

INDUSTRIAL DISTRIBUTOR M&A PULSE

FIRST QUARTER 2017



Q1'17

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Industrial Distribution Coverage Team

ABOUT PMCF

P&M Corporate Finance (“PMCF”) is an investment banking firm, focused exclusively on middle-market transactions, with professionals in Chicago, Detroit, and across the globe through Corporate Finance International associates. Our dedicated Industrials team has extensive industry knowledge and covers a wide range of sectors including industrial distribution, automotive, aerospace, transportation and logistics, and capital equipment manufacturing. Offering a depth of advisory services, the Industrials Team has helped clients worldwide meet their sale, acquisition, financing, and strategic growth objectives.

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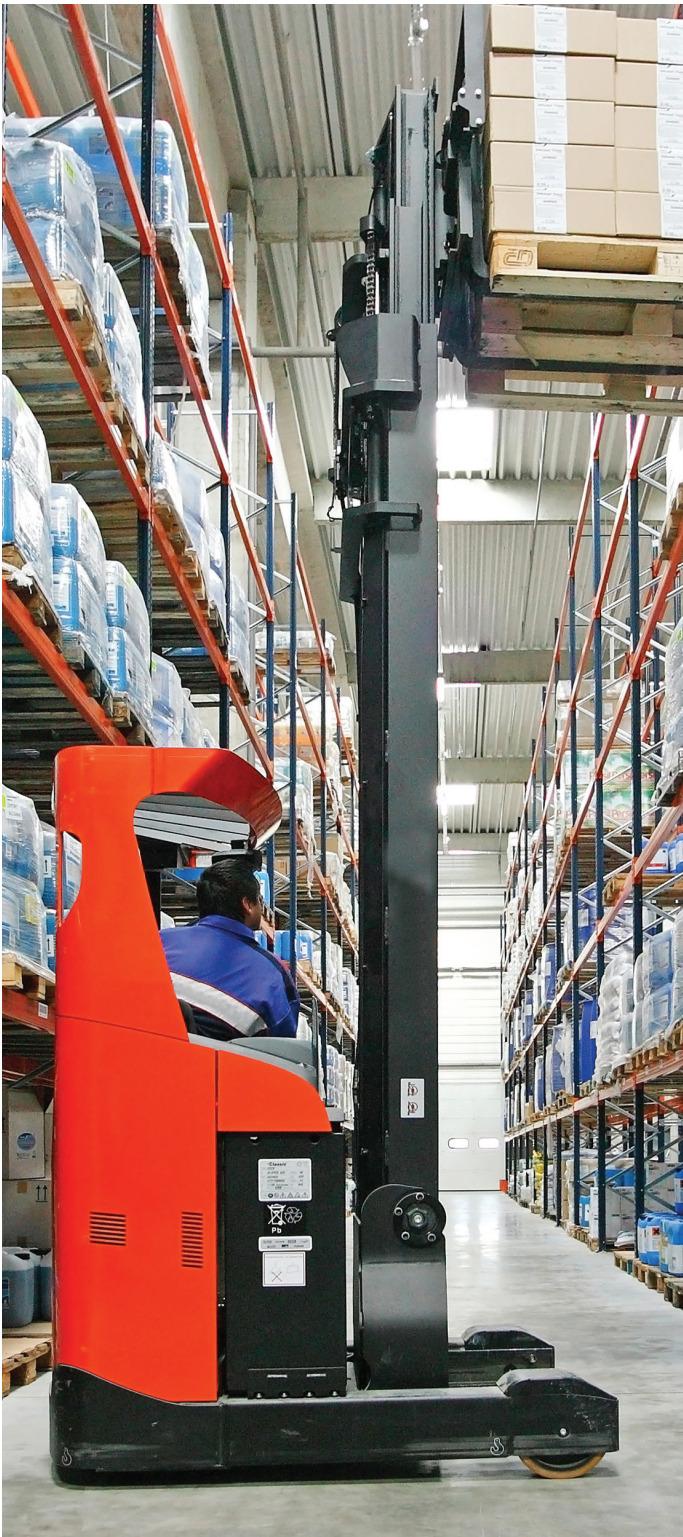
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SELECT PMCF DISTRIBUTION TRANSACTIONS

What We're Discussing with Clients



1

For owners seeking to monetize real estate as part of a sale transaction involving their business, an opportunity exists to extract additional value by structuring a separate real estate transaction. This can be accomplished even if the business is owned by the Company and not a separate, related legal entity.

