

# INDUSTRIAL DISTRIBUTOR M&A PULSE

SECOND QUARTER 2016



# Q2'16

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# PMCF Transaction Announcement



## SALE OF ANN ARBOR/ADVANCED DISTRIBUTION TO DICOM TRANSPORTATION GROUP

P&M Corporate Finance (“PMCF”) served as the exclusive financial advisor to Ann Arbor Distribution/Advanced Distribution (“AAD” or the “Company”) in its sale to Dicom Transportation Group (“Dicom”), a portfolio company of Wind Point Partners.

Headquartered in Ann Arbor, Michigan, AAD is a provider of value-added logistics and distribution services offering dedicated pool-point distribution, less-than-truckload transportation, inbound and outbound logistics, and warehouse management services to customers throughout the Midwest and Great Lakes Regions. The Company leverages a network of strategically positioned distribution centers to serve a blue chip customer base that spans retail, healthcare, and other end markets. Following the acquisition, AAD will be integrated into the Express division of Dicom Transportation Group, which specializes in final mile distribution and freight management services.

### 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 industrial equipment manufacturing. Offering a depth of advisory services, the Industrials Team has helped clients worldwide meet their sale, acquisition, financing, and strategic growth objectives.

### INVESTMENT BANKING SERVICES:

- Mergers & Acquisitions
- Sales & Divestitures
- Strategic Assessments
- Readiness Reviews
- Capital Raising

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# What We're Discussing with Clients

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1

The use and availability of reliable operating metrics and product data are critical to supporting a seller's growth story. Limitations of a company's ERP and reporting systems can create hurdles during due diligence and purchase price negotiations.

2

Management teams are an important component to every transaction. Sellers need to carefully consider which managers to include in the process and when to include them. Similarly, evaluating potential gaps in management early in the process can limit potential disruptions later.

3

Contract negotiations of varying magnitudes may take place with customers, vendors, and unions during the course of a transaction. The timing of such discussions can play an important role when positioning the risk profile of the business.

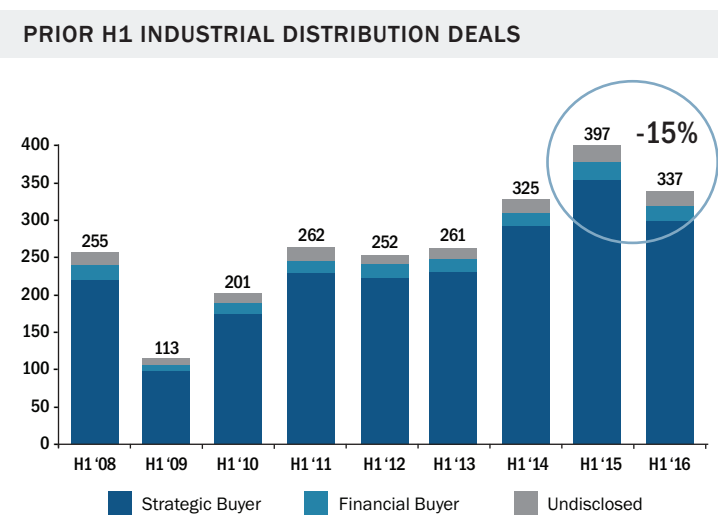
# Q2 Market Summary & Outlook

## OPPORTUNITY IN UNCERTAINTY

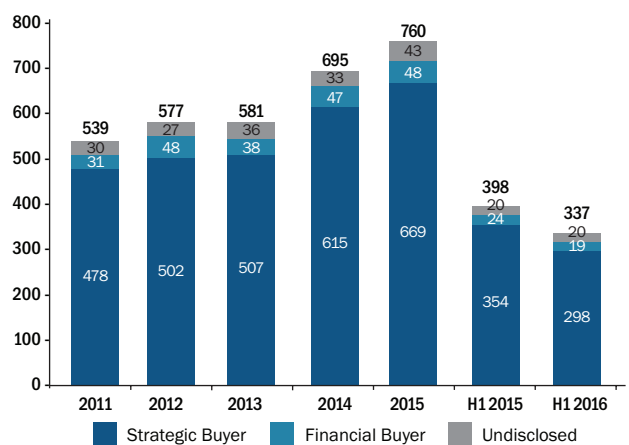
Following a sixth year of consecutive growth in transaction volume, the M&A market for industrial distributors experienced a softer than expected first half in 2016, registering only 337 completed transactions in the PMCF Industrial Distribution Index – a 15 percent decline from the same period in 2015. This trend also has proven true for the broader M&A environment, with strategic and private equity activity down throughout the middle market and elsewhere.

