STERLING
INVESTMENT PARTNERS

NEWS RELEASE

Right in Line
Bill Smitka, US Business Review
June 2003

INTERLINE BRANDS INC. Has had a nearly fice-fold increase on its sales since 1997, and the company has done it through a combination of acquisition and organic growth.

“Mike (Grebe) and I sketched out a plan in September of ’99 to grow the company into adjacent markets through acquisitions,” Bill Sanford says.

Sanford is currently the executive vice president and CFO; Grebe is the president and CEO. The two have experience as partners. The pair worked together with Airgas – a large industrial gas distributor and pioneer industry consolidator – where they were involved in numerous acquisitions.

“Mike has experience building and consolidating industrial distribution companies and I’m a corporate development and acquisitions guy,” Sanford continues.

Adam J. Fein, president of Pembroke Consulting – a strategy and marketing company in Philadelphia which studies distribution companies – is impressed with the business platform that has been put in place at Interline.

“The [experience they gained working together at Airgas] has essentially allowed them to develop a strategy that would counteract any challenges,” he explains. “Airgas is one of the most effective consolidators out there. Our research shows that approximately 75 percent of all distribution acquisitions fail. But they’ve learned from the best, Airgas is a leading success story.”

Grebe joined the company in 1998 at that time the company was still public, operating under name Wilmar Industries. The company was supplying maintenance products to the $2.5 billon multi-family housing market, but the company soon began a plan to diversify its offerings beyond the sector.

“The first company we acquired was on the fall of 1999 – J.A. Sexauer – and it had about $80 million in revenue ,” Sanford adds. “But more importantly it allowed us to branch into a new market – which is an $8 billion market – we call institutional facilities.”

According to the company, the $8 billion market consist of hospitals, educational facilities, hotels, motels, senior living and nursing homes. Nearly seven months later, in May 2000, the company went private. Later on that year in September, Interline acquired Barnett, a $300 million revenues professional contractor distributor in the plumbing products and hardware category.

"We knew we wanted to be a scale player of distribution," he says. "To be a national company we would have to execute nationally, and to do that we needed to be somewhere north of $500 million."

Acquiring Barnett was a big step for Interline, and it accelerated the company's growth efforts.

"Barnett was a chance to take one step and get to the scale that we needed to have," he continues. "Instead of doing 10 acquisitions of $30 million, we were able to acquire one company that overlapped nicely with our existing platform and give the company more growth opportunities going forward."

According to Sanford, the acquisition of Barnett not only helped the company to grow, but it also allowed management to centralize Interline's operations and take out a lit of costs out of the equation.

"[The acquisition] allowed us in the first year-and–a-half to close 20 distribution centers that were in the same markets," he says. "We also took our supplier base down from 1,200 to 600 and were able to double or triple our volume with most of the companies."

"Interline has defined a new model for distribution," Fein says." They will be able to grow faster and more profitably then every other large distributor out there. The model has come together in the last few years and it is driven by some of the lessons they had seen in companies that had tried to grow by acquisition."

Along with consolidating distribution centers on such cities as Dallas, Chicago, Houston and Miami, the company was also able to eliminate nearly $5 million from its budget by cutting redundant costs during that 18-month period, Sanford says.

"We finished or integration in the second half of 2002, and we now operate on a single platform," he explains.

Having a single platform allows the company to commit to a common logistics and fulfillment platform, according to Fein.

"They've used the acquisition of Barnett, Sexauer and Wilmar to get enough critical mass to be able to build their effective platform," Fein adds. "What is unique about their model is that the fulfillment, logistics and warehousing operation of the distribution of the business can be shared by all of these different companies acquired.

"They can acquire a company and put its system on their platform and very quickly they can begin to grow that acquisition organically."

Fein believes Inerline's ability to gain the most from its acquisitions is a huge key to the company's success.

"It is not difficult to buy, but it doesn't mean anything if the company can't run with it," Fein explains. "It is not very interesting to have one plus one equal two, but Interline's model make one plus one equal two-and-half or three."

Another key according to Fein, is that Interline developed the most forward-thinking marketing and sales approaches that allows it to offer different brands providing its customers with the level of service that they choose to have.

"Some of their customers have very high service needs that require a lot of personalized service," Fein explains. "Other customers only require a broad product selection."

And Sanford points out that it wasn't all acquisition during these last several years; the company also grew organically and hopes to keep a natural balance between both types of growth in the future.

"We plan on continued growth with a combination of 5 percent internally and then another 5 percent through acquisition," he says.

Although the company will not rule out another large acquisition if the right situation presents itself, it is comfortable with its current economic scale.

"We can do a large acquisition if it presents itself strategically, but we don't need to at this time," Sanford says.

Frein says the company's strategy is well ahead of the rest of the industry and would be difficult to duplicate.

"Interline is probably five years ahead of everyone else in the industry," he explains. "It would be very hard for other company in the industry to imitate their success no matter how much money they spent."