11.3x	7.9x
Sysco Corporation	8.4x	8.4x	8.1x	8.1x	6.7x	9.7x	13.0x	11.0x	13.9x	15.3x
Median	**8.4x**	**8.4x**	**8.1x**	**8.1x**	**6.8x**	**9.7x**	**10.7x**	**9.9x**	**11.3x**	**7.9x**

Source: Capital IQ

V. M&A Trends

Market Fragmentation

The specialty distribution industry is highly fragmented with over 250,000 participants competing. In addition, it is estimated that 10% of specialty distributors have revenue in excess of $25 million. Given the number of distributors and the large disparity between small and large distributors, it begs the question: why are distributors needed and does it make sense to be larger or smaller?

In addressing the first question, why is a distributor needed, League Park believes the need simply arises from customers' desire to reduce their purchasing and technical staff and lower the MRO or purchasing spend by having just-in-time and lower inventory levels. The value of a distributor is having the right product, at the right time, at the right place, which allows customers to focus on their core competencies and not deal with having a large purchasing staff or warehousing facilities. In addition, certain products also require unique technical or applications support and the distributor is able to provide that function for its customers and suppliers on a real-time basis. Generally, it is hard to precisely account for the value a distributor adds, but we believe the value add is manifested in a distributor's respective gross margin. For example, oil distributors tend to have a lower gross margin (low teens) as they primarily serve as a logistical provider, while motion control distributors have higher gross margins as they also provide technical and applications support in addition to serving as a logistical and warehousing provider.

Now that we have outlined the value distributors provide in the supply chain, we will evaluate the fragmentation in the market and whether it makes sense to be larger or smaller. We will use industrial distributors as an illustrative example to assess the size dynamic. The average industrial distributor sells approximately 15,000 SKUs to 2,000 customers while the larger national players (i.e., WW Grainger, MSC Industrial, Fastenal, etc.) sell well over 500,000 SKUs to more than 400,000 customers. In general, we believe that bigger is better within the distribution sector. Generally, having larger scale offers a number of advantages such as: (i) volume discounts or supplier rebates; (ii) more stocked SKUs from high volume "A" items to low volume "D" items; (iii) geographic and market diversity and coverage; (iv) broader array of value-added and technical services; and (v) the ability to leverage more efficient information technology systems and sales and marketing expenditures across a broader base. In addition, larger distributors can target and service national accounts and grow with their customers, which is harder for smaller participants. However, one notable exception exists in certain niches whereas the size of the market does not justify a larger distributor or it limits the size one can grow (i.e., a theatrical products distributor).

Given the aforementioned benefits of scale, we believe that continued consolidation will exist throughout the distribution sector and the 250,000 market participants. However, due to unique product or market demands, we believe that the sub-segments need to be assessed by individual markets and potentially on a regional basis. For example, plumbing and heating equipment and supplies is over a $30 billion sub-segment of the $100 billion hardware distribution market and only has approximately 125 companies that generate revenue in excess of $25 million. With average gross margins that approximate 30%, the plumbing and heating equipment and supplies market is expected to be a fairly attractive sector for strategic or financial buyers. Regardless of the distribution segment, we believe that catalog and online-based companies will focus on market and channel expansion, while branch based distributors will explore geographic consolidation.

Another example of fragmentation is the industrial and specialty gas market. Although the industrial and specialty gas market appears to be dominated by a select group of billion-plus revenue global companies that control 50% of the market, the participants tend to compete on a regional basis with a plethora of participants (900 to 1,000 independents). The regional and product specific nature of the industrial and specialty gas market will result in continued merger and acquisition activity by the larger conglomerates. Similar to plumbing and heating equipment and supplies, the average gross margins within the industrial gas sector approaches 40%, which not only illustrates the value-add of the distributor, but creates favorable cash flow. League Park believes that these dynamics will result in continued acquisition activity of companies that have a strong niche product or regional presence.

Recent Mergers and Acquisition Activity

The pace of merger and acquisition activity in the specialty distribution industry has been robust in 2012 with relatively strong valuations. Activity was also up in 2011; however, due to the anticipated tax changes that didn't materialize on January 1, 2011, many transactions were pulled into 2010. Due to the fact that the specialty distribution industry generates nearly $5 trillion in annual revenue and is comprised of hundreds of thousands of participants, tracking holistic deal activity is challenging. Furthermore, it is believed that a large number of the merger and acquisition transactions are never announced to the public. As a result, the primary 19 specialty distribution sub-segments and their respective sub-sectors need to be evaluated individually. We will evaluate the electrical distribution and industrial and specialty gas sectors.

