INDUSTRIAL SUPPLY ASSOCIATION

Leading the Channel Forward

2020 DISTRIBUTOR ANNUAL PERFORMANCE & STRATEGY REPORT

BASED ON 2019 OPERATIONS

www.isapartners.org

2020 Industrial Supply Association

Distributor Annual Performance & Strategy Report

BASED ON 2019 OPERATIONS

The **2020 ISA Distributor Annual Performance & Strategy Report** presents a detailed analysis of key operating data from ISA member distributors. Based on confidential surveys completed by 67 companies in October 2020, this report includes a compilation and analysis of financial and operations data segmented by sales volume, line of business, a special grouping of "Best in Class" based on return on assets performance, and other data aggregations deemed relevant.

The **Annual Performance Report & Strategy Survey** is published annually by the Industrial Supply Association (ISA). Founded in 1902, ISA is the central resource for the industrial MROP channel.

This report was compiled, tabulated, and analyzed by Industry Insights Inc. (www.industryinsights.com), an independent professional research and consulting firm that specializes in conducting financial surveys, compensation studies, market assessments, customer satisfaction research, educational programs and other forms of customized research.

Leading the Channel Forward®

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INTRODUCTION

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About This Report

The **2020 ISA Distributor Annual Performance & Strategy Report** (based on 2019 results) has been designed to provide easy-to-understand guidelines for assessing your business performance and identifying improvement opportunities.

The **ISA Distributor Annual Performance & Strategy** Survey was prepared by Industry Insights, Inc. of Columbus, Ohio, while working closely with ISA and its distributor benchmarking taskforce in the design of the study. Confidential survey forms (refer to the Appendix for a sample) were made available to ISA distributor members in July 2020. Respondents were able to submit their surveys via an online questionnaire or an Excel version of the survey.

This report primarily includes comparative financial ratios, operations data, human resources metrics, and distributor strategy information. The results are segmented and reviewed by sales volume, line of business, a special grouping of "Best in Class" distributors, and other data aggregations deemed relevant.

A valuable feature of the **ISA Distributor Annual Performance & Strategy** survey is that all participating ISA members automatically receive a confidential Company Performance Report (CPR). The CPR displays each distributor's own ratios and data computed in a manner consistent with those appearing in the full report, and the results are displayed alongside the most appropriate industry comparatives. As shown on any given line of the Company Performance Report, a company's own data are included along with reported norms for all respondents and an individual company's closest peers. Thus, the individual owner/manager is provided invaluable information without needing to spend time and effort performing the calculations manually.

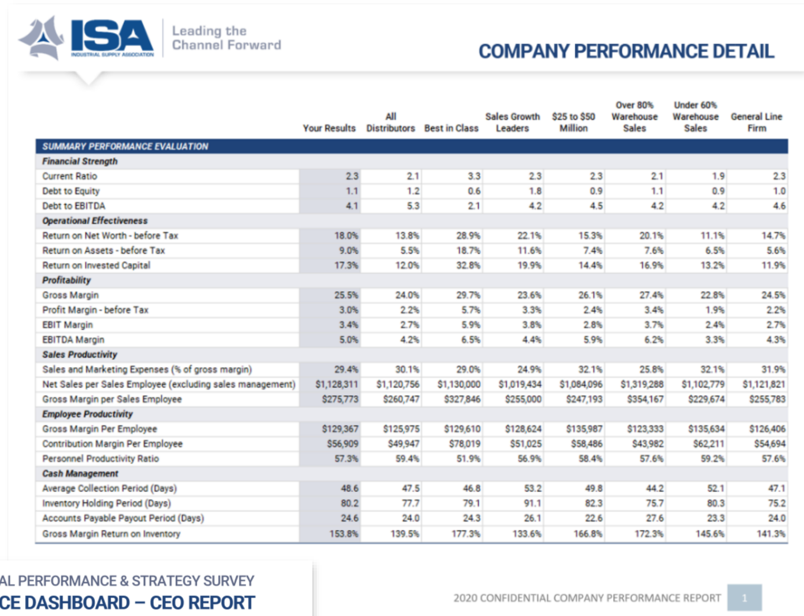
Sample Company Performance Report pages are shown on the following page.

