

INDUSTRIAL DISTRIBUTOR M&A PULSE

THIRD QUARTER 2016



Q3'16

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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 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



1

Notwithstanding our previous issue's remarks about the importance of a good enterprise resource planning (ERP) system, carefully consider the hard and soft costs of launching an implementation just prior to or in parallel with a sale process.

2

Consider initiatives to fix one or two issues in your organization over the short term. This may have a positive impact on the valuation multiple you can attract in the market.

3

Prior to launching a sale process, meet with your investment bank regarding the key objectives in a deal. What are they? What's most important to you? Doing this early on can lead to a higher likelihood of an optimal result.

Q3 Market Summary & Outlook

IMPROVED Q3 ACTIVITY DESPITE MARKET HEADWINDS

The third quarter of 2016 was a relative bright spot for the industrial distribution M&A market amidst an assortment of challenging economic indicators. Deal volume, which had increased more than 13.0% on a compounded basis from 2010 to 2015, decreased 12.0% for year-to-date September as compared to the same period for the prior year. This indicates an uptick in deal activity since June, when industrial distribution deals were down 15.0% year-to-date. The number of deals occurring in the broader M&A market continues to trail 2015 figures, although aggregate deal value remained relatively firm due to larger companies changing hands and an increased reliance on M&A activity to drive growth in a tepid organic growth environment.

The macroeconomic environment has been mixed since June, with the Industrial Supply Association's Distributor Index, for example, decreasing 9.2% since August, but settling at 57.1, far above its trailing twelve-month low of 44.9 in July.* The Federal Reserve's Purchasing Manager Index also fell off from a peak of 53.2 in June, but remains at 49.4, just barely below the 50.0 threshold indicating an expansion. The Institute for Supply Management's Production Index is also down year to date, but improved in September to finish at 49.5, also just below the expansion threshold.

In summary, the industrial distribution market has softened. Major players are experiencing softening sales volume and do not expect this to change in the near future. With this difficult climate, distributors are focusing on cost controls, and maintaining profit margins. These trends, along with the availability of capital, help explain why industrial distributors are continuing to pursue inorganic growth via acquisition.

PMCF PERSPECTIVES: IMPACT OF THE 2016 PRESIDENTIAL ELECTION

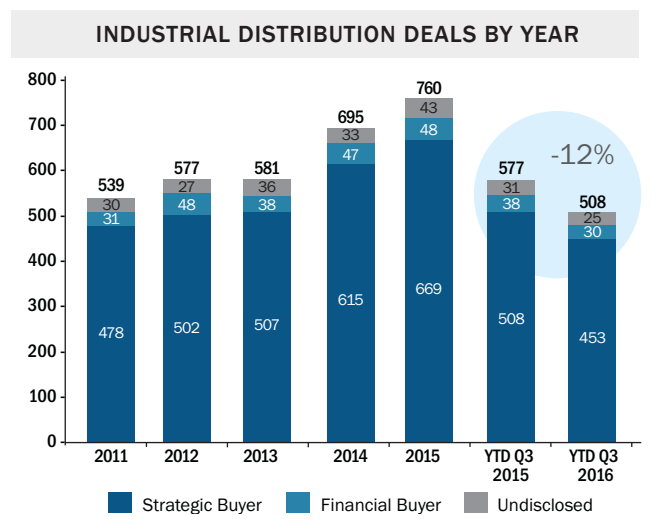
With the election of Donald Trump as the 45th President of the United States, bold changes to the domestic and international economic environment certainly are imminent. The question will be, who will be affected by his policies and will the impact be positive or negative to the overall M&A landscape? Unfortunately, nobody has a crystal ball and the answers to these questions are not without uncertainty.

President-elect Trump's proposal to reform personal tax laws would decrease the highest rates from 39.6% to 33.0%, repeal the 3.8% affordable care act surtax and estate tax, and increase the amount of certain standard deductions available. If these personal tax policies are enacted, we expect increased consumer spending in the mid-term. This may also recede recession risk through 2019, which likely benefits the overall deal market, capital availability, valuations, etc. Additionally, Trump has proposed a simplified corporate tax structure that lowers the corporate tax rate from 35% (the highest in the world) to 15% across all business entities and has advocated a one-time 10% offshore repatriation window. If enacted, we expect an increase in the attractiveness of the U.S. market for foreign direct investment and improved cash flow for companies, also a signal for improving deal dynamics.

