

MSC Industrial Direct Co., Inc. (MSM)

Review of 3QF13 Results

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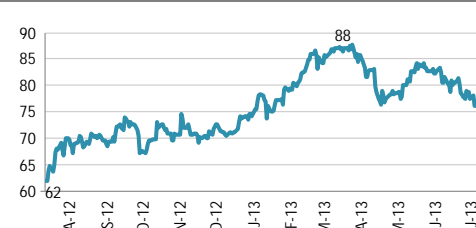
Maintain Outperform rating and \$90 price target. MSM reported solid 3QF13 results despite continued lackluster end-market trends, consistent with our 2Q13 survey. Encouragingly, BDNA is proceeding on schedule, and gross margin is expected to ramp meaningfully in 1QF14. While 4QF13 guidance is below expectations, the midpoint is based on zero organic growth, basically reflecting no improvement in near-term trends. We believe MSM will be a prime beneficiary if industrial end market trends improve later this year as we expect.

- **Maintain Outperform rating and \$90 price target** based on approximately 11x EV/C2014E EBITDA.
- **Estimate changes.** We are fine-tuning our F2014 EPS estimate to \$4.27, our 2013 estimate is unchanged.
- **3QF13 results solid.** MSM reported 3QF13 "organic" EPS of \$1.03 (excluding \$0.02 BDNA accretion) above comparable \$0.95-\$0.99 guidance, driven by better-than-expected gross margin and solid expense leverage.
- **4QF13 guidance below expectations.** 4QF13 sales guidance of \$661-\$673 million (organic ADS flat at the midpoint) was below prior \$693.6 million consensus, and expected EPS of \$0.87-\$0.91 places prior \$1.02 consensus above the range.
- **Outlook mostly as expected / previewed.** Consistent with themes highlighted in our 2Q13 earnings preview, management noted continued sluggish metalworking trends, which have persisted through June. Guidance assumes zero organic daily sales growth at the midpoint as the company expects no improvement in the business environment.
- **BDNA integration on schedule.** Management noted that BDNA integration is proceeding smoothly, and maintained synergy and accretion expectations. Furthermore, overall gross margin is expected to uptick meaningfully in 1QF14, as an unfavorable BDNA acquisition purchase accounting adjustment abates.
- **F2014 pricing expected.** While recent muted growth has prevented mid-year price increases and pressured gross margin, management is planning for typical new-year price increases in the F2014 Big Book, which should be a positive earnings catalyst next year. To the extent that underlying trends show any improvement going forward, potential mid-year price increases would be an additional source of upside.
- **Prime beneficiary of a 2H13 recovery.** We continue to believe that MSM is well positioned for a 2H13 industrial recovery, with potentially improving volumes and pricing reading through at incrementally higher contribution margins.
- **3QF13 results.** Adjusted EPS \$1.05 vs. \$0.96 estimate. Sales \$636.9 million vs. \$630.7 million estimate. Gross margin 45.5% vs. 44.9% estimate. EBIT margin 16.7% vs. 15.9% estimate.

MSC Industrial is a leading direct marketer of industrial products used mainly for customers' maintenance, repair and operations (MRO) requirements.

ESTIMATE CHANGE

1-Year Price Chart



Stock Data

Rating:	Outperform
Suitability:	Average Risk
Price Target:	\$90
Price (7/10/13):	\$80.31
Market Cap (mil):	\$5,076
Shares Out (mil):	63.2
Average Daily Vol (mil):	0.40
Dividend Yield:	1.5%

Estimates

FY Aug	2012A	2013E	2014E
Q1	0.96 A	1.02 A	
Q2	0.95 A	0.90 A	
Q3	1.10 A	1.05 A	
Q4	1.11 A	0.90 E	
Fiscal EPS	4.14 A	3.89 E	4.27 E
Previous (FY)			4.40 E
Fiscal P/E	19.4x	20.6x	18.8x
Calendar EPS	4.18 A	3.86 E	4.42 E
Previous (CY)		3.96 E	4.55 E
Calendar P/E	19.2x	20.8x	18.2x

Chart/Table Sources: Bloomberg and Baird Data

**Please refer to Appendix
- Important Disclosures
and Analyst Certification**

Details

MSC Industrial Direct (MSM - NYSE)								
Quarterly Results and Variance Sheet								
	Quarterly Results					Percent of Revenue		
	3QF13	3QF12	Change	Baird/	Variance	3QF13	3QF12	Baird/
Net Sales	\$ 636.9	\$ 612.0	4%	\$ 630.7	1%			
Cost of Sales	347.4	332.4	5%	347.5	(0%)			
Gross Profit	289.5	279.6	4%	283.2	2%	45.5%	45.7%	44.9%
SG&A	182.9	168.7	8%	182.7	0%	28.7%	27.6%	29.0%
Operating Income	106.6	110.9	(4%)	100.5	6%	16.7%	18.1%	15.9%
Other Exp (Inc)	1.1	0.0	18483%	2.7	(58%)			
Pretax Income	105.5	110.9	(5%)	97.8	8%	16.6%	18.1%	15.5%
Taxes	38.8	40.6	(5%)	37.4	4%	36.7%	36.7%	38.2%
Net Income	\$ 66.7	\$ 70.2	(5%)	\$ 60.5	10%	10.5%	11.5%	9.6%
Diluted EPS	\$ 1.05	\$ 1.10		\$ 0.96				
Diluted Shares	63.1	63.1		63.1				