Several key variables in H1 served to subdue general market activity. In January, the threat of a continued rise in U.S. interest rates and weak Chinese growth prospects contributed to a contraction in the global credit and equity markets, sending debt issuances to historic lows and virtually halting the availability of second lien financing. In addition, increasing clarity with regard to the outcome of political elections in Britain and the U.S. generated unrest among investors worldwide. The high risk profile of the market was enough to keep many would-be acquirers from committing capital, and interest was further tempered due to the dearth of quality deals being brought to market.

Despite these headwinds early in the year, equity markets have rebounded and credit availability has returned to levels suitable for deal making in the middle market. Leverage multiples employed by U.S. private equity groups remained elevated at 5.5x EBITDA and deals valued below \$100 million continue to attract significant interest, accounting for nearly 70 percent of H1 2016 activity. Fundamentally, the economy appears to be trending to the positive, especially for distributors. Indicators such as the ISM Production Index, Purchasing Managers Index (“PMI”), and ISA Distributor’s Index suggest a period of expansion in the first half of the year. The ISM Production Index registered 54.7 in June, well above the 12-month low of 49.9 in December. The PMI reached a YTD high of 53.2, indicating a fourth straight month of expansion in the manufacturing sector. Housing starts continue to trend upwards and distributors in the building products space are benefitting from a prolonged period of growth in residential construction.