The industrial distribution segment likely will see an array of outcomes, depending on sector. For example, the incoming administration is proposing increased spending on infrastructure and national defense. Conversely, renegotiating the various free trade agreements could negatively impact distributors serving low-cost markets.

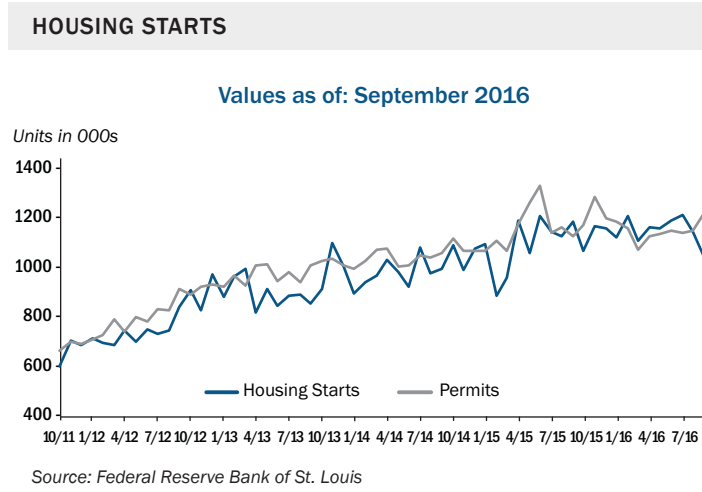