Source: Company reports, Robert W. Baird & Co. estimates

3QF13 results above expectations

- **EPS.** 3QF13 EPS (ex-items) was \$1.05 vs. \$1.10 y/y, above our \$0.96 estimate (\$0.97 consensus) and the \$0.95-\$0.99 guidance range. Guidance excluded BDNA, which provided \$0.02 of accretion. EPS excludes \$0.07 in non-recurring expenses related to the Barnes Distribution acquisition and ongoing co-location of the company's headquarters to Davidson, NC, as did our estimates and guidance.
- **Sales.** 3QF13 sales were \$636.9 million vs. \$612.0 million y/y (+4%), above our \$630.7 million estimate (and \$635.2 million consensus). BDNA contributed \$34.7 million to sales, implying organic sales of \$602.2 million (-1.6%) near the mid-point of \$597-\$609 million guidance.
 - **Geographic performance.** The strongest trends were again seen in the West (+2.7% y/y), followed by the Midwest (+0.6%), Southeast (flat), International (-2.7%), and the Northeast (-2.7%).
 - **Daily sales.** Daily sales growth reflects weaker underlying trends along with the contribution of BDNA beginning mid-April, with March -1.5% y/y, April +7.1%, and May +13.9%. Excluding contribution from the acquisition, daily sales trends were likely flattish.
 - **Customers.** Growth in non-manufacturing customers (+0.9% y/y) outpaced manufacturing growth (-0.3%), for the first time since F2010.
- **Gross margin.** Gross margin was 45.5% vs. 45.7% y/y, above our 44.9% estimate. Excluding BDNA, gross margin of 45.0% was above the midpoint of the guidance range of 44.9% +/- 20bps.
- **SG&A.** SG&A as a percent of sales (ex-items) was 28.7% vs. 27.6% y/y, slightly below our 29.0% estimate.
- **EBIT margin.** EBIT margin (ex-items) was 16.7% vs. 18.1% y/y, above our 15.9% estimate due to better-than-expected gross margin and SG&A leverage.

Management's outlook assumes no improvement in trends

- **Outlook assumes continued sluggishness.** Consistent with the findings from our 2Q13 Distribution Survey, underlying industrial trends continue to remain challenging. Citing recent conversations with the Company's customers which indicated a lack of improving demand, management noted that customers remain acutely focused on minimizing spending levels, which is reflected in 3QF13 sales to manufacturing customers declining -0.3% y/y. Muted demand has continued, with June sales tracking flat y/y, reflected in management's conservative outlook.
- **Metalworking trends challenging, as previewed.** Consistent with a key theme from our recent survey work, which saw the cutting tools product category moderate sequentially and decline on a y/y basis, management noted particularly challenging trends in metalworking. This mirrors

commentary from key supplier KMT, which recently indicated that while distributor de-stocking has abated, it has yet to see inventory levels increase.

- **Government trends feeling sequestration headwinds.** As would be expected given sequestration pressures, overall government sales declined for the second consecutive quarter. Encouragingly, however, management cited significant growth in the state government business, which should help mitigate the impact from sequestration going forward.

4QF13 outlook below expectations

- **Sales.** Sales guidance (including BDNA) is \$661-\$673 million, below our previous \$688.5 million estimate (\$693.6 million consensus). The midpoint of the range assumes flat y/y organic average daily sales and \$70+ million in sales from BDNA. Excluding the headwinds from an extra week in last year's fiscal fourth quarter and the lack of a mid-year price increase this year, management believes 4QF13 sales will be very similar to the past couple of quarters.
- **EPS.** 4QF13 EPS (ex-items) is expected to be \$0.87-\$0.91, vs. our previous \$1.00 estimate and \$1.02 consensus. Adjusted EPS excludes \$0.06 in total costs related to the recent Barnes Distribution acquisition and relocation of the company's co-headquarters in Davidson, NC. Of note, BDNA is expected to be neutral to 4QF13 EPS.
- **Gross margin.** Gross margin is expected to be 45% +/- 20bps (-20bps y/y) reflecting vending headwinds and unfavorable seasonal product mix, mostly offset by private label sales and BDNA accretion. Encouragingly, that BDNA accretion should gravitate much higher in 1QF14 and beyond, as temporary headwinds from acquisition-related inventory accounting is likely to abate after 4QF13.
- **SG&A.** SG&A is expected to increase at the midpoint by \$26 million sequentially (~31.3% of sales), comprised of an increase of \$5 million in core SG&A and \$21 million in SG&A associated with the BDNA acquisition. The sequential increase in core SG&A is consistent with normal seasonal trends.
- **Tax rate.** The tax rate is expected to be 37.5% in 4QF13.

Growth initiatives update

- **Overall growth framework.** The company plans to double the size of the business to \$4+ billion in sales by F2016, primarily organically (augmented by acquisitions, with BDNA a prime example), with a ~15% sales growth CAGR targeted. In light of historical growth rates (~14% CAGR historically) and increasing contributions from the company's growth initiatives, this level of growth appears within reach.
- **Facility investments supporting expansion.** Consistent with these long-term growth targets, the company is in the process of co-locating a new CSC (headquarter) in Davidson, North Carolina, which is expected to cost approximately \$7-\$10 million over the course of F2013 and F2014 and is expected to be opened in August 2013. In addition, plans call for MSC to open a fifth CFC (Distribution Center) in Columbus, Ohio, which is expected to be operational by late CY2014.
- **Vending momentum solid overall.** The company's vending machine program continues to provide a meaningful tailwind to growth, contributing +3% of incremental sales growth this quarter (unchanged vs. +3% q/q). Management again highlighted strong signings during the quarter, and ongoing profit improvement programs and the integration of BDNA's offerings should drive continued growth in the medium term.

