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VOL. 45, NO. 15
AUGUST 10, 2015

# Behind the Deal: Anixter & HD Supply

*Power Solutions sale expands Anixter's core, sharpens HD Supply's focus*

*Anixter International Inc. recently announced it would acquire HD Supply's Power Solutions division, one of its core lines of business. This article looks at how the $825 million deal benefits both companies.*

**By Eric Smith**

The roots of Anixter International Inc.'s acquisition of the Power Solutions division of HD Supply Holdings Inc. for $825 million trace back to strategic planning meetings the Glenview, IL, company held over the past few years. During those meetings, Anixter's management team identified a pair of gaps in the company's electrical business and brought those findings to the board, according to President and CEO Bob Eck.

First, the company lacked breadth in its electrical and electronic wire & cable business. As a specialty distributor in that product line, Eck says, Anixter had been "really good at identifying specifications for products that support a specific requirement a customer has and providing supply chain services around that," but Anixter hadn't been able to gain traction in a significant part of the market – mid-size construction projects.

Anixter was capable of meeting customers' needs for smaller day-to-day orders while also satisfying the demands of larger industrial projects, Eck says, but company executives recognized that wire and cable wasn't substantial enough in total spend for customers working on mid-sized projects to break it out separately from the electrical package. That meant customers would buy their equipment and their wire and cable from one source – and Anixter wasn't equipped to be that one-stop shop.

Anixter's second gap was in the utility business. Eck says the company had been losing market share to companies with a broader offering, particularly in the utility MRO space, as well as in transmission and distribution. With the economy finally on the upswing with projects roaring back to life, the company decided now was the time to bolster that platform.

"We believe that we're in the early stages of a capital investment cycle in the utility market in the U.S., particularly, and we wanted to address the weakness in our utility business and take advantage of that capital spend cycle," Eck says.

### Addition by Subtraction

As Anixter looked to fill gaps in its business, HD Supply, Atlanta, GA, was looking to simplify. When the company sold its Hardware Solutions division to The Home Depot in December, four core businesses remained: Facilities Maintenance (FY14 revenue of $2.5 billion); Waterworks ($2.4 billion); Power Solutions ($1.9 billion); and White Cap ($1.5 billion).

But shedding one business and keeping those four didn't move the needle enough. And while divesting Power Solutions meant losing nearly a quarter of HD Supply's annual revenue, proceeds from the sale would offer more flexibility for the company to reduce debt.

"If you look at the strategic rationale for the transaction for HD Supply, at the highest level it allows us to enhance our business mix, and it will accelerate our capital structure strategy," says President and CEO Joe DeAngelo. "We're in the process of evaluating the precise application of the proceeds, but we intend to be able to utilize them entirely to reduce debt."

Power Solutions made the most sense as the odd division out, DeAngelo says, because "the other three all have established clear No. 1 positions in their space." In

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other words, Facilities Maintenance, Waterworks and White Cap segments faced less threatening competition in their space than Power Solutions did, particularly on the low-voltage side.

"There are some formidable global players that have billions and billions of dollars of market share out there," DeAngelo says. "It's a very different business aspect on that side, the low-voltage side. On the high-voltage side, we were clearly No. 1. Anixter's strategy was to be able to extend themselves in the high-voltage side."

### Build vs. Buy

Anixter debated two approaches to filling its gaps: building organically or pursuing an acquisition target that would meet its needs more quickly.

Organically solving the problem meant identifying new product lines and suppliers, hiring and training additional salespeople and building up the divisions "one customer at a time," Eck says. "Or, you can go out and do an acquisition and accelerate that process of filling the gaps very dramatically."

Eck says the company steered away from organic growth for another reason – some suppliers maintain a committed channel structure and aren't looking for additional distribution, particularly in the highly fragmented electrical space. "There may not have been enough room for the suppliers to fit us into their distribution strategy," he says.

Around the same time Anixter entered full acquisition mode, HD Supply was entertaining offers for Power Solutions.

"We always have great incoming interest for all our business models," DeAngelo says. "The way I look at it is we have very differentiated business units. They're all very strong, and people would find them attractive additions to their business. There's nothing different in this case. Power Solutions was a sought-after asset."

Finally cultivated and inked last month, the $825 million agreement for Anixter to acquire Power Solutions means it is adding $1.9 billion in revenue, $79 million in EBITDA, 200,000 SKUs, 1,800 employees and 130 branches – but the numbers weren't all that mattered to Eck and DeAngelo.

### Cultural Alignment

Anixter's pursuit of Power Solutions as an acquisition target is recent, but its familiarity with the division predates the formation of HD Supply. A few years ago Anixter studied some best-in-class supply chain service providers as a way to benchmark its own successes and weaknesses. One of the companies that Anixter analyzed was Hughes Supply Inc., which, through subsequent acquisitions and spinoffs, ultimately became the Power Solutions division of HD Supply.

