

# DISTRIBUTION M&A PULSE

FIRST QUARTER 2024



## OUR INSIGHTS

The distribution sector is experiencing renewed confidence, driven by improving financial conditions, easing inflation, and anticipated interest rate reductions. The outlook for 2024 remains positive with productivity improvements, supply chain advancements, and strong order bookings fueling optimism for the remainder of the year.

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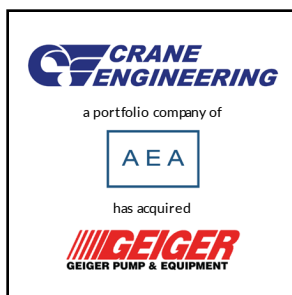
## ABOUT PMCF

PMCF 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](http://pmcf.com).

## INVESTMENT BANKING SERVICES:

- Mergers & Acquisitions
- Carve-outs & Divestitures
- Strategic Assessments
- Capital Raising

## SELECT PMCF DISTRIBUTION TRANSACTIONS





## KEY INSIGHTS

1

### Extensive Diligence Periods

Buyers are evaluating companies thoroughly and diligence streams are lengthening as acquirers increase their level of scrutiny. Minor diligence issues are getting magnified and in turn increasing the need for sellers to utilize strong transaction advisors who can properly mitigate risks to buyers.

2

### Flight to Quality for Financial Buyers

Private Equity investors are seeking comfort and flocking to companies with high revenue visibility, stable and consistent cash flows, and reliable end-markets. A/A+ companies are receiving over-subscribed interest in sale processes, and noticeable valuation drop-offs are disproportionately greater for sub-A companies.

3

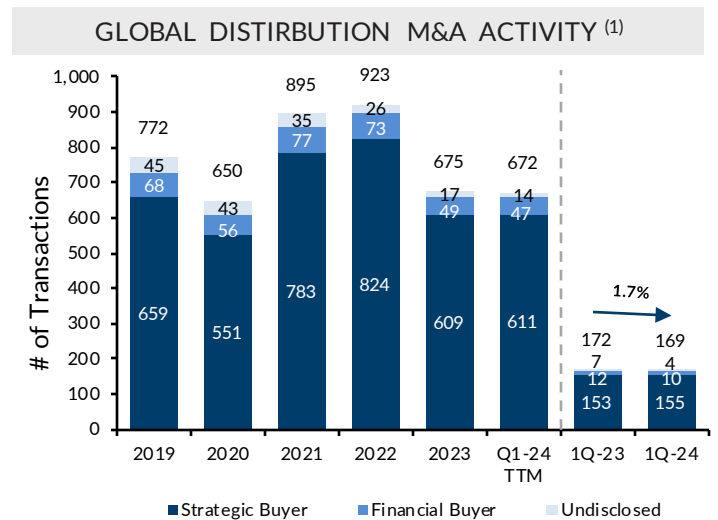
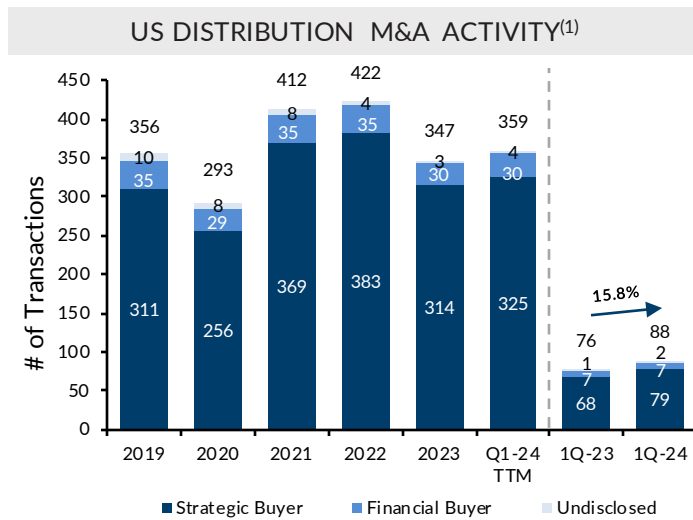
### Supply Chain Diversification

Sustained geopolitical tensions are pushing companies to continue diversifying and strengthening their supply chains. This includes securing and onboarding new supplier partners. Buyers are rewarding companies with diverse vendor partners and those who have contingency plans for turbulent procurement periods.

