ISA INDUSTRIAL SUPPLY ASSOCIATION | Leading the Channel Forward®

CHANNEL 2.0

ISA MROP Product Scope

1. Abrasives & Brushes ★
2. Adhesives, Sealants & Tape ★
3. Bearings
4. Chemicals, Lubricants and Equipment ★
5. Clamping & Workholding ★
6. Cutting Tools & Metalworking ★
7. Electrical
8. Electronics & Lighting
9. Facilities Maintenance ★
10. Fasteners ★
11. Fluid Power
12. Hand & Power Tools ★
13. Hose & Fittings
14. HVAC
15. Jan/San
16. Machinery ★
17. Marking & Labeling ★
18. Material Handling ★
19. Power Transmission
20. Precision Measuring & Inspection ★
21. Pumps & Filtration
22. PVF
23. Raw Materials
24. Safety ★
25. Seals, Gaskets & Accessories
26. Shipping & Office Supplies
27. Welding & Soldering

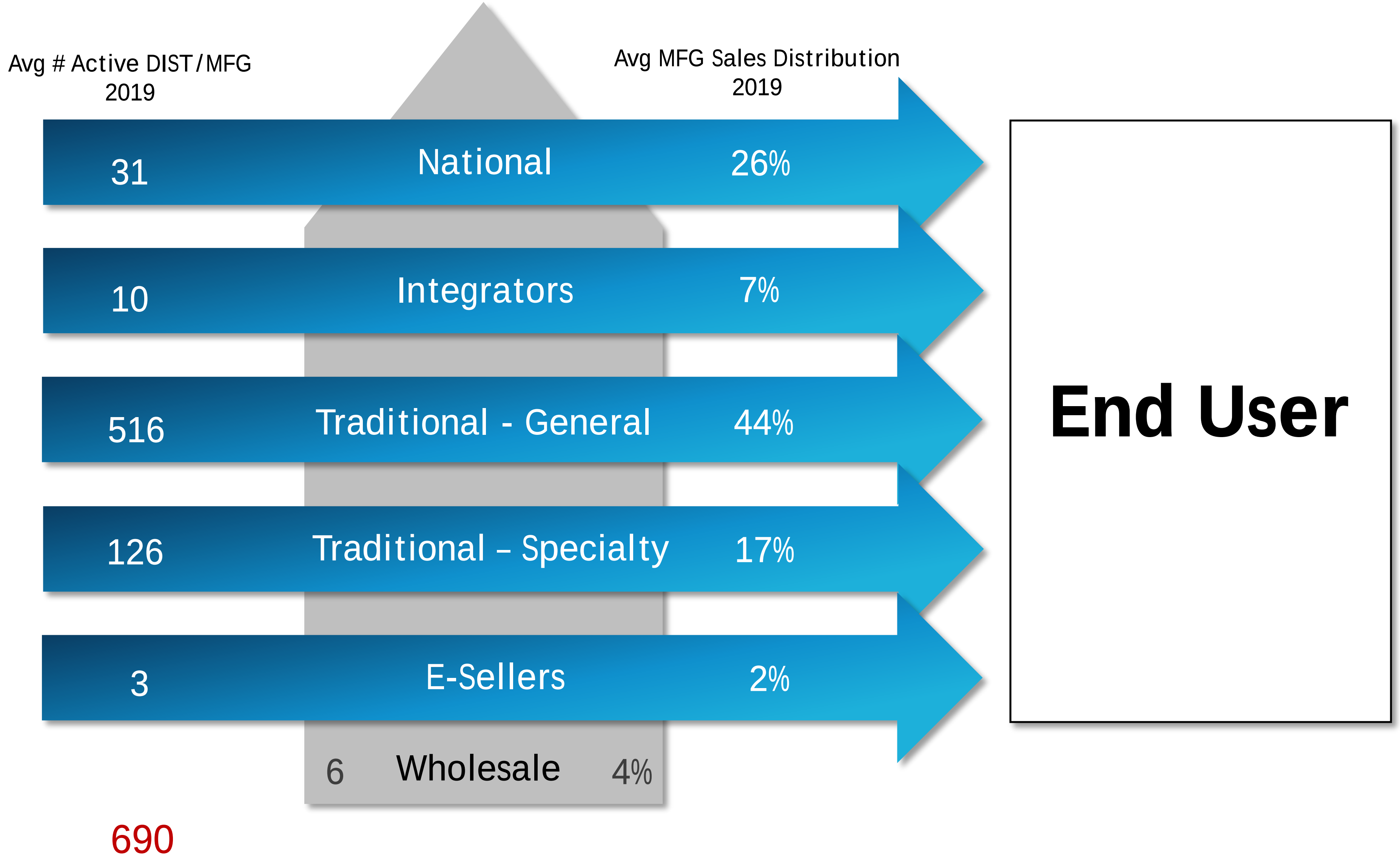
ISA MROP Market

$15 BUSD

$10 BUSD

Relative to US GDP

ISA Channel Landscape



Source: ISA Manufacturer Analytics 2019

ISA Channel Landscape

Forecasted Channel Growth by Manufacturers 2019

Ranked by **General** Growth

% of Manufacturer Respondents

Channel	Respondents
National	85%
Traditional - General Line	83%
E-Sellers	72%
Traditional - Specialty	69%
Integrators	59%
Wholesalers	53%

Ranked by **10%+** Growth

% of Manufacturer Respondents

Channel	Respondents
E - Sellers	33%
National	21%
Traditional - Specialty	17%
Traditional – General Line	14%
Integrators	13%
Wholesalers	10%

Indicator of confidence by channel? …

Source: ISA Manufacturer Analytics 2019

ISA Channel Landscape

Distributor Economics (x public companies)

Key Metrics	2018	2017
Sales Change	7.3%	5.1%
COGS	75.7%	75.6%
Gross Margin	24.3%	24.4%
Profit Margin Before Tax*	1.9%	2.1%
Return on Assets	3.2%	3.8%

