

INDUSTRIAL DISTRIBUTOR M&A PULSE

SECOND QUARTER 2022



Q2'22

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Industrial Distribution Coverage Team

ABOUT PMCF

P&M Corporate Finance ("PMCF"), a U.S. registered broker-dealer, is an investment bank focused exclusively on middle market transactions with professionals in Chicago, Detroit, Denver, and across the globe through Corporate Finance International™ affiliates. Offering a depth of advisory services, PMCF helps clients worldwide meet their sale, acquisition, financing, and strategic growth objectives. Additional information on PMCF can be found by visiting our website, pmcf.com.

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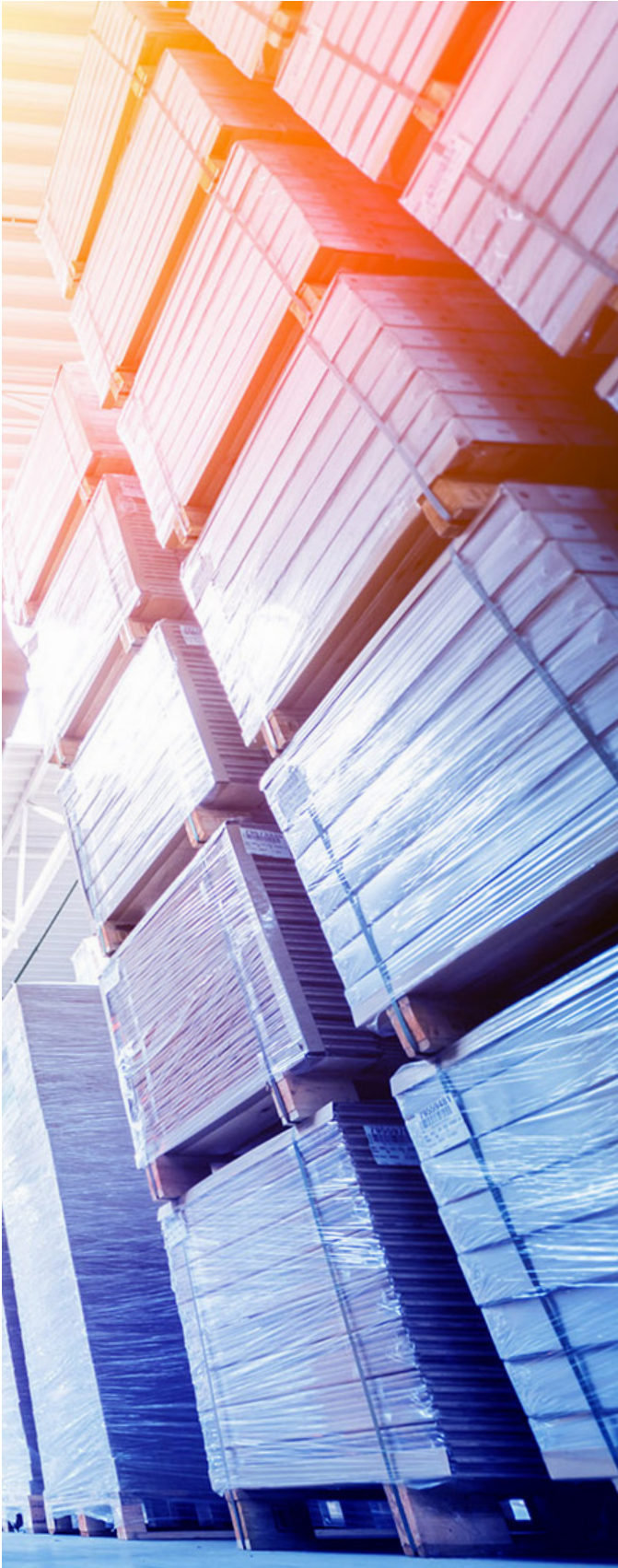


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SELECT PMCF DISTRIBUTION TRANSACTIONS



What We're Discussing with Clients



1

Buyout firms hold record levels of dry powder, signaling private equity's continued involvement in global M&A. It is estimated there is \$1.3 trillion of capital available for platform investments and add-on acquisitions. Despite conversations surrounding a macro slowdown, and rising borrowing costs, this undeployed capital should keep M&A multiples at or near their record highs, particularly for strong performing businesses.

2

It is more important than ever to pursue the correct marketing process for a sell-side transaction. Whether this entails a broader auction to drive increased competitive tension, or a more targeted "fire-side chat" approach to review valuation expectations in a process, tailoring the right process is crucial in achieving shareholder objectives.

3

Volatility across markets has prompted questions during M&A processes about sustainable financial performance. Corroborating go-forward earnings and preemptively crafting this story can help drive incremental shareholder value.