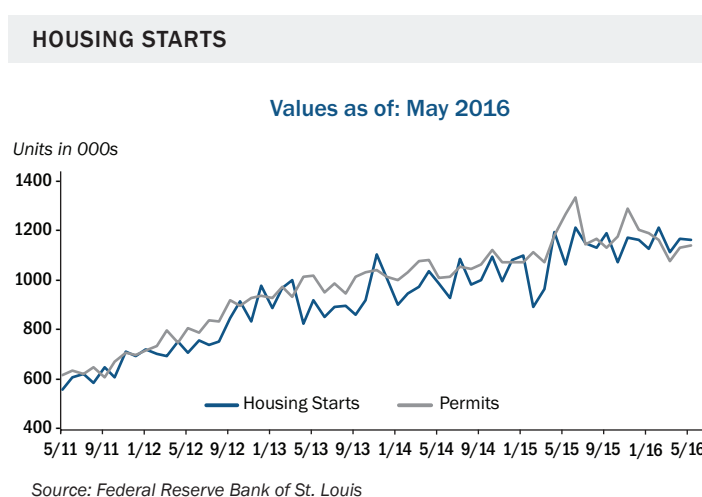
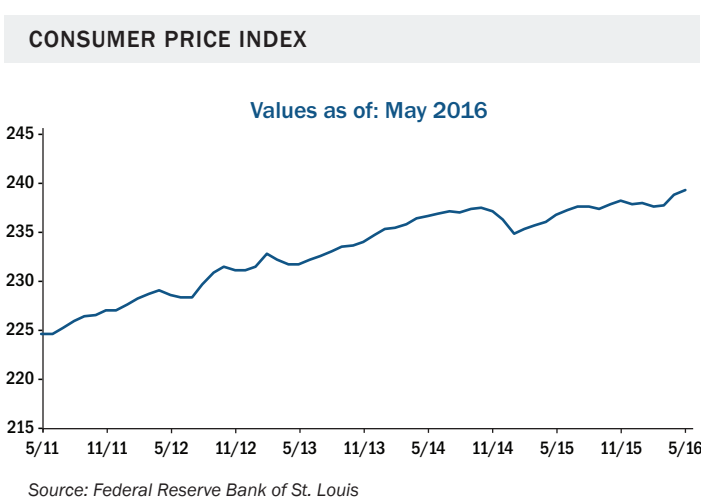
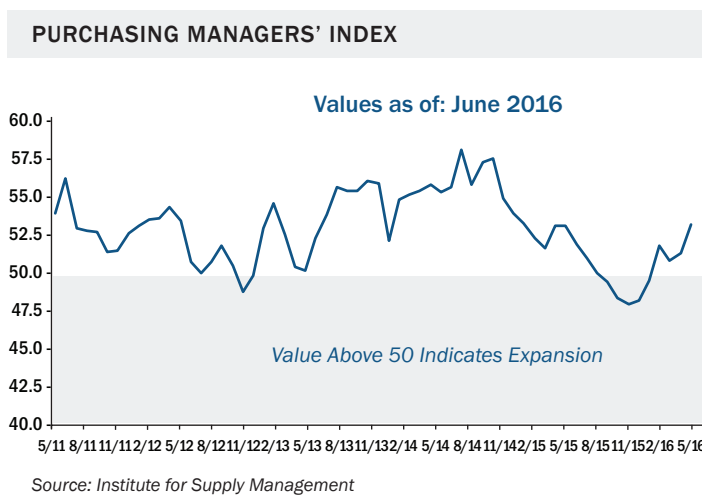
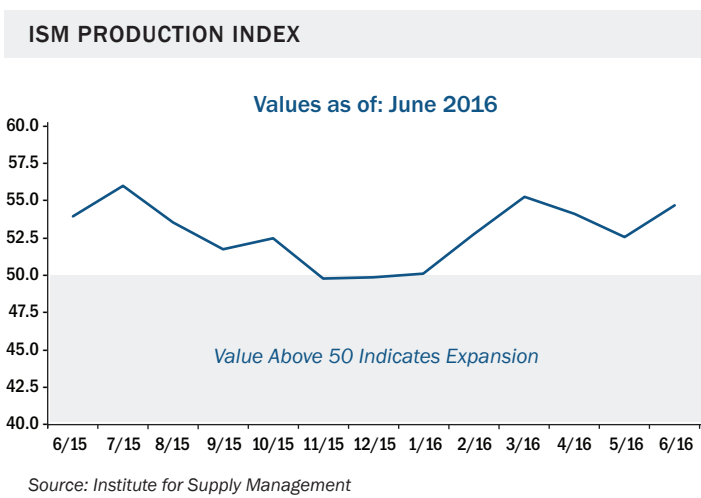