# Q1 2024 Market Summary & Outlook

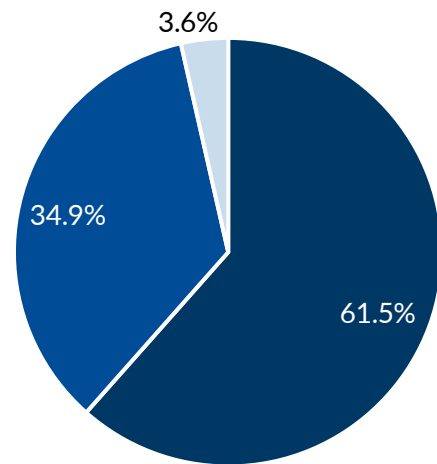
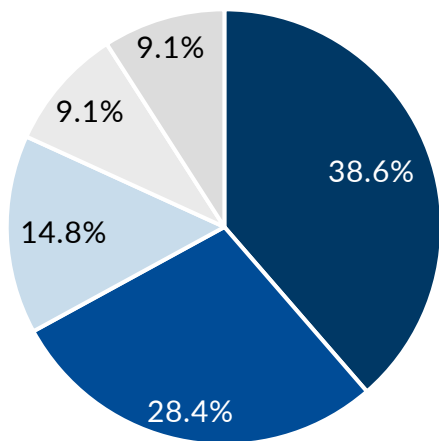
## Q1 2024- Quarterly Market Recap

- The middle market M&A sector is experiencing renewed activity, driven by improved financial markets, slowing inflation, and anticipated reductions in interest rates. Distribution M&A activity in the US had a robust start to the year, increasing by 15.8% in Q1-24 compared to Q1-23. This growth is largely attributed to strong corporate balance sheets and improving CEO confidence in macroeconomic conditions.
- Strategic acquirers retained their status as the largest source of buyer deal flow as elevated financing costs continue to hamper financial investors' ability to consummate deals and push them to more selective acquisitions of high-quality assets. Globally, financial buyers closed ten deals domestically in Q1-24, slightly down from twelve deals in Q1-23.
- The overall outlook for 2024 middle market M&A activity in the distribution sector remains positive. This optimism is driven by fragmented markets ripe for industry consolidation, improvements in supply chains, and the sector's resilience in times of uncertainty.



### Q1-2024 DISTRIBUTION M&A ACTIVITY BY SEGMENT<sup>(1)</sup>

### Q1-2024 DISTRIBUTION M&A ACTIVITY BY REGION - GLOBAL<sup>(1)</sup>



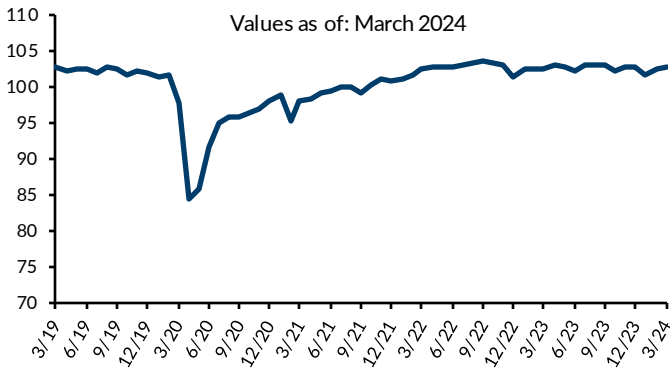
- Industrial / MRO / Safety
- Building Products
- Other
- Chemical & Gases
- Electrical Products

- United States and Canada
- Europe
- Asia / Pacific

Sources: (1) Capital IQ, PMCF proprietary data

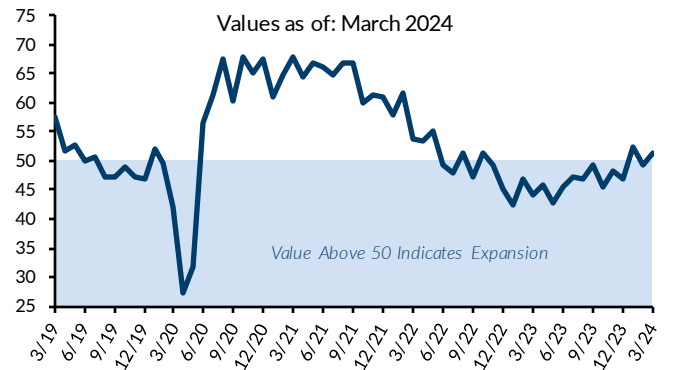
# Macro Distribution Indicators and Signals