In addition to receiving access to the Company Performance Report, participants also receive access to a suite of comprehensive reporting applications. Included in the suite is an interactive "Searchable Results" program that allows more specific information than any single report could reasonably provide. Using the program, users are able to create their own data cuts to assemble benchmarks that most closely match their organization. For example, a distributor could filter based on a specific revenue range and line of business, whereas the report only provides single-level cuts (e.g., revenue range *or* line of business). The Searchable Results program and other interactive, data comparison tools are housed in in **ISA's Distributor Analytics Portal**. Please visit **www.isapartners.org/analytics/distributors** for more information about ISA's offerings.

Sample Company Performance Report

The images on this page provide a sample of each of the sections that are included in participants' Company Performance Reports (CPR). The actual CPR that participants receive contains critical information about their organization, compared against other similar companies and formatted as the pages below.

"Your Firm's" Ratios Compared to the Appropriate Industry Norms



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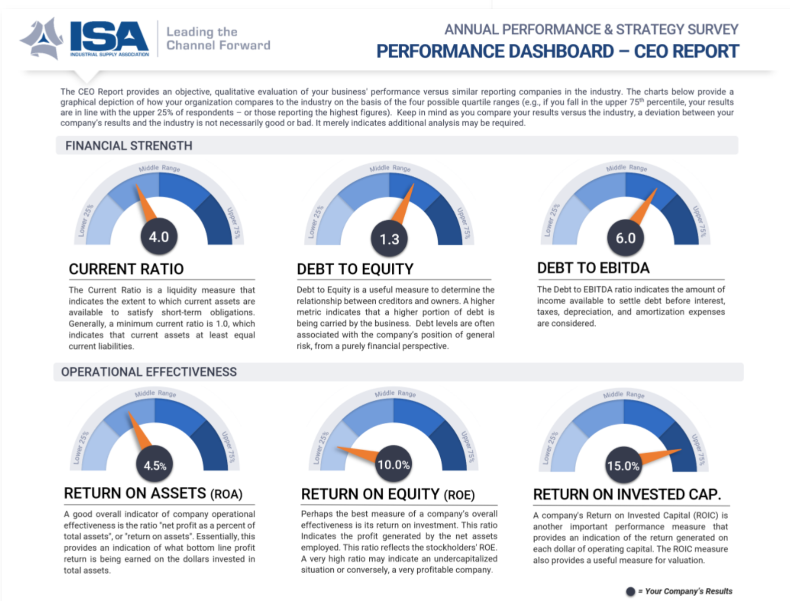
COMPANY PERFORMANCE DETAIL

	Your Results	All Distributors	Best in Class	Sales Growth Leaders	$25 to $50 Million	Over 80% Warehouse Sales	Under 60% Warehouse Sales	General Line Firm
SUMMARY PERFORMANCE EVALUATION								
Financial Strength								
Current Ratio	2.3	2.1	3.3	2.3	2.3	2.1	1.9	2.3
Debt to Equity	1.1	1.2	0.6	1.8	0.9	1.1	0.9	1.0
Debt to EBITDA	4.1	5.3	2.1	4.2	4.5	4.2	4.2	4.6
Operational Effectiveness								
Return on Net Worth - before Tax	18.0%	13.8%	28.9%	22.1%	15.3%	20.1%	11.1%	14.7%
Return on Assets - before Tax	9.0%	5.5%	18.7%	11.6%	7.4%	7.6%	6.5%	5.6%
Return on Invested Capital	17.3%	12.0%	32.8%	19.9%	14.4%	16.9%	13.2%	11.9%
Profitability								
Gross Margin	25.5%	24.0%	29.7%	23.6%	26.1%	27.4%	22.8%	24.5%
Profit Margin - before Tax	3.0%	2.2%	5.7%	3.3%	2.4%	3.4%	1.9%	2.2%
EBIT Margin	3.4%	2.7%	5.9%	3.8%	2.8%	3.7%	2.4%	2.7%
EBITDA Margin	5.0%	4.2%	6.5%	4.4%	5.9%	6.2%	3.3%	4.3%
Sales Productivity								
Sales and Marketing Expenses (% of gross margin)	29.4%	30.1%	29.0%	24.9%	32.1%	25.8%	32.1%	31.9%
Net Sales per Sales Employee (excluding sales management)	$1,128,311	$1,120,756	$1,130,000	$1,019,434	$1,084,096	$1,319,288	$1,102,779	$1,121,821
Gross Margin per Sales Employee	$275,773	$260,747	$327,846	$255,000	$247,193	$354,167	$229,674	$255,783
Employee Productivity								
Gross Margin Per Employee	$129,367	$125,975	$129,610	$128,624	$135,987	$123,333	$135,634	$126,406
Contribution Margin Per Employee	$56,909	$49,947	$78,019	$51,025	$58,486	$43,982	$62,211	$54,694
Personnel Productivity Ratio	57.3%	59.4%	51.9%	56.9%	58.4%	57.6%	59.2%	57.6%
Cash Management								
Average Collection Period (Days)	48.6	47.5	46.8	53.2	49.8	44.2	52.1	47.1
Inventory Holding Period (Days)	80.2	77.7	79.1	91.1	82.3	75.7	80.3	75.2
Accounts Payable Payout Period (Days)	24.6	24.0	24.3	26.1	22.6	27.6	23.3	24.0
Gross Margin Return on Inventory	153.8%	139.5%	177.3%	133.6%	166.8%	172.3%	145.6%	141.3%