Q2 2022 Market Summary & Outlook

Q2 2022- ACCELERATED PACE BEYOND 2021

US and Global Industrial Distribution M&A volume maintained similar strength in Q2 2022 compared to Q2 2021. Globally, M&A activity slightly exceeded its record-breaking year in 2021, posting 214 closed transactions. The US tracked similarly, recording 88 transactions, nearly matching its 2021 results. Strong M&A activity in the midst of global challenges was led by positive factors such as strong consumer demand and ample capital for M&A transactions. That being said, forward quarter-over-quarter growth is unlikely to remain at the peak levels seen throughout 2021.

Housing starts and permits promptly reacted to the rise in mortgage rates, as home builders begin to express hesitation driven by lightened demand from the US homeowner. The industrial production index, which measures real industrial output, continues to expand, outlining the need for US companies to continue to meet robust consumer demand. While industrial production remains strong, the ISM New Orders Index fell to 49.2 from 53.8 at the end of Q1 2022, signaling the first contractionary indicator for ISM since June 2020. This drop in new orders is not terribly surprising and provides perspective into how businesses are viewing the current, inflationary environment and handling supply chain challenges. An inventory build-up, due to supply chain concerns, is naturally followed by a modest slow-down.

PMCF PERSPECTIVES: RISING INFLATION AND RECESSIONARY WOES

As inflation reaches a 41-year high with year-over-year consumer price index (CPI) increasing 9.1% for June 2022, up from 8.6% the month prior, the Federal Reserve and policymakers have been looking to a new playbook to curb inflation. In the Q1 Pulse, we noted that the Fed started to raise interest rates. Federal Reserve chair Jerome Powell testified in front of Congress during the semiannual Monetary Policy Report in June stating that “Monetary policy is a famously blunt tool. And there’s a risk that weaker outcomes are certainly possible, but they are not our intent.” As of now, rate hikes are yet to slow inflation. This is causing a consensus among officials to continue raising rates at a pace that will likely slow economic growth while hoping to avoid a recession.

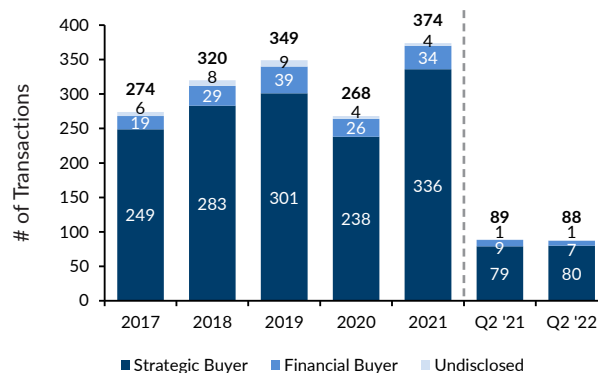
Given the current state of the economy, questions on whether a recession is looming and how long it may last remain uncertain. However, positive macroeconomic factors continue to support a strong underlying economy in the US. Unemployment rates remain low with June results staying at 3.6%. Wage growth expands with hourly earnings up 5.1% from a year ago. Consumer demand is still strong across most sectors coupled with household wealth at an all-time high, in part because consumers continue to save at record levels. Many companies in the industrial sector continue to experience a growing backlog. The ISM Backlog of Orders Index indicated order backlogs expanded for the 24th consecutive month. Nine of the 13 industries reported growth in backlogs for June.

With positive macroeconomic signals and inflation at record levels, a recession may be what the economy needs to combat inflation and bring it in line with the Fed’s 2% goal. Supply chain disruptions continue to challenge businesses with bottlenecks and high transportation costs. The disruptions caused (and continue to cause) an imbalance between supply and demand. That, along with global conflict and uncertainty in Asia and Europe, has driven the prices of goods and services. Market events may provide a catalyst for balancing supply and demand by moderating consumer demand. While expert opinions remain uncertain that a recession will occur, indicators suggest one may be mild in severity and duration due to low unemployment and strong consumer savings. Within the M&A industry, fundamentals are supportive of continued deal activity. Ample capital is still available with the desire and/or requirement to deploy. The current environment has brought M&A return requirements down while keeping valuations at heightened levels.

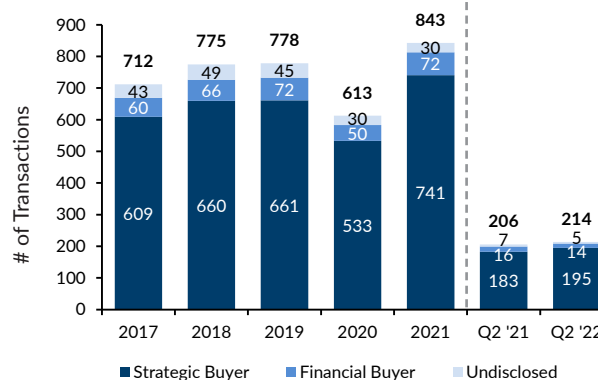
Nothing is certain when it comes to a definitive economic outlook. The next few months will serve as indicators of what’s to come. So, what does this mean for middle-market M&A? Expect deal activity to remain strong at least through the next 1-2 quarters. While there may be rumblings of more disciplined lending and capital deployment, the markets are still highly active, with competitive valuation multiples.

