

INDUSTRIAL DISTRIBUTOR M&A PULSE

FOURTH QUARTER 2016



Q4'16

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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.

INVESTMENT BANKING SERVICES:

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

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What We're Discussing with Clients



1

Before launching a sale process, fully understand the language contained in vendor and supplier contracts, particularly as they relate to change-of-control, territory exclusivity terms, and termination/extension provisions.

2

While not exceptional in concept, working capital can be a complicated negotiating point. Establishing an appropriate target value to deliver at closing is critical to ensuring sellers don't leave money on the table.

3

Understanding personal, business and market dynamics should triangulate to assess the proper time to launch a sale process; any one of them may be a reason to accelerate or delay timing of a transaction.

Q4 Market Summary & Outlook

THE INDUSTRIAL ECONOMY REEMERGES IN Q4

2016 was a strong year for the industrial distribution market. Deal volume for the year finished only 7% below 2015, which was the peak of an impressive six year stretch of industrial distribution M&A activity that compounded 11.6% annually during that time. The fourth quarter, in particular, saw a resurgence in M&A activity, with the number of industrial distribution deals increasing 8.2% over the same period last year. Public EBITDA valuation multiples in the space increased as well, consistent with the broader equity markets, improving approximately a full turn since the end of the third quarter.

The macroeconomic environment in Q4 2016 showed some positive signs of recovery. New housing permits for Q4 increased 4.6% quarter-over-quarter, and housing starts increased 6.2% on the same basis. The Institute for Supply Management's Production Index is at its highest point in two years (a rating of 60.3), and its Purchasing Manager Index rose 3.2 points to finish at 54.7, both indicating expansion. The Chicago Fed Midwest Economy Index, which measures growth in nonfarm business activity, also improved, closing at (1%) at year-end versus (7.9%) at the close of September.

The positive outlook in Q4 was felt beyond an improvement in economic statistics. Several large industrial distributors indicated optimistic outlooks during recent quarterly earnings calls, and revenue was up this quarter for some prominent manufacturers and wholesalers, including Honeywell, Stanley Black & Decker, Praxair, and Rockwell Automation. Additionally, a January survey by PwC indicated that 85% of manufacturers polled expect positive growth in 2017. This renewed economic activity bodes well for the M&A market, where large players made bold announcements in Q4, including Praxair's \$30 billion agreement to merge with Linde, which is awaiting regulatory approval, and HD Supply declaring it is gauging potential suitors.

PMCF PERSPECTIVES: POSITIVE ECONOMIC INDICATORS FOR INDUSTRIALS IN 2017

With the fourth quarter of 2016 seeing encouraging results, many wonder whether the post-election rally will continue. While market multiples are notoriously difficult to predict, a number of leading indicators suggest that economic fundamentals may continue to improve as we peer into 2017.

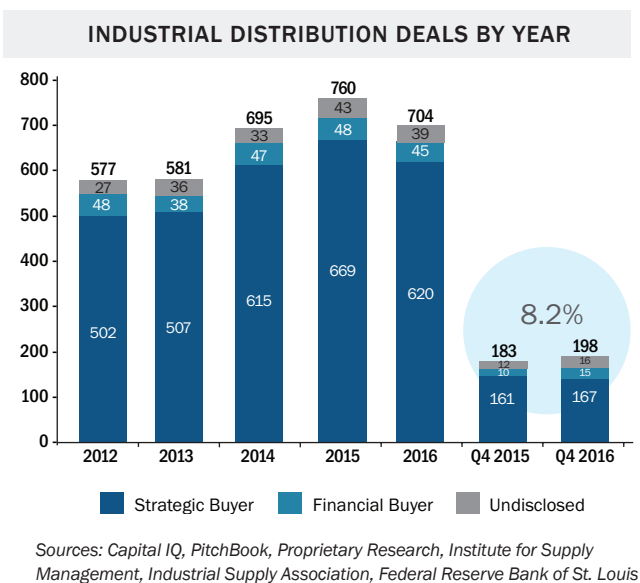
Domestic oil production has shown signs of rising from its two year slumber, with oil prices topping \$50 per barrel in December. This price increase has resulted in an increase in spending among U.S. oil producers, and resumption of fracking activity that had been unprofitable with depressed prices. The Wall Street Journal reported recently that the average capital expenditure for prominent U.S. oil producers is budgeted to increase sixty percent in 2017. Also encouraging is that the active U.S. oil rig count, as reported by Baker Hughes, increased every week since November 11th. This rebound in activity is an encouraging signal for distributors with exposure to the oil sector.