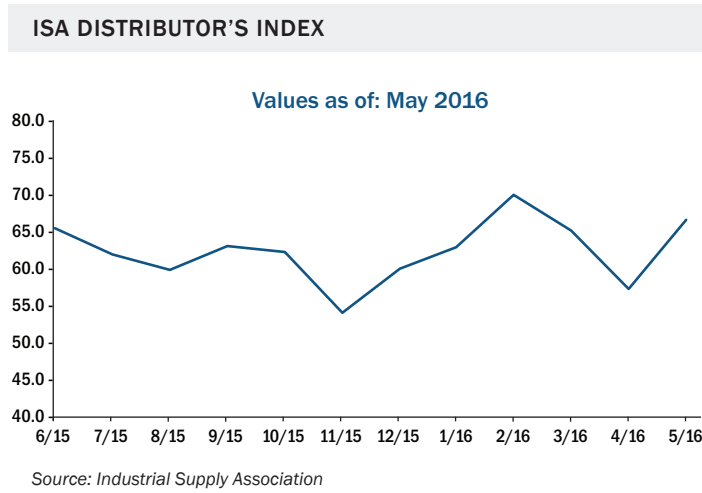
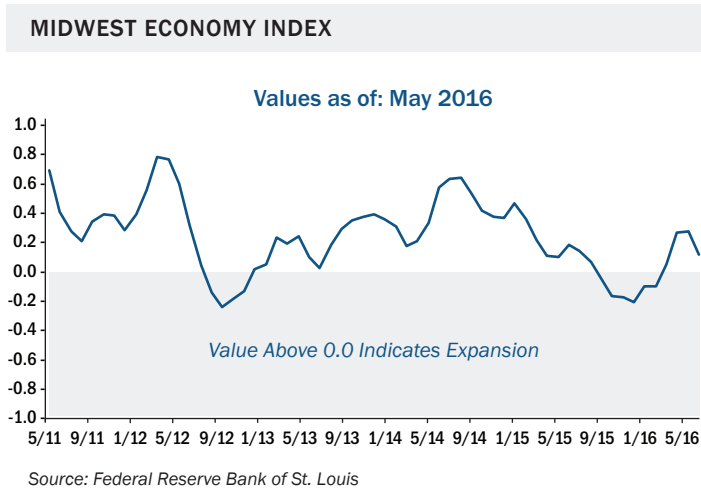
## INDUSTRIAL DISTRIBUTION DEALS BY YEAR