(1) Sources: Capital IQ, PMCF proprietary research
 (2) Industrial Distribution

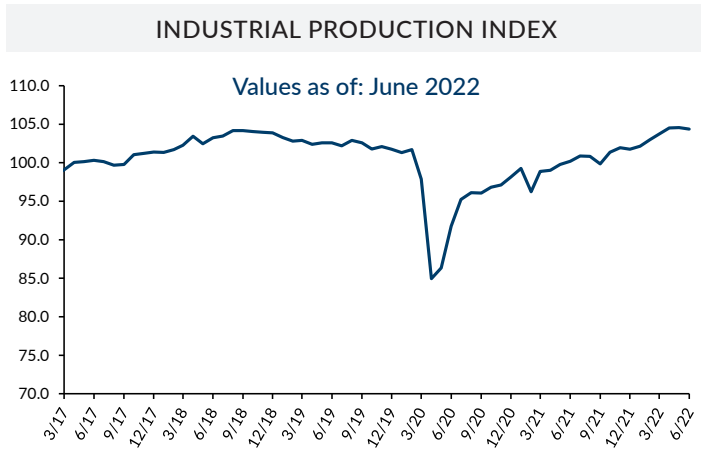
US INDUSTRIAL DISTRIBUTION M&A ACTIVITY⁽¹⁾



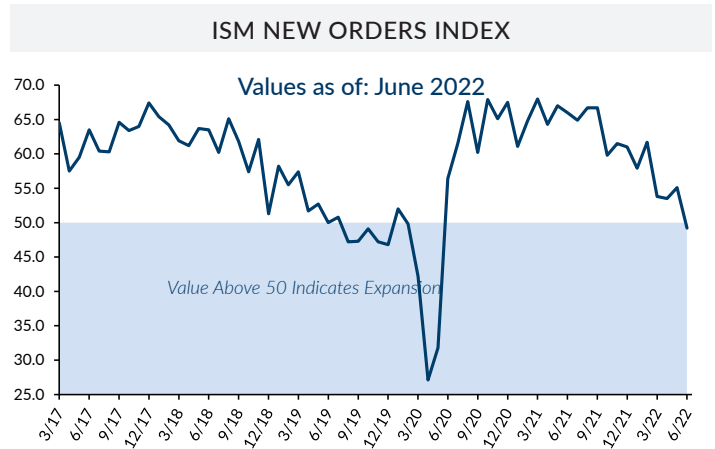
GLOBAL INDUSTRIAL DISTRIBUTION M&A ACTIVITY⁽¹⁾