Investments in industrial machinery and other capital goods are also up broadly. According to the US Department of Commerce, new orders for capital goods increased 0.8% in December, capping off a three month trend of increases.* Orders for industrial machinery rose 0.4% last month, while demand for computers, semiconductors and electronic goods jumped 2.4%.

The uptick in economic activity and sentiment is, in part, a result of anticipated pro-business policies of the new Trump Administration. Fostering business activity remains a cornerstone of the President's policy initiatives, and Trump announced in mid-January that he hoped to "cut regulations by 75%, maybe more" in a White House meeting with manufacturing executives. Trump also recently recommitted to his stated goal of reducing corporate tax rates to 15%.

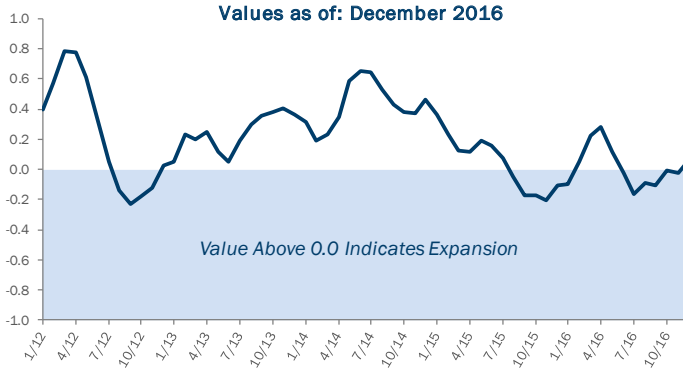
Expectations generated from this new political environment have driven equity markets to their highest levels ever and led to positive economic indicators in the near-term; the staying power of this optimism will be dependent upon the legislative and executive branches' ability to enact tangible legislation.

*Nondefense Capital Goods, Excluding Aircraft, from the US. Department of Commerce: Advance Report on Durable Goods Manufacturers' Shipments, Inventories and Orders, December 2016, (<https://www.census.gov/manufacturing/m3/adv/pdf/durgd.pdf>)

