

North America Bathroom News

June 2009



International Market Strategy

Topics

USA (& World)	BRG Bathroom Reports
USA	Housing Starts, Permits Hit Record Lows in April
USA	Home Builders More Hopeful That Sales Will Return
USA	Remodeling Market Looking Up
USA	PORCELANOSA Opening Boutique at LUXEHOME
USA	GERBER Introduces New Water-Conscious Microsite
USA	GROHE Launches New Website
USA	PFISTER Custom Faucet Solutions for the Hospitality Industry Unveiled at
USA & Canada	WOLSELEY Continues to Struggle with Declining Markets
USA	HOME DEPOT, LOWE'S will Show Impact of Still-Weak Housing Market
USA & Canada	2009 PREMIER 150 — Weighing Options
USA	Are The Good Times Gone?



USA (& World): BRG Bathroom Reports

May 2009: BRG has published its updated preliminary bathroom report on the 2008 Mexican, US, Canadian and 14 European bathroom markets, after several months of in-depth data gathering of market information in early 2009.

As a result, the following 'products summaries and forecasts' (covering 1997 to 2007 historical trends, base-year 2008 market shares, 2009 year-to-date developments and forecasts to 2013) are available immediately for the following markets:

- o **Bathtubs**
- o **Showers**
- o **Ceramic Sanitary Ware**
- o **Faucets/Taps/Mixers**
- o **Shower Wall Products**
- o **Hydrotherapy Products** (jetted baths, hydrotherapy cubicles, shower panels)

in the following countries:

- o Mexico
- o USA
- o Canada
- o 14 European countries.

These 2009 preliminary reports give information on the market size in \$ and units, a ten-year market history, five-year product forecast, product segmentation, manufacturers market shares and end use analysis.

For more information on these reports, please contact Victor Post (vpost@brgggroup.com). The full bathroom industry reports including background information with details on the country's economy, the construction market, the distribution sector, detailed market data, as well as the profiles of suppliers and distributors will be published later this year.

Source: BRG CONSULT NORTH AMERICA



USA: Housing Starts, Permits Hit Record Lows in April

19 May 2009, WASHINGTON - Optimism that the housing slump had hit bottom was damaged Tuesday when the government reported that construction on new housing projects slowed to a record low pace in April.

New construction of single-family homes and apartments plunged 12.8% to a record-low annual rate of 458,000, much weaker than the 519,000 rate expected by economists surveyed by MarketWatch.

The drop was caused by construction of multifamily housing, which fell 46.1% to a record low 78,000. This was the biggest drop since January 1994.

Starts of single-family homes rose 2.8% to a seasonally adjusted annual rate of 368,000. Single-family starts have shown some stability in the past four months.

Building permits for single-family homes rose 3.6% to 373,000.

Starts are down 54.2% in the past year, while starts of single-family homes are down 45.6%. Meanwhile, total authorized building permits fell 3.3% in April to a record-low seasonally adjusted annual rate of 494,000.

Single-family permits are down 42.3% in the past year.

Housing completions rose 4.9% to a seasonally adjusted annual rate of 874,000. Completions are off 15% in the past year.

The government cautions that housing data are volatile and subject to large sampling and other statistical errors. In most months, the government can't be sure whether starts increased or decreased. Large revisions of reported figures are common.

On Monday, the National Association of Home Builders reported builder sentiment rose to its highest level since last September.

Source: MarketWatch.com



USA: Home Builders More Hopeful That Sales Will Return

18 May 2009, WASHINGTON -- Encouraged by low interest rates and the re-emergence of first-time buyers, U.S. home builders' spirits improved again in May, the National Association of Home Builders said Monday, bringing its sentiment index to the highest level since the collapse of Lehman Bros. sparked a global financial panic in September.

The NAHB-Wells Fargo index rose to 16 in May from 14 in April on a scale of zero to 100. It's the highest since the 17 recorded in September. The index got as low as 6 in January. Before the current housing meltdown, the index had never gotten below 20 in its 24-year history. It peaked at 72 nearly four years ago.

At 16, the index shows that about one in six builders thinks the market for new homes is "good." The industry trade group received 733 responses to its survey in May. The increase in the index to 16 matched economists' expectations.

The release comes a day before the Commerce Department reports on its estimates for housing starts and building permits in April. Over time, the NAHB index and housing starts are highly correlated. Starts are down 48% in the past year and down 72% from the peak. Economists are forecasting a slight increase in starts to a 519,000 seasonally adjusted annual rate from 510,000 in March.