Barnes Distribution (BDNA) update

- **Overall.** Closed on April 22, integration of BDNA appears to be progressing on schedule, and management remains confident in the strategic rationale of the acquisition. Run-rate revenues are now \$290 million, down slightly vs. the \$300 million run-rate as of the acquisition date given slight declines seen in 3QF13.
- **3QF13 results.** Operations from BDNA (ex-items) contributed \$0.02 to 3QF13 on \$37.4 million in revenues (~9% EBIT margins).
- **4QF13 guidance.** Management expects BDNA 4QF13 revenues to be slightly above \$70 million, contributing roughly +11-12% to overall sales growth. Due to a one-time acquisition-related inventory revaluation, 4QF13 gross margins are expected to be depressed in the low-50%'s, after

which gross margins should revert to more normalized ~55% levels. Overall, BDNA is expected to be neutral to 4QF13 EPS.

- **Accretion guidance maintained.** EPS accretion is still expected to be \$0.15-\$0.20 and \$0.30-\$0.40 in F2014 and F2015, respectively, including synergies and excluding transaction/integration costs. Synergies are expected to reach a run-rate of \$15-\$20 million by FY2015, representing 500-600bps of accretion to BDNA's EBIT margins.

Core investment spending plans mostly consistent

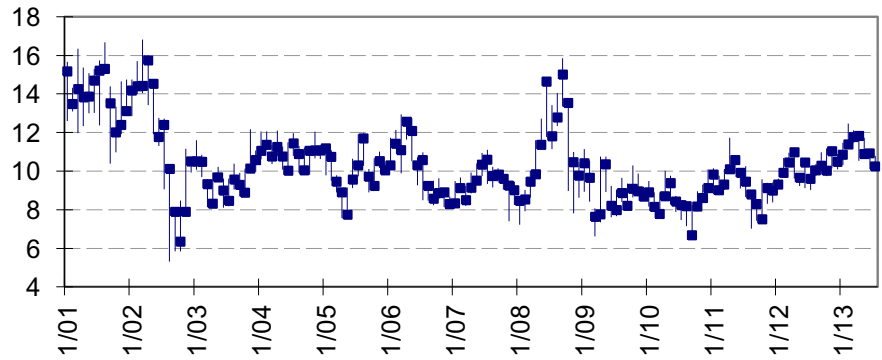
- **Overall.** Despite depressed levels of growth, management's plan to continue investing in growth initiatives, at the expense of near-term (F2013) operating leverage, remains largely unchanged. Encouragingly, however, management appears to have prudently managed spending levels in light of continued economic softness.
- **Tentative F2014 outlook similar to F2013.** While management plans to update its F2014 outlook for spending/operating leverage in 4QF13, it appears that much of the F2013 framework (see above) will likely hold for F2014.
- **Acquisitions should benefit F2014 operating leverage.** Mentioned previously, BDNA's gross margin is expected to improve mid-single-digits+ beginning 1QF14, and should help contribution margins going forward. Accelerating synergies through FY2015 should also help mitigate the impact from continued investment spending in the combined businesses.
- **Vending impact remains modest.** Ongoing momentum within the company's vending offering is also a modest headwind to operating leverage, attributable to the fact that higher up-front costs are set to accelerate near term as implementations ramp. In addition, vending relationships tend to be more production-focused with higher volumes, leading to gross margins initially below the corporate average (vending was -50bps dilutive to 3QF13 gross margin). Longer term, there appears to be good opportunity to raise the gross margin of these customers as MSC adds higher-margin MRO purchases to these customers relationships..

Pricing environment remains challenging

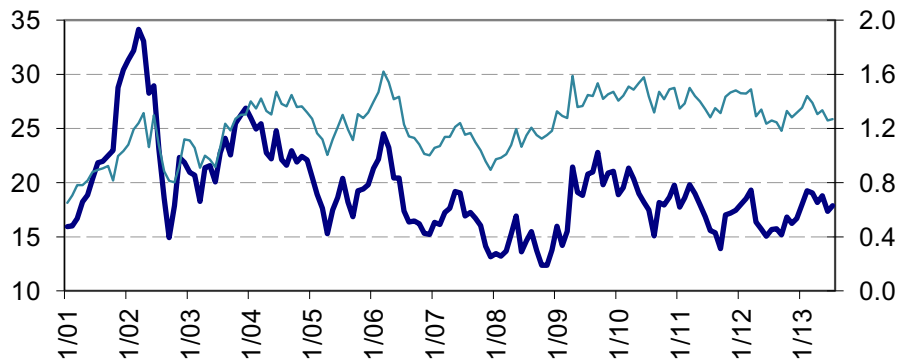
- **Sluggish demand pressuring pricing.** Consistent with our recent survey work, stable commodity prices are seen as preventing supplier mid-year price increases, while sluggish demand appears to be driving heightened customer pricing sensitivity, on the margin. To this point, guidance continues to assume no pricing actions until the F2014 issue of the Big Book.
- **Pricing tailwind consequently moderating.** Pricing contributed +0.8% to overall y/y growth in 3QF13, moderating vs. +1.5% q/q, reflecting the impact mid-year price increases which benefited the prior-year quarter.
- **Price increases planned for F2014 Big Book.** Alluded to above, management expects to implement a "normal" price increase in the F2014 Big Book. While management declined to quantify the amount of pricing it expects to implement, we believe levels in line with historical averages (~2-3%) appear reasonable.