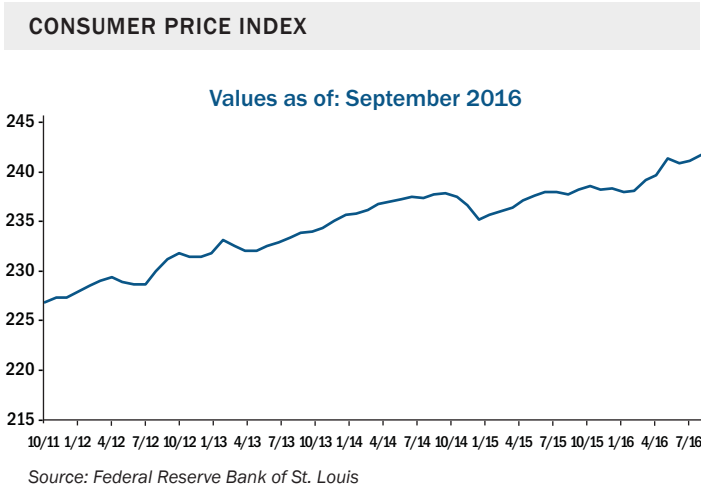
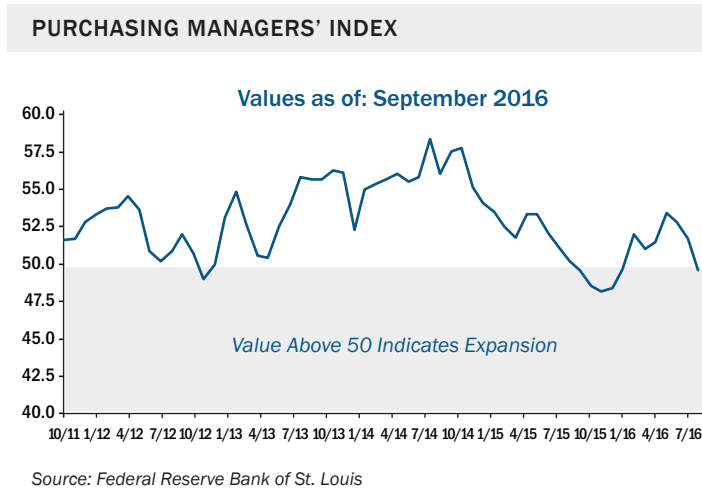
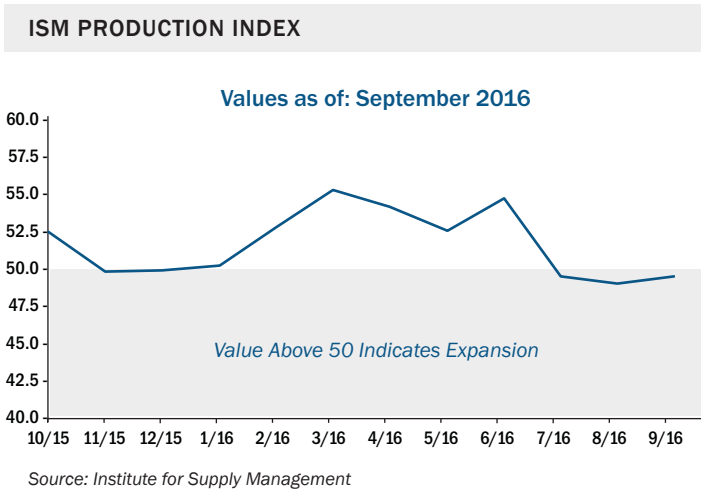
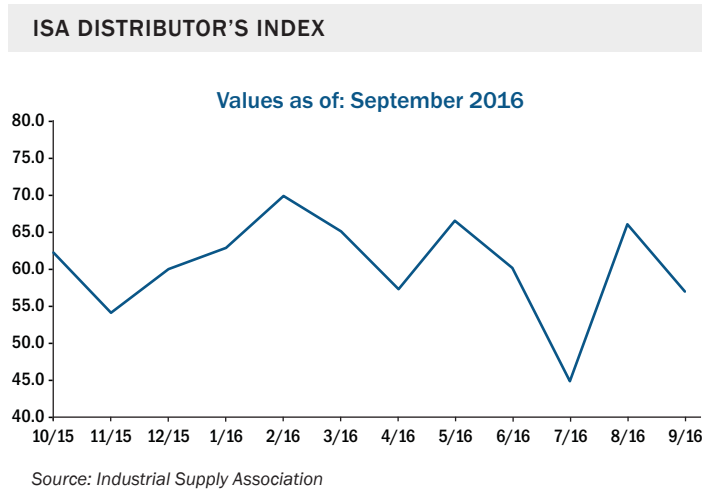
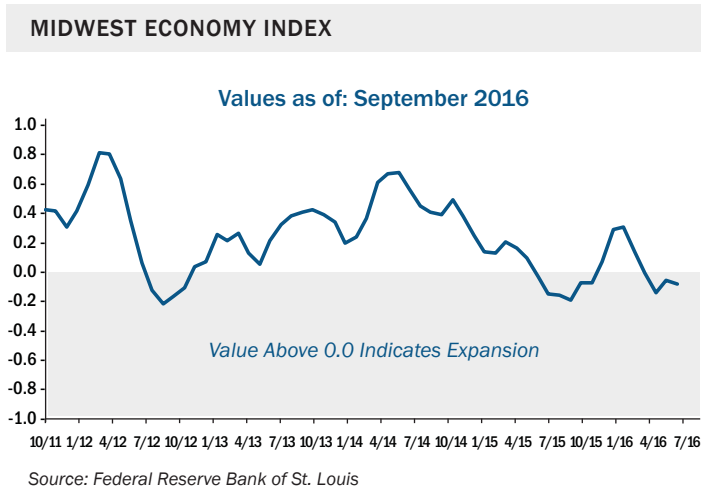
2017 will prove to be an interesting year, but we expect that the short- to medium-term impact of the election will benefit the M&A market and provide business owners with greater flexibility on exit timing.