2

The Trump Administration recently unveiled its proposal for tax reform, which includes a reduction in the number of income tax brackets and a lowering of income tax rates. It also calls for lower tax rates on corporate earnings and pass through income. These new policies will affect sellers on a case-by-case basis, but timing and uncertainty associated with what ultimately will become enacted policy means business owners should assess the risks of adjusting their exit plans or expectations to “time” tax policy.

3

Many transactions today use representation & warranty insurance to facilitate improved economics for sellers while in parallel offering better risk dynamics for the buyer. It's critical to establish the desire for such a product early in a marketing and negotiation process to ensure the transaction documents and terms are consistent with insurance policy requirements.

Q1 Market Summary & Outlook

STEADY TO IMPROVING MARKETS IN Q1

The first quarter of 2017 saw steady performance in the industrial distribution market. Deal volume was comparable to the same period last year, with only a 1.1% reduction in volume. A run rate comparable to 2016 levels is a positive indicator, as the 2014 - 2016 timeframe represented the peak of a six year period of robust M&A activity. Public valuation multiples showed the same behavior as the M&A market, with EV/Revenue multiples holding steady, the median EV/EBITDA multiple matching Q4 2016, and the average EV/EBITDA multiple increasing to 12.9x from 12.7x at the end of the year.

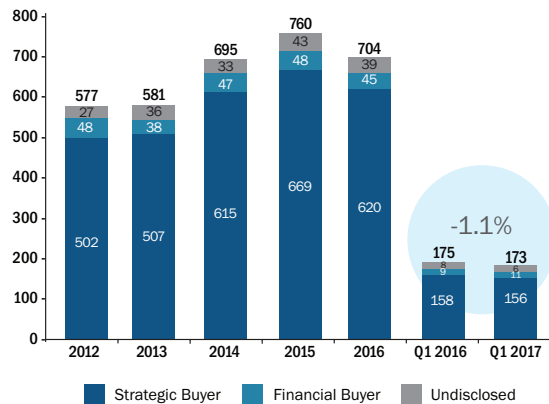
Like the equity and M&A markets, the macroeconomic environment in Q1 2017 was somewhat mixed, with some bright spots. The Chicago Fed Midwest Economy Index, a composite of economic indicators measuring growth in non-farm business activity, closed at 0.6, its highest point since April 2012. Additionally, the Institute for Supply Management's Purchasing Manager Index, which measures sentiment among purchasing managers, closed the quarter at 57.2, indicating a strong positive consensus outlook, leveling off only slightly after six consecutive months of increases. Finally, Housing Starts and Building Permits during the quarter increased 3.0% and 2.4%, respectively, reflecting a housing market that continues to flourish.

In addition to the aforementioned economic indicators and M&A metrics, a number of additional data points indicate that the industrial distribution market and the driving forces behind it are exhibiting strong growth. For example, Affiliated Distributors, a \$34 billion industrial products wholesale buying group, reported sales for all of its members grew by 8% in the first quarter of 2017. Additionally, the building market has been strong, and the U.S. Census Bureau announced that year-to-date March construction spending increased 4.9% over 2016 levels. Finally, Cushman & Wakefield's Industrial Market Report indicates that the national Industrial Vacancy Rate for Q1 declined another 80 bps from the same point last year, bringing levels to 300 bps below the 10-year historical average of 8.3%.

PMCF PERSPECTIVES: WALKING THE ISA FLOOR

The Industrial Supply Association annual conference took place in Denver, Colorado in April 2017. PMCF attended the event, discussing observed industrial distribution M&A trends with attendees, as well as industry developments and perceptions with convention participants. The pervasive view from both public and private distributors was one of general optimism. Though select individual company and end market outlooks tempered the positive attitude, most attendees were in general agreement that market conditions have considerably improved over the course of the last year. Suppliers echoed similar sentiments, though maintained a tone of caution when discussing the future.

INDUSTRIAL DISTRIBUTION DEALS BY YEAR



Sources: Capital IQ, PitchBook, Proprietary Research, Institute for Supply Management, Industrial Supply Association, Federal Reserve Bank of St. Louis



ISA Annual Convention: April 22 - April 24, 2017

HEARD AROUND THE ISA FLOOR

"Orders keep rolling in. Our business is up a bit, even with a focus on automotive."

- Co-Owner & VP of Operations, independent tool distributor

"I would say optimism has definitely improved in the overall market."

- President, independent tool distributor

"We are not seeing increasing demand. Weather might be a factor, but in general our business remains flat. Capital expenditures remain low, dampening our demand."