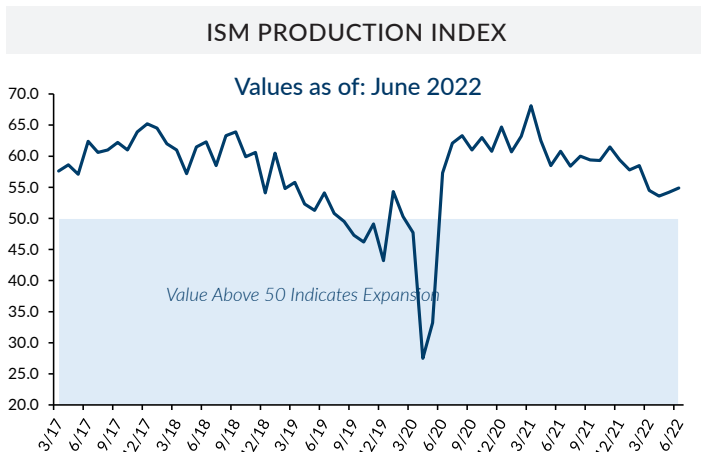
Macroeconomic Trends & Signals



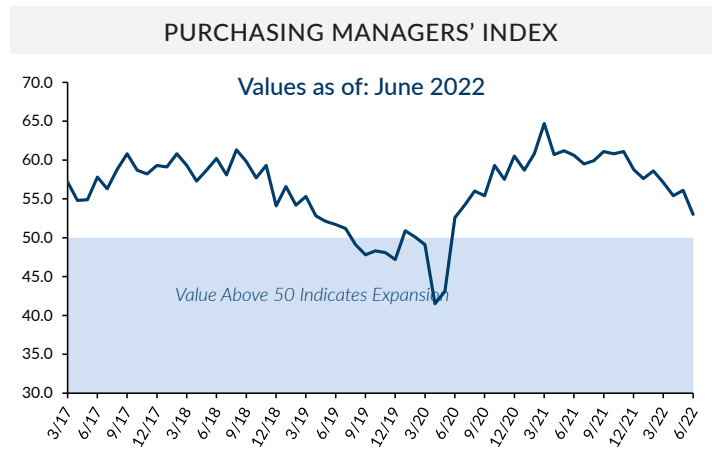
Source: Federal Reserve Bank of Chicago



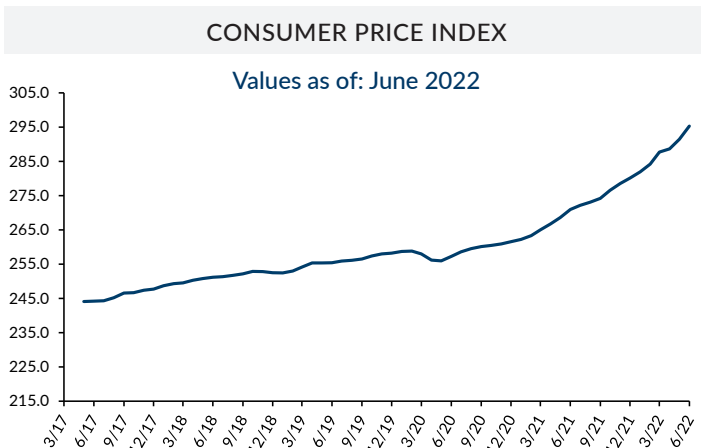
Source: Institute for Supply Management



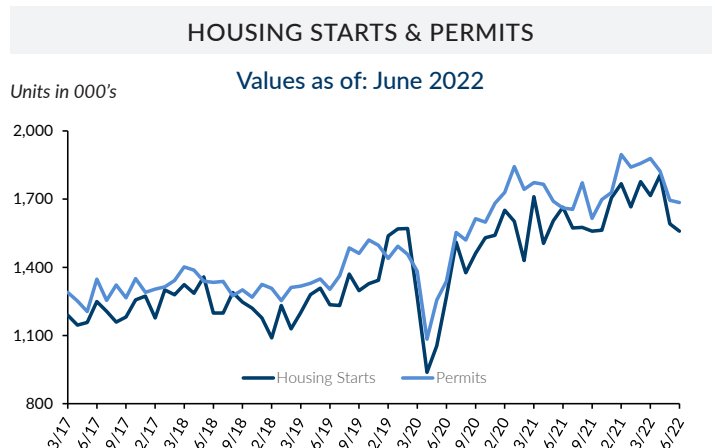
Source: Institute for Supply Management



Source: Institute for Supply Management



Source: Federal Reserve Bank of St. Louis



Source: Federal Reserve Bank of St. Louis

PMCF Industrial Distributor Index

Company Name	Headquarters Location	Market Cap. ⁽¹⁾	Enterprise Value ⁽¹⁾	TTM Revenue	TTM Gross Profit	Adjusted EBITDA	TTM Gross Margin	TTM EBITDA Margin	Net Debt/ EBITDA	EV/ Revenue	EV/EBITDA ⁽²⁾ Q2 '22	EV/EBITDA ⁽²⁾ Q2 '21
<i>\$ in Millions⁽³⁾</i>												
Industrial/MRO/Safety												
Fastenal Company	United States	\$28,734	\$29,116	\$6,569	\$3,054	\$1,535	46.5%	23.4%	0.3x	4.4x	19.0x	22.9x
W.W. Grainger, Inc.	United States	23,222	25,873	14,215	5,327	2,145	37.5%	15.1%	1.1x	1.8x	12.1x	15.9x
MSC Industrial Direct Co., Inc.	United States	4,205	5,038	3,501	1,479	503	42.2%	14.4%	1.6x	1.4x	10.0x	13.5x
Applied Industrial Technologies, Inc.	United States	3,697	4,213	3,645	1,063	383	29.2%	10.5%	1.3x	1.2x	11.0x	12.8x
Bossard Holding AG	Switzerland	1,490	1,722	1,138	358	158	31.5%	13.9%	1.9x	1.5x	10.9x	18.0x
MRC Global Inc.	United States	831	1,677	2,961	489	98	16.5%	3.3%	5.6x	0.6x	17.1x	21.9x
Kaman Corporation	United States	874	953	695	234	104	33.7%	14.9%	0.8x	1.4x	9.2x	12.3x
DXP Enterprises, Inc.	United States	571	910	1,270	371	93	29.2%	7.3%	4.1x	0.7x	9.8x	22.0x
NOW Inc.	United States	1,083	820	1,883	432	102	22.9%	5.4%	(2.0x)	0.4x	8.0x	NM
Median							31.5%	13.9%	1.3x	1.4x	10.9x	17.0x
Electrical Products												
WESCO International, Inc.	United States	\$5,432	\$10,577	\$19,996	\$4,254	\$1,328	21.3%	6.6%	4.0x	0.5x	8.0x	10.1x
Arrow Electronics, Inc.	United States	7,402	10,326	35,165	4,480	1,967	12.7%	5.6%	1.5x	0.3x	5.3x	8.4x
Rexel S.A.	France	4,705	7,547	17,474	4,607	1,312	26.4%	7.5%	2.4x	0.4x	5.8x	10.7x
Avnet, Inc.	United States	4,189	5,609	23,165	2,831	955	12.2%	4.1%	1.5x	0.2x	5.9x	12.5x
RS Group plc	United Kingdom	4,972	5,023	3,357	1,483	440	44.2%	13.1%	0.1x	1.5x	11.4x	21.2x
Median							21.3%	6.6%	1.5x	0.4x	5.9x	10.7x
Building Products												
CRH plc	Ireland	\$26,062	\$32,408	\$30,981	\$10,488	\$5,062	33.9%	16.3%	1.3x	1.0x	6.4x	10.7x
Ferguson plc	United Kingdom	23,612	27,031	27,162	8,383	3,009	30.9%	11.1%	1.2x	1.0x	9.0x	16.9x
Pool Corporation	United States	14,058	15,773	5,915	1,878	1,052	31.8%	17.8%	1.7x	2.7x	15.0x	26.4x
Builders FirstSource, Inc.	United States	9,277	12,852	22,751	7,443	4,192	32.7%	18.4%	0.9x	0.6x	3.1x	6.7x
Watsco, Inc.	United States	8,508	9,318	6,952	1,941	799	27.9%	11.5%	0.5x	1.3x	11.7x	19.8x