Same Sample Trend
Distributor Analytics 2019

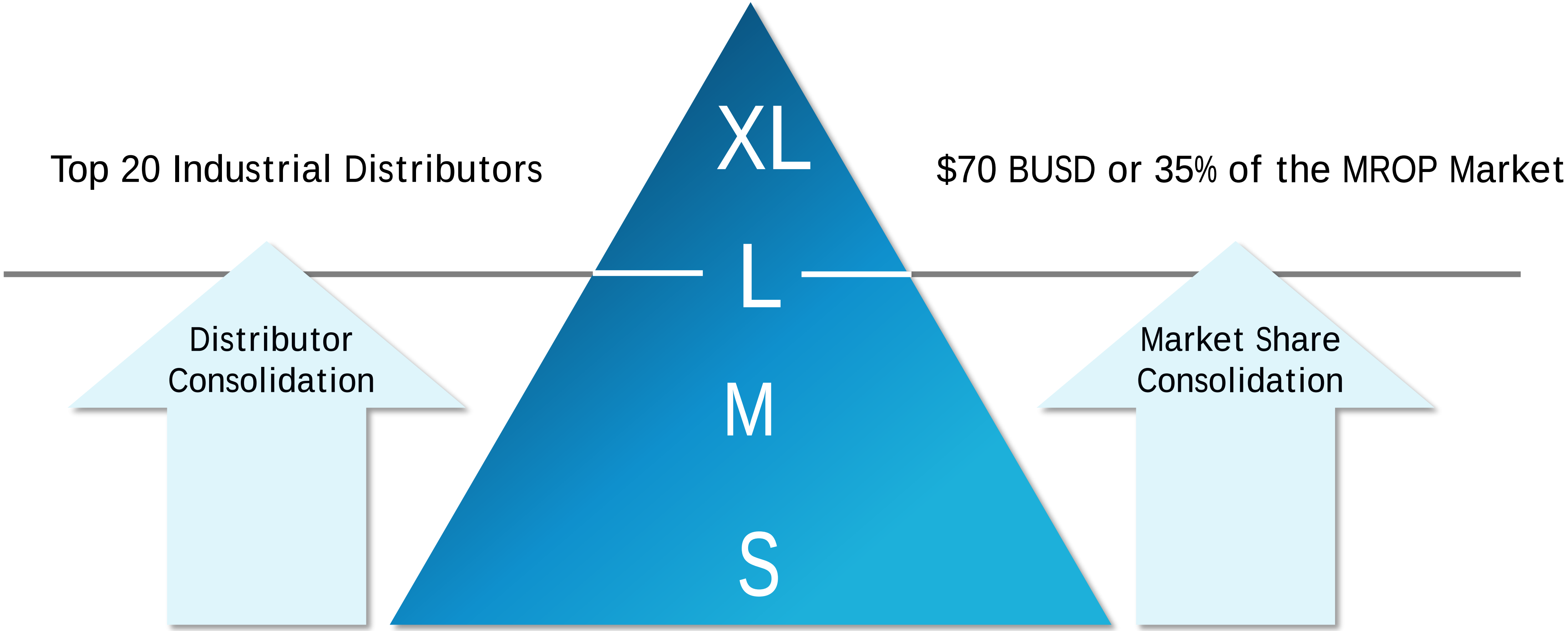
Financial Pressures

OPEX % of Revenue	2018	2017
Delivery Expense	1.3%	1.0%
IT Expense	1.1%	0.9%
Cash Discounts on Sales	0.3%	0.2%
Interest Expense	0.5%	0.4%

** Inclusive of all rebates and marketing funds*

Source: ISA Distributor Analytics 2019

ISA Channel Landscape
Industry Consolidation



Source: MDM Top Industrial Distributors 2018

ISA Channel Landscape

Distribution Top 5 Concerns 2019

Top Concerns Next 5 Yrs.	Respondents
Recruiting Talent	73%
Cost of Healthcare	62%
Technology	39%
General Business Costs	23%
Industry Mergers & Acquisitions	19%

Having a relevant go to market strategy didn't make the list …

Having a winning strategy is key…and it needs to be the right one

Source: ISA Distributor Analytics 2019

Leading the Channel Forward®

Manufacturing Economic Trends
June YTD 2019

Source: ISA Advisor June 2019

MANUFACTURING AT A GLANCE
JULY 2019

Index	Series Index Jul	Series Index Jun	Percentage Point Change	Direction	Rate of Change	Trend* (Months)
PMI®	51.2	51.7	-0.5	Growing	Slower	35
New Orders	50.8	50.0	+0.8	Growing	From Unchanged	1
Production	50.8	54.1	-3.3	Growing	Slower	35
Employment	51.7	54.5	-2.8	Growing	Slower	34
Supplier Deliveries	53.3	50.7	+2.6	Slowing	Faster	41
Inventories	49.5	49.1	+0.4	Contracting	Slower	2
Customers' Inventories	45.7	44.6	+1.1	Too Low	Slower	34
Prices	45.1	47.9	-2.8	Decreasing	Faster	2
Backlog of Orders	43.1	47.4	-4.3	Contracting	Faster	3
New Export Orders	48.1	50.5	-2.4	Contracting	From Growing	1
Imports	47.0	50.0	-3.0	Contracting	From Unchanged	1
OVERALL ECONOMY				Growing	Slower	123
Manufacturing Sector				Growing	Slower	35

Source: Institute for Supply Management

Manufacturing Economic Trends

June YTD 2019

Description	NAICS	12/12	3/12	Notes
Machinery Production	333	4.1% C	1.4% C	Decelerating rate of rise
Farm Equipment Production	333111	8.5% B	2.8% C	3/12 is signaling some deceleration ahead
Construction Equipment Production	33312	18.3% B	20.8% C	More rise ahead
Mining Equipment Production	33313	11.1% C	8.6% C	Tentative March 2019 3MMA peak
Industrial Machinery Production	3332	-4.6% D	-7.2% D	Ongoing decline
Refrigeration and HVAC Equipment Production	3334	0.6% C	-2.9% D	March 2019 12MMA high
Metalworking Machinery Production	3335	1.1% C	-1.4% D	March 2019 12MMA high
Engines and Turbines Production	333612-8	13.4% C	4.2% C	Tentative April 2019 12MMA high
Motor Vehicle Parts Production	3363	2.1% C	-2.5% D	Flat to mildly negative 12MMA off a January record high
Aerospace Products and Parts Production	3364	2.8% B	4.4% C	More rise ahead

Source: ISA Advisor June 2019

EU focus on cost take out will increase ...