## INDUSTRIAL PRODUCTION INDEX



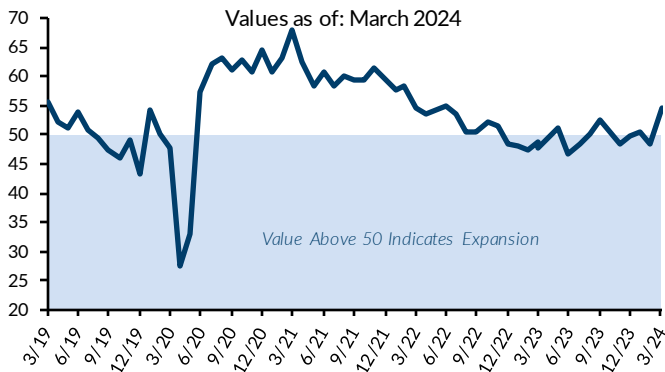
Source: Federal Reserve Bank of Chicago

## ISM NEW ORDERS INDEX



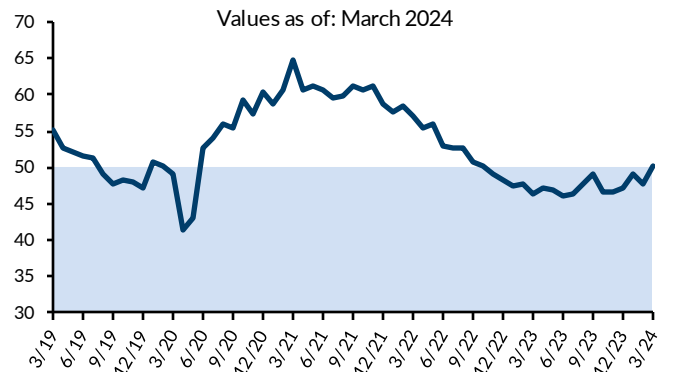
Source: Institute for Supply Management

## ISM PRODUCTION INDEX



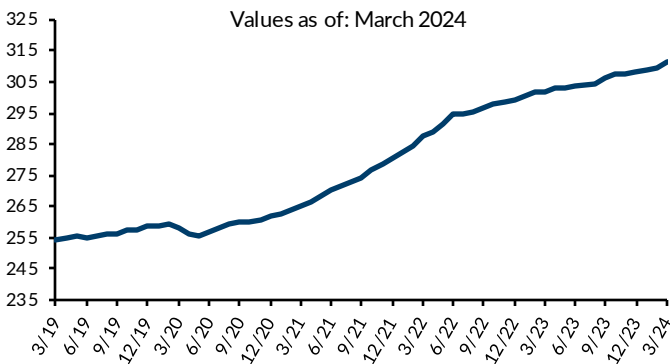
Source: Institute for Supply Management

## PURCHASING MANAGERS' INDEX



Source: Institute for Supply Management

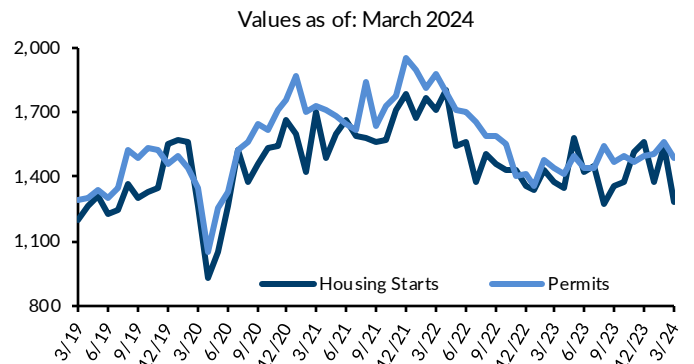
## CONSUMER PRICE INDEX



Source: Federal Reserve Bank of St. Louis

## HOUSING STARTS & PERMITS

(Units in 000's)



