



HD SUPPLY

WHAT ARE THEY UP TO?

As seen in *SUPPLY HOUSE TIMES*, Sept 2008

An **in-depth** interview with the company's **top executives**.

By Pat Lenius

Supply House Times: Please bring us up-to-date on HD Supply's current status.
JOE DeANGELO, CEO, HD SUPPLY: We made some changes in our portfolio but the only major change is that we sold our lumber and building materials business. It was wholly residential. We were No. 6 in the market, but No. 1 only in two states. We like to be in the No. 1 or 2 position so we elected to divest ourselves of that business. This transaction occurred in early 2008 but we were working on it through 2007.

Regarding our operations: I still lead the business and Frank Garcia oversees the plumbing and HVAC business. Those are the positions we had while part of The Home Depot.

What I like about private equity ownership is the long-term value creation. Now, every decision we make is in terms of how do we create long-term competitive advantage. We want to get customers for life, nurture those relationships and continually get new customers.

Q: In what ways does your relationship with The Home Depot differ today vs. when you were a wholly owned subsidiary?

JOE DeANGELO: The Home Depot owns 12% of the equity shares. Their shares are non-controlling and it is a silent equity position. Now we are back where we were. In all of the businesses that we acquire 100% focus is on the professional customer. Our job is to make sure they get the job done better with us than with someone else. We build our business models based on what will make our customers successful. We are a more relationship-focused business.

We are no longer a relatively small subsidiary of a retail giant. Now we are one of the two big fish in the industrial wholesale space, a big industry player.

Q: HD Supply was built through acquisitions of diverse distributors. What synergies exist between the sectors and for the long term will HD Supply continue diversifying in product?



Joe DeAngelo



Frank Garcia

JOE DeANGELO: We want to create brother and sister relationships between those businesses, share best practices and best processes. For example, if Frank Garcia as president of Plumbing/HVAC takes a leadership role in a certain process, he can share his knowledge and the other units can invest in it faster, with less of a learning curve.

Anesa Chaibi, president of HD Supply's Facilities Maintenance, has taken the lead in green/environmental issues. The presidents of each sector can select what they want from the best practices of others.

Our portfolio is divided into three major sectors:

- Infrastructure and energy
- Maintenance and repair
- Specialty construction

The infrastructure and energy sector includes waterworks, utilities, industrial PVF and electrical. Another emerging infrastructure is data communications, data centers, electronic business. This sector has to address critical end-less demand. If a water main breaks in the street, you have to address it.

The maintenance and repair business works on supporting existing facilities. If something breaks it gets fixed. It's important that we have everything always available that the repair/remodel professional contractor needs.

The specialty construction sector includes three businesses: White Cap, Creative Touch Interiors and Plumbing/HVAC.

White Cap distributes specialty hardware, tools and heavy construction materials for large and medium-sized contractors.

Creative Touch Interiors offers full interior service for builders, including turnkey supply and installation services for flooring, cabinets, countertops and window coverings. It provides showroom services via design centers located in 19 states.

Plumbing/HVAC is a strong No. 2 in the United States. Our job is to bring added value to plumbing and HVAC contractors. Frank Garcia shifted a lot of resources over to commercial to fill the volume gap as residential business declined. That is the strength of diversity.

We beat our profit and cash flow operating plan for the first half of the year. We all work toward a common equity and the businesses help each other.

Q: Are all the businesses on a common computer system?

JOE DeANGELO: We prefer to work with three or four computer vendors. Each president selects the best system for his group.

All of the businesses have in common a supplier data warehouse and payroll systems. At the end of the day we are a local business. Our job is to make it simple for local execution.

We are committed to being a leader in this industry.

Q: How is HD Supply weathering the housing slump?

JOE DeANGELO: We are doing a great job, but 2007 was a very tough year for us ... we did some personnel reductions and consolidations. When we learned we were for sale we had to answer lots of questions about the business. Through this period our team focused on the customer and put in extra overtime. We ended with the right buying partners ... each brings unique aspects to the business.

Q: What happened between HD Supply and Trane that caused you to stop carrying that line?

JOE DeANGELO: Late last year Trane told us they were removing our distributor rights and going direct. We had a distributor relationship with them for about 17 years and were doing a great job. Behind the scenes, Trane was in the process of selling itself.

FRANK GARCIA, PRESIDENT, HD SUPPLY PLUMBING/HVAC: Eight branches were closed as a result of Trane's exit. Some branches that combined plumbing and HVAC remained as plumbing branches only. Fortunately, we had been distributing Rheem in the Southeast and other regions for 30 years, so our team rallied behind the Rheem line. Our Rheem business is doing extremely well. Trane's exit was a strategic business decision. We had won awards from Trane for our performance as a large distributor. We carry other HVAC lines in other parts of the country, including Goodman.