*July and August figures in 2016 were skewed due to July containing two fewer business days than in 2015, and August containing two additional business days. This represents an approximate 10% difference in the baseline number of days.



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 Enterprise Value	TTM Revenue	TTM Gross Profit	Adjusted EBITDA	TTM Gross Margin	TTM EBITDA Margin	Net Debt/ EBITDA	TEV/ Revenue	TEV/EBITDA ⁽¹⁾	
											Q3 '16	Q3 '15
\$ in Millions												
Industrial/MRO/Safety												
W.W. Grainger, Inc.	United States	\$ 13,585	\$ 15,650	\$ 10,145	\$ 4,127	\$ 1,468	40.7%	14.5%	1.4x	1.5x	10.8x	9.2x
Fastenal Company	United States	12,073	12,348	3,937	1,953	892	49.6%	22.7%	0.3x	3.1x	13.7x	11.9x
HD Supply Holdings, Inc.	United States	6,429	10,424	7,588	2,533	864	33.4%	11.4%	4.6x	1.4x	12.1x	12.6x
MSC Industrial Direct Co., Inc.	United States	4,427	4,657	2,864	1,289	448	45.0%	15.6%	1.2x	1.6x	10.4x	9.2x
NOW Inc.	United States	2,303	2,347	2,213	363	(170)	16.4%	(7.7%)	(0.1x)	1.1x	n/a	22.8x
Applied Industrial Technologies, Inc.	United States	1,827	2,096	2,502	708	206	28.3%	8.2%	1.2x	0.8x	10.3x	7.8x
MRC Global, Inc.	United States	1,584	2,288	3,289	484	69	14.7%	2.1%	4.4x	0.7x	15.2x	6.2x
Essendant, Inc.	United States	765	1,501	5,412	800	234	14.8%	4.3%	2.6x	0.3x	6.2x	7.1x
Kaman Corporation	United States	1,190	1,618	1,828	541	158	29.6%	8.6%	2.5x	0.9x	11.1x	8.2x
Bossard Holding AG	Switzerland	1,047	1,222	680	212	85	31.2%	12.5%	2.0x	1.8x	14.3x	11.3x
DXP Enterprises, Inc.	United States	412	755	1,092	303	55	27.8%	5.0%	6.3x	0.7x	13.8x	6.2x
Median							29.6%	8.6%	2.0x	1.1x	11.6x	9.2x
Electrical Products												
Arrow Electronics, Inc.	United States	\$ 5,838	\$ 8,127	\$ 23,896	\$ 3,129	\$ 1,076	13.1%	4.5%	2.1x	0.3x	7.5x	7.1x
Avnet, Inc.	United States	5,235	6,695	26,219	3,038	974	11.6%	3.7%	1.5x	0.3x	6.9x	6.4x
Rexel SA	France	4,617	7,327	14,853	3,587	687	24.2%	4.6%	4.1x	0.5x	10.4x	8.9x
WESCO International, Inc.	United States	2,985	4,267	7,404	1,463	397	19.8%	5.4%	3.4x	0.6x	10.4x	6.8x
Anixter International, Inc.	United States	2,132	3,513	7,564	1,532	376	20.3%	5.0%	3.5x	0.5x	9.8x	6.8x
Electrocomponents plc	United Kingdom	1,949	2,179	1,860	809	134	43.5%	7.2%	1.9x	1.2x	18.0x	8.5x
Houston Wire & Cable Company	United States	102	133	276	57	5	20.7%	1.9%	5.9x	0.5x	25.6x	7.0x
Median							20.3%	4.6%	3.4x	0.5x	10.4x	7.0x
Building Products												
CRH plc	Ireland	\$ 27,779	\$ 36,492	\$ 29,938	\$ 9,507	\$ 3,040	31.8%	10.2%	2.6x	1.2x	11.7x	11.9x
Wolseley plc	Switzerland	14,111	15,367	19,161	5,418	1,380	28.3%	7.2%	0.9x	0.8x	11.4x	11.1x
Watsco, Inc.	United States	4,608	5,116	4,211	1,029	359	24.4%	8.5%	0.5x	1.2x	14.5x	13.1x
Pool Corporation	United States	3,975	4,454	2,541	732	272	28.8%	10.7%	1.3x	1.8x	17.0x	16.3x
Beacon Roofing Supply, Inc.	United States	2,514	3,668	3,740	903	285	24.1%	7.6%	4.0x	1.0x	12.9x	14.0x
Universal Forest Products, Inc.	United States	2,000	1,999	3,035	449	202	14.8%	6.6%	0.4x	0.7x	9.9x	8.8x
Builders FirstSource, Inc.	United States	1,267	3,199	6,276	1,588	362	25.3%	5.8%	5.3x	0.5x	10.6x	25.3x
Median							25.3%	7.6%	1.3x	1.0x	11.7x	13.1x
Chemicals & Gases												
Air Liquide SA	France	\$ 36,949	\$ 59,677	\$ 18,587	\$ 11,724	\$ 4,690	63.1%	25.2%	4.7x	3.2x	12.5x	10.9x
Praxair, Inc.	United States	34,465	44,273	10,485	4,677	3,437	44.6%	32.8%	2.7x	4.2x	12.7x	10.2x
Brenntag AG	Germany	8,441	10,411	11,466	2,569	873	22.4%	7.6%	2.2x	0.9x	11.7x	11.5x
Univar, Inc.	United States	3,015	5,957	8,228	1,734	555	21.1%	6.7%	5.2x	0.7x	11.0x	10.8x
IMCD N.V.	Netherlands	2,307	2,622	1,881	414	167	22.0%	8.9%	1.9x	1.4x	15.5x	16.6x
Median							22.4%	8.9%	2.7x	1.4x	12.5x	10.9x
Median Mean							24.9%	7.4%	2.4x	0.9x	11.7x	9.7x
							27.8%	8.9%	2.7x	1.2x	12.3x	10.8x