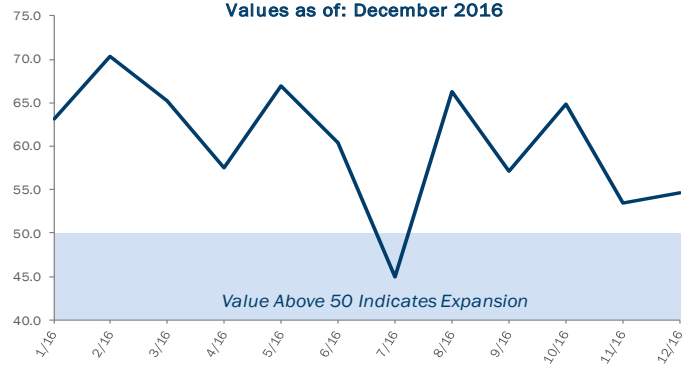


Macroeconomic Trends & Signals

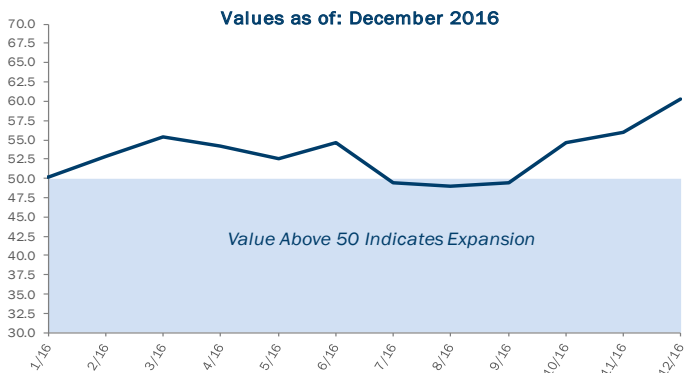
MIDWEST ECONOMY INDEX



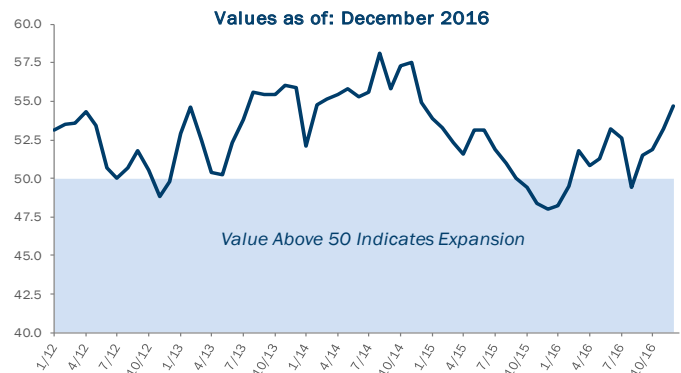
ISA DISTRIBUTOR'S INDEX



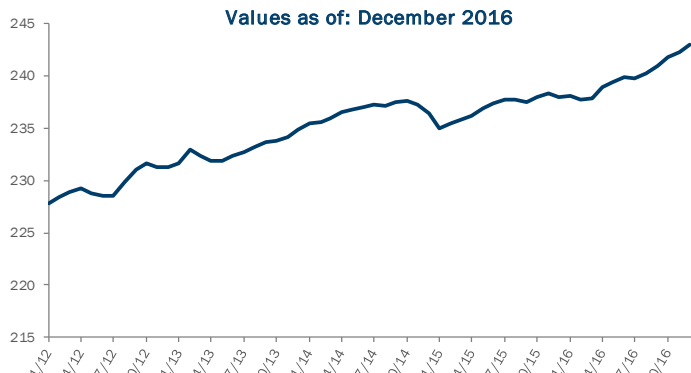
ISM PRODUCTION INDEX



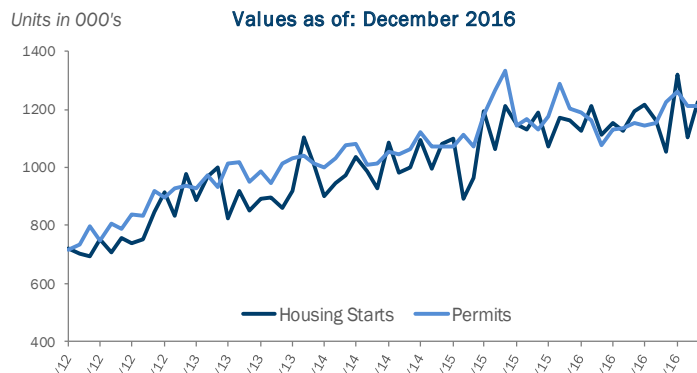
PURCHASING MANAGERS' INDEX



CONSUMER PRICE INDEX



HOUSING STARTS



PMCF Industrial Distributor Index

Company Name	Headquarters Location	Market Cap.	Total Enterprise		TTM	TTM	TTM	TTM	Net Debt/ EBITDA	TEV/ Revenue	TEV/EBITDA ⁽¹⁾	
			Value	Revenue	Gross Profit	Adjusted EBITDA	Gross Margin	EBITDA Margin			Q4 '16	Q4 '15
\$ in Millions												
Industrial / MRO / Safety												
W.W. Grainger, Inc.	United States	\$ 13,835	\$ 15,946	\$ 10,137	\$ 4,115	\$ 1,368	40.6%	13.5%	1.4x	1.6x	11.0x	9.1x
Fastenal Company	United States	13,579	13,877	3,962	1,965	899	49.6%	22.7%	0.3x	3.5x	15.6x	13.1x
HD Supply Holdings, Inc.	United States	8,556	12,507	7,654	2,568	864	33.6%	11.3%	4.6x	1.6x	14.5x	11.5x
MSC Industrial Direct Co., Inc.	United States	5,235	5,789	2,843	1,279	446	45.0%	15.7%	1.1x	2.0x	12.9x	8.5x
MRC Global, Inc.	United States	1,931	2,588	3,041	438	33	14.4%	1.1%	9.2x	0.9x	n/a	7.4x
Applied Industrial Technologies, Inc.	United States	2,317	2,564	2,500	708	205	28.3%	8.2%	1.3x	1.0x	12.4x	8.5x
NOW Inc.	United States	2,200	2,214	2,107	345	(169)	16.4%	(8.0%)	0.2x	1.1x	n/a	NM
Kaman Corporation	United States	1,326	1,721	1,828	541	158	29.6%	8.6%	2.5x	0.9x	10.9x	8.9x
Essendant, Inc.	United States	773	1,370	5,412	800	234	14.8%	4.3%	2.6x	0.3x	5.9x	6.9x
Bossard Holding AG	Switzerland	1,121	1,288	680	212	85	31.2%	12.5%	2.0x	1.9x	15.8x	13.0x
DXP Enterprises, Inc.	United States	602	915	1,018	281	48	27.6%	4.7%	6.5x	0.9x	19.0x	6.7x
Median							29.6%	8.6%	2.0x	1.1x	12.9x	8.7x
Electrical Products												
Arrow Electronics, Inc.	United States	\$ 6,387	\$ 8,840	\$ 23,825	\$ 3,144	\$ 1,082	13.2%	4.5%	2.1x	0.4x	8.1x	7.2x