JOE DeANGELO: The removal of distributors from the process is not a customer-friendly action. The distributor's job is to always be there with all the parts and people. Customers are better served going through distributors. This is a model that has worked for many years.

Q: What are the biggest challenges facing your plumbing/HVAC sector?

FRANK GARCIA: The housing crisis is one. The lack of liquidity available to fund new construction projects hurts our future and the economy in general. There is the potential impact of inflation on certain projects. We try to focus on what we can control as a business. We always try to drive performance for all of our customers.

Q: What is the current status of consolidation in the distribution business: are we in a lull period to be followed by a binge?

FRANK GARCIA: Consolidation in the plumbing and HVAC business will continue to follow its course as a logical evolution of the industry. The current lull is more a function of demand, due to the economic environment vs. a change in strategy. Acquisitive companies will continue to look for some type of roll-up or consolidation.

JOE DeANGELO: We would like to get bargains. Smaller companies can't expand without access to capital markets. Companies with access to capital can expand faster and better.

Because we have scale we can command more of a presence with suppliers. Our job is to get better for our customer every day.

HD Supply

HD SUPPLY GIVES BACK

HD Supply has about 900 locations throughout the United States and Canada and about 19,000 associates.

"We are very committed to the communities where our associates live and work," said Erica Crosling, director of public relations and community affairs.

The company has developed charitable projects that help its local businesses and the communities they serve.

"Our businesses are run fairly independently," Crosling noted. "We want them to decide

where dollars and volunteer hours will make the biggest impact."

HD Supply recently launched a corporate giving campaign with the United Way of America. Managers can direct their dollars to the community or issue of their choice.

In addition, the company has an employee "helping hand" fund that allows associates to help other associates through payroll deductions. When an employee faces a crisis he or she can apply for assistance through this fund.

HD Supply has a rich history in central Florida and a large concentration of associates there, so it has made a substantial donation to the University of Central Florida Medical School. Other charities it supports include Habitat for Humanity and the American Heart Association.

Anesa Chaibi and HD Supply's Facilities Maintenance business have done an outstanding job in terms of charitable donations and community service, Crosling said.

"This is something we really care about as a company."

Q: What are HD Supply's competitive advantages?

JOE DeANGELO: HD Supply has three major competitive advantages:

- We have been in all of our industries a long time and we have local and global experience. Relevant experience is important in a distribution-type business.
- We have leadership positions in various businesses and are recognized as an industry leader.
- We have scale and scalability. Suppliers know we are important to them. Customers know we are not going anywhere. Scalability can add new business by penetrating further into existing customers or adding new ones without having to retool or build a new warehouse.

In addition, we are diverse. We are beating our operating plan. We plan to continue to build out and make ourselves stronger.

FRANK GARCIA: We can take the size, strength and scale of our business in plumbing and HVAC and use it to benefit our customers, delivering value-added goods and services to the market. That strength allows us to continually invest in our business even during a severe economic downturn. We

have opened new branches and a new showroom and continue to make significant advancements in some of our proprietary brands and some customer-facing technology.

Q: How is HD Supply helping employees/customers deal with fuel costs and other economic woes?

JOE DeANGELO: Our job is to continually remain competitive and provide the best place for our people to build careers. We have been able to expand even with the significant downturn. We are educating our employees and customers not just about fuel costs but also on how to maintain and operate facilities at a lower cost. We look for ways to conserve. For example, we may invest in technology for our trucks so they don't have to visit a job site twice. We focus every day on improving productivity.

Q: When are you projecting the economy may turn around?

JOE DeANGELO: We are facing a long-term, sustained downturn. This is a dangerous

environment where demand can be destroyed because of inflation. 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. We have to do the best job possible for our existing customers and keep them with us. We also need to attract new customers. The total market may be constricting but we don't want our business to constrict.

Q: Any other news from HD Supply?

FRANK GARCIA: HD Supply Plumbing/HVAC is officially endorsing ISH North America.

We think ISH NA provides a tremendous and unique opportunity to access our contractor customers, other wholesalers and manufacturer partners. We have been active participants in ASA and PHCC and through this we can also partner with IAPMO and CIPH.

JOE DeANGELO: HD Supply is a \$10 billion plus business and we are just at the start of creating what we will create. We can never lose sight of being a local business. We are committed to being a leader in this industry. <<