Starts of single-family homes have been essentially flat for three months near a record-low level. Builders are still working off a massive oversupply of new homes, and are making some progress. The number of unsold new-homes on the market remains high in relation to sales at 10.7 months' worth of sales, but the total number of homes on the market -- 311 in March -- is getting close to the average that prevailed before the housing bubble grew.

According to the NAHB index, builders are still deeply pessimistic about current sales conditions, and about the traffic of potential buyers through their developments. But builders are more hopeful about future sales over the next six months. The future sales index rose to 27 in May from 24 in April.

"Builders are responding to what they perceive to be some of the best home-buying conditions of a lifetime," said NAHB Chairman Joe Robson, a home builder from Tulsa, Okla., in the press release.

"You're not likely to get a better deal in terms of mortgage rates than what's available right now," Robson said. "Combine that with the affordable prices, multitude of home choices and \$8,000 tax credit for first-time buyers that are now available, and you have a very appealing set of reasons to make a move."

NAHB economist David Crowe said builders think the market could be near a bottom, but expressed concern about the ability of builders to get financing. The index measuring current sales rose from 12 to 14, while the index measuring buyer traffic was unchanged at 13.

The index rose four points in the West to 12, rose three points to 18 in the Northeast, rose one point to 18 in the South, and was unchanged at 14 in the Midwest.

Source: Market Watch.com



USA: Remodeling Market Looking Up

15 May 2009 - The residential remodeling market showed signs of improvement during the first quarter of 2009 with significant growth in all indicators, according to the latest National Association of Home Builders' (NAHB) Remodeling Market Index (RMI). The current market conditions measure rose to 34.5 from 25.5 in the fourth quarter of 2008. Future expectations jumped to 30 from a historic low of 18.6 the previous quarter.

The RMI measures remodeler perceptions of market demand for current and future residential remodeling projects. Any number over 50 indicates that the majority of remodelers view market conditions as improving. The RMI has been running below 50 since the final quarter of 2005, following decreasing remodeling expenditures since that time.

"Remodelers are starting to receive more calls for bids and requests for proposals, although getting customers to sign for a job continues to remain a challenge," said NAHB Remodelers Chairman Greg Miedema, CGR, CGB, CAPS, CGP, a remodeler from Tucson, Ariz. "While the size of the jobs is smaller, remodelers are optimistic about this uptick in market activity."

The index component for national market conditions for major additions and alterations increased to 32.7 from 19.4 in the fourth quarter of 2008, while minor additions improved to 39.1 from 31.5. Maintenance and repair remained also climbed, to 30.4 from 23.6.

Measures for future expectations showed healthy growth during the first quarter, with the component for calls for bids rising to 34.2 from 20.6. The backlog of remodeling jobs component climbed to 28.5 from 18.4, and appointments for proposals jumped to 35.3 from 19.1. Finally, the component that measures the amount of work committed for the next three months rose to 21.8 from 16.4.

"Remodelers say things are looking up from the doldrums of the fourth quarter," said NAHB Chief Economist David Crowe. "While conditions remain below average and are down slightly from this time last year, the gains over the last quarter, and improvement in market expectations suggest a spark to the start of recovery in the remodeling market."

Source: www.nahb.org



USA: PORCELANOSA Opening Boutique at LUXEHOME

May 27, 2009 - PORCELANOSA will make its Chicago debut at LUXEHOME this summer. The company will occupy 7,800 sq. ft. of space on the first floor in Suite 149. PORCELANOSA's current global presence extends to 70 countries through more than 400 company-owned showrooms, distribution centers and a network of independent distributors and retailers. LUXEHOME offers kitchen, bath and building products, as well as tile products from an array of brands.

"PORCELANOSA is an exciting addition to the LUXEHOME collection," said Katherine Flaherty, VP of building products and special projects for MMPI. "They are a pioneer in the industry and will provide access to innovative European tile and kitchen and bath products."

Source: www.kbbonline.com

USA: GERBER Introduces New Water-Conscious Microsite

29 May 2009 - GERBER PLUMBING FIXTURES LLC, a leading sustainable plumbing manufacturer, offers customers a new cutting-edge, water-saving microsite called GerberGreenonline.com.

The new "mini" site provides visitors with useful information including how much water and money they can save by using efficient plumbing products like the company's high efficiency toilets (HETs) and low-flow faucets through an online water calculator. In addition, the site allows users to view GERBER'S latest water saving plumbing products, provides aid for its sales force and serves as a valuable resource for the kitchen and bath industry.