Based on the research it had done on Hughes – even though this was a different iteration of the company – Anixter had found not only the right business fit, but the best cultural fit, as well.

"We knew the Hughes background, we knew their reputation for supply chain, we knew the HD Supply reputation for integrity," Eck says. Anixter executives liked what they saw in the company's value-add services, management style and talented employees, the latter of which was most critical because "distribution is all about the people."

That cultural alignment also was important to DeAngelo, who says during a divestiture he always makes sure that "our associates are going to a great home. From day one … it was a good fit. The cultures were very much a match."

"At the end of the day we think this is a very exciting next chapter of our Power Solutions associates joining Anixter," he says. "It's very complementary relative to understanding the profit pools of Power Solutions. There's nice overlap and adjacency for customers, suppliers, products, everything that makes a business work well."

Not only was Anixter a good home for Power Solutions employees, "where they could live to their full potential and execute to their full potential," but the transaction was positive from an HD Supply shareholder standpoint, DeAngelo says. "We were able to hit that. We are very, very pleased with the transaction."

### Moving Forward

Anixter looks different now than it did just a year ago due to the $420 million purchase of Tri-Ed that closed last September, the $380 million divestiture of its Fasteners division that closed this June and this $825 acquisition of HD Supply's Power Solutions division that will close in the third quarter. Despite these changes, the company's focus hasn't changed. Rather, it has been "sharpened," according to Eck.

"There's nothing wrong with the fasteners business, but it's a little bit more of an inefficient working capital and operating model and a little less flexible than the model in the datacomm and security and electrical businesses," he says. "That challenge brought a lower return on capital investment, so we made a decision to reallocate the capital away from the fastener industry and into our electrical and security businesses where we think there's a better chance to achieve the kind of return on invested capital we do across the rest of the business."

DeAngelo calls the deal mutually beneficial, saying, "it was a good match for them and good divestiture for us."

"If you look at us going forward, our business is going to change but our strategy won't," DeAngelo says. "Our strategy is an organic growth strategy. We execute five growth plays: selling more to existing customers; introducing new products and services; expanding channels to reach customers via catalog and Internet mobility; acquiring new customers; and opening new locations.

"This is a transformational transaction for us. It positions us to get faster and better."

Anixter also sees the deal as transformational, yet different from typical industry consolidation in that it perfectly aligned the needs of the two companies involved without one sacrificing too much.

"Each one of us is good at something different, and when you put them together it becomes extremely powerful," Eck says. "It's not so much consolidation or a market share build opportunity. It is an opportunity to augment our capabilities as a combined organization."

■ *MDM Interview*

# Behind Ferguson's Acquisitive Year

*Distributor completed 13 acquisitions during fiscal 2015*

*Fiscal 2015 was an acquisitive year for HVAC & plumbing distributor Ferguson, Newport News, VA. The distributor more than tripled the number of completed acquisitions it saw in fiscal 2014. CEO Frank Roach recently spoke with Editor Jenel Stelton-Holtmeier about the company's acquisition strategy and how it fits into the overall growth strategy.*

**MDM:** How's business going?

**Frank Roach:** Business is going well. We just finished our year in July, so it's "Happy New Year" at Ferguson right now.

It used to be more of an uneven recovery; now we see a more consistent one across all our businesses. We're seeing growth in all our markets, albeit somewhat lower than prerecession. The market is good, and we feel like we're in a good place and doing a nice job of taking share.

**MDM:** Ferguson completed 13 acquisitions in its fiscal year 2015. How does that compare with prior years?

**Roach:** That's up quite a bit from the prior two years. In fiscal 2014, we had four, and two years ago in fiscal 2013, we did three. So it's up, but we have no specific acquisition target number. We feel like that would drive the wrong behavior. It's not just the quantity we're looking for. It's the shape and the size and the business makeup that we look at, as well.

We look at opportunities for expansion in markets, new product opportunities, ways to complement existing locations, and we do a lot of bolt-ons that are easy to integrate and expand what we do. If you look historically, since I've been with the company, we've done 150 acquisitions. It's an important part of our growth strategy.

**MDM:** What does that growth strategy look like? What are your strategic priorities for acquisitions?

**Roach:** It's part of the overall growth strategy. We grow organically through like-for-like and new store openings, and we also look for opportunities for product and business expansion, as well as geographic expansion.

Obviously acquisition is the easiest way to enter a market. Our history of diversification, which goes back some time, really reflects doing a significant acquisition in a new space that gives us a platform for national growth.

The mix of acquisition versus organic has changed significantly since the recession. Before we used to grow 50 percent through acquisition, now we're in most of the geographies we want to be in, and I would say the mix is more like 80/20, or even 90/10 in the last couple of years, organic.