Beacon Roofing Supply, Inc.	United States	3,531	6,114	7,875	2,086	826	26.5%	10.5%	3.0x	0.8x	7.4x	9.0x
UFP Industries, Inc.	United States	4,275	4,792	9,501	1,681	1,001	17.7%	10.5%	0.3x	0.5x	4.8x	7.7x
Median							30.9%	11.5%	1.2x	1.0x	7.4x	10.7x
Chemicals & Gases												
Air Liquide S.A.	France	\$69,874	\$82,683	\$27,907	\$15,545	\$6,550	55.7%	23.5%	2.1x	3.0x	12.6x	14.9x
Brenntag SE	Germany	10,030	12,375	17,533	4,057	1,323	23.1%	7.5%	1.8x	0.7x	9.4x	14.8x
IMCD N.V.	Netherlands	7,795	8,779	4,277	1,068	504	25.0%	11.8%	2.4x	2.1x	17.4x	NM
Univar Solutions Inc.	United States	4,209	6,617	10,885	2,737	1,083	25.1%	9.9%	2.3x	0.6x	6.1x	10.5x
Median							25.1%	10.9%	2.2x	1.4x	11.0x	14.8x
Transportation / Logistics												
Old Dominion Freight Line, Inc.	United States	\$29,050	\$28,609	\$5,975	\$2,305	\$1,938	38.6%	32.4%	(0.2x)	4.8x	14.8x	20.4x
J.B. Hunt Transport Services, Inc.	United States	16,500	17,899	13,968	2,359	1,870	16.9%	13.4%	0.8x	1.3x	9.6x	13.2x
C.H. Robinson Worldwide, Inc.	United States	12,844	15,080	26,380	1,960	1,475	7.4%	5.6%	1.6x	0.6x	10.2x	14.9x
Expeditors International of Washington, Inc.	United States	16,349	14,685	18,983	2,502	2,222	13.2%	11.7%	(0.7x)	0.8x	6.6x	14.5x
Ryder System, Inc.	United States	3,634	10,730	10,947	2,126	2,838	19.4%	25.9%	2.4x	1.0x	3.8x	5.1x
Knight-Swift Transportation Holdings Inc.	United States	7,572	9,461	7,247	2,405	1,768	33.2%	24.4%	1.1x	1.3x	5.4x	6.7x
XPO Logistics, Inc.	United States	5,539	8,910	13,336	2,591	1,355	19.4%	10.2%	2.4x	0.7x	6.6x	14.4x
Median							19.4%	13.4%	1.1x	1.0x	6.6x	14.4x
Median							27.2%	11.6%	1.5x	1.0x	9.3x	13.9x
Mean							27.6%	13.1%	1.5x	1.3x	9.5x	14.3x

Source: Capital IQ

(1) Market capitalizations and total enterprise values as of June 30, 2022; income statement and balance sheet data as of last period reported

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

(3) Currency conversions assume the historical rate

Public Company Equity Performance & Trends

VALUATION TRENDS:

- The PMCF Industrial Distribution Index median public equity EV/EBITDA multiple fell slightly in the second quarter of 2022. This adjustment likely outlines the rising cost of capital, a natural symptom of higher inflation. Industrial distribution valuations remain slightly lower than the S&P 500 average (9.5x vs. 12.3x). Since the beginning of the year, industrial distributor multiples have fallen less than the S&P 500 broad market, where the most challenged companies are found in growth-focused and technology sectors.
- 2022 market valuations are seeing challenges through higher interest rates and an increased focus on how dollars are spent by capital providers, all while deal volume remains strong.