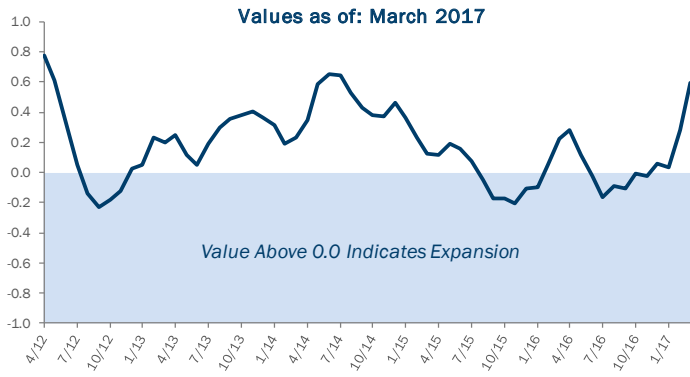
- General Manager, independent MRO distributor

"There are a lot of good signs around the overall market, but recent performance really depends on the end market. People seem to have a real sense of optimism right now - it's unclear how long that will last."

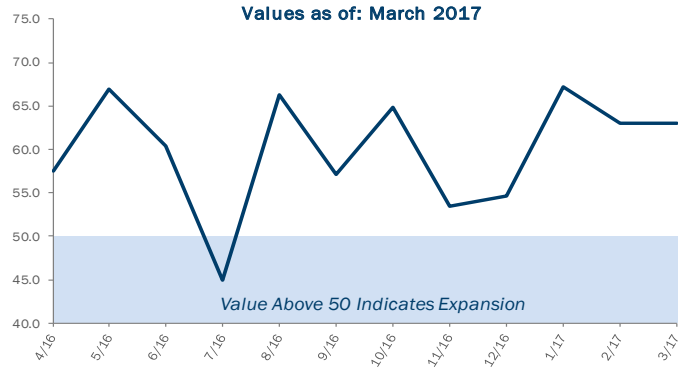
- President & CEO, independent industrial & MRO distributor