Rexel S.A.	France	4,977	7,648	13,894	3,360	609	24.2%	4.4%	3.8x	0.6x	11.9x	9.4x
Avnet, Inc.	United States	6,077	7,588	25,921	3,085	971	11.9%	3.7%	2.4x	0.3x	8.0x	6.6x
WESCO International, Inc.	United States	3,232	4,606	7,336	1,448	399	19.7%	5.4%	3.2x	0.6x	11.6x	6.9x
Anixter International, Inc.	United States	2,679	3,983	7,623	1,548	361	20.3%	4.7%	3.5x	0.5x	10.6x	7.1x
Electrocomponents plc	United Kingdom	2,596	2,772	1,785	779	167	43.6%	9.4%	1.1x	1.6x	17.5x	16.6x
Houston Wire & Cable Company	United States	106	136	263	53	2	20.2%	0.6%	18.8x	0.5x	n/a	7.5x
Median							20.2%	4.5%	3.2x	0.5x	11.1x	7.2x
Building Products												
CRH plc	Ireland	\$ 28,968	\$ 37,151	\$ 29,938	\$ 9,507	\$ 3,040	31.8%	10.2%	2.6x	1.2x	12.6x	13.4x
Wolseley plc	Switzerland	15,385	16,577	19,161	5,418	1,380	28.3%	7.2%	0.9x	0.9x	12.9x	10.6x
Watsco, Inc.	United States	4,836	5,288	4,221	1,035	366	24.5%	8.7%	0.5x	1.3x	14.6x	12.4x
Pool Corporation	United States	4,313	4,682	2,571	741	277	28.8%	10.8%	1.5x	1.8x	17.2x	16.9x
Beacon Roofing Supply, Inc.	United States	2,760	3,861	4,153	1,031	365	24.8%	8.8%	2.8x	0.9x	10.8x	16.3x
Builders FirstSource, Inc.	United States	1,208	3,146	6,276	1,588	342	25.3%	5.4%	5.7x	0.5x	9.2x	25.2x
Universal Forest Products, Inc.	United States	2,077	2,166	3,035	449	202	14.8%	6.6%	0.4x	0.7x	10.7x	8.7x
Median							25.3%	8.7%	1.5x	0.9x	12.6x	13.4x
Chemicals & Gases												
Air Liquide SA	France	\$ 43,229	\$ 64,575	\$ 19,327	\$ 12,262	\$ 4,881	63.4%	25.3%	3.3x	3.3x	14.4x	10.7x
Praxair, Inc.	United States	33,445	43,064	10,534	4,674	3,456	44.4%	32.8%	2.6x	4.1x	12.4x	10.6x
Brenntag AG	Germany	8,611	10,302	11,619	2,627	884	22.6%	7.6%	2.0x	0.9x	12.4x	11.1x
Univar, Inc.	United States	3,930	6,793	8,228	1,734	527	21.1%	6.4%	5.4x	0.8x	12.9x	10.8x
IMCD N.V.	Netherlands	2,244	2,685	1,881	414	167	22.0%	8.9%	2.8x	1.4x	16.9x	18.0x
Median							22.6%	8.9%	2.8x	1.4x	12.9x	10.8x
Median							25.1%	7.9%	2.5x	0.9x	12.4x	10.6x
Mean							27.9%	8.9%	3.2x	1.3x	12.7x	11.0x