MSC Industrial Direct (MSM - NYSE)			
Estimate Changes			
4QF13E	New	Old	Change
Sales (millions)	\$669.6	\$688.5	-\$18.9
Sales Growth	5.4%	8.4%	(0bp)
Gross Margin	45.0%	44.7%	33bp
Op Ex	\$208.1	\$202.3	\$5.8
Op Ex % of Sales	31.1%	29.4%	170bp
EBIT Margin	13.9%	15.3%	(137bp)
Diluted EPS	\$0.90	\$1.00	-\$0.10
F2013E	New	Old	Change
Sales (millions)	\$2,453.5	\$2,466.2	-\$12.7
Sales Growth	4.1%	4.7%	(0bp)
Gross Margin	45.3%	45.1%	24bp
Op Ex	\$716.4	\$710.4	\$6.0
Op Ex % of Sales	29.2%	28.8%	39bp
EBIT Margin	16.1%	16.3%	(16bp)
Diluted EPS	\$3.89	\$3.89	n/c
F2014E	New	Old	Change
Sales (millions)	\$2,822.9	\$2,842.7	-\$19.8
Sales Growth	15.1%	15.3%	(0bp)
Gross Margin	46.3%	45.3%	93bp
Op Ex	\$863.7	\$826.5	\$37.2
Op Ex % of Sales	30.6%	29.1%	152bp
EBIT Margin	15.7%	16.3%	(60bp)
Diluted EPS	\$4.27	\$4.40	-\$0.13

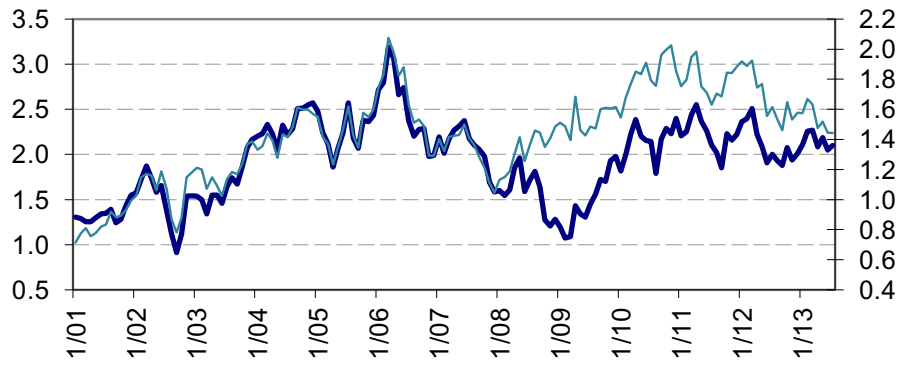
Source: Robert W. Baird & Co. estimates



■ NTM Enterprise Value/EBITDA



— Actual NTM PE (left) — Relative NTM PE (right)



— Actual P/S (left) — Relative P/S (right)

Source: FactSet, Robert W. Baird & Co. estimates

Investment Thesis

The call. We rate MSM Outperform. Our \$90 price target is based on 11x EV/C2014E EBITDA, a slight premium to the 10.5x NTM average. We are encouraged by solid contributions from the company's growth initiatives and believe current sentiment and valuation levels largely discount for expected near-term pressure on operating leverage. We remain positive on this higher "industrial beta" name given our outlook for improving conditions in 2H13 under our mid-cycle thesis. Increased comfort with recent management changes, along with continued execution, should allow valuation to rebound to more normal historical levels. Our estimates now include the recently-closed BDNA acquisition, which we estimate to be neutral to F2013 EPS and nearly 5% accretive to our F2014 view.

MSC is a leader in a large, fragmented, and attractive market. MSC Industrial has a low-single-digit share of the highly fragmented \$100+ billion MRO market. Approximately 2/3 of the market is made up of local "mom and pop" distributors, leaving significant room for consolidation.

Consolidation trends favor large players. As the industry continues to consolidate, large distributors like MSC should continue to gain share due to national capabilities, IT and management resources, advanced supply chain solutions, broad product lines, access to capital, superior fill rates, etc.

Cyclical thesis. We expect improving conditions in 2013 under our mid-cycle thesis.

Company-specific initiatives. We believe several company-specific initiatives including sales force additions, vendor and customer managed inventory (VMI and CMI, respectively), vending, MSCdirect.com, BDNA cross-selling, and extended overnight shipping could add to sales momentum.

West Coast expansion. With <10% of total branches on the West Coast, there is significant potential for additional sales force additions going forward. The company recently added three more branches in the region (Seattle, Portland and Salt Lake City). The acquisitions of Rutland Tool and ATS Industrial provide additional traction in this under-penetrated market.

Pricing. Pricing is tied to the annual Big Book publication in September, leading to fairly predictable pricing gains; the most recent F2013 Big Book included price increases of approximately +3.5-4.0%. The company has also implemented additional increases mid-year in the past, a practice which management cited it would repeat opportunistically.

Share repurchase. The company has approximately 4 million shares remaining under current authorization.

Risks & Caveats

Economy/durable goods manufacturing. Approximately three-quarters of MSC's sales are to durable goods manufacturers, which are cyclical and tied to the macro-economic environment.