Amid various global uncertainties many economic data points relevant to the M&A cycle show support for healthy levels of continued acquisition activity. The availability of cheap debt and robust levels of equity capital favor both buyers and sellers, as do improving business metrics across the manufacturing and distribution industries. Although current deal volumes suggest the market has peaked, PMCF maintains its position that differentiated sellers in the middle market will benefit from strong industry fundamentals and can realize attractive value outcomes at current financing levels.

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

# Macroeconomic Trends & Signals



# PMCF Industrial Distributor Index

Company Name	Headquarters Location	Market Cap.	Total		TTM Gross Margin	TTM EBITDA Margin	Net Debt/ EBITDA	TEV/ Revenue	TEV/EBITDA <sup>(1)</sup>	
			Enterprise Value	TTM Revenue					Q2 '16	Q2 '15
<b>\$ in Millions</b>										
<b>Industrial/MRO/Safety</b>										
W.W. Grainger, Inc.	United States	\$ 13,935	\$ 15,846	\$ 10,040	41.7%	15.1%	1.3x	1.6x	10.6x	10.2x
Fastenal Company	United States	12,824	13,043	3,903	50.1%	23.5%	0.3x	3.3x	14.2x	14.1x
HD Supply Holdings, Inc.	United States	6,989	11,094	7,509	33.3%	11.3%	4.8x	1.5x	13.1x	14.7x
MSC Industrial Direct Co., Inc.	United States	4,331	4,635	2,864	45.2%	15.6%	0.5x	1.6x	10.4x	10.5x
NOW Inc.	United States	1,949	1,873	2,695	16.1%	(4.9%)	0.6x	0.7x	n/a	15.9x
Applied Industrial Technologies, Inc.	United States	1,762	2,070	2,563	28.3%	8.1%	1.5x	0.8x	9.9x	8.6x
MRC Global, Inc.	United States	1,402	2,154	4,020	16.5%	5.3%	1.9x	0.5x	10.1x	7.2x
Essendant, Inc.	United States	1,135	1,855	5,383	15.6%	4.8%	2.8x	0.3x	7.2x	8.3x
Kaman Corporation	United States	1,151	1,580	1,784	29.4%	8.1%	3.0x	0.9x	11.0x	9.4x
Bossard Holding AG	Switzerland	842	998	656	30.9%	12.3%	1.8x	1.5x	12.0x	11.4x
DXP Enterprises, Inc.	United States	215	576	1,159	27.8%	5.2%	5.9x	0.5x	9.5x	7.8x
<b>Median</b>					<b>29.4%</b>	<b>8.1%</b>	<b>1.8x</b>	<b>0.9x</b>	<b>10.5x</b>	<b>10.2x</b>
<b>Electrical Products</b>										
Arrow Electronics, Inc.	United States	\$ 5,672	\$ 8,028	\$ 23,754	13.0%	4.5%	2.2x	0.3x	7.5x	7.2x
Avnet, Inc.	United States	5,206	6,487	26,789	11.5%	3.8%	1.3x	0.2x	6.4x	6.5x
Rexel SA	France	3,780	6,566	15,348	23.9%	4.9%	3.8x	0.4x	9.0x	10.2x
WESCO International, Inc.	United States	2,173	3,508	7,478	19.8%	5.5%	3.3x	0.5x	8.5x	8.2x
Anixter International, Inc.	United States	1,761	3,209	6,622	21.2%	5.5%	4.0x	0.5x	8.8x	8.2x
Electrocomponents plc	United Kingdom	1,524	1,759	1,860	43.5%	7.2%	1.9x	0.9x	14.3x	9.8x
Houston Wire & Cable Company	United States	87	122	291	21.1%	2.9%	4.1x	0.4x	14.3x	8.6x
<b>Median</b>					<b>21.1%</b>	<b>4.9%</b>	<b>3.3x</b>	<b>0.4x</b>	<b>8.8x</b>	<b>8.2x</b>
<b>Building Products</b>										
CRH plc	Ireland	\$ 23,956	\$ 32,005	\$ 25,669	30.8%	9.3%	3.1x	1.2x	12.9x	13.9x
Wolseley plc	Switzerland	12,800	14,516	19,392	28.2%	7.2%	1.3x	0.7x	11.1x	13.1x
Watsco, Inc.	United States	4,585	5,043	4,156	24.4%	8.6%	0.6x	1.2x	14.1x	13.8x
Pool Corporation	United States	3,956	4,405	2,428	28.6%	10.2%	1.8x	1.8x	17.8x	16.3x
Beacon Roofing Supply, Inc.	United States	2,709	3,765	3,306	23.9%	7.2%	4.5x	1.1x	15.9x	14.2x
Universal Forest Products, Inc.	United States	1,882	1,931	2,936	14.4%	6.5%	0.2x	0.7x	10.1x	9.0x
Builders FirstSource, Inc.	United States	1,239	3,162	4,591	25.4%	4.8%	8.7x	0.7x	14.4x	28.8x
<b>Median</b>					<b>25.4%</b>	<b>7.2%</b>	<b>1.8x</b>	<b>1.1x</b>	<b>14.1x</b>	<b>13.9x</b>
<b>Chemicals &amp; Gases</b>										
Air Liquide SA	France	\$ 36,212	\$ 44,607	\$ 18,000	62.8%	25.5%	1.7x	2.5x	9.5x	11.9x
Praxair, Inc.	United States	32,061	41,780	10,528	44.8%	33.1%	2.6x	4.0x	11.8x	11.4x
Brenntag AG	Germany	7,452	9,297	11,790	22.2%	7.6%	2.1x	0.8x	10.6x	12.7x
Univar, Inc.	United States	2,609	5,583	8,682	20.4%	6.4%	5.3x	0.6x	10.0x	14.2x
IMCD N.V.	Netherlands	2,074	2,550	1,670	22.1%	8.7%	3.2x	1.5x	17.2x	17.4x
<b>Median</b>					<b>22.2%</b>	<b>8.7%</b>	<b>2.6x</b>	<b>1.5x</b>	<b>10.6x</b>	<b>12.7x</b>
<b>Median</b>					<b>24.9%</b>	<b>7.2%</b>	<b>2.1x</b>	<b>0.8x</b>	<b>10.6x</b>	<b>10.9x</b>
<b>Mean</b>					<b>27.9%</b>	<b>9.1%</b>	<b>2.7x</b>	<b>1.1x</b>	<b>11.5x</b>	<b>11.8x</b>

Market capitalizations and total enterprise values as of June 30, 2016; 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 2016 Industrial Distributor Index reached their highest level since June of 2015. The Building Products segment continues to show strength relative to the broader market, registering EBITDA multiples of 14.6x and 13.7x in Q1 and Q2, respectively. The Electrical Products segment is the most improved in the index during the past year, growing from 8.4x in Q2 2015 to 9.8x in Q2 2016.