Macroeconomic Trends & Signals

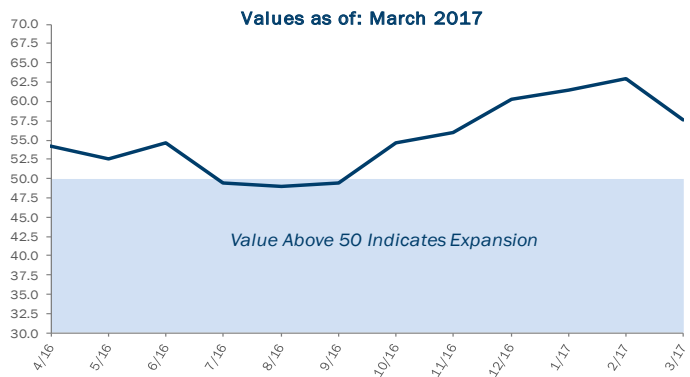
MIDWEST ECONOMY INDEX



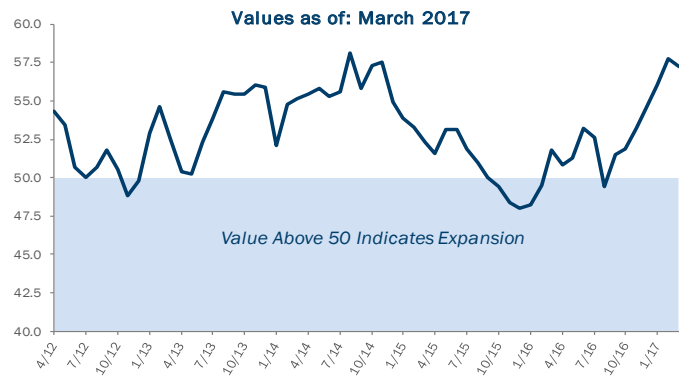
ISA DISTRIBUTOR'S INDEX



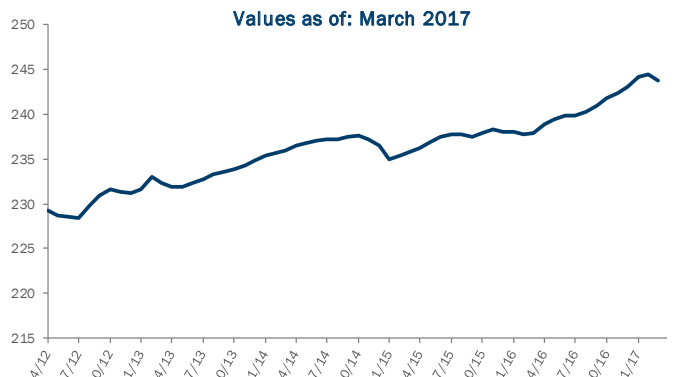
ISM PRODUCTION INDEX



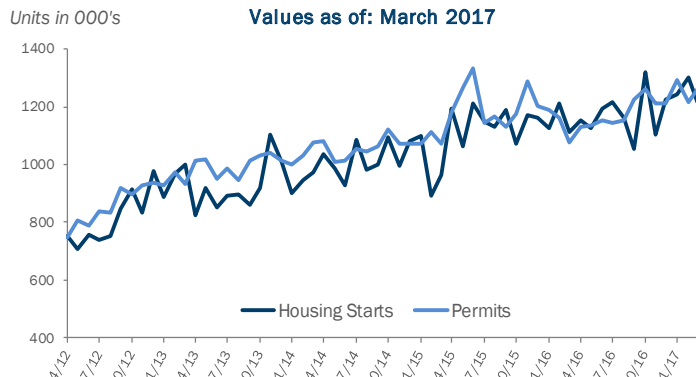
PURCHASING MANAGERS' INDEX



CONSUMER PRICE INDEX



HOUSING STARTS



PMCF Industrial Distributor Index

Company Name	Headquarters Location	Market Cap.	Enterprise Value	TTM Revenue	TTM Gross Profit	Adjusted EBITDA	TTM Gross Margin	TTM EBITDA Margin	Net Debt/ EBITDA	EV/ Revenue	EV/EBITDA ⁽¹⁾	
											Q1 '17	Q1 '16
\$ in Millions												
Industrial / MRO / Safety												
W.W. Grainger, Inc.	United States	\$ 13,668	\$ 15,748	\$ 10,172	\$ 4,089	\$ 1,428	40.2%	14.0%	1.4x	1.5x	11.1x	10.7x
Fastenal Company	United States	14,897	15,174	4,023	1,991	917	49.5%	22.8%	0.3x	3.8x	16.9x	15.7x
HD Supply Holdings, Inc.	United States	8,296	12,033	7,439	2,532	874	34.0%	11.7%	4.3x	1.6x	13.8x	13.0x
MSC Industrial Direct Co., Inc.	United States	5,827	6,338	2,863	1,284	450	44.9%	15.7%	1.1x	2.2x	14.2x	11.2x
Applied Industrial Technologies, Inc.	United States	2,411	2,676	2,546	720	208	28.3%	8.2%	1.2x	1.1x	13.1x	9.5x
MRC Global, Inc.	United States	1,742	2,402	3,120	446	45	14.3%	1.4%	7.1x	0.8x	n/a	7.8x
NOW Inc.	United States	1,823	1,782	2,190	372	(124)	17.0%	(5.7%)	0.2x	0.8x	n/a	NM
Kaman Corporation	United States	1,304	1,683	1,793	536	164	29.9%	9.2%	2.5x	0.9x	10.0x	10.8x
Bossard Holding AG	Switzerland	1,426	1,590	684	216	88	31.6%	12.9%	1.8x	2.3x	17.7x	11.8x
Essendant, Inc.	United States	568	1,156	5,286	745	159	14.1%	3.0%	3.5x	0.2x	6.4x	7.6x
DXP Enterprises, Inc.	United States	657	881	947	260	59	27.5%	6.2%	3.8x	0.9x	17.9x	7.5x
Median							29.9%	9.2%	1.8x	1.1x	13.8x	10.7x
Electrical Products												
Arrow Electronics, Inc.	United States	\$ 6,546	\$ 8,854	\$ 23,825	\$ 3,144	\$ 1,082	13.2%	4.5%	2.1x	0.4x	8.1x	7.6x
Avnet, Inc.	United States	5,898	8,257	25,921	3,085	971	11.9%	3.7%	2.4x	0.3x	8.5x	6.8x
Rexel S.A.	France	5,483	7,819	14,248	3,467	652	24.3%	4.6%	4.0x	0.5x	12.7x	9.0x
WESCO International, Inc.	United States	3,388	4,690	7,333	1,443	385	19.7%	5.3%	3.3x	0.6x	12.1x	8.6x
Anixter International, Inc.	United States	2,626	3,890	7,702	1,557	381	20.2%	4.9%	3.2x	0.5x	10.9x	9.2x
Electrocomponents plc	United Kingdom	2,615	2,793	1,893	822	202	43.4%	10.7%	0.7x	1.5x	17.4x	17.2x
Houston Wire & Cable Company	United States	111	175	276	56	(0)	20.5%	(0.1%)	NM	0.6x	n/a	12.9x
Median							20.2%	4.6%	2.8x	0.5x	11.5x	9.0x
Building Products												
CRH plc	Ireland	\$ 29,545	\$ 35,875	\$ 28,612	\$ 9,329	\$ 3,274	32.6%	11.4%	1.7x	1.3x	10.7x	12.5x
Wolseley plc	Switzerland	15,789	17,444	20,228	5,753	1,451	28.4%	7.2%	1.1x	0.9x	12.1x	11.6x
Pool Corporation	United States	4,927	5,344	2,602	752	280	28.9%	10.8%	1.7x	2.1x	19.2x	17.1x
Watsco, Inc.	United States	4,673	5,098	4,241	1,041	365	24.5%	8.6%	0.6x	1.2x	13.9x	13.5x
Beacon Roofing Supply, Inc.	United States	2,954	3,983	4,200	1,040	361	24.8%	8.6%	2.8x	0.9x	10.9x	19.9x
Builders FirstSource, Inc.	United States	1,669	3,457	6,503	1,623	362	25.0%	5.6%	5.4x	0.5x	9.9x	17.4x
Universal Forest Products, Inc.	United States	2,022	2,120	3,240	475	208	14.6%	6.4%	0.4x	0.7x	10.2x	9.7x
Median							25.0%	8.6%	1.7x	0.9x	10.9x	13.5x
Chemicals & Gases												
Air Liquide SA	France	\$ 44,400	\$ 61,182	\$ 19,144	\$ 12,079	\$ 4,633	63.1%	24.2%	3.5x	3.2x	13.0x	10.0x
Praxair, Inc.	United States	33,834	43,256	10,753	4,729	3,495	44.0%	32.5%	2.5x	4.0x	12.4x	11.7x
Brenntag AG	Germany	8,682	10,486	11,646	2,582	857	22.2%	7.4%	2.1x	0.9x	12.4x	12.0x
Univar, Inc.	United States	4,293	6,936	8,074	1,736	470	21.5%	5.8%	5.9x	0.9x	14.9x	9.4x
IMCD N.V.	Netherlands	2,584	3,010	1,814	407	161	22.4%	8.9%	2.6x	1.7x	18.4x	15.8x
Median							22.4%	8.9%	2.6x	1.7x	13.0x	11.7x