Market capitalizations and total enterprise values as of September 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 Q3 2016 Industrial Distributor Index are at their highest level in two years. There was less variance in value across sectors this quarter than in the past, while valuation metrics for stocks within individual sectors have diverged significantly. The Chemicals and Gases segment continues to show relatively high multiples, with a mean EV/EBITDA of 12.7x and a median of 12.5X.
- Median Public EBITDA multiples in Q3 rebounded after dropping half a turn in the second quarter, and revenue multiples also recovered. Equity markets in general suffered a slowdown in late June due to the uncertainty created by the Brexit referendum, the effect of which is pronounced due to multiples being measured on the last day of the quarter, less than a week after the vote.

PMCF INDUSTRIAL DISTRIBUTION INDEX PUBLIC VALUATIONS

	Q4 2014	Q1 2015	Q2 2015	Q3 2015	Q4 2015	Q1 2016	Q2 2016	Q3 2016
Revenue Multiple								
Median	0.8x	0.8x	0.8x	0.8x	0.8x	0.9x	0.8x	0.9x
Mean	1.2x	1.1x	1.1x	1.0x	1.1x	1.1x	1.1x	1.2x
EBITDA Multiple ⁽¹⁾								
Median	11.3x	10.5x	10.9x	9.7x	10.6x	11.2x	10.6x	11.7x
Mean	11.6x	11.2x	11.8x	10.8x	11.0x	11.6x	11.5x	12.3x

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

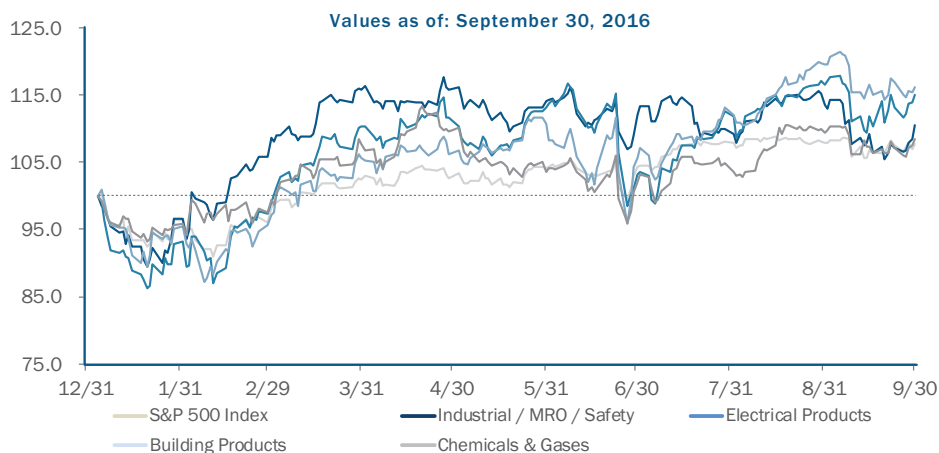
Quarterly figures based on the last trading day of each quarter shown

Source: Capital IQ

EQUITY PERFORMANCE:

- In aggregate, the market capitalization of industrial distributors increased 12.5 percent since the start of the year as of September 30, while the S&P 500 gained only 7.7 percent during the same period. Both distributors and the market at large experienced a downturn in early September, but are once again trending toward gains.
- The Building Products index gained 16.1 percent through Q3, and appears likely to continue gaining despite a drop in housing starts this September due to a soft month for multi-family construction. Housing permits, a leading indicator of housing starts, increased in September for single and multi-family units.
- The Electrical Products index increased 15 percent over the same period, while the remaining distributors grew 9.5 percent.