### PMCF INDUSTRIAL DISTRIBUTION INDEX PUBLIC VALUATIONS

	Q3 2014	Q4 2014	Q1 2015	Q2 2015	Q3 2015	Q4 2015	Q1 2016	Q2 2016
Revenue Multiple								
Median	0.8x	0.8x	0.8x	0.8x	0.8x	0.8x	0.9x	0.8x
Mean	1.1x	1.2x	1.1x	1.1x	1.0x	1.1x	1.1x	1.1x
EBITDA Multiple(1)								
Median	10.9x	11.3x	10.5x	10.9x	9.7x	10.6x	11.2x	10.6x
Mean	11.3x	11.6x	11.2x	11.8x	10.8x	11.0x	11.6x	11.5x

(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

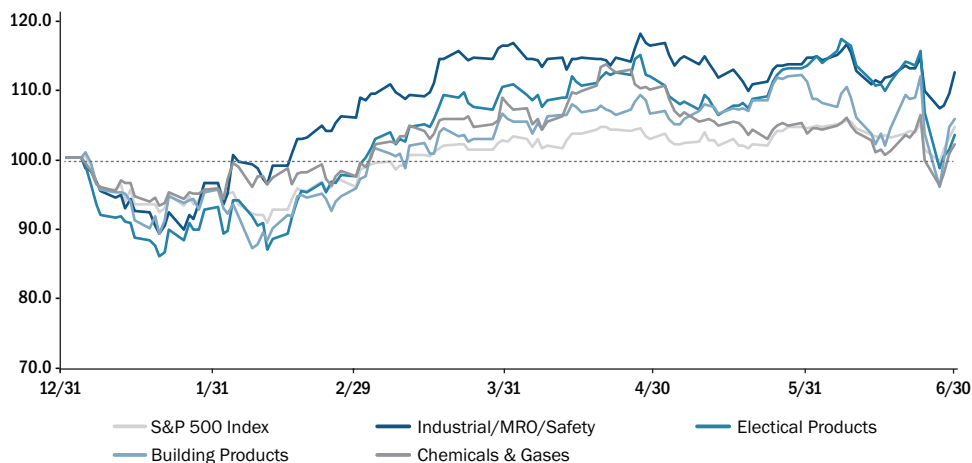
Source: Capital IQ

## EQUITY PERFORMANCE:

- Distribution equities rebounded from February lows to outperform the S&P 500 by 7.5 percent through March 31. However, concerns surrounding Britain's withdrawal from the European Union subdued equity performance late in the first half of 2016 and post-referendum market reactions pushed many distributors into negative territory.
- The Industrial/MRO/Safety index gained 12.0 percent through Q2, while other segments averaged a 5.5 percent increase.
- Distributors in the Chemicals & Gases index – a segment with heavy exposure to European markets – felt a pronounced negative impact from Brexit, finishing the quarter down 11.3 percent from its April 20 peak.
- Although headwinds in developed and undeveloped countries persist, distributors are positioned to generate steady equity returns through the second half of 2016.

### PMCF INDUSTRIAL DISTRIBUTION INDEX PUBLIC EQUITY PERFORMANCE

Values as of: June 30, 2016



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

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*The broader distribution industry rebounded in the second quarter from stagnant year-end earnings, but companies remained cautious with respect to organic expansion strategies amid looming political uncertainties and macroeconomic headwinds. M&A commentary suggests an optimistic outlook, with strategic and financial acquirers expressing optimism in inorganic growth prospects.*

April 2016: “While the macro appears to have stabilized compared to recent quarters, **we continue to plan for a difficult and slow growth, low inflation, and challenging external environment.** We are optimistic that we can achieve our above-market growth goals with near-term growth led by our NSS segment based on its attractive end-market exposure as well as **by the synergies we are pursuing from our recent acquisitions,** driving growth in our EES and UPS segments.

From a geographic perspective, we expect North America to be the strongest region with growth in the U.S. offsetting weaker industrial trends in Canada.”

**Robert J. Eck**, CEO, President & Director, Anixter International, Inc.

April 2016: “...we continue to see some good, small, synergistic tuck-in opportunities, very consistent with the roll-up strategy we’ve been performing. **Clearly, there’s some headwinds in U.S. packaged gas today. That also presents some opportunities for acquisitions.** And it can make the valuations a little bit better. So we continue to pursue that, but we’re still well underway in some of our independent roll-up strategy.”

**Matthew J. White**, Chief Financial Officer and Senior Vice President, Praxair, Inc.

May 2016: “...**the big question is, is the North American economy in a decline?** Are we now starting to look at a recessionary situation in North America as opposed to an expansion in North America? Yet we haven’t taken any hard decisions in terms of operating costs within North America within the traditional chemical distribution business.