PMCF INDUSTRIAL DISTRIBUTION INDEX PUBLIC VALUATIONS ⁽²⁾								
	Q3 2020	Q4 2020	Q1 2021	Q2 2021	Q3 2021	Q4 2021	Q1 2022	Q2 2022
Revenue Multiple								
Median	1.2x	1.3x	1.3x	1.4x	1.4x	1.4x	1.2x	1.0x
Mean	1.5x	1.6x	1.8x	1.8x	1.7x	1.9x	1.7x	1.4x
EBITDA Multiple⁽¹⁾								
Median	12.1x	14.5x	14.5x	13.9x	12.0x	12.3x	11.5x	9.3x
Mean	14.1x	15.4x	16.1x	14.3x	13.0x	13.7x	11.6x	9.5x

Source: Capital IQ

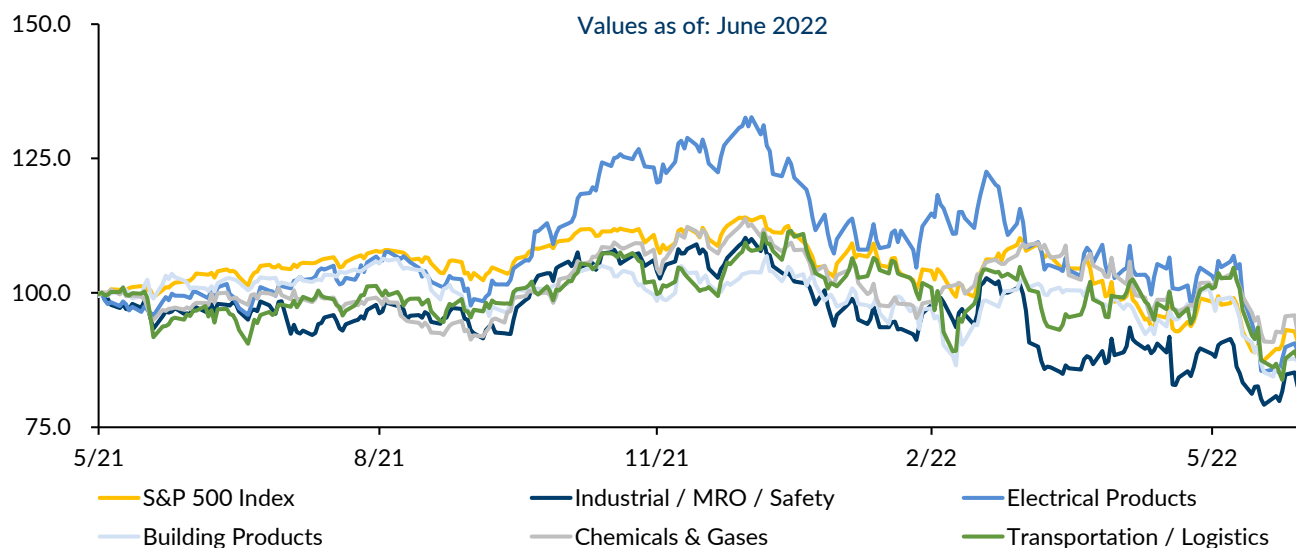
(1) Multiple of EBITDA based on EBITDA inclusive of equity income from affiliates

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

EQUITY PERFORMANCE:

- Industrial Distribution equities are down 23% since the beginning of the year and 10.6% since the second quarter of 2021. Sector underperformance is largely driven by electrical products, which are down 32% since the start of 2022. The broader S&P 500 index is down 20.6% since the beginning of the year, outlining wider spread challenges that tend to be industry agnostic.
- Each of the observed sectors in the PMCF Industrial Distribution index remain down year-over-year. Chemicals and gases contributing most positively to performance, only down 3.4% year-over-year. This is followed by the Electrical Products group ending at -9.3%. Building Products and Industrial / MRO / Safety sub-sectors lagged the broader group with YoY performance of -16.9% and -13.4%, respectively.

PMCF INDUSTRIAL DISTRIBUTION INDEX PUBLIC EQUITY PERFORMANCE⁽¹⁾⁽²⁾



Source: Capital IQ

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

(2) Local currency quotes converted to USD using historical spot rates

Market Commentary

After a 2021 year overwhelmed with elevated demand, supply chain bottlenecks, labor shortages, and rising inflation, industry leaders have adapted and have expressed excitement for 2022. Elevated backlogs, reflecting pent-up revenue, will be realized in 2022. Many businesses that are passing through rising costs will benefit from an improving supply chain and monetary policy changes aimed at slowing inflation.