Market capitalizations and total enterprise values as of March 31, 2017; income statement and balance sheet data as of last period reported

(1) Multiple of EBITDA based on EBITDA inclusive of equity income from affiliates

Currency conversions assume historical rate

Source: Capital IQ

Public Company Equity Performance & Trends

VALUATION TRENDS:

- Average EV/EBITDA multiples in the Q1 2017 Industrial Distributor Index increased for the quarter, and the index reached another high point for the trailing two years. Conversely, EV/Revenue multiples and the median EV/EBITDA of the index remained constant at the prior quarter's levels. Valuations of public companies in the Industrial / MRO / Safety sector grew the most significantly, closing the quarter at a mean EV/EBITDA of 13.4x and a median of 13.8x, as compared to 13.1x and 12.9x in Q4 2016, respectively. In total, 16 of the 30 stocks in the index showed increased EV/EBITDA multiples. All sectors except Building Products increased on a year-over-year basis, with median EV/EBITDA multiples rising from 11.3x to 12.4x since Q1 2016. On an aggregate basis, the robustness of valuations in the index infers continued confidence by investors.

PMCF INDUSTRIAL DISTRIBUTION INDEX PUBLIC VALUATIONS								
	Q2 2015	Q3 2015	Q4 2015	Q1 2016	Q2 2016	Q3 2016	Q4 2016	Q1 2017
Revenue Multiple								
Median	0.8x	0.8x	0.8x	0.9x	0.8x	0.9x	0.9x	0.9x
Mean	1.1x	1.0x	1.1x	1.1x	1.1x	1.2x	1.3x	1.3x
EBITDA Multiple⁽¹⁾								
Median	10.9x	9.7x	10.6x	11.3x	10.8x	11.7x	12.6x	12.4x
Mean	11.8x	10.8x	11.1x	11.7x	11.5x	12.5x	13.5x	15.1x