Source: Federal Reserve Bank of St. Louis

# PMCF Distribution Index

Company Name	Headquarters Location	Enterprise Value <sup>(1)</sup>	Market Cap. <sup>(1)</sup>	TTM Revenue	TTM Gross Margin	TTM EBITDA Margin	Net Debt/ EBITDA	EV/ Revenue	EV/EBITDA <sup>(2)</sup>	
									Q1 '24	Q1 '23
<i>\$ in Millions</i> <sup>(3)</sup>										
<b>Industrial / MRO / Safety</b>										
W.W. Grainger, Inc.	United States	\$ 52,458	\$ 50,024	\$ 16,622	39.3%	17.0%	0.7x	3.2x	18.6x	14.4x
Fastenal Company	United States	44,471	44,157	7,383	45.6%	23.0%	0.1x	6.0x	26.1x	18.8x
Core & Main, Inc.	United States	13,144	11,001	6,702	27.1%	13.4%	2.3x	2.0x	14.6x	6.6x
Applied Industrial Technologies, Inc.	United States	7,802	7,639	4,477	29.5%	12.0%	0.2x	1.7x	14.6x	11.7x
MSC Industrial Direct Co., Inc.	United States	6,069	5,463	3,979	41.0%	13.5%	1.1x	1.5x	11.3x	9.4x
Bossard Holding AG	Switzerland	2,145	1,870	1,269	31.7%	12.2%	1.8x	1.7x	13.8x	13.4x
MRC Global Inc.	United States	1,816	1,071	3,333	20.2%	6.2%	1.7x	0.5x	8.7x	8.2x
DNOW Inc.	United States	1,381	1,614	2,300	22.9%	7.4%	NM	0.6x	8.1x	5.8x
DXP Enterprises, Inc.	United States	1,284	869	1,667	30.2%	9.8%	2.7x	0.8x	7.8x	7.1x
<b>Median</b>					<b>30.2%</b>	<b>12.2%</b>	<b>1.4x</b>	<b>1.7x</b>	<b>13.8x</b>	<b>9.4x</b>
<b>Electrical Products</b>										
WESCO International, Inc.	United States	\$ 14,318	\$ 8,727	\$ 22,213	21.5%	6.9%	3.2x	0.6x	9.4x	7.9x
Rexel S.A.	France	11,561	8,032	21,171	25.5%	7.0%	2.5x	0.5x	7.8x	6.7x
Arrow Electronics, Inc.	United States	10,934	6,988	31,295	12.4%	5.0%	2.1x	0.3x	7.0x	5.0x
Avnet, Inc.	United States	7,904	4,480	24,749	11.9%	4.3%	2.8x	0.3x	7.3x	5.6x
RS Group plc	United Kingdom	4,982	4,348	3,716	43.0%	11.7%	1.2x	1.3x	11.4x	12.5x
<b>Median</b>					<b>21.5%</b>	<b>6.9%</b>	<b>2.5x</b>	<b>0.5x</b>	<b>7.8x</b>	<b>6.7x</b>
<b>Building Products</b>										
CRH plc	Ireland	\$ 66,696	\$ 59,130	\$ 35,055	34.7%	17.6%	1.8x	1.9x	10.8x	7.7x
Ferguson plc	United Kingdom	48,903	44,253	29,359	30.3%	10.0%	1.6x	1.7x	16.6x	9.9x
Builders FirstSource, Inc.	United States	29,078	25,431	17,105	34.7%	15.5%	1.3x	1.7x	11.0x	4.0x
Pool Corporation	United States	16,827	15,529	5,456	29.9%	13.8%	1.6x	3.1x	22.4x	15.4x
Watsco, Inc.	United States	16,446	15,865	7,298	27.1%	10.5%	NM	2.3x	21.4x	14.5x
Beacon Roofing Supply, Inc.	United States	9,048	6,218	9,300	25.5%	9.5%	3.5x	1.0x	10.2x	7.7x
UFP Industries, Inc.	United States	6,850	7,569	7,035	19.7%	10.7%	NM	1.0x	9.1x	4.9x
<b>Median</b>					<b>29.9%</b>	<b>10.7%</b>	<b>1.6x</b>	<b>1.7x</b>	<b>11.0x</b>	<b>7.7x</b>
<b>Chemicals &amp; Gases</b>										
Air Liquide S.A.	France	\$ 120,978	\$ 108,867	\$ 30,516	59.6%	26.4%	1.4x	4.0x	15.0x	13.9x
Brenntag SE	Germany	14,300	12,163	17,575	24.4%	7.4%	1.8x	0.8x	11.0x	8.2x
IMCD N.V.	Netherlands	11,420	10,031	4,933	25.6%	11.7%	2.5x	2.3x	19.8x	17.4x
<b>Median</b>					<b>25.6%</b>	<b>11.7%</b>	<b>1.8x</b>	<b>2.3x</b>	<b>15.0x</b>	<b>13.9x</b>
<b>Transportation / Logistics</b>										
Old Dominion Freight Line, Inc.	United States	\$ 47,505	\$ 47,738	\$ 5,884	40.4%	33.6%	NM	8.1x	24.0x	17.8x
J.B. Hunt Transport Services, Inc.	United States	22,458	20,582	12,544	18.7%	13.2%	1.0x	1.8x	13.6x	10.1x
Expeditors International of Washington, Inc.	United States	16,265	17,249	8,914	14.0%	10.6%	NM	1.8x	17.2x	9.1x
XPO, Inc.	United States	17,906	14,169	7,855	16.2%	13.6%	3.7x	2.3x	16.8x	6.7x
Ryder System, Inc.	United States	13,264	5,320	11,929	19.4%	20.9%	3.4x	1.1x	5.3x	4.2x
Knight-Swift Transportation Holdings Inc.	United States	11,933	8,885	7,327	25.8%	12.9%	3.2x	1.6x	12.6x	7.2x
C.H. Robinson Worldwide, Inc.	United States	10,715	8,908	17,397	6.5%	3.3%	3.5x	0.6x	18.9x	11.6x
<b>Median</b>					<b>18.7%</b>	<b>13.2%</b>	<b>3.4x</b>	<b>1.8x</b>	<b>16.8x</b>	<b>9.1x</b>
<b>Median</b>					<b>25.8%</b>	<b>11.7%</b>	<b>1.8x</b>	<b>1.7x</b>	<b>12.6x</b>	<b>8.2x</b>
<b>Mean</b>					<b>27.6%</b>	<b>12.6%</b>	<b>2.0x</b>	<b>1.9x</b>	<b>13.6x</b>	<b>9.8x</b>