Growth expenditures. Consistent with the company's view that the current environment is a "once in a lifetime land-grab opportunity" to gain share, MSC is proactively investing in growth. Investments in technology, salespeople, vending machines, private label initiatives, etc. are initially dilutive, but should help the company continue to take share at a rapid pace. In addition, the newly announced plans for a fifth distribution center located in Columbus, OH, should provide for future growth, but could potentially be poorly timed should economic conditions worsen.

Maintaining and managing rapid growth. As MSC grows and matures, it may become increasingly difficult to maintain historical growth rates. Managing growth could also become increasingly difficult.

Internet-only industrial supply sources. The recent entry of Amazon.com into the industrial supply market is mainly headline risk, in our opinion, due to the very large market, complexity of many products, high levels of customer service and support provided by companies like MSC, etc. While there are undoubtedly some customers who may try to search for cheaper items, increasingly, large customers are consolidating with national players like MSC due to one-stop-shop convenience for the myriad of MRO supplies, technical sales support, and customized levels of service such as vending and integrated supply.

Management transition. The company recently completed the transition of the CEO, and also recently hired an experienced VP of Investor Relations, filling another key role. We are comfortable with the timing and rationale of the transitions as well as abilities of the incoming executives.

Two classes of stock. Insiders control super-voting B stock (10 votes), providing effective insider control.

Company Description

MSC Industrial is a leading direct marketer of industrial products, including cutting tools, abrasives, measuring instruments, machine tool accessories, safety equipment, fasteners, and welding supplies used mainly for customers' maintenance, repair and operations (MRO) requirements. MSC markets approximately 600,000 SKUs through roughly 16 million direct mailing catalogs and other direct-marketing pieces as well as approximately 1,900 salespeople including the BDNA field sales force. Through four regional distribution centers and over 100 sales offices, MSC serves approximately 320,000 customers throughout the United States and provides next-day delivery to most of the US population.



MSC Industrial Direct

(MSM - NYSE)

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Recent Price
Fiscal Year End
Date Printed

\$80.26
August
July 10, 2013

(\$ in thousands, except per share)