(1) Multiple of EBITDA based on EBITDA inclusive of equity income from affiliates

Quarterly figures based on the last trading day of each quarter shown

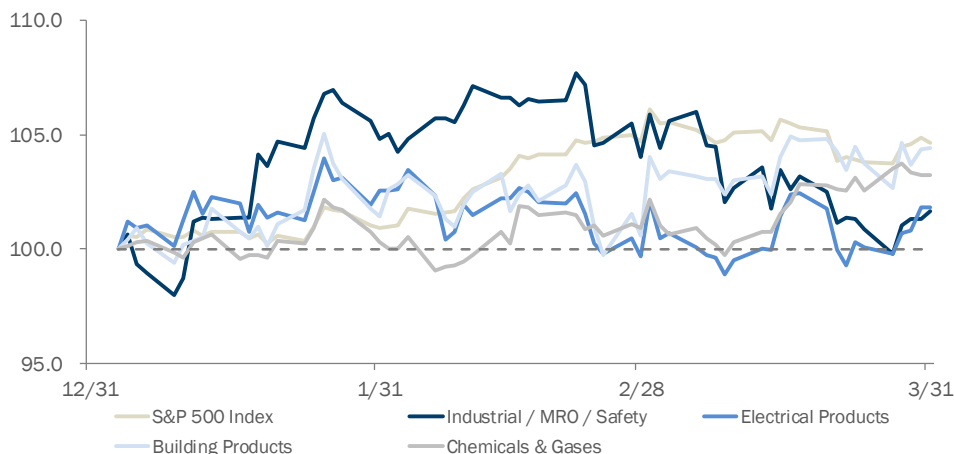
Source: Capital IQ

EQUITY PERFORMANCE:

- In aggregate, the market capitalization of industrial distributors increased 2.8% during Q1 2017, whereas the S&P 500 gained 4.7% during the same period. The S&P was buoyed by strong performance in the IT, Consumer Discretionary and Healthcare sectors.
- The Industrial/MRO/Safety index increased 1.7% in Q1 2017. The Electrical Products index showed similar gains, improving 1.8% during the quarter.
- The Building Products index gained 4.4% in Q1 2017, making it the best performing Industrial distribution sector during the quarter, and the Chemicals & Gasses index improved 3.2 during the quarter. Both subsectors benefitted from positive macroeconomic trends in housing and construction.

PMCF INDUSTRIAL DISTRIBUTION INDEX PUBLIC EQUITY PERFORMANCE

Values as of: March 31, 2017



Market capitalization indices with mixed currencies are converted into USD using historical spot rates

Local currency quotes converted to USD using historical spot rates

Source: Capital IQ

Market Commentary

The momentum of Q4 2016 continued into Q1 2017, albeit with some increasing headwinds. The industrial distribution sector remained steady, with increased earnings, roughly flat deal activity, and valuation multiples approximately comparable to last quarter in aggregate. Industry sentiment, however, was high, with companies that commented on their outlook for the economy typically indicating they expect an economic expansion to benefit earnings.

April 2017: “We expect second quarter of 2017 organic growth in the 1.5% to 3% range and are increasing the midpoint of our full year outlook range by 100 basis points and now expect full year organic sales growth in the 2% to 5% range.”

Bob Eck, President & CEO, Anixter International, Inc.

February 2017: “Looking at market activity moving forward in the U.S. and Canada, we expect that rig count improvements from late Q3 and early Q4 2016 will continue to drive increased facility construction projects for their operator customers. Top line growth could also be spurred by a small boost from the spring turnaround season in downstream, and continued implementation of our supply chain solutions.”

Robert R. Workman, CEO, NOW, Inc.

February 2017: “We expect global exploration and production spending to be up 5% and we expect activity and spending to be stronger in the second half of 2017 as the recovery continues.”

Andrew Lane, President & CEO, MRC Global, Inc.

January 2017: “Now as it has been our practice, we will not provide at this time a specific outlook for the year due to the seasonality of our business. We do however expect 2017 to be a record year for Watsco.”

Albert H. Nahmad, CEO, Watsco, Inc.