The site illustrates the company's long history of green practices from testing to manufacturing. For instance, GERBER uses natural gas instead of coal for all of its fuel needs and recycles all the water used in the testing and inspection labs. Plus, as a partner of the Environmental Protection Agency's (EPA) WaterSense Program, GERBER has numerous WaterSense certified products from low-flow faucets to HETs, which are engineered to use 20% to 30% less water than the standard.

GerberGreenonline.com also offers the company's new downloadable complimentary coloring book called *Greg Gerber Adventures* that educates children on the importance of water preservation.

Source: The Wholesaler



USA: GROHE Launches New Website

21 May 2009 - New features center on décor and inspiration for consumers with easier access to materials for professionals.

GROHE announced the launch of its new website www.groheamerica.com to better showcase its existing and new product offerings to consumer and trade audiences. The company has streamlined navigation tools to improve product searchability and ease access to collateral materials for professional audiences, including sales representatives, distributors, designers, specifiers and contractors.

“GROHE is highly regarded for its quality craftsmanship and its cutting-edge design,” said Al DeGenova, director of marketing communications at GROHE AMERICA. “We’ve built a tool that helps our target consumers and the trade better identify the products they’re seeking and gives them educational information to help them make informed product decisions.”

Previously organized by function only, GROHE products are now searchable by design style/décor with products grouped into three categories — contemporary, transitional and authentic – making it easier for consumers to find the products that are right for their homes and lifestyles. The revamped site also allows visitors to search using criteria such as number of openings or pull-down or pull-out faucets.

In a new section titled “Why GROHE?” visitors learn about the company’s numerous industry awards, review reports from independent testing facilities, and educate themselves on GROHE’S product engineering process.

Innovative products and trends are showcased under the website’s new “Inspiration” tab. This frequently updated section features inspirational imagery along with practical design advice. The section also showcases work by artists inspired by water and includes photography that reflects GROHE’s philosophy of “SensualMinimalism”.

Source: www.pmmag.com



USA: PFISTER Custom Faucet Solutions for the Hospitality Industry Unveiled at HD Expo

14 May 2009 - From Sketch to Production, Experts Transform Inspiration to Deliver Unique Designs

LAS VEGAS -- PFISTER Custom Faucet Solutions, an innovative custom fixture design program perfectly created for the benefit of the hospitality industry, was unveiled today at HD Expo in Las Vegas. PFISTER Custom Faucet Solutions enables design-focused clients to partner and collaborate one-on-one with the PFISTER Industrial Design Team, disciplined in traditional applied art and the integration of state-of-the-art technology, to develop unique designs true to original inspiration in as little as eight weeks.

"Customization and exclusivity are in high-demand in almost every U.S. market segment," said Nick Kruse, marketing director, PFISTER. "PFISTER Custom Faucet Solutions enables hospitality clients working on a budget to get in on the trend at a competitive price and with minimal turnaround time."

Custom Platforms and Options

Faucets and fittings aren't the only thing that PFISTER Custom Faucet Solutions designs. Clients partnering with the PFISTER design team also can create exclusive shower systems and showerheads, as well as bath accessories and hardware, for a fully-integrated custom guest bath experience. PFISTER offers the largest selection of finishes in the industry with more than 17 available, and whether a client wants to create 200 or 1,000 guest rooms is also entirely their choice. PFISTER Custom Faucet Solutions aims to provide virtually limitless design possibilities to any designer, decorator or architect with a vision for customization.

For those wanting a custom design but needing additional inspiration, PFISTER also offers clients an exclusive off-the-shelf catalog of modern and contemporary stock designs. Customers can order directly from the catalog or use it as inspiration for a new custom design.

Environmental Sustainability

PFISTER believes faucets should function as beautifully on the inside as they are on the outside. As one of the first faucet companies to be certified by the Environmental Protection Agency's (EPA) WaterSense program, it almost goes without saying that custom fixtures can also be high-efficiency, low-flow, EPA WaterSense certified and/or meet low-lead legislation.

Source: Business Wire



USA & Canada: WOLSELEY Continues to Struggle with Declining Markets

28 May 2009 - WOLSELEY PLC struggles to operate under deteriorating economic conditions, leaving the company with continuing declining numbers across the board. According to its Interim Management Statement for the nine months ended April 30, 2009, most of WOLSELEY'S markets have continued to weaken in March and April, such as the challenging trading conditions in the US residential and non-residential markets.

In particular, the US commercial and industrial sectors declined further during the third quarter. All of the Group's European operations have witnessed declining economic activity in the period. Consequently, the Group has continued to implement cost reduction actions and drive for increased cash generation from tight working capital control and ongoing restraint on capital expenditure.