Fiscal Year	Revenue		Gross Profit			Operating Expenses			EBITDA		Operating Income			Other Exp. (Inc.)	Pretax Income			Income Taxes		Net Income			Diluted EPS		Comm Div	Avg. Shares
	\$	Chg	\$	%	Chg	\$	%	Chg	\$	%	\$	%	Chg		\$	Rate	\$	%	Chg	\$	Chg					
1998	614,501		269,463	43.9%		190,657	31.0%		86,108	14.0%	78,806	12.8%		(2,064)	80,870	13.2%	31,943	39.5%	48,927	8.0%	0.71	-	68,964			
1999	683,420	11.2%	288,936	42.3%	7.2%	211,875	31.0%	11.1%	85,791	12.6%	77,061	11.3%	(2.2%)	1,021	76,040	11.1%	(6.0%)	30,037	39.5%	46,003	6.7%	(6.0%)	0.67	(5.1%)	68,317	
2000	831,294	21.6%	333,692	40.1%	15.5%	251,665	30.3%	18.8%	95,990	11.5%	82,027	9.9%	6.4%	5,181	76,846	9.2%	1.1%	30,680	39.9%	46,166	5.6%	0.4%	0.68	0.5%	68,203	
2001	869,231	4.6%	375,140	43.2%	12.4%	288,744	33.2%	14.7%	103,066	11.9%	86,396	9.9%	5.3%	3,373	83,023	9.6%	8.0%	33,211	40.0%	49,812	5.7%	7.9%	0.72	5.9%	69,522	
2002	793,976	(8.7%)	346,160	43.6%	(7.7%)	286,185	36.0%	(0.9%)	75,964	9.6%	59,975	7.6%	(30.6%)	(1,083)	61,058	7.7%	(26.5%)	24,117	39.5%	36,941	4.7%	(25.8%)	0.52	(27.2%)	70,783	
2003	844,663	6.4%	379,698	45.0%	9.7%	296,760	35.1%	3.7%	98,298	11.6%	82,938	9.8%	38.3%	(1,527)	84,465	10.0%	38.3%	32,373	38.3%	52,092	6.2%	41.0%	0.77	47.0%	67,912	
2004	955,282	13.1%	430,369	45.1%	13.3%	299,661	31.4%	1.0%	143,023	15.0%	130,708	13.7%	57.6%	(2,333)	133,041	13.9%	57.5%	51,886	39.0%	81,155	8.5%	55.8%	1.17	52.1%	69,548	
2005	1,099,915	15.1%	504,075	45.8%	17.1%	325,615	29.6%	8.7%	190,718	17.3%	178,460	16.2%	36.5%	(4,094)	182,554	16.6%	37.2%	69,198	37.9%	113,356	10.3%	39.7%	1.62	39.0%	1.94	
2006	1,317,519	19.8%	617,060	46.8%	22.4%	389,394	29.6%	19.6%	242,899	18.4%	227,666	17.3%	27.6%	(904)	228,570	17.3%	25.2%	87,867	38.4%	140,703	10.7%	24.1%	2.06	27.0%	0.54	
2007	1,688,186	28.1%	780,489	46.2%	26.5%	489,606	29.0%	25.7%	316,914	18.8%	290,883	17.2%	27.8%	11,389	279,494	16.6%	22.3%	105,564	37.8%	173,930	10.3%	23.6%	2.59	25.9%	0.64	
2008	1,779,841	5.4%	822,512	46.2%	5.4%	502,984	28.3%	2.7%	346,877	19.5%	319,528	18.0%	9.8%	6,169	313,359	17.6%	12.1%	117,116	37.4%	196,243	11.0%	12.8%	3.04	17.0%	0.74	
2009	1,489,518	(16.3%)	687,845	46.2%	(16.4%)	483,127	32.4%	(3.9%)	231,668	15.6%	204,718	13.7%	(35.9%)	2,726	201,992	13.6%	(35.5%)	76,870	38.1%	125,122	8.4%	(36.2%)	2.00	(34.1%)	0.80	
2010	1,692,041	13.6%	766,939	45.3%	11.5%	525,120	31.0%	8.7%	267,868	15.8%	241,819	14.3%	18.1%	991	240,828	14.2%	19.2%	90,455	37.6%	150,373	8.9%	20.2%	2.39	19.5%	0.82	
2011	2,021,792	19.5%	940,925	46.5%	22.7%	591,160	29.2%	12.6%	378,924	18.7%	349,765	17.3%	44.6%	435	349,330	17.3%	45.1%	130,544	37.4%	218,786	10.8%	45.5%	3.46	44.6%	0.88	
Q1	545,703	15.4%	252,133	46.2%	15.8%	155,309	28.5%	10.5%	104,647	19.2%	96,824	17.7%	25.5%	-	96,824	17.7%	25.7%	36,987	38.2%	59,837	11.0%	25.8%	0.96	27.4%	0.25	
Q2	562,974	16.5%	259,460	46.1%	14.7%	162,933	28.9%	11.8%	105,073	18.7%	96,527	17.1%	19.8%	18	96,509	17.1%	19.8%	36,441	37.8%	60,068	10.7%	20.9%	0.95	21.5%	0.25	
Q3	611,970	15.0%	279,583	45.7%	11.1%	168,724	27.6%	10.0%	119,769	19.6%	110,859	18.1%	13.0%	6	110,853	18.1%	13.1%	40,642	36.7%	70,211	11.5%	13.1%	1.10	13.4%	0.25	
Q4	635,271	19.1%	287,027	45.2%	17.0%	177,789	28.0%	17.4%	118,682	18.7%	109,238	17.2%	16.4%	50	109,188	17.2%	16.5%	39,499	36.2%	69,689	11.0%	17.2%	1.11	19.1%	0.25	
2012	2,355,918	16.5%	1,078,203	45.8%	14.6%	664,755	28.2%	12.4%	448,171	19.0%	413,448	17.5%	18.2%	74	413,374	17.5%	18.3%	153,569	37.2%	259,805	11.0%	18.7%	4.14	19.7%	1.00	
Q1	577,491	5.8%	265,089	45.9%	5.1%	161,410	28.0%	3.9%	113,700	19.7%	103,679	18.0%	7.1%	25	103,654	17.9%	7.1%	39,647	38.2%	64,007	11.1%	7.0%	1.02	6.8%	0.30	
Q2	569,462	1.2%	256,369	45.0%	(1.2%)	164,020	28.8%	0.7%	103,397	18.2%	92,349	16.2%	(4.3%)	(53)	92,402	16.2%	(4.3%)	35,225	38.1%	57,177	10.0%	(4.8%)	0.90	(5.6%)	0.30	
Q3	636,923	4.1%	289,513	45.5%	3.6%	182,882	28.7%	8.4%	119,556	18.8%	106,631	16.7%	(3.8%)	1,115	105,516	16.6%	(4.8%)	38,772	36.7%	66,744	10.5%	(4.9%)	1.05	(4.5%)	0.30	
Q4E	669,595	5.4%	301,519	45.0%	5.0%	208,131	31.1%	17.1%	108,429	16.2%	93,388	13.9%	(14.5%)	2,171	91,217	13.6%	(16.5%)	34,206	37.5%	57,011	8.5%	(18.2%)	0.90	(19.1%)	0.30	
2013E	2,453,471	4.1%	1,112,490	45.3%	3.2%	716,443	29.2%	7.8%	445,082	18.1%	396,047	16.1%	(4.2%)	3,258	392,789	16.0%	(5.0%)	147,850	37.6%	244,939	10.0%	(5.7%)	3.89	(6.0%)	1.20	
2014E	2,822,873	15.1%	1,305,990	46.3%	17.4%	863,678	30.6%	20.6%	506,695	17.9%	442,312	15.7%	11.7%	8,606	433,706	15.4%	10.4%	162,640	37.5%	271,066	9.6%	10.7%	4.27	9.9%	1.28	

Note: All figures exclude non-recurring items. Income statement, balance sheet and cash flow figures are restated to reflect accounting changes.

Reflects adoption of SFAS 123R as of 1QF06. Historical figures have not been restated.