Market capitalizations and total enterprise values as of December 31, 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 Q4 2016 Industrial Distributor Index increased for the third consecutive quarter, once again reaching a high point for the trailing two years. Valuations of public companies in the Industrial/MRO/Safety sector grew the most dramatically, closing the quarter at a mean EV/EBITDA of 13.1x and a median of 12.9x, as compared to 11.7x and 11.6x in Q3, respectively. All but six of the 30 stocks in the index showed increased EV/EBITDA multiples, broadly demonstrating increased confidence in the overall industrial distribution sector.

PMCF INDUSTRIAL DISTRIBUTION INDEX PUBLIC VALUATIONS

	Q1 2015	Q2 2015	Q3 2015	Q4 2015	Q1 2016	Q2 2016	Q3 2016	Q4 2016
Revenue Multiple								
Median	0.8x	0.8x	0.8x	0.8x	0.9x	0.8x	0.9x	0.9x
Mean	1.1x	1.1x	1.0x	1.1x	1.1x	1.1x	1.2x	1.3x
EBITDA Multiple ⁽¹⁾								
Median	10.5x	10.9x	9.7x	10.6x	11.2x	10.6x	11.7x	12.4x
Mean	11.2x	11.8x	10.8x	11.0x	11.6x	11.5x	12.3x	12.7x

(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

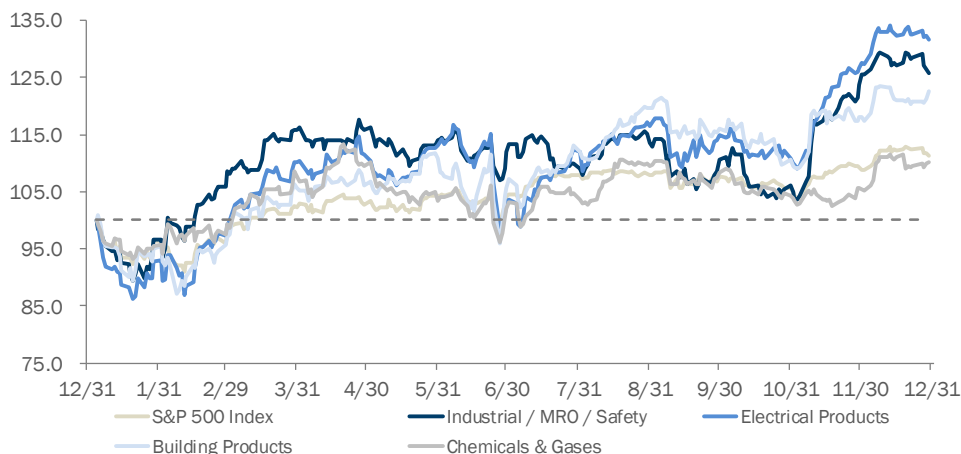
Source: Capital IQ

EQUITY PERFORMANCE:

- In aggregate, the market capitalization of industrial distributors increased 22.5% during 2016, while the S&P 500 gained only 11.2% during the same period. The market at large increased 3.3% in Q4, while industrial distributors rose 8.9%.
- The Chemicals and Gasses index increased 10.2% in 2016. This was below the average gain for industrial distributors, and is likely due to the number of European constituents in the index, where the market outlook is more tempered.
- The Electrical Products index gained 31.7% in 2016, making it the best performing industrial distribution subsector. The Industrial/MRO/Safety subsector improved 25.7% in 2016, while the building products subsector improved 22.6%.

PMCF INDUSTRIAL DISTRIBUTION INDEX PUBLIC EQUITY PERFORMANCE

Values as of: December 31, 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

In the fourth quarter of 2016, the industrial distribution sector enjoyed the acceleration of improving economic performance that began mid-year, outpacing the market as a whole. Valuation multiples grew, earnings increased, and deal activity hastened. Companies remain generally positive about the economy, growth through acquisitions, promised government stimulus and regulatory policy.

January 2017: “There is a market improvement and optimism about what the future may bring. This optimism is being driven by a couple of things. First, there is an expectation that increases in infrastructure spending, lower corporate tax rates, and a more business friendly regulatory environment will provide a stimulus to the industrial economy. And second, there does appear to be a leveling in manufacturing that’s occurring... among other things oil prices have improved over the course of the year and there is greater confidence that energy related end markets are in better shape as a result.”

Erik David Gershwind, CEO, President & Director, MSC Industrial Direct Co. Inc.

December 2016: “We believe fundamental demand in the majority of our markets continues to be solid and we are cautiously optimistic for solid demand in 2017. Since the presidential election results in November, there has been a significant amount of speculation regarding increased infrastructure investment... We were encouraged to hear that infrastructure investment is expected to be a key focus for the new administration... We are further encouraged by the prospects of corporate tax reform that appears to be gaining momentum.”

Joe DeAngelo, CEO, HD Supply Holdings, Inc.

January 2017: “Further, I would note that there is a more favorable tone surrounding process industries as we enter 2017. We are going to continue to assume the sluggish business conditions that have prevailed through 2016 are going to continue into 2017, and there remains a great deal of uncertainty on a number of fronts, but that said, the environment has become more optimistic.”

Holden Lewis, CFO, Fastenal Company

Sources: Company SEC Filings and Conference Call Transcripts

Key Deal Highlights

Addition of Technical Capabilities

Ohio Transmission Corp
acquires Midway Industrial
Sales & CCIS

On December 19, 2016 Ohio Transmission Corporation (“OTC”) acquired C&C Industrial Sales, LLC (“CCIS”), and Midway Industrial Supply, Inc. (“Midway”). A large industrial distributor and service provider owned by private equity fund Irving Place Capital, OTC has annual revenue estimated at \$290 million. Midway and CCIS, which specialize in spray finishing systems, will operate as divisions of Ohio Transmission’s OTP Industrial Solutions unit, which provides technical sales and service for industrial spray finishing, sealant and adhesive, automation, motion control, fluid power, and power transmission systems. Phil Derrow, President and CEO of OTC commented, “The addition of CCIS and Midway will make OTP a national leader with the ability to provide customers with unmatched system integration capabilities.”