2020 CONFIDENTIAL COMPANY PERFORMANCE REPORT 1



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ANNUAL PERFORMANCE & STRATEGY SURVEY

PERFORMANCE DASHBOARD – CEO REPORT

The CEO Report provides an objective, qualitative evaluation of your business' performance versus similar reporting companies in the industry. The charts below provide a graphical depiction of how your organization compares to the industry on the basis of the four possible quartile ranges (e.g., if you fall in the upper 75th percentile, your results are in line with the upper 25% of respondents – or those reporting the highest figures). Keep in mind as you compare your results versus the industry, a deviation between your company's results and the industry is not necessarily good or bad. It merely indicates additional analysis may be required.

FINANCIAL STRENGTH

CURRENT RATIO

The Current Ratio is a liquidity measure that indicates the extent to which current assets are available to satisfy short-term obligations. Generally, a minimum current ratio is 1.0, which indicates that current assets at least equal current liabilities.

DEBT TO EQUITY

Debt to Equity is a useful measure to determine the relationship between creditors and owners. A higher metric indicates that a higher portion of debt is being carried by the business. Debt levels are often associated with the company's position of general risk, from a purely financial perspective.

DEBT TO EBITDA

The Debt to EBITDA ratio indicates the amount of income available to settle debt before interest, taxes, depreciation, and amortization expenses are considered.

OPERATIONAL EFFECTIVENESS

RETURN ON ASSETS (ROA)

A good overall indicator of company operational effectiveness is the ratio "net profit as a percent of total assets", or "return on assets". Essentially, this provides an indication of what bottom line profit return is being earned on the dollars invested in total assets.

RETURN ON EQUITY (ROE)

Perhaps the best measure of a company's overall effectiveness is its return on investment. This ratio Indicates the profit generated by the net assets employed. This ratio reflects the stockholders' ROE. A very high ratio may indicate an undercapitalized situation or conversely, a very profitable company.

RETURN ON INVESTED CAP.

A company's Return on Invested Capital (ROIC) is another important performance measure that provides an indication of the return generated on each dollar of operating capital. The ROIC measure also provides a useful measure for valuation.

= *Your Company's Results*

The CEO Report Gauges Your Own Firm's Performance in an Easy to Digest Format

How to Use This Report

This report is designed to help distributors evaluate their own performances relative to that of similar companies in the industry. The statistics in this report represent broad performance "yardsticks" against which a company's performance can be measured.

Using the information within this report, industry members can compare their own company's financial statistics against: all reporting distributors; companies of a comparable sales volume; companies with a similar line of business; and the top performing firms ("Best in Class"). Spotting significant differences between your own company's performance and the comparable aggregates can be the first step toward better understanding your business and improving performance. Please keep in mind:

1. A deviation between your company's figures (for any performance measure) and numbers in the report is not necessarily good or bad. It merely indicates additional analysis may be required. As a general rule: the larger the difference - the greater the need for further investigation.
2. In situations where large deviations exist, it may be helpful to go back and review the metric over the past several years to identify any trends that may exist.
3. The information in this report should be used as a tool for informed decision making rather than absolute standards. Since companies differ as to their sales/customer emphases, location, size, and other factors, any two companies can be successful yet have very different experiences with regard to certain performance measures.