Source: Capital IQ

(1) Market capitalizations and total enterprise values as of March 31, 2024; 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 historical rate

\*As of January 1, 2024, Core & Main, Inc. is part of PMCF Distribution Index

\*As of December 31, 2023, Kaman Corporation is removed from the PMCF Distribution Index due to the Company going private

# Key Distribution Public Company Statistics

## Valuation Trends:

- A combination of recent strong corporate earnings results and favorable forward-looking macroeconomic indicators has contributed to an upward trend for valuations within the PMCF Distribution Index.
- In the first quarter of 2024, the mean PMCF Distribution Index EV/EBITDA multiple increased a full turn from the fourth quarter of 2023 to 13.6x. The Q1-24 PMCF Distribution Index multiples are higher than they have been in the past eight quarters reflecting positive investor sentiment driven by both strong company performance and favorable economic conditions.

Source: Capital IQ  
(1) US Department of Labor

PMCF DISTRIBUTION INDEX PUBLIC VALUATIONS <sup>(1) (2)</sup>

	Q1 2022	Q2 2022	Q3 2022	Q4 2022	Q1 2023	Q2 2023	Q3 2023	Q4 2023	Q1 2024
<b>Revenue Multiple</b>									
Median	1.3x	1.0x	0.9x	1.0x	1.1x	1.3x	1.4x	1.5x	1.7x
Mean	1.6x	1.3x	1.3x	1.3x	1.4x	1.5x	1.6x	1.6x	1.9x
<b>EBITDA Multiple<sup>(1)</sup></b>									
Median	11.7x	9.6x	8.9x	9.4x	8.7x	9.8x	10.3x	12.1x	12.6x
Mean	12.2x	9.7x	9.0x	9.1x	9.9x	10.7x	11.0x	12.6x	13.6x

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

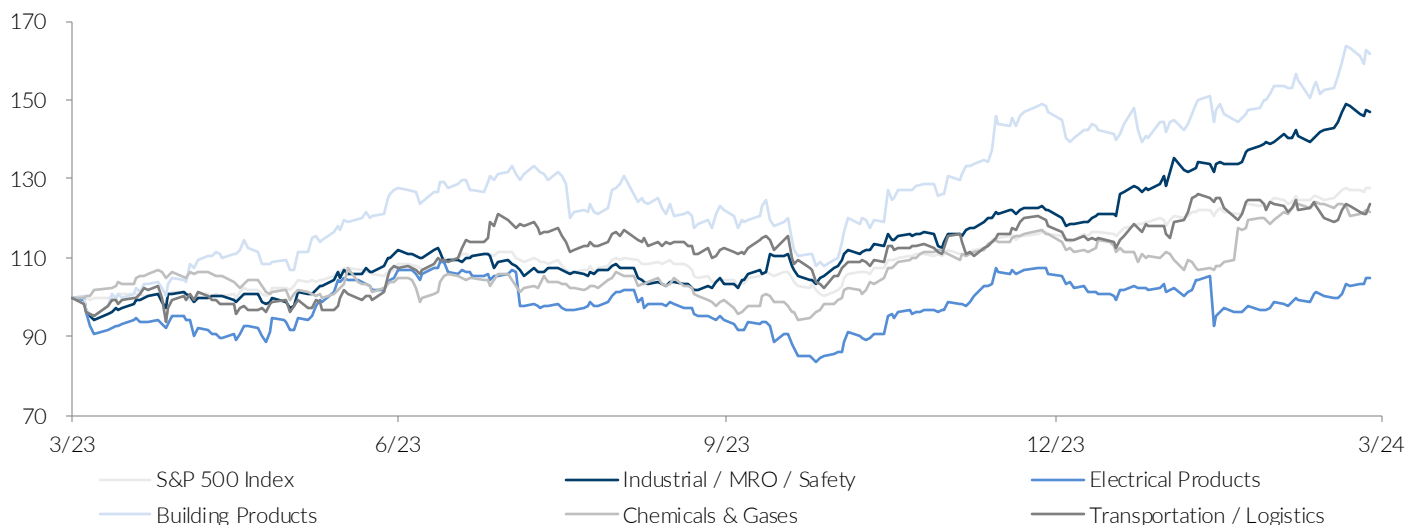
## Equity Performance:

- Aligned with the sector's valuation trends, the Distribution Index Equity showcased a robust quarter, surging 9.6% in Q1-24 and an even more impressive 31.7% year-over-year. Notably, each of the five Distribution sub-indices demonstrated year-over-year growth, with the Building Products sub-index spearheading the growth with a 61.6% surge.
- The upswing in industrial building products companies' equities is largely driven by the nonresidential end-markets, notably the manufacturing construction industry. This expansion is fueled by significant injections of US federal funding, including the anticipated deployment of \$6 billion from the CHIPS Act early this year, alongside over \$150 billion being steadily disbursed from the IRA and Infrastructure Investment and Jobs Act ("IIJA"). <sup>(1)</sup>

Source: Capital IQ  
(1) US Department of Energy

PMCF DISTRIBUTION INDEX PUBLIC EQUITY PERFORMANCE <sup>(1) (2)</sup>

Values as of: March 2024



Source: Capital IQ  
(1) Market capitalization indices with mixed currencies are converted into USD using historical spot rates  
(2) Local currency quotes converted into USD using historical spot rates

# Market Commentary

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*Public distribution companies' Q1-2024 earnings reports reveal consistent trends: while European markets face some instability from geopolitical tensions, the US and Asian economies thrive amid easing inflation. Confident in meeting 2024 earnings targets, these companies are focused on expansion, particularly through e-commerce and value-added sales expansion, fueled by mergers and acquisitions.*

**April 2024:** "eCommerce continues to get nice traction. And our digital footprint continues to expand. We're approaching 60% of sales. And our anticipation is sometime this year, that number will hit the mid-60s, 66% is our target. And ultimately, we believe that ends up being 85% of sales".

**Daniel L. Florness** , President, CEO & Director, Fastenal Company

**May 2024:** "We continue to focus on productivity initiatives with the goal of offsetting these inflationary pressures, and we have completed diagnostics on improvement and improvement plans for our bottom quintile class of 2024. This initiative has contributed to the bottom line for many years and is already showing favorable results also in 2024. Investments in Ambition 2025 priorities to drive above-market growth and margin enhancement continued in the quarter. These investments include initiatives related to our sales organization, customer experience, pricing tools, e-commerce technologies and branch optimization".

**Carmelo Carrubba**, Interim CFO & VP of Strategy and Transformation, Beacon Roofing Supply, Inc.

**May 2024:** "I'll close with a summary of our strong start to the year, which lays the foundation for the significant margin improvement we expect in 2024. As you heard from us this morning, we're continuing to deliver record service levels, providing more value to our customers and earning higher returns. Our service improvements, combined with the momentum of our accessorial offering, drove another quarter of strong yield growth. And we realized meaningful cost efficiencies through our linehaul insourcing initiatives and labor productivity gains".

**Ali-Ahmad Faghri**, Chief Strategy Officer, XPO, Inc

**April 2024:** "...we saw during this quarter excellent commercial momentum, suppliers wanting to expand with us in new geographies and markets, new suppliers interested to collaborate with IMCD and a healthy project pipeline. Further, our M&A pipeline and execution continued strongly with 6 closed acquisitions in the first 3 months and 3 new acquisitions signed. On the adverse side, geopolitical tensions and weak global economies did not support the expected start of recovery of markets, whilst costs increased due to inflation and investments in our digital and technical lab infrastructure".