Multiple Synergies

Praxair, Inc. acquires
Linde AG

On November 29, Praxair Inc. (NYSE:PX) agreed to buy Linde AG (DB: LIN) for €33.9 billion (\$35.2 billion), which, if allowed by regulators, would create the world’s largest supplier of industrial gases. The total enterprise value of \$42.1 billion implied by this price indicates a 10.3x EV/EBITDA multiple. By combining, the companies expect to cut approximately \$1 billion of costs annually. In acquiring Linde, Praxair, who generated \$10.5 billion of revenue in 2016, may relocate its tax domicile to Germany, which would subject it to lower corporate tax rates. Establishing headquarters in Germany will also afford Praxair the benefit of doing business tariff-free within the EU. Linde, which earned \$18.8 billion last year, has suffered severe cost pressures recently due to slowing growth in China and weaker demand from steel, oil and natural gas customers, as well as overcapacity in some markets. “We consider this to be a true strategic merger, as it brings together the capabilities, talented people and best-in-class processes of both companies,” said Praxair CEO and Chairman Steve Angel.

Product Line Expansion

Motion Industries
acquires
Braas Company

On October 5, Motion Industries announced it acquired Braas Company, a Minnesota distributor and reseller of industrial automation and control products and services with estimated revenue of \$160 million. Terms were not disclosed. Motion Industries, a \$3.5 billion revenue subsidiary of Genuine Parts Co. (NYSE: GPC), is a distributor of industrial parts and equipment primarily in the MRO and automotive replacement parts markets. Paul Donahue, President and Chief Executive Officer of Genuine Parts Company, commented “The growth prospects for this segment of the industrial marketplace are compelling, and the addition of such a well-positioned business serves to substantially enhance our automation capabilities.”

Geographic Expansion

Descours & Cabaud
acquires Hayley Group

On October 4, 2016, Descours & Cabaud announced the acquisition of a 50% stake in Hayley Group PLC, a UK distributor of Industrial and MRO supplies including pumps, pneumatics, hydraulics, bearings, fasteners, gaskets and lubricants, with sales of £117 million in 2016. Descours & Cabaud, a distributor of maintenance and building products, has operations in 14 countries throughout Europe. The acquisition of Hayley adds 40 branches in the UK for Descours & Cabaud, which had sales of €3 billion last year, and boasts 600 sales outlets, including 450 in France. “Hayley fits perfectly these demanding criteria (excellence, technical expertise and customer focus) and will make a huge contribution to our European ambitions”, said Alain Morvand, CEO of Descours & Cabaud, commenting on his company’s plan to become the market leader in industrial distribution in Europe.