Interpreting the Numbers

Most of the results included in this study are reported on the basis of medians rather than arithmetical averages or means. Unlike the mean, the median is not distorted by a few unusually high or low values that may exist in the sample due to special circumstances. The "median" value represents the mid-point of the data for a particular measure, with one-half of the firms reporting figures above it and one-half below. Each median was computed independently, based on the companies that reported for that item. As a result, mathematical relationships do not always exist when different ratios are used together in the calculation.

Smallest Number Reported ↓	Typical ↓	Largest Number Reported ↓
Lower 25% of Reported Figures	Middle 50% of Reported Figures (or Middle Range)	Upper 25% of Reported Figures
	↑ Median	

Data reported were not used unless they were in accordance with the survey instructions and definitions. In cases where the number of facilities reporting was considered inadequate for the computation of a meaningful figure, an asterisk (*) notation is included to indicate insufficient data. At a minimum, 5 valid responses were required in order to show any metrics.

Further insights into how to use this report are included in the Appendix section titled: "Key Ratio Definitions."

Using Ratios

While it is important to analyze financial information in dollars and cents, it is essential that percentages and ratios be used if the data are to be compared to past performance or to reported standards. For example, while it is helpful to recognize your annual employee compensation expense, it is even more essential to compare this expenditure with the value it produces. A particularly useful measure of the effectiveness of your compensation expense is the percentage that payroll expense represents relative to sales – or gross margin. Therefore, a ratio such as total payroll expense as a percent of sales can be useful in determining how your company uses its payroll dollars over time or compared to its closest peers.

In addition, just as dollar figures are not overly meaningful by themselves, ratios should not be used in isolation. In combination with the amounts themselves, ratios can provide an extremely accurate overall picture of financial performance and financial position. Financial performance refers to how well a facility performs over a period of time (generally one year) and financial position refers to financial strength at a given point in time (primarily based on your balance sheet).

Summary and Conclusions

While the volume of information in this report may at first seem overwhelming, by following the approach outlined in the preceding pages, your time and efforts can be channeled into a very effective and beneficial analysis. To summarize:

Step 1—Gather all your financial and operating figures for your latest fiscal year. If you participated in this year's study, this has already been done for you.
Step 2—Calculate the various performance measures for your firm that are used in the report.
Step 3—Determine which data comparisons in this report are most comparable to your facility. (Again, if you participated in the survey, most of the calculations have already been made for you.)
Step 4—Examine the extent of variance that exists between your company's performance and the industry benchmarks.
Step 5—Use this information to better understand your company and your industry overall – and identify new ways to strategically improve.

Even relatively simple analysis of your organization's own figures using the data for comparisons can yield important insights into your business. You do not need to be an expert to benefit from this information.

EXECUTIVE SUMMARY

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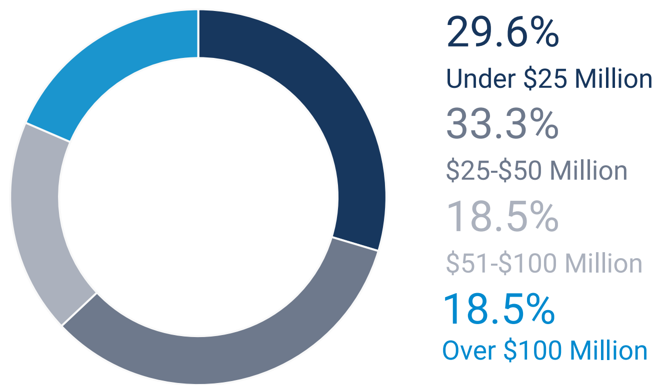
RESPONDENT PROFILE

The following charts within the Respondent Profile section are shown to help users of the report better identify with the participating companies. It is important to understand who the respondents of this year's survey were in order to correctly interpret the results and their relative applicability to your organization.