So perhaps, it will be a little bit of a guide. When we had this situation in 2008 and 2009, we did take costs out of North America quite aggressively to reflect the situation, which arose at that point. So in terms of straightforward conversion ratios, if we have a situation where this persisted, then we would take action to change that position.”

**Steven E. Holland**, Chief Executive Officer, Brenntag AG

Sources: Company SEC Filings and Conference Call Transcripts



# Key Deal Highlights

## Access to Capital

Nexeo Solutions & WL  
Ross Holding Corp.

On March 21, 2016, chemical and plastics distributor Nexeo Solutions (“Nexeo”) announced a merger agreement with WL Ross Holding Corp., a special purpose acquisition company sponsored by WL Ross Sponsor LLC. Following the acquisition, WL Ross Holding Corp. changed the company’s name to Nexeo Solutions, Inc. and intends to trade on the Nasdaq exchange. The transaction value was disclosed to be \$1.6 billion. As a result of the merger agreement, Nexeo hopes to accelerate its growth prospects by leveraging multiple sources of capital. The existing majority owner of Nexeo, TPG Capital, will retain a 35 percent stake in the newly formed entity.

## Acquiring Capacity

Fersa Bearings & NKE  
Austria GmbH

On January 21, 2016, Fersa Bearings announced the acquisition of a 49 percent stake in NKE Austria GmbH. Both companies manufacture and distribute bearings, but aim to strengthen their capabilities by scaling operations across both the automotive and industrial markets. The combined company will jointly utilize three production facilities, five distribution centers, and five research and development centers. Financial information relating to the transaction was not disclosed.

## Geographic Expansion

WESCO & Atlanta  
Electrical Distributors

On March 1, 2016, WESCO International, Inc. (WESCO) announced its acquisition of Georgia-based Atlanta Electrical Distributors (“AED”). WESCO, a leading provider of electrical, industrial, and communications MRO and OEM products, will gain additional entrenchment in the construction and MRO markets, while expanding its coverage in the Southeastern U.S. market. AED operates five locations and generates approximately \$85 million in revenue. WESCO President & CEO John Engel expects the acquisition to increase diluted EPS by \$0.03 in the first year post-transaction.

## Opportunity to Build Value

OpenGate Capital &  
Bois & Matériaux

On March 1, 2016, OpenGate Capital (“OGC”) announced its acquisition of Bois & Matériaux (“B&M”), a 138 location French distributor of building materials. B&M is one of the largest business-to-business distributors in France, employing approximately 2,500 employees and generating over \$700 million annually. After announcing the deal, OGC noted the various value creation opportunities at B&M, including supply chain efficiency improvements, internal systems overhaul, and sales program improvements. Financial terms of the transaction were not disclosed, but OGC specified its plan to invest \$28 million in B&M during the coming years.