Manufacturing Economic Trends

ISA Advisor September 2019

LEADING INDICATOR SNAPSHOT

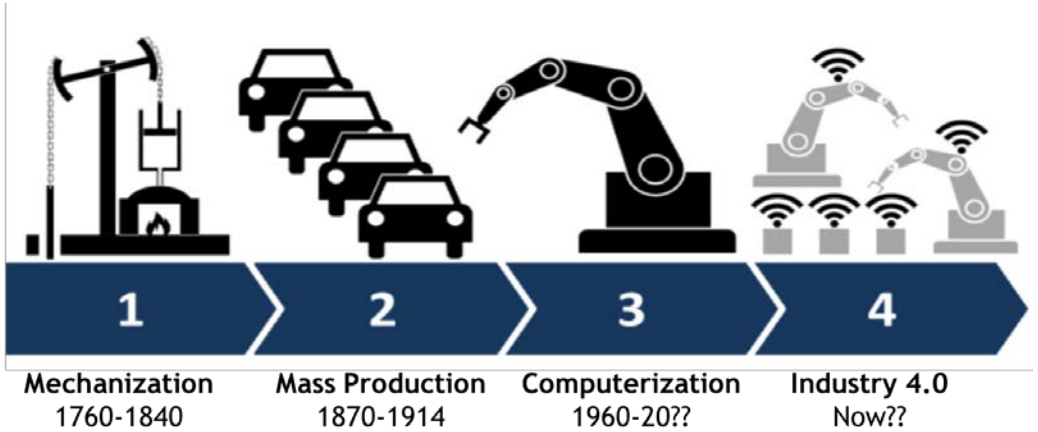
	3Q19	4Q19	1Q20
ITR Leading Indicator™	●	●	●
ITR Retail Sales Leading Indicator™	●	●	●
US Leading Indicator	●	●	●
US ISM PMI (Purchasing Managers Index)	●	●	●
US Total Capacity Utilization Rate	●	●	N/A

Green denotes that the indicator signals cyclical rise for the economy in the given quarter. Red denotes the opposite.

- The majority of the leading indicators suggest that US Industrial Production will fall through at least the first quarter of next year
- Decline in the US ISM PMI suggests that business cycle decline could persist into at least the third quarter of 2020
- The US Total Industry Capacity Utilization Rate suggests that Industrial Production will fall into at least the end of this year