Percentage of Respondents in Each Sales Group

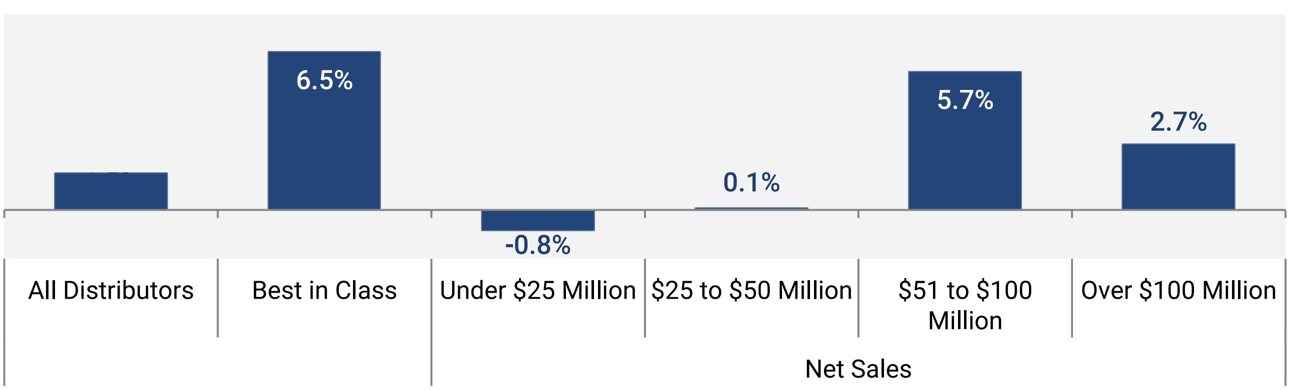


Average and Median Sales Volumes of Key Groupings

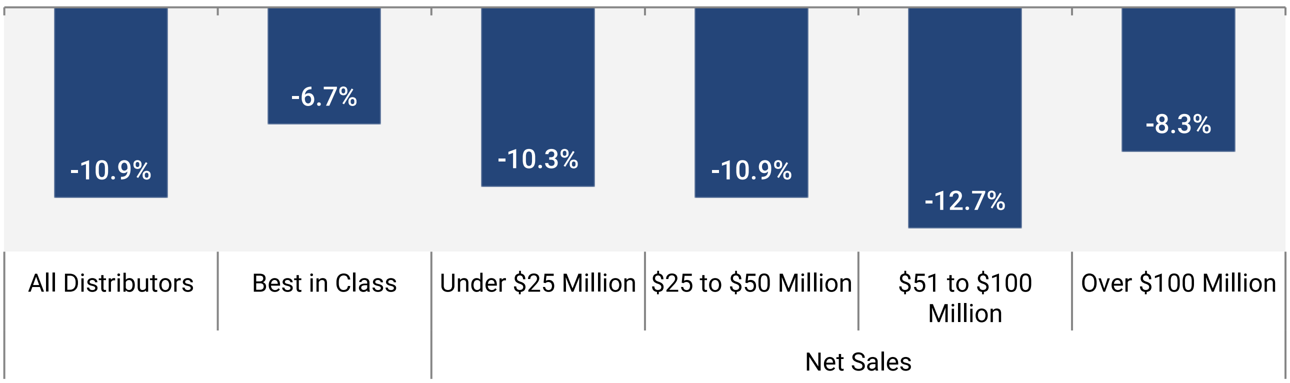
	All Distributors	Best in Class	Sales Growth Leaders	Net Sales			
				Under $25 Million	$25-$50 Million	$51-$100 Million	Over $100 Million
Net Sales ($000)							
Average	$109,135	$78,820	$81,763	$15,936	$36,545	$77,965	$420,087
Median	$39,443	$46,139	$45,768	$17,205	$36,319	$78,672	$240,029

Sales Change (2019 vs. 2018)

Monitoring sales change is important since it often drives a company's performance and ability to achieve profits. During 2019, the typical respondent reported positive sales growth of 1.5%.