PMCF INDUSTRIAL DISTRIBUTION INDEX PUBLIC EQUITY PERFORMANCE



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

Local currency quotes converted to USD using historical spot rates

Source: Capital IQ

Market Commentary

The distribution industry outperformed the broader market through September 2016, but sentiment regarding the immediate sales outlook was guarded due to macroeconomic headwinds within some sub-sectors. M&A commentary was generally positive, with strategic acquirers especially expressing interest in target-specific value and long-term synergies.

September 2016: “There has been no material change to our formal end market perspective since our call in June 2016, specifically: residential construction growth of mid-single digits, nonresidential construction growth of mid-single digits, water infrastructure to be down low single digits to up low single digits and the MRO market to remain stable increasing 1% to 2%.”

Evan J. Levitt, CEO & Senior Vice President, HD Supply Holdings, Inc.

July 2016: “On our last call, we described a tough environment and in talking to our customers and looking at the macro indices, commented that we saw the potential for some stabilization on the horizon. Unfortunately, that did not materialize, and in fact, things weakened.

Conditions remained very difficult throughout the quarter, much as they have for the past few quarters. Low oil prices and the strong U.S. dollar continued to depress demand, particularly in metalworking and heavy manufacturing. Despite these headwinds, our execution remains strong, including continued share gains, sustained gross margin stabilization and strong expense controls. ...MSC is well positioned regardless of what happens in the industrial economy.”

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

October 2016: “Sales were below expectations, reflecting a decline in construction in both the U.S. and Canada. Operating margin was in line with our outlook as we took additional actions to reduce our costs and stream line our organization. ... We expect the current end market challenges to continue in the fourth quarter.”

John J. Engel, Chairman, President & CEO, Wesco International, Inc.

Sources: Company SEC Filings and Conference Call Transcripts

Key Deal Highlights

Expanded Footprint

ABC Supply Co. &
L&W Supply Corp

On August 27, 2016, American Builders & Contractors Supply Co., Inc. (“ABC Supply”) signed a definitive agreement to acquire L&W Supply from USG Corporation at an implied equity value of \$670 million. L&W Supply is a leading specialty distributor of drywall, ceiling tiles, steel framing and other building materials used by commercial and residential contractors. A large distributor of interior building materials, the addition of L&W reinforces ABC’s leadership position in building materials distribution. With the L&W Supply acquisition, the company will operate over 700 locations in 49 states with combined annual sales of over \$8 billion. L&W Supply will operate as a separate division of ABC Supply.

Increasing Market Share

FBM & Winroc/SPI

On July 4, 2016, Foundation Building Materials, LLC (“FBM”) announced the acquisition of the Construction Products Division (Winroc/SPI) from Superior Plus, LP. Foundation will pay C\$420 million (US\$325 million) for Superior’s distribution network, which spans Canada and the U.S. LSF9 Cypress Holdings LLC (“Cypress Holdings”), the parent company of FBM will offer Senior Secured Notes due in 2021 through a private placement to finance the acquisition. With the acquisition of Winroc, whose U.S. operations had revenue of \$484 million in 2015 across 82 branches and 1,100 employees, FBM is positioned to rival Gypsum Management & Supply, the largest firm in the drywall/studs/insulation/ceilings sector.

Opportunistic Value Acquisition

Maxim Crane Works &
Essex Crane Rental

On September 9, 2016, Maxim Crane Works bought Essex Crane’s core fleet of crawler cranes for \$75 million. Essex ceased operations in September 2016 due to continued softness in the oil and gas end markets, and sold the assets to meet obligations. Maxim has undertaken expansion efforts, recently acquiring branch facilities in Alabaster, AL; Kansas City, KS; Arcola, TX; Tampa, FL; and the Seattle, WA area. Frank Bardonaro, the company’s COO, explained that one of the company’s goals is to ensure Maxim can provide customers with “every type of crane needed, anywhere in the USA.” Maxim was purchased by Apollo Management in August 2016, and recently also acquired AmQuip Crane, and Crane Rental Corp.