- *Electrical Distribution* – the electrical distribution market has seen 24 transactions for the 2012 calendar year and had 25 for the 2011 calendar year. Rexel has completed seven acquisitions in 2012, with the Platt Electric Supply acquisition representing the most notable transaction thus far in 2012. Platt Electric Supply had approximately $400 million in sales and had a formidable presence in the Northwest. Prior to the acquisition, Rexel had a limited presence in Platt Electric Supply's regional market and the acquisition provided Rexel a beachhead for the Paris, France based company. Despite the high level of merger and acquisition transactions that have taken place, the top five electrical distributors (Sonepar, WESCO, Graybar, Rexel, and Anixter) only control approximately 30% of market in the U.S.

- *Industrial and Specialty Gas Distribution* – the industrial and specialty gas market has seen nearly 29 transactions for the 2012 calendar year and had 31 for the 2011 calendar year. Airgas has completed eight acquisitions already in 2012 with Nordan Smith representing the most significant transaction. The Nordan Smith acquisition was an interesting strategic move for Airgas as it had historically been a large distributor of Praxair's products. However, Nordan Smith provided Airgas with 17 locations and strengthened its position in Mississippi, Arkansas, and Alabama. The top five industrial and specialty gas distributors (Airgas, Praxair, Matheson, Air Liquide, and Linde) control approximately 50% of the market and the remaining 50% is comprised of nearly 1,000 independents.

Not surprisingly, the most active acquirers were larger, strategic companies that sought to (i) strengthen a regional market; (ii) expand their geographic footprint; or (iii) expand their product lines. Additionally, 2011 and 2012 saw numerous transactions from financial acquirers. We believe that as the market gains greater policy clarity from Washington and economic activity from overseas markets, the specialty distribution industry will experience heightened levels of activity from both strategic and financial acquirers.

Strategic Acquirers

We believe the fundamental motivation for strategic merger and acquisition activity will continue to remain robust, which is driven by the industry's high degree of fragmentation and the resultant revenue and cost synergies to be gained via consolidation. Strategic buyers look to leverage their improving balance sheets and market valuations to effectuate acquisitions. The fundamental rationale for completing these acquisitions includes:

- Geographic/International Expansion: An enhanced geographic coverage limits a company's exposure to regional specific cycles and augments its growth opportunities.

- Product Line Extension: A more robust product offering allows a company to leverage its distribution systems and supplier and customer relationships.

- Marketing: The acquirers marketing systems is leveraged to increase the effectiveness of the acquired sales force.

- Market Position: The increased share creates a more defensible market position.

- Operational and Information Technology: Operational expertise and/or proprietary systems are leveraged to drive operational improvements at the target.

- Enhanced Profitability: Companies are able to leverage their scale through more efficient sourcing, better utilization of overhead expenses, improved inventory and working capital management, and logistics systems.

We believe strategic consolidators will continue to make acquisitions at a steady pace for the foreseeable future.

Private Equity Acquirers

The specialty distribution industry continues to be an attractive sector for many private equity firms, primarily due to the high degree of fragmentation, a positive long-term outlook, low capital intensity of operations, and available exit opportunities. The high degree of fragmentation in the specialty distribution industry provides many opportunities for private equity firms to acquire platform investments and then grow the business to a larger scale through add-on acquisitions, in many cases at a lower valuation than the initial platform (due to size and market position).

As a class of financial investors, private equity groups typically make an investment with varied exit alternatives, including a sale or public offering. Due to the continued industry consolidation, a financial investor in the specialty distribution industry can usually rely on a sale to a strategic buyer as a likely exit scenario. We believe that the current acquisition strategies of large specialty distribution companies adds more strategic parties to the mergers and acquisition market and strengthens sale possibilities. In addition, we are increasingly seeing private equity firms flip their platform investments to another, larger private equity firm. Even though a specialty distribution company had already been owned by a private equity firm, the high degree of fragmentation allows for meaningful opportunities for a larger fund as the smaller fund may be "tapped out" on its growth capital. An example, of this is FleetPride, which was owned by Investcorp, a New York-based private equity firm, from 2006 to 2012 and had been previously owned by Aurora Capital Group, a Los Angeles based private equity firm. Under the ownership of Investcorp, FleetPride completed over 30 acquisitions or five a year. FleetPride was acquired by TPG, another private equity group, in October 2012.