Industrial Distribution M&A Activity

SELECT INDUSTRIAL DISTRIBUTION TRANSACTIONS

Date	Target	Buyer	Industry Segment	Implied EV	EV/TTM Revenue	EV/TTM EBITDA
Pending	Linde Aktiengesellschaft	Praxair, Inc.	Chemicals & Gases	\$ 42,209	2.3x	10.2x
Pending	Brammer plc	Advent International Corporation	Industrial / MRO / Safety	\$ 400	0.4x	12.0x
Pending	Northern Safety and Hahn Systems, LLC	Descours & Cabaud SA	Industrial / MRO / Safety	-	-	-
Pending	EPChem International Pte Ltd, Distribution Businesses in Indonesia and China	Brenntag AG	Chemicals & Gases	-	-	-
Pending	Arnold Industries, Inc.	Bossard Holding AG	Electrical Products	-	-	-
Pending	Pentair plc, Valves & Controls Business	Emerson Electric Co.	Industrial / MRO / Safety	\$ 3,150	1.8x	14.1x
Pending	Helios Dica, S.L.	Descours & Cabaud SA	Industrial / MRO / Safety	-	-	-
Pending	Warren Chem Specialities (Pty) Ltd.	Brenntag AG	Chemicals & Gases	-	-	-
Pending	Cape Electrical Supply, LLC	Graybar Electric Company, Inc.	Electrical Products	-	-	-
Pending	Zhong Yung(International)Chemical CO.,Ltd.	Brenntag AG	Chemicals & Gases	-	-	-
Pending	WHANEE Corporation	Brenntag AG	Chemicals & Gases	\$ 11	0.6x	5.8x
Jan-17	Taiga Building Products Ltd.	UPP Investments Canada Limited	Building Products	\$ 191	0.2x	6.1x
Jan-17	K&J Supply Co. Inc.	Winsupply Inc.	Fluid Control Products	-	-	-
Dec-16	Feza Kimya Ic Ve Dis Ticaret Anonim Sirketi	IMCD N.V.	Electrical Products	-	-	-
Dec-16	Midway Industrial Supply and CCIS	Ohio Transmission Corporation	Fluid Control Products	-	-	-
Nov-16	Phillip-Tech (Beijing) Co., Ltd.	Atlas Copco AB	Industrial / MRO / Safety	-	-	-
Nov-16	World and Main (Houston), LLC (nka:HDW Houston)	Hardware Distribution Warehouses, Inc.	Building Products	-	-	-
Oct-16	Hawkeye Building Distributors Limited	Guardian Building Products Inc.	Building Products	-	-	-
Oct-16	Hayley Group Plc	Descours & Cabaud SA	Industrial / MRO / Safety	-	-	-
Oct-16	Braas Company Inc.	Motion Industries, Inc.	Industrial / MRO / Safety	-	-	-
Oct-16	Vertex Distribution, Inc.	HWC Wire & Cable Company	Industrial / MRO / Safety	\$ 32	-	-
Sep-16	Kyosei Rentemu Co., Ltd.	AKTIO Holdings Corporation	Industrial / MRO / Safety	\$ 138	0.7x	2.2x
Aug-16	Westfield Lighting Co. Inc.	Ferguson Enterprises, Inc.	Construction/Building	-	-	-
Aug-16	SW Controls, Inc.	FCX Performance, Inc.	Fluid Control Products	-	-	-
Aug-16	OBBCO Safety & Supply, LLC	Motion Industries, Inc.	Industrial / MRO / Safety	-	-	-
Jul-16	Lincoln Supply	F.W. Webb Company	Industrial / MRO / Safety	-	-	-
Jun-16	Nexeo Solutions, LLC	WL Ross Holding Corp.	Chemicals & Gases	\$ 1,539	0.4x	10.2x
May-16	Public Works Supply Inc.	Ritz Safety, LLC	Industrial / MRO / Safety	-	-	-
Apr-16	Rexel SA, Operations in Poland, Slovakia and the Baltics	Würth Group	Electrical Products	-	-	-
Apr-16	The Welding Center, Welder Services, A&B Electric Motors and Supplies, and Geneva Industrial Gases	Praxair, Inc.	Chemicals & Gases	-	-	-
Apr-16	FDL Automation & Supply	CBT Company	Electrical Products	-	-	-
Mar-16	Wells Supply, LLC	Atlas Copco AB	Industrial / MRO / Safety	-	-	-
Mar-16	Arrow ECS Australia Pty Limited	Arrow Electronics, Inc.	Electrical Products	\$ 49	0.2x	6.3x
Mar-16	Perfect Products Company of Michigan, Inc.	Lawson Products, Inc.	Industrial / MRO / Safety	-	-	-
Mar-16	NOxBOX Ltd	Praxair, Inc.	Chemicals & Gases	-	-	-
Mar-16	Brohl & Appell, Inc.	Rexel S.A.	Electrical Products	-	-	-
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	Mechanical Supply Company, Inc.	The Macomb Group, Inc.	Industrial / MRO / Safety	-	-	-
Jan-16	Cordia S.A.	Rexel S.A.	Industrial / MRO / Safety	\$ 12	1.0x	-
Median					0.4x	6.3x
Mean					0.7x	7.4x

Sources: Capital IQ, company websites and PMCF industry research

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AND

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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**



SELECT PMCF DISTRIBUTION TRANSACTIONS





MERGERS & ACQUISITIONS

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