Source: ISA Advisor June 2019

End Users
Industry 4.0



A transition from machines with computers in isolation to **machines communicating** with each other

Big Data
Computational Power
Connectivity/IoT

Digital to Physical
Additive Manufacturing
Advanced Robotics

Analytics
Business Intelligence
Proactive Decisions

Augmented Reality
Human-Machine Interactions
Touch Interfaces

End Users
Industry 4.0

Industry 4.0 is less about invention and more about **Optimization**

McKinsey & Company Digital Compass

End Users

Industry 4.0 – Impact on Industrial Channel

Planned Spend

80% of $ - 20% of Work

- <100 Suppliers
- Easier to Predict
- Easier to Source

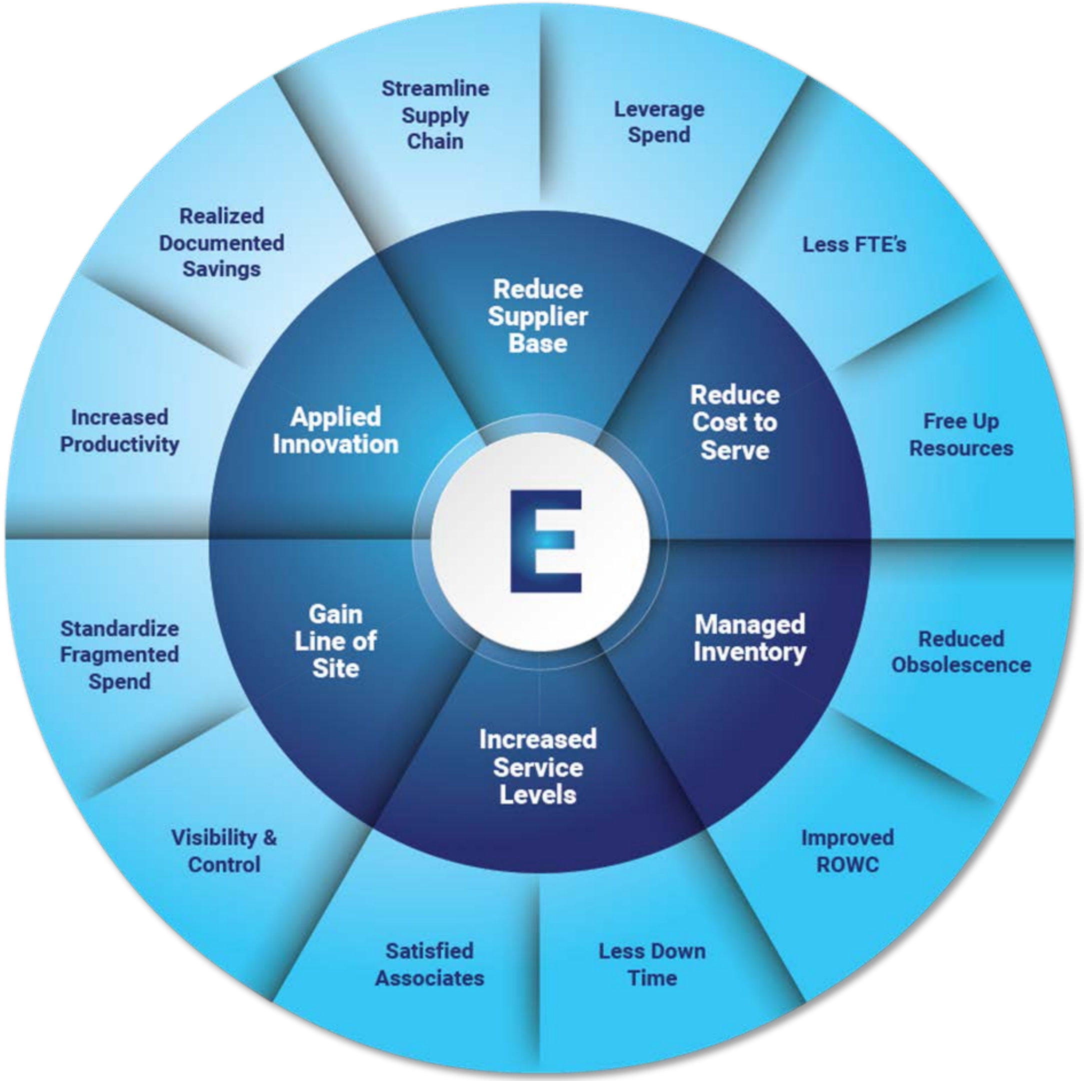
Unplanned Spend (The “Tail”)