The recently completed capital raising and exit of the Stock US building materials activities leaves WOLSELEY strongly positioned to meet the current challenging market conditions.

Source: The Wholesaler



USA: HOME DEPOT, LOWE'S will Show Impact of Still-Weak Housing Market

15 May 2009 - Some easing of home sales declines may offer glimmers of hope, analysts say.

NEW YORK -- Rising job losses, still-soured housing markets and tightened access to credit are likely to contribute to another downbeat quarter for home-improvement giant HOME DEPOT INC. and its smaller rival LOWE'S COS.

Analysts estimated Atlanta-based HOME DEPOT's profit to decline to 27 cents a share from 41 cents a year earlier with sales dropping to \$15.7 billion from \$17.9 billion, according to FactSet. LOWE'S sales are expected to fall to \$11.6 billion from \$12 billion, with per-share profit estimated to decline to 25 cents from 41 cents, FactSet data showed. Mooresville, North Carolina-based LOWE'S reports Monday, followed by HOME DEPOT on Tuesday.

Home-improvement retailers and other home-related goods retailers have been hit by recession-weary consumers' cutbacks on discretionary purchases, especially big-ticket items such as kitchen cabinets and appliances. Home-goods retailers from LINENS 'N THINGS to FORTUNOFF have filed for bankruptcy protection and liquidated their stores, in part hurt by declining home sales and prices.

"The lack of improvement in home price trends and continued weakness in drivers of broad consumer demand continue to shrink home-improvement demand," said WILLIAM BLAIR & CO. analyst Jack Murphy in a preview note. He said the downward trend also has been evidenced by weakness in U. S. sales from suppliers such as BLACK & DECKER and STANLEY WORKS.

Still, while a full rebound in home-improvement retailers' sales and profits may not quite be in sight yet, analysts say pent-up demand and some pockets of improvement in the housing market may start to yield gains for these retailers. General merchandise retailers and department stores from WAL-MART STORES INC. to J.C. PENNEY CO. have noted improvement in their home products.

Stephen Chick, an analyst at FRIEDMAN, BILLINGS, RAMSEY & CO. on May 11 raised his profit estimates on both stocks as he noted slowing rate of declines in areas such as California and Florida, both of which were at the forefront of the current housing market collapse. He said existing home sales in California, for instance, have showed signs of life as foreclosures and declining housing prices and low mortgage rates helped to spur demand.

"The subtle improvements we are seeing (from the bottom) support the notion that home-improvement retailers stand to benefit from distressed housing activity, as foreclosures will create pent-up demand over time," Chick said.

As the weather warms up and consumers spend more time at home and take on more home projects on their own, that's also expected to spur demand for items from lawn and garden products to paint, analysts said.

Source: MarketWatch.com



USA & Canada: 2009 PREMIER 150 — Weighing Options

1 May 2009 -- The economic downturn is challenging wholesalers to find new strategies for success.

It's not all bad. Canadian wholesalers had another record year of sales in 2008. The total PHCP wholesale market in the United States and Canada was estimated at \$62 billion for 2008, down nearly 8% compared with the \$67 billion estimated for 2007, which also was about 8% down from 2006.

The continuing decline in housing starts spurred wholesalers into looking more closely at their operations to see where greater efficiencies can be achieved. Some are expanding into new product categories that have better sales potential or higher margins, or they are focusing more on the commercial vs. residential market. Some are consolidating operations, some are going up for sale.

WOLSELEY PLC, Reading, United Kingdom, parent of FERGUSON, WOLSELEY CANADA and STOCK BUILDING SUPPLY, reported combined sales of about \$12.6 billion for FERGUSON and WOLSELEY CANADA. This was the first time the two reported combined sales.

WOLSELEY shared a "comprehensive package of measures to strengthen the group's balance sheet and position it strongly for the future" including plans to dispose of or exit STOCK BUILDING SUPPLY by August 1, 2009. The company said that a number of third parties have expressed interest in exploring the possible acquisition of all or part of the STOCK business.

The wholesaler also announced its intention to focus on its core businesses of North American Plumbing and Heating (FERGUSON and WOLSELEY CANADA), UK and Ireland, Nordic and France, where it has built sufficient scale and can deliver appropriate financial return.

WOLSELEY closed branches and reduced its labor force during fiscal 2008. FERGUSON's labor force was reduced by about 18% over the 18 months ended Jan. 31, 2009.