Sources: Company SEC Filings and Conference Call Transcripts

Key Deal Highlights

Foreign Expansion

Nexo Solutions
acquires Specialty
Chemical Distribution
Business of Ultra Chem

On April 3, Nexo Solutions, Inc. (NASDAQ:NXEO) announced it would acquire the Specialty Chemical Distribution Business of Ultra Chem, S. De R.L. De C.V. for a reported sum of \$58 million, or approximately 1x revenue. A leading global chemicals and plastics distributor, Nexo had annual revenue of \$1.0 billion in FY 2016. Ultra Chem specializes in sales, marketing and distribution of specialty chemicals in Mexico, serving industrial and consumer end markets. David Bradley, President and CEO of Nexo explained, “With the strength of our platform and the addition of Ultra Chem’s capabilities, we have the portfolio and resources necessary to drive growth in Mexico.”

Enhanced Service Offering

Applied Industrial
Technologies acquires
Sentinel Fluid Controls

On March 6, Applied Industrial Technologies (“Applied”) acquired Sentinel Fluid Controls (“Sentinel”), a distributor of hydraulic and lubrication components, systems and solutions. Applied is a distributor of hydraulic and fluid power solutions with estimated revenue of \$2.6 billion. Terms of the deal were not disclosed. Sentinel, which offers parts, installation, repair and engineering services of hydraulic and lubrication systems, maintains regional offices in six states throughout the Midwest. “The addition of Sentinel complements and enhances our fluid power market leadership,” said Neil A. Schrimsher, President & Chief Executive Officer for Applied. “Their experience and expert fluid power solutions enrich our comprehensive product and service offering and strengthen our geographic footprint.”

New End Markets

Fastenal acquires
Manufacturers Supply
Company

On March 3, Fastenal Company (“Fastenal”) announced that it signed an agreement to acquire assets of Manufacturer’s Supply Company (“Mansco.”) Terms of the proposed transaction were not disclosed. Based in Winona, MN, Fastenal is a distributor of industrial and construction supplies with LTM revenue totaling \$4.0 billion. Mansco, with estimated revenue of \$26 million, distributes production fasteners and industrial supplies. The acquisition of the Grand Rapids, Michigan based company will afford Fastenal a market presence with commercial furniture OEMs. Holden Lewis, CEO of Fastenal, said of the deal, “One of the catalysts for being enthusiastic about Mansco is that they bring us into a market that has not historically been meaningful to us.”

Repair Services

FCX Performance, Inc.
acquires Renew Valve &
Machine Company

On February 9, FCX Performance (“FCX”) announced that it acquired Carleton, Michigan-based Renew Valve & Machine Co. (“Renew”) for an undisclosed amount. FCX, a flow control products distributor who has completed four acquisitions in the last six months operates 41 locations nationally with more than 800 employees. Renew provides industrial valve repair to the power, steel, refining, paper and chemical industries. Tom Cox, CEO of FCX said of the acquisition of Renew, “FCX is known for our extensive product offering backed by our technical expertise, but what our customers tell me is the real differentiator is having the service and repair capabilities to support those products.” The acquisition also bolsters FCX’s presence in the Midwest.