# Industrial Distribution M&A Activity

## SELECT INDUSTRIAL DISTRIBUTION TRANSACTIONS

Date	Target	Buyer	Industry Segment	Implied EV	EV/TTM Revenue	EV/TTM EBITDA
Jun-16	Cape Electrical Supply, LLC	Graybar Electric Company, Inc.	Electrical Products	-	-	-
Jun-16	Lincoln Supply	F.W. Webb Company	Industrial / MRO / Safety	-	-	-
Jun-16	Warren Chem Specialities (Pty) Ltd.	Brenntag AG	Chemicals & Gases	-	-	-
Jun-16	Idaho Western, Inc.	Universal Forest Products Inc.	Building Products	\$ 12	0.5x	-
Jun-16	Nexeo Solutions, LLC	WL Ross Holding Corp.	Chemicals & Gases	\$1,542	0.4x	10.2x
Jun-16	J.M. Swank Co., Inc.	Platinum Equity LLC	Food & Beverage	-	-	-
Jun-16	Woodfeathers, Inc.	Beacon Roofing Supply, Inc.	Building Products	-	-	-
May-16	Public Works Supply, Inc.	Ritz Safety	Industrial / MRO / Safety	-	-	-
May-16	Certain Assets of B&G SUPPLY	Jergens Industrial Supply	Industrial / MRO / Safety	-	-	-
May-16	Asdec, Inc.	RG Industries, Inc.	Industrial Equipment	-	-	-
May-16	Zhong Yung (International) Chemical Ltd.	Brenntag AG	Chemicals & Gases	-	-	-
May-16	Maxim Crane Works, L.P.	Apollo Global Management, LLC	Industrial Equipment	-	-	-
May-16	Chemogas NV	Gilde Equity Management Benelux B.V.	Chemicals & Gases	-	-	-
May-16	Atlantic Roofing Distributors LLC	SRS Distribution, Inc.	Building Products	-	-	-
May-16	Fox Brothers Company	Beacon Roofing Supply, Inc.	Building Products	-	-	-
Apr-16	Power Service, Inc.	NOW Inc.	Industrial/MRO/Safety	\$ 90	-	-
Apr-16	The Welding Center, Welder Services, A&B Electric Motors and Supplies, and Geneva Industrial Gases	Praxair Inc.	Chemicals & Gases	-	-	-
Apr-16	Scales Industrial Technologies	Quincy Compressors	Industrial Equipment	-	-	-
Apr-16	K&J Supply Co. Inc.	Winsupply Inc.	Fluid Control Products	-	-	-
Apr-16	WHANEE Corporation	Brenntag AG	Chemicals & Gases	\$ 11	0.6x	5.8x
Apr-16	FDL Automation & Supply	CBT Company	Electrical Products	-	-	-
Apr-16	Atlantic Building Products, Inc.	Beacon Roofing Supply, Inc.	Building Products	-	-	-
Apr-16	LYF-TYM Building Products Co, Inc.	Beacon Roofing Supply, Inc.	Building Products	-	-	-
Mar-16	Mid-States Supply Company Inc.	Staple Street Capital LLC	Fluid Control Products	-	-	-
Mar-16	Wells Supply, LLC	A&B Valve and Piping Systems, LLC	Fluid Control Products	-	-	-
Mar-16	Perfect Products Company of Michigan, Inc.	Lawson Products, Inc.	Industrial/MRO/Safety	-	-	-
Mar-16	Distribution Central Pty Limited	Arrow Electronics, Inc.	Electrical Products	\$ 49	0.2x	6.3x
Mar-16	Bois & Matériaux	OpenGate Capital, LLC	Building Products	-	-	-
Mar-16	NOxBOX Ltd	Praxair Inc.	Chemicals & Gases	-	-	-
Mar-16	Brohl & Appell, Inc.	Rexel SA	Electrical Products	-	-	-
Feb-16	SF Filter AG	Ambienta SGR S.p.A.	Industrial/HVAC	-	-	-
Feb-16	MRC Global Inc., U.S. OCTG Business	Sooner, Inc.	Industrial/MRO/Safety	\$ 48	0.2x	-
Feb-16	Epperson and Company	Motion Industries	Industrial/Materials	-	-	-
Feb-16	Seaboard Industries, Inc.	Pool Corp.	Leisure Products	-	-	-
Feb-16	Mechanical Supply Company	Macomb Group	Industrial/Piping/Valves	-	-	-
Jan-16	Adhesive Systems, Inc.	Royal Adhesives & Sealants, LLC	Chemicals & Gases	-	-	-
Jan-16	Rexel SA, Operations in Poland, Slovakia and the Baltics	Würth Group	Electrical Products	-	-	-
Jan-16	Cordia S.A.	Rexel SA	Industrial/MRO/Safety	\$ 12	1.0x	-
<b>Median</b>					0.5x	6.3x
<b>Mean</b>					0.5x	7.4x

Sources: Capital IQ, company websites, and PMCF industry research

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OUR CHICAGO & DETROIT OFFICES

# Recent PMCF Awards



THE M&A ADVISOR INTERNATIONAL M&A AWARDS  
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  
(Revenue over \$50MM)



## SELECT PMCF DISTRIBUTION TRANSACTIONS





## MERGERS & ACQUISITIONS

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Southfield, MI 48076

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