**Valerie Diele-Braun** , CEO & Member of Management Board, IMCD N.V.



# Distribution M&A Activity

## SELECT DISTRIBUTION TRANSACTIONS

Date	Target	Buyer	Industry Segment	Enterprise Value (M)
Jan-24	Big W Sales	Fairbank Equipment, Inc.	Industrial / MRO / Safety	\$ -
Jan-24	Kovalsky-Carr Electric Supply Co., Inc.	United Electric Supply Co., Inc.	Electrical Products	-
Jan-24	Gross-Yowell, Ltd.	Kodiak Building Partners, Inc.	Building Products	-
Jan-24	Southwest Refrigeration and Air, Inc.	Easy Ice, LLC	Industrial / MRO / Safety	-
Jan-24	North American Electric, Inc.	Worldwide Electric Corporation LLC	Electrical Products	-
Jan-24	Grove Supply, Inc.	Ferguson plc	Building Products	-
Jan-24	The Plimpton & Hills Corporation	Grove Mountain Partners, LLC	Industrial / MRO / Safety	-
Jan-24	Assets of Scott Supply, Co.	Titan Machinery Inc.	Other	-
Jan-24	BK Corrosion, LLC	Herin Family Investments, LLC	Industrial / MRO / Safety	-
Jan-24	Rapid Start LLC	Richelieu Hardware Ltd.	Industrial / MRO / Safety	-
Jan-24	Geiger Pump And Equipment Company	Crane Engineering Sales, Inc.	Industrial / MRO / Safety	-
Jan-24	United Wholesale Supply, Inc.	Management Team	Building Products	-
Jan-24	Tri-Excellence, Inc.	Gulfside supply, Inc.	Building Products	-
Jan-24	American Hotel Register Company	The Missner Group; Avgeris & Associates, Inc.; Wylie Capital	Other	-
Jan-24	Dana Kepner Company, LLC	Core & Main, Inc.	Other	-
Jan-24	Russell Plywood, Inc.	Wurth Baer Supply Company	Building Products	-
Jan-24	JLM Wholesale, Inc.	LOCKMASTERS, INC.	Building Products	-
Jan-24	Bliffert Lumber & Fuel Company, Inc.	Portage Lumber Company, Inc.	Building Products	-
Feb-24	Kappe Associates, Inc.	DXP Enterprises, Inc.	Industrial / MRO / Safety	-
Feb-24	Cooksey Iron & Metal Co., Inc.	Metals USA, Inc.	Industrial / MRO / Safety	-
Feb-24	Allston Supply Company, Inc.	Imperial Dade Intermediate Holdings, LLC	Industrial / MRO / Safety	-
Feb-24	Rental Service Specialty LLC	Brenntag SE	Chemical & Gases	-
Feb-24	Customized Service Concepts, LLC	ADT Commercial LLC	Other	-
Feb-24	Metro Sealants & Waterproofing Supply, Inc.	Beacon Roofing Supply, Inc.	Building Products	-
Feb-24	American Alloy Steel, Inc.	Reliance Steel & Aluminum Co. (nka:Reliance, Inc.)	Industrial / MRO / Safety	-
Feb-24	SurfacePrep	Nautic Partners, LLC	Chemical & Gases	-
Feb-24	WESCO Integrated Supply, Inc.	Vallen Distribution, Inc.	Other	350.0
Mar-24	Pro-Seal, Inc.	DXP Enterprises, Inc.	Industrial / MRO / Safety	-
Mar-24	Valley Solvent Company, Inc.	Univar Solutions Inc.	Chemical & Gases	-
Mar-24	All operating assets of Pacific Sales & Service, Inc.	Atlas Copco AB	Other	-
Mar-24	United Hardware Distributing Co.	Do it Best Corp.	Building Products	-
Mar-24	Existing facility in Casa Grande	Custom Truck One Source, Inc.	Other	-
Mar-24	Besse Forest Products, Inc.	The Hoffmann Family of Companies	Building Products	-
Mar-24	Conserve-A-Watt Lighting, Inc.	Blue Harbour Capital	Electrical Products	-
Mar-24	Nw Geosynthetics, Inc.	Core & Main, Inc.	Building Products	-
Mar-24	Door Supply of N.J. Inc.	Unified Door and Hardware Group, LLC	Building Products	-
Mar-24	Oakley Industries Sub Assembly Division, Inc.	Management Team	Industrial / MRO / Safety	-
Mar-24	Appalachian Insulation Supply, Inc./Wolf Pak Transport, LLC	Cameron Ashley Building Products Inc.	Building Products	-
Mar-24	Absolute Fire Protection, LLC	Pye-Barker Fire & Safety, LLC	Industrial / MRO / Safety	-
Mar-24	Assets of Allegheny Plywood Company, Inc.	Richelieu Hardware Ltd.	Building Products	\$ -