July 2022: “We’ve been dealing with inflation now for the better part of the year. And we’ve been managing that through a number of means, but one of those means has been price actions on our own end. And as we’ve reported each quarter, we’ve really been able to align the pacing of our price increases with the pacing of our cost increases. And frankly, I don’t expect that to change.”

Holden Lewis, Executive VP & CFO, Fastenal Company

July 2022: “We have less exposure to the more cyclical electronics market, which is different from 2008 and 2009... While we remain alert to a very difficult macroeconomic environment, increasing inflationary pressures, we have an improved pricing model, strong cost discipline driving operating efficiencies. We tightened our inventory commitments. Our strong supplier relationships provide flexibility and we have profitable growth initiatives...”

Lindsley Ruth, CEO & Director, RS Group plc

July 2022: “There are different characteristics of our business segments that should be complementary to the needs of our customers in all economic conditions. These include a flexible, much lighter asset position in our Highway Services offerings, compelling solutions for private fleet conversions, aiding in the nuances of managing advanced transportation networks, a more economical and carbon-friendly full-load services offering in intermodal and a final mile delivery position that addresses a secularly growing demand channel.”

John Roberts, President, CEO & Director, J.B. Hunt Transport Services, Inc.

July 2022: “There were many factors that came into play this quarter that when taken in totality, demonstrate the strength of the company and the resilience of the industry. First off, I would say that demand for new pools is solid and not surprisingly, the backlog on new pool construction is somewhat smaller than this time last year. Our builders are reporting leads have slowed a bit, but that they have plenty of work on new construction and renovation projects on the ever-expanding installed base of pools.”

Peter Arvan, CEO, President & Director, Pool Corporation

Sources: Company SEC Filings and conference call transcripts

Key Deal Highlights

Industry Consolidation

Beacon Roofing Supply (NASDAQ: BECN) acquires Complete Supply Inc.

On June 1, 2022, Beacon Roofing Supply (NASDAQ: BECN) announced the acquisition of Complete Supply Inc, an independent distributor of residential roofing and exterior building supplies to contractors and homebuilders, "We are thrilled to announce Complete Supply has joined Beacon. We believe the alignment of our values with Beacon's will enable us to continue building upon our past successes with enhanced levels of service into the future," commented Eric Meinke, President, Complete Supply. "The team and I look forward to continuing to serve our loyal customers, who we have built trusted relationships with over the last 37 years."

Platform / Add-On Acquisition

Black Bay Energy Capital acquires Advanced Industrial Devices Company

On May 17, 2022, Black Bay Energy Capital entered a definitive agreement to acquire Advanced Industrial Devices Company (AID) from Rock Island Capital. AID is a leading provider of electric motor automation and control solutions for oil and gas and industrial applications. Matt Schovee, Principal of Black Bay, said, "Rising pressure from stakeholders is going to drive end users to shift further towards cleaner, electric driven equipment and we believe AID is uniquely positioned to capitalize on this trend. Russell and the entire AID team have built an impressive business and unique culture centered around customer service, collaboration, and professionalism and we are thrilled to be partnering with them."

End-Market Expansion

AramSCO Inc. acquires Casey Engineered Maintenance Inc.

On April 18, 2022, AramSCO Inc, announced the acquisition of Casey Engineered Maintenance Inc., a leading regional distributor of janitorial supplies and equipment to customers in education, healthcare, hospitality, and other market segments. Kevin McInerney, President of Casey commented, "The Casey family is excited to join with a company that shares our philosophy of using innovative solutions to solve customers' biggest challenges. AramSCO's large product selection, training programs, and geographical reach make them the perfect partner to enable us to expand our best-in-class services."

Product / Network Expansion

Envoy Solutions acquires American Paper Towel Company

On May 23, 2022, Envoy Solutions, entered a definitive agreement to acquire American Paper Towel Company, a full-line janitorial and maintenance distributor with more than 10,000 products. "This is an exciting move for us that will enhance our product offerings in the jan-san space and also expand our geographic footprint in a key U.S. market," said Mark M. Fisher, CEO of Envoy Solutions. "Jonathan Shapiro runs a fantastic company that, like us, delivers exceptional customer service and finds solutions for the most demanding challenges. I look forward to working with the entire team at American Paper Towel Company, and I'm confident our customers, employees, and supplier-partners will greatly benefit from our two companies joining together."