Product Line Expansion

Motion Industries, Inc. &
OBBCO Safety & Supply

On July 19, 2016, Motion Industries, Inc. a wholly owned subsidiary of Genuine Parts Company (“GPC”) entered into a definitive agreement to acquire OBBCO Safety & Supply, LLC. Based in Chesapeake, Va., OBBCO is an industrial safety distributor, which carries products from over 100 safety supply manufacturers. Their offerings include a wide range of personal protective equipment, as well as other essentials such as hazardous storage units, first aid supplies, and gas detection equipment. OBBCO’s product offering is in a niche area that will help Motion Industries differentiate itself, while bringing OBBCO’s merchandise to a broader market.

Industrial Distribution M&A Activity

SELECT INDUSTRIAL DISTRIBUTION TRANSACTIONS

Date	Target	Buyer	Industry Segment	Implied EV	EV/TTM Revenue	EV/TTM EBITDA
Sep-16	ABB Ltd., High-Voltage Cables Business	NKT Cables Group A/S	Electrical Products	\$ 915	1.8x	9.0x
Sep-16	3M Company, Temporary protective films business	Pregis Corporation	Industrial / Materials	-	-	-
Aug-16	Westfield Lighting Co. Inc.	Ferguson Enterprises, Inc.	Construction/Building	-	-	-
Aug-16	Phillip-Tech (Beijing) Co., Ltd.	Atlas Copco AB	Industrial Equipment	-	-	-
Aug-16	Predictive Maintenance Consultants, Certain Assets	Tencarva Machinery Company Inc.	Industrial / MRO / Safety	-	-	-
Aug-16	Quirks Australia Pty Ltd.	Coca-Cola Amatil Limited	Food & Beverage	-	-	-
Aug-16	Pentair plc, Valves & Controls Business	Emerson Electric Co.	Industrial Equipment	\$ 3,150	1.8x	14.1x
Aug-16	SW Controls, Inc.	FCX Performance, Inc.	Fluid Control Products	-	-	-
Aug-16	Geeraets Autolak BV	Axalta Coating Systems Ltd.	Chemicals & Gases	-	-	-
Jul-16	Mercedes-Benz Commercial Vehicles Laverton	Automotive Holdings Group Ltd	Commercial Vehicle	-	-	-
Jul-16	Kyosei Rentemu Co., Ltd.	AKTIO Holdings Corporation	Industrial Equipment	\$ 138	0.7x	2.2x
Jul-16	OBBCO Safety & Supply, LLC	Motion Industries, Inc.	Industrial / MRO / Safety	-	-	-
Jul-16	Residex, LLC	Rentokil Initial plc	Chemicals & Gases	\$ 30	-	-
Jul-16	Helios Dica, S.L.	Descours & Cabaud SA	Industrial / MRO / Safety	-	-	-
Jul-16	Fertilizantes Tocantins Ltda.	EuroChem Group AG	Agricultural	-	-	-
Jul-16	Roxel Rental AS	Atlas Copco AB	Chemicals & Gases	-	-	-
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	Nexeo Solutions, LLC	WL Ross Holding Corp.	Chemicals & Gases	\$ 1,539	0.4x	10.2x
Jun-16	Seals Unlimited, Inc.	Applied Industrial Technologies	Industrial Equipment	-	-	-
Jun-16	J.M. Swank Co., Inc.	Platinum Equity LLC	Food & Beverage	-	-	-
May-16	Maxim Crane Works, L.P.	Apollo Global Management, LLC	Industrial Equipment	-	-	-
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 CO.,Ltd.	Brenntag AG	Chemicals & Gases	-	-	-
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	-	-	-
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	Arrow ECS Australia Pty Limited	Arrow Electronics, Inc.	Electrical Products	\$ 49	0.2x	6.3x
Mar-16	NOxBOX Ltd	Praxair Inc.	Chemicals & Gases	-	-	-
Mar-16	Brohl & Appell, Inc.	Rexel SA	Electrical Products	-	-	-
Feb-16	Epperson and Company	Motion Industries	Industrial / Materials	-	-	-
Feb-16	Mechanical Supply Company	Macomb Group	Industrial / Piping / Valves	-	-	-
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	-
Median					0.7x	7.6x
Mean					0.9x	7.9x

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

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(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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