Sources: Capital IQ, company websites and PMCF proprietary research

# What is a Strategic Assessment and Why is it Important?

A Strategic Assessment is a comprehensive report that examines a business holistically with specific consideration given to the financial results, operations, and organizational structure. We advise our clients consider before a planned liquidity event to ensure your company is ready for a transaction. This process includes:

Determining your company's current value

Identifying factors that enhance or erode value and related risk considerations

Developing strategies to bridge gaps in value and market position

## 7 Reasons Why a Strategic Assessment is Essential for Maximizing Business Value In Preparation of a Liquidity Event

- 1 Prepares your company for the scrutiny of capital investors
- 2 Helps ownership and management identify the value attributes and constraints of the business
- 3 Provides ownership with an understanding of perceived value considerations in the eyes of investors
- 4 Affords your company an opportunity to address shortfalls and enhance the value in advance of a capital transaction
- 5 Helps align corporate strategy with organizational, tax, and wealth transfer planning
- 6 Helps shareholders/management understand how various business strategies can impact future value
- 7 Resolves potential deal obstacles to ensure a smooth diligence process and higher likelihood of deal success

*As an investment in your company, PMCF will complete a complimentary Strategic Assessment.*

*For additional information, please visit [pmcf.com](http://pmcf.com)*

## SIGNIFICANT INDUSTRY EXPERTISE AND RESOURCES

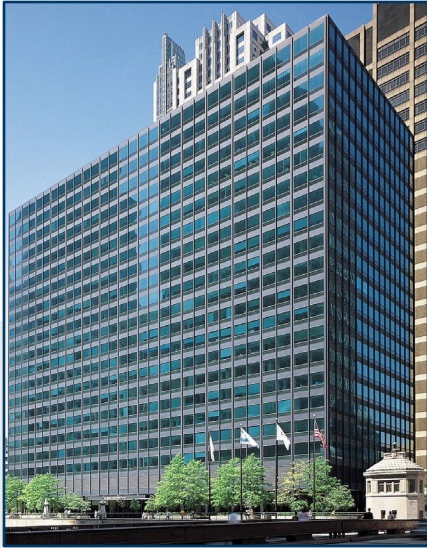
Founded in 1995, PMCF has spent 25+ years successfully advising clients in the middle market. From M&A advisory or capital raising to strategic assessment and transaction planning, we execute transactions to achieve life-changing outcomes for our clients. We leverage our significant deal experience, industry relationships, and a deep understanding of sectors we serve to support our clients' organic and inorganic growth initiatives.

PMCF takes a strategic approach to transaction planning, ensuring the positioning and messaging conveys the unique differentiators of your company. Our affiliation with Plante Moran provides us access to transaction tax experts to provide insight into structure planning considerations.

- Developing strategies to effectively deploy capital and resources to maximize ROI on your high-priority growth initiatives
- Aligning your process capabilities with key macro trends driving industry growth
- Evaluating KPI trends and results and understanding how they are used in daily management
- Reviewing the organizational chart and the internal plan for turnover and/or succession of key management team members
- Pursuing customer diversification at attractive, appropriate margins
- Understanding margin trends and concentrations of margin within product groups or customers
- Assessing your company's differentiation and position in the marketplace
- Leveraging our extensive global relationships to help penetrate new customers and/or markets

# About PMCF

## OUR LOCATIONS



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## OUR FIRM

PMCF's M&A advisory and investment banking services are designed to provide company shareholders with a trusted advisor to oversee all transaction related aspects of a company sale or strategic acquisition. Our service levels, industry expertise in human capital management (HCM) & staffing, and approach to managing transactions goes well beyond a typical investment banker.

- Differentiated approach via senior banker leadership and direct involvement through every step of the transaction providing a consistent and highly experienced point of contact
- One of the largest, most active investment banking boutiques with a focus on specialty niche businesses
- Proven positioning and marketing processes to obtain premium valuations in company sales
- Tailored sale process provides for extensive upfront preparation, detailed company review and identification of any potential issues in advance, and buyer evaluation/diligence ensuring the right fit
- Unique sale planning approach that helps shareholders best prepare for a future sale whether its six months or several years
- Long-term and client first approach allows PMCF to provide unbiased feedback

**PMCF** | INVESTMENT BANKING



*Two-time winner, Boutique Investment Banking Firm of the Year by M&A Advisor*

*Awarded, Cross Border Corporate and Strategic Acquisition of the Year by M&A Advisor*

*Awarded, Cross Border M&A Deal of the Year by M&A Advisor*

*Awarded, Deal of the Year by ACG Detroit*

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