20% of $ - 80% of Work

- 1000+ Suppliers
- Difficult to Predict
- Difficult to Source

*Disruption **<u>will</u>** optimize the supply chain*

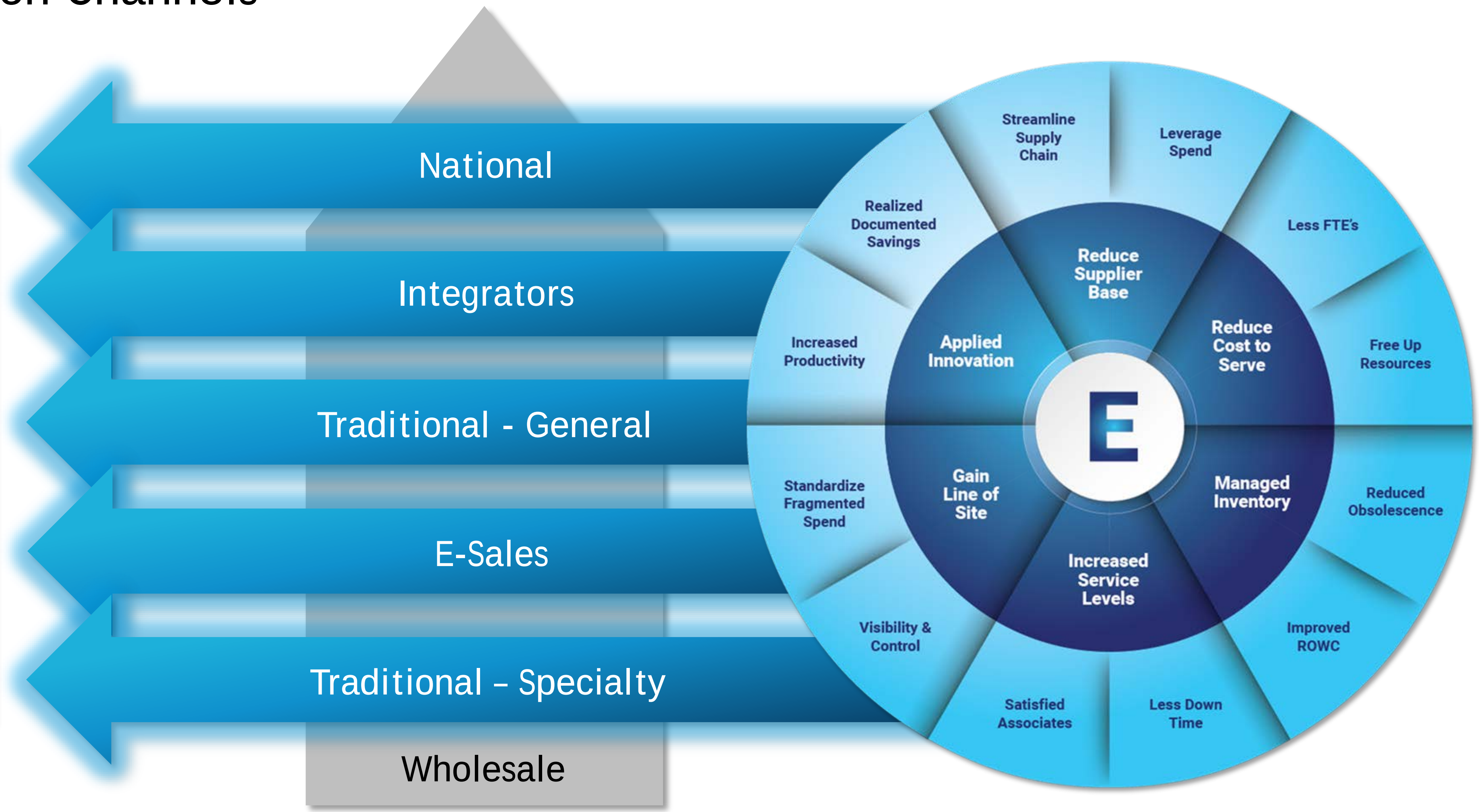
Channel 2.0
End User Compass



End Users will optimize their MROP supply chain to maximize productivity and efficiency gains

The benefits are clear…..

Channel 2.0
End User Impact on Channels



Channel 2.0

It’s all about the End User

It’s not about how you want to sell ….it’s about
how End Users want to buy

“the Waterfall effect”

Channel 2.0
Distributor Compass

- Distributor focus will move from products to supply chain solutions/service to differentiate value add
- M&A will accelerate to get scale (get bigger or specialize)
- Marginalization of the middle (can't be everything to everybody)
- As Distributors broaden product portfolio, product specification at the End User will move from Distributors to Manufacturers