In conjunction with a sound exit strategy, private equity firms also have the opportunity to create value through multiple expansions. If a private equity firm transitions its investment from a small niche company into a dominant player, it may realize more value, since larger companies are commonly worth more due to greater (i) market share and pricing power; (ii) purchasing leverage; (iii) customer diversification; (iv) information technology capabilities or proprietary systems; (v) better logistics platform; (vi) broader array of value-added services; (vii) better working capital management through payment terms or inventory management; and (viii) perceived management talent.

Key company-specific elements that private equity investors desire in their investments include: (i) critical link in the supply chain, which is evidenced by a defensible market position with barriers to entry and superior margins; (ii) limited cyclicality; (iii) leveragable balance sheet or cash flows; (iv) limited maintenance capital expenditure requirements; and (v) strong and visible exit alternatives. Specialty distribution companies with the aforementioned traits will experience significant interest from private equity investors, which may provide their owners with a broad array of liquidity alternatives in a sale process.

VI. 2013 Expectations

Although the domestic specialty distribution industry is relatively mature and tied to overall economic activity, the industry remains fragmented and possesses meaningful long-term growth fundamentals. In an effort to properly position themselves for growth, we believe many of the strategic buyers will continue to consummate acquisitions. In addition to generating financial growth, League Park believes additional factors will also drive consolidation, such as the desire to (i) extend product lines and value-added service offerings; (ii) improve logistics; (iii) enhance or leverage information technology platforms/capabilities; and (iv) enter new geographic markets. We also believe that the strategics will be aggressively targeting companies that represent a critical link in the supply chain.

Overall, League Park expects the consolidators to maintain their level of acquisition activity in 2013. In general, these consolidators have strengthened their balance sheets over the last few years and have ample liquidity ($22.2 billion of cash and $19.5 billion of free cash flow) to pursue acquisitions. Many of these consolidators have targeted the U.S. as part of their defined growth strategy, which should create a very favorable mergers and acquisition environment.

Given the fragmentation and low capital intensity of the specialty distribution industry, private equity firms continue to aggressively target the industry and provide competitive valuations with strategic acquirers, which provide another liquidity alternative for owners of private businesses. Due to the improving market environment, signs of strong industry valuations, and mergers and acquisition interest by global strategic acquirers and private equity groups, League Park believes that owners of specialty distribution companies will have numerous options to consider in 2013 and beyond.

League Park Overview

League Park is a boutique investment bank that professionally and ethically advises clients on strategies aimed to maximize shareholder value. We assist middle market companies with transactions that generate value through mergers and acquisitions, recapitalizations, capital raising, and outsourced corporate development.

Whatever the transaction, our clients receive specialized attention from senior bankers at every step in the deal process. Our team has decades of investment banking, corporate development, private equity, and operational experience, completing over 300 transactions across a diverse range of industries in the past 25 years.

Advisory Capabilities:

Mergers and Acquisitions
Recapitalizations
Capital Raising
Outsourced Corporate Development

Industry Expertise:

Business Services
Healthcare
Technology
Retail and Consumer Products
Industrial

- Automotive
- Building Products and Construction
- **Specialty Distribution**
- Industrial and Specialty Gas
- Industrial Services
- Metals
- Paper, Print and Packaging
- Specialty Chemicals
- Specialty Glass

For more information, please contact:

Specialty Distribution:

Wayne A. Twardokus
(216) 455-9989
wtwardokus@leaguepark.com

Daniel U. Son
(216) 455-1264
dson@leaguepark.com

To learn more about **League Park**, please contact:

J.W. Sean Dorsey
Founder and CEO
(216) 455-9990
sdorsey@leaguepark.com

1100 Superior Avenue East, Suite 1650
Cleveland, Ohio 44114
(216) 455-9985

or visit us at:
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Transactions represent personal experience of members of League Park while employed at League Park or other firms

LEAGUE PARK

Representative Transactions

American Gas Group

has been acquired by Praxair, Inc.