When appropriate, FERGUSON's directors intend to grow the business through selective bolt-on acquisitions as well as through using new formats and routes to market such as e-commerce and expanding the product range. WOLSELEY CANADA is now being integrated into the FERGUSON business with opportunities identified to increase trading profit through access to infrastructure, sourcing and pricing matrix management.

Atlanta-based HD SUPPLY sold its wholly residential lumber and building materials business in 2008.

"We were No. 6 in the market, but No. 1 only in two states," said Joe DeAngelo, CEO of HD SUPPLY. "We like to be in the No. 1 or 2 position so we elected to divest ourselves of that business."

Sales Trends

"The difference between the 2007 and 2008 figures (for the total PHCP wholesale market) is surprisingly small," said an industry observer. "Of course we know that the recession hit in 2008, but its impact on the wholesale industry did not really kick in until very near the end of 2008. Combined sales volume of November and December was down 11% from 2007 to 2008. In the other 10 months, the net difference between the two years was less than 1%."

The sharp variation in housing starts between 2007, when starts totaled 1,353,700 dwelling units, and



2008, when the total was 940,300 units, is not reflected in the wholesaler sales figures, the observer noted.

“This anomaly is even more striking when we look at 2006 housing starts: 1,800,700,” he added.

We calculated how many of the top 25 wholesalers in each segment reported sales increases and decreases in 2008. Among the top 25 wholesalers in the HVACR segment, 12 said sales were down and 13 saw a sales increase; among the top 25 in Plumbing & Hydronics, 11 had a sales decline, 12 had a sales increase and two reported flat sales; among the top 25 PVF wholesalers, eight saw a decrease in sales, 15 enjoyed a sales increase and one reported flat sales.

The Canadian Institute of Plumbing & Heating said December 2008 was the best month in more than five years, based on results of the December Wholesalers' Sales Report produced by the Profit Planning Group. Total product sales were up 13.8% vs. December 2007 and year-to-date total product sales were up 2.6%, bringing total sales to a new industry record, the report said.

In the United States, a select group of wholesalers in Indiana, Michigan, Ohio, West Virginia and western Pennsylvania reported a range in performance for the year 2008 spanning a sales increase of more than 15% to a sales decrease of more than 30%. The average was a 6.43% drop in sales for the companies responding to the survey.

One top 25 wholesaler that does the bulk of its business in plumbing and hydronics saw a 9% dip in sales in 2008. Another top 25 wholesaler that is mostly in HVACR also reported a sales decrease, but another, in the bottom 25 of the top 150 wholesalers and also mostly in HVACR, had flat sales in 2008 and projected a sales increase for 2009.

Combined 2008 sales for the companies listed in the 2009 Premier 150 were about \$41.7 billion (including estimated sales and reflecting currency conversion to U.S. dollars). We adjusted some of the figures in an attempt to delete non-PHCP wholesale sales.

Rising Stars

Twelve wholesalers moved up 10 or more spots in the top 150 ranking for 2009 vs. 2008 (comparing sales for fiscal 2008 vs. 2007). They include, in alphabetical order: ALL-TEX PIPE & SUPPLY, Dallas, TX; AMERICAN METALS SUPPLY (Fenton, MO and Springfield, IL); AMERIPIPE SUPPLY, Dallas, TX; APR SUPPLY, Lebanon, PA; CENTRAL STATES INDUSTRIAL SUPPLY, Omaha, NE; CITY PIPE & SUPPLY, Odessa, TX; C&L SUPPLY, Vinita, OK; INDEPENDENT PIPE & SUPPLY, Canton, MA; INDUSTRIAL PIPING SPECIALISTS, Tulsa, OK; J.H. LARSON, Plymouth, MN; MOUNTAIN STATES PIPE, Colorado Springs, CO and SECURITY SUPPLY, Selkirk, NY. Of these companies, seven do a large portion of their business in PVF; one is mostly in plumbing & hydronics and one is mostly in HVACR. The others' sales are mixed among two or more of the segments.

New to the Premier 150 list this year are EDGEN MURRAY, Baton Rouge, LA; PACE SUPPLY CORP., Santa Rosa, CA; PROSOURCE LLC, Greenville, SC; RAMPART SUPPLY, Colorado Springs, CO; and SHORE DISTRIBUTORS, Salisbury, MD.

Other Changes



Four companies that were listed in the 2008 Premier 150 are absent this year: DAVIDSON PIPE & SUPPLY, Brooklyn, NY; EDWARD B. WARD, South San Francisco, CA; EXCELSIOR MANUFACTURING & SUPPLY, Itasca, IL; and R.V. CLOUD/FRESNO, Campbell, CA.