Industrial Distribution M&A Activity

SELECT INDUSTRIAL DISTRIBUTION TRANSACTIONS

EV in Millions

Closed Date	Target	Buyer	Industry Segment	Implied EV
Apr-22	Southern Material Handling Company, LLC	Hugg & Hall Equipment Company	Other	\$-
Apr-22	Florence Corporation	SRS Distribution Inc.	Building Products	-
Apr-22	Kent Enterprise Inc.	BradyIFS	Industrial / MRO / Safety	-
Apr-22	Casey Engineered Maintenance, Inc.	Aramco, Inc.	Industrial / MRO / Safety	-
Apr-22	Encompass Supply Chain Solutions, Inc.	Parts Town LLC	Electrical Products	-
Apr-22	Ashland Services, LLC	Summit Supply LLC	Industrial / MRO / Safety	-
Apr-22	Fasteners & Fittings, Inc.	LindFast Solutions Group	Industrial / MRO / Safety	-
Apr-22	Sigma Supply Of North America, Inc.	Envoy Solutions, LLC	Industrial / MRO / Safety	-
Apr-22	Tampa Armature Works, Inc.	Integrated Power Services, LLC	Electrical Products	-
Apr-22	BellStone Masonry Supply	SiteOne Landscape Supply, Inc.	Building Products	-
Apr-22	Ed's Supply Company, Inc.	Heritage Distribution Holdings	Building Products	-
Apr-22	Direct Scaffold Supply, LP	Highlander Partners, L.P.	Industrial / MRO / Safety	-
Apr-22	Clean Designs, Inc./Clean Route LLC	EVI Industries, Inc.	Other	-
Apr-22	Certain Assets of Plateplus, Inc.	Friedman Industries, Incorporated	Industrial / MRO / Safety	68.6
Apr-22	JJ Industries of Connecticut, Inc.	BlackHawk Industrial Distribution, Inc.	Industrial / MRO / Safety	-
May-22	Imperial Dade	Advent International Corporation	Industrial / MRO / Safety	-
May-22	Allied - Eagle Supply Company, LLC	Imperial Dade	Industrial / MRO / Safety	-
May-22	Stormfitters Corporation	West Shore Home, LLC	Building Products	-
May-22	ePUMPS, Inc.	OTC Industrial Technologies	Industrial / MRO / Safety	-
May-22	Cisco Air Systems, Inc.	DXP Enterprises, Inc.	Industrial / MRO / Safety	45.0
May-22	F&M Mafco, Inc.	American Equipment Company, Inc.	Industrial / MRO / Safety	-
May-22	Smith's Implements, Inc.	Atlantic Tractor LLC	Building Products	-
May-22	Applied Controls, Inc.	STS Operating, Inc.	Electrical Products	-
May-22	Noble Gas Solutions, Inc.	Air Water America Inc.	Chemical & Gases	-
May-22	Advanced Industrial Devices Company LLC	Black Bay Energy Capital, LLC	Electrical Products	-
May-22	American Paper Towel Co. LLC	Envoy Solutions, LLC	Industrial / MRO / Safety	-
May-22	Aci Liquidation, Inc.	Lane Supply Company	Industrial / MRO / Safety	-
May-22	Clark Tractor and Supply Inc.	Tellus Equipment Solutions, LLC	Industrial / MRO / Safety	-
May-22	Ace Steel Supply, Inc.	Commercial Steel Products LLC	Industrial / MRO / Safety	-
Jun-22	Complete Supply, Inc.	Beacon Roofing Supply, Inc.	Building Products	-
Jun-22	Ford Tool Steels, Inc.	Ryerson Holding Corporation	Industrial / MRO / Safety	-
Jun-22	W.A.Bragg & Company, Inc.	Plumbing Distributors, Inc.	Building Products	-
Jun-22	Assets of Engman-Taylor Company, Inc.	MSC Industrial Direct Co., Inc.	Industrial / MRO / Safety	25.5
Jun-22	Russell Hall Company, Inc.	Imperial Dade	Industrial / MRO / Safety	-
Jun-22	Store Room Fasteners, Inc.	Endries International, Inc.	Industrial / MRO / Safety	-
Jun-22	Skarda Equipment Company, Inc.	Certified Power Solutions, Inc.	Industrial / MRO / Safety	-
Jun-22	Grand Equipment Company LLC	Cognitive Capital Partners, LLC	Industrial / MRO / Safety	-
Jun-22	Lewis Paper International, Inc.	Central National Gottesman Inc.	Industrial / MRO / Safety	-
Jun-22	Three D Holdings, Inc.	Nefco	Industrial / MRO / Safety	-
Jun-22	Hughes Enterprises	Envoy Solutions, LLC	Industrial / MRO / Safety	-
Median				45.0
Mean				46.4

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

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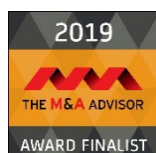
2020 M&A ATLAS AWARD WINNER – AMERICAS
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