ISA INDUSTRIAL SUPPLY ASSOCIATION Leading the Channel Forward®

Channel 2.0

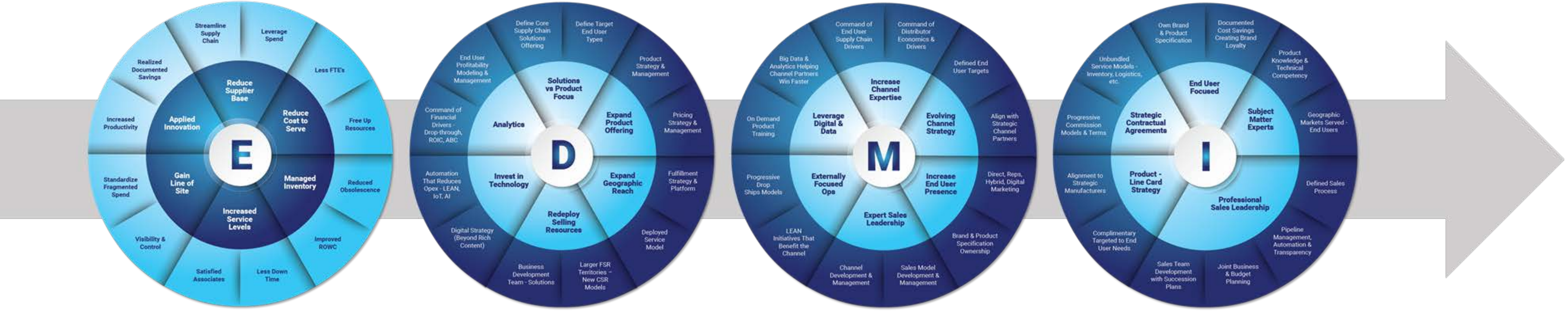
Manufacturer Compass

- End User technical support and brand growth will shift from the Distributor to the Manufacturer
- Shift on how End Users want to buy will drive new channel practices and strategic relationships
- Need for increased selling resources at the End User will create Opex margin pressure and will drive variable cost and digital sales models

Channel 2.0
IMR Compass

- IMRs will transform to professionally managed sales organizations focused on the End User
- Certifications ensuring sales process, pipeline transparency and technical competency for selling resources will be the norm
- IMRs will expand localized value-added services

Channel 2.0
Connecting the Dots



Channel 2.0
Phase One