Year	Calendar EPS	
	\$	Chg
2006	2.18	26.5%
2007	2.70	23.8%
2008	3.06	13.1%
2009	1.78	(41.8%)
2010	2.62	47.4%
2011	3.63	38.6%
2012	4.18	14.9%
2013E	3.86	(7.5%)
2014E	4.42	14.3%

Source: Company Reports, Robert W. Baird & Co. estimates



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Recent Price \$80.26
Fiscal Year End August
Date Printed July 10, 2013

(\$ in thousands, except per share)

Balance Sheet	F2006	F2007	F2008	F2009	F2010	F2011	F2012	3QF13
ASSETS								
Cash & Equivalents	7,718	7,797	42,843	225,572	121,191	95,959	168,453	58,017
Receivables	185,734	204,186	216,407	165,368	221,013	266,545	297,215	337,779
Inventory	298,391	338,366	320,434	246,649	285,985	344,854	393,412	414,268
Other	35,630	39,453	42,992	45,125	48,347	51,076	61,031	75,302
Total Current	527,473	589,802	622,676	682,714	676,536	758,434	920,111	885,366
Fixed Assets	122,100	127,608	128,931	131,885	143,609	148,813	174,597	234,643
Intangibles	347,944	343,638	335,028	327,531	320,516	325,739	340,336	632,801
Other Assets	16,781	14,279	16,091	15,417	12,662	11,437	9,832	166,682
Total Assets	1,014,298	1,075,327	1,102,726	1,157,547	1,153,323	1,244,423	1,444,876	1,919,492

LIABILITIES & EQUITY	F2006	F2007	F2008	F2009	F2010	F2011	F2012	3QF13
LIABILITIES & EQUITY								
Current Debt	7,843	33,471	152,364	154,105	39,361	-	1,007	50,527
Payables	56,877	69,579	43,726	55,345	81,220	95,538	96,640	106,082
Other	88,007	70,237	54,511	46,388	69,704	76,664	72,868	88,240
Total Current	152,727	173,287	250,601	255,838	190,285	172,202	170,515	244,849
LT Debt & Lease	192,986	142,200	98,473	39,365	-	-	2,189	242,353
Deferred Taxes	29,312	31,963	42,040	56,808	63,158	79,109	85,061	85,180
Other Liabilities	-	-	-	-	-	-	-	-
Common Equity	639,273	727,877	711,612	805,536	899,880	993,112	1,187,111	1,347,110
Total Liabilities & Equity	1,014,298	1,075,327	1,102,726	1,157,547	1,153,323	1,244,423	1,444,876	1,919,492

Ratios	F2006	F2007	F2008	F2009	F2010	F2011	F2012	3QF13
Days In Inventory	138	128	126	118	105	107	105	102
Days Sales Outstanding (DSO)	43	42	43	42	42	44	44	46
Days Payables Outstanding (DPO)	(22)	(24)	(22)	(27)	(26)	(28)	(26)	(22)
Cash Conversion Days	159	146	147	133	121	122	123	126
Current Ratio	3.5	3.4	2.5	2.7	3.6	4.4	5.4	3.6
Quick Ratio	1.3	1.2	1.0	1.5	1.8	2.1	2.7	1.6
Inventory Turns	2.6	2.9	2.9	3.1	3.5	3.4	3.5	3.6
TTM Return On Assets	16.9%	16.6%	18.0%	11.1%	13.0%	18.2%	19.3%	16.6%
TD/Cap	23.9%	19.4%	18.3%	9.9%	4.2%	0.0%	0.3%	15.4%
TTM EBITDA Interest Cov	n/m	25.2	41.4	63.8	235.0	1,468.7	1,859.6	342.9
TD/TTM EBITDA	0.8	0.6	0.5	0.9	0.1	n/a	0.0	0.1

Du Pont Formula	F2006	F2007	F2008	LTM	F2010	F2011	F2012	LTM
Net Margins (N/S)	10.7%	10.3%	11.0%	8.4%	8.9%	10.8%	11.0%	10.6%
Asset Turnover (S/A)	1.3	1.6	1.6	1.3	1.5	1.6	1.6	1.6
Leverage (A/E)	1.6	1.5	1.5	1.5	1.3	1.3	1.2	1.3
Return On Equity	22.0%	23.9%	27.6%	16.4%	16.7%	22.0%	21.9%	20.8%

Market Capitalization	\$5,057.0 Million
Insider Ownership:	2.1% (A+B Insider = 73%)
Institutional Ownership:	97.9%
Average Daily Volume:	317,668

Cash Flow Statement	F2006	F2007	F2008	F2009	F2010	F2011	F2012	F2013E	F2014E
Net Income	136,389	173,930	196,243	125,122	150,373	218,786	259,031	238,631	271,066
D&A	15,233	26,031	27,349	26,950	26,049	29,159	34,723	49,035	64,383
Inventory	(19,172)	(39,484)	16,991	72,868	(39,748)	(46,895)	(45,306)	3,440	(16,971)
A/R	(24,626)	(22,813)	(15,638)	45,877	(57,884)	(38,304)	(30,213)	7,136	(11,201)
A/P	24,487	20,873	(18,925)	(5,322)	55,183	21,448	3,551	43,049	10,533
Other	1,197	6,646	12,535	19,953	15,884	25,768	12,498	(726)	1,328
Operating Cash Flow	133,508	165,183	218,555	285,448	149,857	209,962	234,284	340,566	319,137
Capital Expenditures	(22,837)	(26,457)	(20,839)	(22,740)	(30,304)	(25,479)	(47,691)	(97,305)	(56,457)
Free Cash Flow	110,671	138,726	197,716	262,708	119,553	184,483	186,593	243,261	262,680