Industrial Distribution M&A Activity

SELECT INDUSTRIAL DISTRIBUTION TRANSACTIONS

Date	Target	Buyer	Industry Segment	Implied EV	EV/TTM Revenue	EV/TTM EBITDA
Pending	CAPI SA	Precia SA	Industrial / MRO / Safety	-	-	-
Pending	JC Flow Controls Pte. Ltd.	JC Fábrica de Válvulas, S.A.	Fluid Control Products	\$ 0.3	0.7x	-
Pending	Inclination Trade & Commerce	Kisan Mouldings Limited	Fluid Control Products	-	-	-
Pending	Supratech Pte Ltd., IQ Air Business	Scientific & Industrial Instrumentation Pte Ltd.	Industrial / MRO / Safety	\$ 3.1	2.2x	-
Pending	Dalian Bingshan Engineering & Trading Co., Ltd	Dalian Refrigeration Company Limited	Industrial / MRO / Safety	\$ 10.7	0.3x	-
Pending	Building Supply Group (Pty) Ltd	Steinhoff Doors and Building Materials Ltd.	Building Products	\$ 51.9	-	-
Pending	Halco Drilling Limited and Paddico (320) Limited	Robit Oyj	Industrial / MRO / Safety	\$ 2.4	-	-
Pending	solvadis deutschland gmbh	Sojitz Corporation	Chemicals & Gases	-	-	-
Pending	Manufacturers Supply Company Inc.	Fastenal Company	Construction/Building	-	-	-
Pending	Sunwave Home Comfort Inc.	Cricket Energy Holdings Inc.	Construction/Building	\$ 6.2	-	-
Pending	ENN Clean Energy UK, Ltd.	Air Liquide SA	Chemicals & Gases	-	-	-
Pending	Air Liquide Welding France SA	Lincoln Electric Holdings, Inc.	Building Products	\$ 129.2	0.3x	7.0x
Pending	Empire Resources, Inc.	Ta Chen Stainless Pipe Co., Ltd.	Building Products	\$ 180.4	0.4x	20.5x
Apr-17	quantiQ Distribuidora Ltda	GTM do Brasil Comércio de Produtos Químicos LTDA.	Fluid Control Products	\$ 176.5	-	-
Apr-17	Ultra Chem, S. De R.L. De C.V., Speciality Chemical Distribution Business	Nexeo Solutions, Inc.	Chemicals & Gases	\$ 58.0	1.0x	-
Mar-17	River City Building Supply, Inc.	SouthernCarlson, Inc.	Building Products	-	-	-
Mar-17	Beijing Huahuo Chenghe International Trade Co., Ltd.	Beijing Zhirou Tongda Economic and Trade Co., Ltd.	Building Products	\$ 0.2	-	-
Mar-17	Shanghai Sempemed Glove Sales Co., Ltd.	Semperit Technische Produkte GmbH	Industrial / MRO / Safety	\$ 3.2	-	-
Mar-17	Sentinel Fluid Controls	Applied Industrial Technologies, Inc.	Industrial / MRO / Safety	-	-	-
Mar-17	Acme Building Materials, Inc.	Beacon Roofing Supply, Inc.	Building Products	-	-	-
Mar-17	IMCD US, LLC	IMCD N.V.	Chemicals & Gases	-	-	-
Feb-17	Mulzer Crushed Stone, Inc.	CRH plc	Building Products	-	-	-
Feb-17	E-Tech Components (UK) Ltd.	Lagercrantz Group AB	Electrical Products	-	-	-
Feb-17	DOMAC Sari	Mecafer SA	Industrial / MRO / Safety	\$ 0.8	0.1x	-
Feb-17	6228756 Manitoba Ltd.	Strad Energy Services Ltd.	Industrial / MRO / Safety	\$ 3.5	-	-
Feb-17	Carrier Enterprise Northeast, LLC	Watsco, Inc.	Industrial / MRO / Safety	\$ 430.0	0.9x	-
Feb-17	Premier Lifts, Inc.	Savaria Corporation	Construction/Building	\$ 3.5	-	-
Feb-17	P V Sullivan Supply Co, Inc.	Ferguson Enterprises, Inc.	Building Products	-	-	-
Feb-17	Renew Valve & Machine Company	FCX Performance, Inc.	Fluid Control Products	-	-	-
Feb-17	Telbis Yuzeybilim Sinai Kim. San. ve Tic. Ltd. Sti.	Coventya SAS	Chemicals & Gases	\$ 6.4	2.0x	-
Feb-17	Grabber Construction Products, Inc., Hawaiian Distribution Assets	GMS Inc.	Building Products	-	-	-
Feb-17	Petra Industries, Inc.	Brenntag AG	Chemicals & Gases	\$ 19.8	1.7x	-
Jan-17	Noretron Komponentit Oy	Yleiselektroniikka Oyj	Electrical Products	\$ 1.8	-	-
Jan-17	TuCo Industrial Products Inc.	Aggreko plc	Electrical Products	-	-	-
Jan-17	Bristol Hose Ltd	Interpump Group S.p.A.	Fluid Control Products	\$ 0.7	0.2x	-
Jan-17	EPDM Systems B.V.	SealEco AB	Industrial / MRO / Safety	\$ 2.9	0.3x	-
Jan-17	Hydraulics & Transmissions Ltd	Flowtech Fluidpower plc	Fluid Control Products	\$ 3.3	-	-
Jan-17	Eco Insulation Supply, Inc.	Beacon Roofing Supply, Inc.	Building Products	-	-	-

Sources: Capital IQ, company websites and PMCF industry research

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Recent PMCF Awards



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CROSS BORDER M&A DEAL OF THE YEAR
(Over \$50MM - \$100MM)

AND

CROSS BORDER CORPORATE AND STRATEGIC
ACQUISITION DEAL OF THE YEAR
(From \$10MM - \$25MM)



ACG'S 2016 ALL-STAR DEAL OF THE YEAR AWARD
(REVENUE OVER \$5MM)



2016 M&A ATLAS AWARD WINNER
PRIVATE EQUITY DEAL OF THE YEAR





MERGERS & ACQUISITIONS

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