DAVIDSON was acquired by FERGUSON ENTERPRISES in 2007. EDWARD B. WARD was acquired by CARRIER CORP. in 2007. EXCELSIOR was acquired by TEMPERATURE EQUIPMENT CORP., Lansing, IL, in September 2008.

We were unable to obtain reliable information on R.V. CLOUD/FRESNO and had estimated for them for the past two years, so left them off this year's report.

Acquisitions

R. E. MICHEL, Glen Burnie, MD, acquired ATLAS SUPPLY CO., Indianapolis, an HVAC wholesaler. ATLAS was to continue to do business as ATLAS SUPPLY, affiliate of R.E. MICHEL CO., from its three locations.

Canadian wholesaler CE FRANKLIN, based in Calgary and operating 42 locations, acquired JEN SUPPLY, Alberta, with four stores.

RONA, a Canadian distributor and retailer, acquired BEST MAR PLUMBING & HEATING SUPPLY.

WESTWATER SUPPLY, Columbus, OH, purchased the inventory assets of PROBST SUPPLY, Marion, OH.

SCHMIDT'S WHOLESALE, Monticello, NY, acquired SMITH SUPPLY, Newburgh, NY.

M.A. STEWART & SONS, a PVF distributor based in Surrey, BC (Canada), acquired B.K. THORPE CO., Long Beach, CA, an oilfield PVF and equipment distributor.

THE CENTURY COS., based in Houston, TX, added JOHNSON AIR CONDITIONING SUPPLY (Dallas) to its family of companies. JOHNSON has two locations.

INTERLINE BRANDS, Jacksonville, FL, acquired EAGLE MAINTENANCE SUPPLY, a distributor of janitorial and sanitary supplies to the institutional market.

MCJUNKIN RED MAN, Charleston, WV, acquired LABARGE PIPE & STEEL CO., St. Louis, a distributor of large diameter carbon steel pipe.

The ownership of CENTRAL STATES DISTRIBUTORS, Omaha, NE, was acquired by seven key associates.

Outlook

When we called 10 wholesalers, each with sales of \$150 million or higher, and asked for their sales projection for 2009, three predicted a sales increase; two expected flat sales; and five said sales would be down.

CIPH noted that early reports indicated that the Canadian wholesale industry was starting to see a



slowdown in January 2009.

The 2009 Construction Outlook Spring Update from MCGRAW-HILL CONSTRUCTION, part of THE MCGRAW-HILL COMPANIES, reported that this year's new construction starts are estimated at \$463.1 billion, down 15%, but cushioned by the recent American Recovery and Reinvestment Act of 2009. Public works will see the most immediate benefit from the stimulus act, with construction starts climbing 10%, including a 15% rise for highways and bridges.

FERGUSON is expected to be an early beneficiary from the U.S. recovery, according to WOLSELEY. The directors of the company believe that a number of its competitors will exit the industry, creating opportunity to increase market share without significantly increasing its footprint.

Joe DeAngelo, CEO of HD SUPPLY, projected a long-term, sustained downturn.

"This is a dangerous environment where demand can be destroyed because of inflation," he said in an interview with Supply House Times in September 2008. "We expect to see a continued pinch because of higher fuel costs and commodity prices. Maybe by the end of next year we will have a better view. For now, demand will continue to constrict."

An executive for one of the top 25 wholesalers said that 2009 will be the toughest year of his career.

"The worst is yet to come," he said. "We expect real softness in the second half. Commercial and mechanical sales may come down 20 to 30 points."

Equal percentages of wholesalers responding to the Premier 150 survey projected either sales increases or flat sales for 2009 vs. wholesalers projecting a sales decrease. While 46% said they expected sales to decline, 20% predicted a sales increase and 26% projected flat sales.

Source: www.supplyht.com



USA: Are The Good Times Gone?

May 1, 2009 - An insider's peek at the merger and acquisition markets.

Oh what a difference a year can make. A little over 12 months ago, I was working feverishly to close the acquisition of a small kitchen and bath distributor. This deal would mark the 72nd transaction that I was involved in since joining FERGUSON ENTERPRISES in early 2000.

During this time period, FERGUSON's parent, WOLSELEY PLC, was an acquisition machine. As reported in Mergers and Acquisitions, in 2005 and 2006, WOLSELEY was the second most acquisitive company in the world behind GENERAL ELECTRIC. Fast forward to 2007, however, acquisition activity at WOLSELEY had slowed considerably following a 2006 multi-billion dollar transaction in Europe. Outside of WOLSELEY/FERGUSON, merger and acquisition activity during this time frame remained fairly robust.