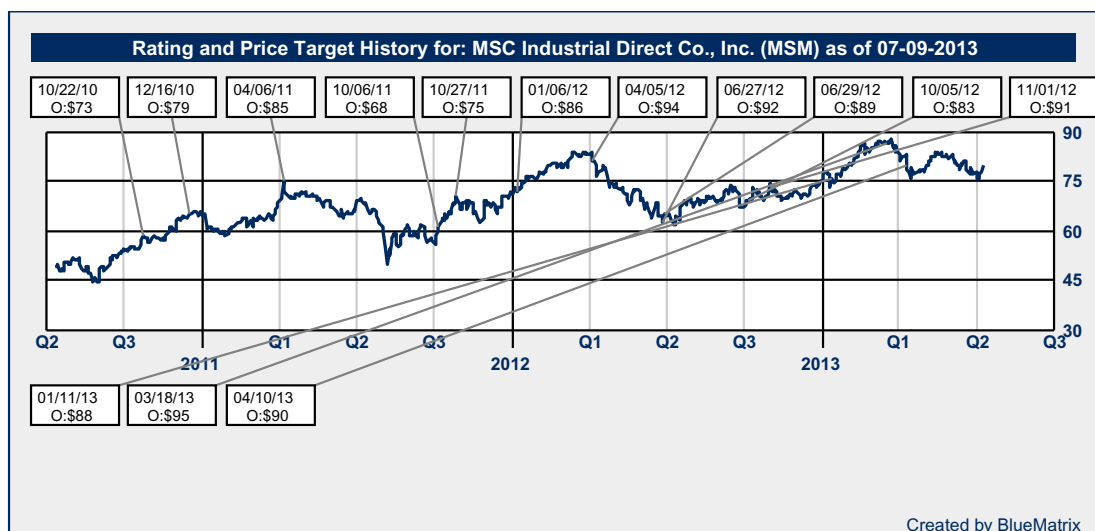
Per Share Data	F2006	F2007	F2008	F2009	F2010	F2011	F2012	F2013E	F2014E
Diluted Average Shares	68,319	67,057	64,659	62,580	62,930	63,324	62,807	63,019	63,484
EPS	2.06	2.59	3.04	2.00	2.39	3.46	4.14	3.89	4.27
Free Cash Flow (FCF)	1.62	2.07	3.06	4.20	1.90	2.91	2.97	3.86	4.14
EBITDA	3.56	4.73	5.36	3.70	4.26	5.98	7.14	7.06	7.98
Cash	0.11	0.12	0.66	3.60	1.93	1.52	2.68	1.57	4.42
Book Value	9.36	10.85	11.01	12.87	14.30	15.68	18.90	21.98	24.81
Tangible Book Value	4.26	5.73	5.82	7.64	9.21	10.54	13.48	11.94	14.84

Valuation Measures	F2006	F2007	F2008	F2009	F2010	F2011	F2012	PT/C13E	PT/C14E
Price - High	\$55.80	\$57.73	\$54.58	\$53.68	\$57.96	\$79.22	\$84.01		
Price - Low	\$31.82	\$37.23	\$34.39	\$26.72	\$38.64	\$45.11	\$56.13		
Price - Average	\$39.99	\$44.80	\$45.71	\$36.62	\$48.09	\$61.78	\$70.56		
TTM P/E - High	27.1	22.3	18.0	26.8	24.4	23.1	20.4		
TTM P/E - Low	15.5	14.4	11.3	13.4	16.3	13.1	13.6		
TTM P/E - Average	19.4	17.3	15.0	18.3	20.3	18.0	17.1	21.5	23.3
FTM P/E - High	21.5	19.0	27.3	22.6	16.9	19.2	21.8		
FTM P/E - Low	12.3	12.3	17.2	11.3	11.3	11.0	14.5		
FTM P/E - Average	15.4	14.7	22.9	15.4	14.0	15.0	18.3		
FCF Yield - Average	4.1%	4.6%	6.7%	11.5%	4.0%	4.7%	4.2%	3.9%	4.3%
EV/TTM Sales - Average	2.41	1.88	1.78	1.52	1.74	1.89	1.81	1.81	2.29
Price / TTM Sales - Average	2.07	1.78	1.66	1.54	1.79	1.94	1.88	2.36	2.23
Price / TTM TBV - Average	9.4	7.8	7.8	4.8	5.2	5.9	5.2	5.9	7.2
Dividend Yield - Average	1.3%	1.4%	1.6%	2.2%	1.7%	3.0%	1.4%	1.2%	1.4%

Enterprise Value	F2006	F2007	F2008	F2009	F2010	F2011	F2012	PT/C13E	PT/C14E
Market Value	2,731,815	3,004,487	2,955,312	2,291,910	3,026,078	3,912,432	4,431,774	5,700,060	5,736,060
Preferred Stock	-	-	-	-	-	-	-	-	-
Total Debt	200,829	175,671	250,837	193,470	39,361	-	3,196	292,880	292,880
Other Long-Term Liabilities	-	-	-	-	-	-	-	-	-
Cash & Equivalents	(7,718)	(7,797)	(42,843)	(225,572)	(121,191)	(95,959)	(168,453)	(154,620)	(321,465)
EV	2,924,926	3,172,361	3,163,306	2,259,808	2,944,248	3,816,473	4,266,517	5,838,320	5,707,475
EBITDA	242,899	316,914	346,877	231,668	267,868	378,924	448,171	452,332	521,856
EV/EBITDA	12.0x	10.0x	9.1x	9.8x	11.0x	10.1x	9.5x	12.9x	10.9x

Source: Company Reports, Robert W. Baird & Co. estimates

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