League Park acted as
financial advisor to American Gas Group
on the transaction

Company Overview

American Gas Group is one of the largest independent specialty gas distributors in North America. The company specializes and packages a variety of specialty gases including EPA Protocols, hydrocarbons, VOC mixtures, reactive mixtures, high-purity chemicals, and research-grade gases in addition to industrial and medical gas products. The American Gas Group procures its products on a global basis and is a known industry leader for supply of rare gases and gas mixtures. The company's unique packaging capabilities and breadth and depth of inventory provide customers with one-stop for all their specialty gas and hard goods needs.

Transaction Overview

Given American Gas Group's strong market position and its history of significant growth, the shareholders decided to explore their strategic options with regard to a potential sale transaction. After reviewing the competitive landscape in North America, League Park and the company prepared detailed synergy analysis for the most likely acquirer of the business, Praxair, which is the largest industrial gases company in North and South America. In late 2011, Praxair acquired the American Gas Group and is focused on continuing to drive its strong market position and its history of growth.

Cardinal Fastener & Specialty Co.

has been acquired by

WÜRTH GROUP

League Park acted as
financial advisor to Cardinal Fastener
on the transaction

Company Overview

Cardinal Fastener & Specialty Co. ("Cardinal Fastener") is a leading manufacturer of hot forged, large diameter safety critical fasteners in North America. The company serves a diverse set of end markets, including the energy, MRO, construction, off highway equipment, and capital equipment industries. Cardinal Fastener has developed a reputation for the fastest delivery times in the industry, including same day delivery, coupled with high product quality levels.

Transaction Overview

During its entry into the wind energy supply chain, the company made large tooling and working capital investments; the growth from these investments materialized slower than anticipated, which required Cardinal Fastener to file for bankruptcy protection. League Park developed a broad process for marketing the company, including leveraging its position as the only approved North American supplier of safety critical fasteners to the wind energy industry. Acquired by German-based Würth Group, Cardinal Fastener's sale generated strong interest from global participants and demonstrates specialty industrial distribution companies' willingness to explore unique strategies regarding their supply chain and target niche suppliers as acquisition candidates.

TPC Metals

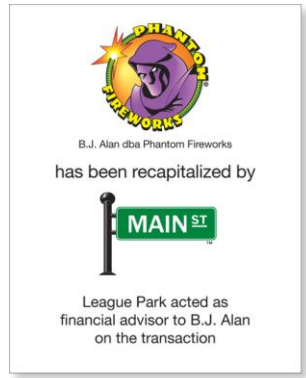
Company Overview

Tinplate Purchasing Corporation dba TPC Metals, Inc. ("TPC") is an independent metal service center, providing tin mill products and light gauge cold rolled, galvanized and aluminum products to a broad and diverse customer base. In operation for more than 65 years, TPC is the oldest tin mill service center in North America. The company processes thin gauge coils into cut-to-length sheets and precision slit coils. TPC's products are used in a variety of end markets including food packaging, general line cans, window parts, fasteners, housewares, automotive aftermarket applications, and other miscellaneous stamped and roll formed parts.

Transaction Overview

After decades of family ownership, the shareholder of TPC was interested in exploring strategic options with respect to transitioning the business to new ownership. TPC was ultimately acquired by Lakeside Metals, a Willowbrook, IL-based steel service center. The acquisition provided an opportunity for Lakeside Metals to bolster its customer base, consolidate operations and access a complementary facility strategically located near certain suppliers and customers.

B.J. Alan Company



Company Overview

B.J. Alan Company ("B.J. Alan"), operating under the trade name Phantom Fireworks, is a leading distributor of consumer fireworks in North America. The company is the nation's largest showroom fireworks retailer and second largest importer and wholesaler of consumer fireworks. B.J. Alan has developed a reputation for its unique products and strong brand name that is not easily replicated with significant knowledge in fireworks regulation and policies.

Transaction Overview

Given the expanding growth prospects of the domestic fireworks market and maturing debt, B.J. Alan recapitalized its balance sheet to properly position the company to take advantage of its growth prospects. League Park identified potential lenders offering various transaction structures. Recapitalized by Main Street Capital Corporation, B.J. Alan's mezzanine lending transaction generated strong interest from a broad range of alternative and leveraged finance companies and demonstrates the high levels of available capital in the marketplace.

Sources and Disclosure

Sources Referenced

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FMI Corporation	U.S. Bureau of Economic Analysis
Frost & Sullivan	U.S. Census Bureau
Gas World	U.S. Department of Transportation
GAWDA	

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