The blockbuster HD SUPPLY deal was completed in mid-2007, at a record (albeit re-traded) \$8.5 billion figure. In early 2008, however, the large deal market became stagnant as the broader credit markets locked up. The big issues, of course, started in the sub-prime and collateralized mortgage security markets leading to the headline bank and insurance failures. Outside of Wall Street, however, the middle market (defined as companies with sales revenue less than \$500 million) mergers and acquisitions marketplace remained resilient and fairly well insulated from much of the trauma taking place. Senior cash flow lending was available, and while valuations normalized a bit, transaction activity continued.

In April 2008, I departed WOLSELEY/FERGUSON and joined MATRIX CAPITAL MARKETS GROUP based in Richmond, VA, to head up the firm's building products and distribution team. MATRIX was founded in 1988 as a middle market investment bank involved in both buy and sell side advisory services and capital raising for privately held businesses.

Mergers & Acquisitions Today

So, what is going on in the mergers and acquisitions world today? For the year ended last Dec. 31, 2008, the trade journal Mergers and Acquisitions reported a total of 7,626 deals completed with an aggregate deal value of \$994 billion. Overall deal activity (measured in the number of deals) was off about 20% from 2007, while deal value (aggregate dollar value of transactions) was off 45%, reflective of lower values coupled with lower volume.

The middle market held up better for most of 2008, but dropped off in September significantly as the liquidity and financing plague that was making headlines in the broader market finally reached the middle market. Cash flow senior bank financing effectively disappeared from the market in the fourth quarter of 2008 as senior lending became limited to asset based formulas ("ABL"). While transaction activity did slow considerably as a result, deal closings continued throughout the balance of 2008 thanks to creativity and perseverance in the capital markets. Mezzanine capital (or subordinated debt), a more expensive capital source for sure, stepped up to close some of the void; in addition, private equity groups increased their capital contributions to get deals funded. There were even instances in which equity groups funded 100% of the purchase price with plans to refinance in more stable credit markets. Finally, seller financing re-emerged in transactions as a way to bridge the valuation gap but not without risks that need to be carefully considered.



With less debt generally available and, when secured, at higher pricing, overall leverage ratios moved downward, bringing with it deal valuations and EBITDA multiples. At year end, the deals that were getting done were those that had a nice asset lending base (plant, equipment, inventory and receivables) to support an ABL senior credit facility. It is hard to generalize on valuations, but it is my experience that values have come down 1 to 2 times EBITDA. This is to say that a deal valued at 7 times EBITDA two years ago, would garner a 5 or 6 times EBITDA valuation today.

In the wholesale sector, Mergers and Acquisitions reported 230 transactions completed in 2008. MCJUNKIN/RED MAN CORP.'s acquisition of LABARGE PIPE AND STEEL CO. and the private equity group STERLING INVESTMENT PARTNERS' acquisition of FCX PERFORMANCE INC. were some of the more notable transactions that were successfully executed in 2008. Traditional plumbing transactions were few and far between, with industrial and commercial PVF transactions much more prevalent. Oil & gas, petrochemical, and energy were sectors that proved resilient last year. Profitability in the PVF world was strong in 2008, driven by strong demand compared with businesses focused on the residential construction sector.

It was an extremely quiet year for the strategic consolidators. HD SUPPLY, FERGUSON, and INTERLINE brands all reported just a single transaction each, while WATSCO, HAJOCA, and WINWHOLESALE did not announce any closed deals for 2008.

Private Equities Sit and Wait

The initial public offering (IPO) market as an exit strategy for leveraged buy outs (LBOs) remained essentially closed in 2008. Across the globe, there were only 120 IPOs completed (down 78% from 2007), but the most telling statistic was that there were only 27 launched in the last six months of the year. In fact, in the U.S. three months went by in the second half of the year where not a single IPO was initiated.

In the distribution sector, many large private equity groups will have to be patient with their holdings until the IPO market becomes unlocked. In particular, HD SUPPLY (Bain, Carlyle, and Clayton Dublier & Rice), EDGEN MURRAY (Jeffries), and RED MAN/MCJUNKIN (Goldman) are all logical IPO exits at some point, but will have to await more favorable trading conditions and improvement in equity markets.

While valuations have come down and fewer transactions are in the market, deals are getting done as we move into 2009. FEDERALLANGE was just acquired by KRG CAPITAL and AMERICAN PIPING PRODUCTS was recapitalized with the private equity group EDGEWATER FUNDS. While strategic acquirers are largely in cash conservation mode and unable to take advantage of lower valuations currently available in the market, private equity funds are flush with cash and continue to raise funds at near record levels. These newly raised funds remain largely uncommitted moving into 2009 and most groups have plenty of capital to deploy for platform transactions and bolt-on acquisitions.

Dow Jones Private Equity Analyst in October 2008 reported that U.S. equity firms had raised \$222.6 billion in the first three quarters of 2008, up from \$200.4 billion in the same period in 2007 and it is estimated that more than \$1 trillion sits "on the sidelines" ready to be deployed. An emerging trend is new funds focusing on distressed and turnaround opportunities. Bottom line, private equity capital is available for deployment for well-managed high quality companies with reasonable valuation expectations.



When a quality company is brought to market today, we are seeing a high level of competition among the private equity sponsors. In the building products area, companies that are getting the most attention by private equity groups are those companies that have defensible competitive advantage, are positioned to take advantage of the federal government stimulus package, offer sustainability or “green” technology, participate in the energy sector, or are uniquely positioned to take advantage of regulations. The quality and transparency of earnings is more important than ever, as is a good story as it relates to why the company is being sold in today’s market.

While control investments (more than 50% of equity) have traditionally been most common, as the number of opportunities in the marketplace diminish, private equity groups are becoming much more creative in order to continue to deploy their capital. While most financial sponsors have historically required majority control in a transaction, they are now much more open-minded and flexible. This is a great thing for private business owners because it opens up almost limitless possibilities when considering a recapitalization of their business. A minority equity investment or recapitalization gives a business owner the opportunity to sell a portion of his business while still maintaining a significant ownership stake. This transaction provides an influx of liquidity into the business to pay down debt or increase cash balances to prepare for a growth event.

Unlike some strategic acquirers who have a goal of reducing overhead and redundancies, a minority equity partner is more of a collaborative relationship with a shared goal of taking the company to the next level. Finally, in an environment in which valuation levels may not be attractive to many owners, a minority recapitalization allows for partial net worth diversification today and retained majority control for a future exit. A minority recapitalization can achieve multiple goals and while not applicable in all cases, can be something to carefully consider. Recent minority recaps in the distribution market have been completed by All Tex Pipe & Supply and American Piping Systems.

A Slow Thaw

As we look ahead into 2009 and beyond, I believe that credit markets will slowly begin to thaw and transaction activity will pick up. I do not see a quick rebound to the boom times with high valuation multiples and loose credit for some time.

2009 is off to a slow start with Mergerstat reporting only 750 transactions completed in the U.S. through February with total aggregate transaction value of \$65.2 billion. In the wholesale and distribution sector, 37 transactions have been completed vs. 58 a year ago.

The appetite for transactions looks to be fed by only the best performing companies or distressed situations; however “best performing” has been redefined a bit and “flat” is the new “growth” in this market. Now does not appear to be a good time for mediocrity in the market. Of course, significant events with an owner or shareholder base will always give cause for a company to explore alternatives despite market conditions.

Advice To Would-Be Sellers

If you are looking to sell your company in the future, I can offer a few select pieces of advice.

1. Understand your timing horizon. Carefully evaluate your short- and long-term strategies relative to your planning horizon such as to provide maximum growth and profitability in the time immediately



preceding the anticipated sale date.

2. Seek a professional M&A advisor. In most cases, a business owner can come up with a short list of logical buyers and approach them directly. Approaching them directly (or thru a CPA or attorney) is regularly done. This self-managed short list approach is quickly interpreted, however, as a “test the waters” exercise with perhaps an uncommitted seller. When an investment banker is engaged, it demonstrates a firm commitment on the part of the owner to truly engage in a transaction. Also, capital markets, business valuations, and buyer’s fiscal and psychological strategies are very fluid. Having a professional advisor with expertise in navigating these waters will prove critical to you in the long run. Finally, the valuation of a business is multi-faceted including the cash at closing, holdbacks, inventory valuation, leases, contractual reps/ indemnifications, and many other items. Understanding the inter-relationships of these items is paramount.

3. Go broad in your search for buyers. While you as a business owner may be able to identify the “most logical” buyers of your business, a well-run sales process including both strategic and financial buyers will always result in the best price and terms for the seller. The world of capital markets is very large with over 2,000 middle market capital providers, with each of the groups having investment preferences such as geography, size of business, industry type, etc. The beauty of a well-run process is that buyers know they are a part of a process but not whether they are one of five or one of many more. This ultimately gives the owner of a quality business significant leverage. You, the business owner, have (in most cases) but a single shot to extract the maximum value for your most prized asset. Assemble a good team and good luck!

Source: The Wholesaler