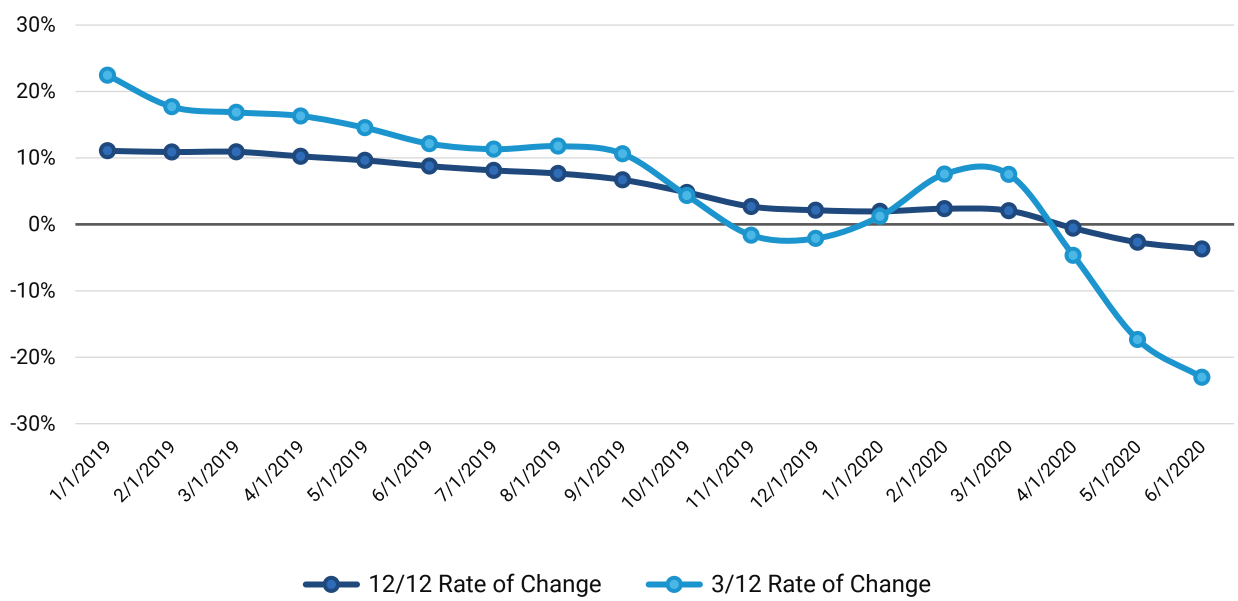
Sales Change (2020 vs. 2019)*



* The reported figures for 2020 vs. 2019 sales change are based on estimates using annualized sales data collected for the first 6 months of 2020.

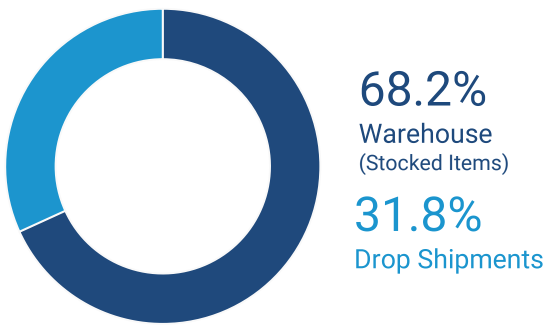
Monthly Sales Change

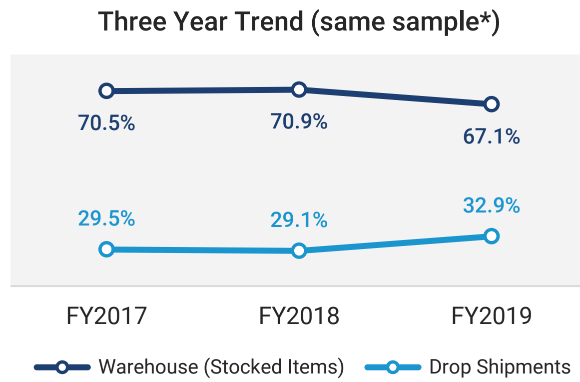
The chart below displays the percentage change of 3-month and 12-month moving sales totals versus the same period during the prior year.



Sales Path

Warehouse (stocked items) accounted for 68.2% of the average respondent's net sales, and the remainder (31.8%) were Drop Shipments.

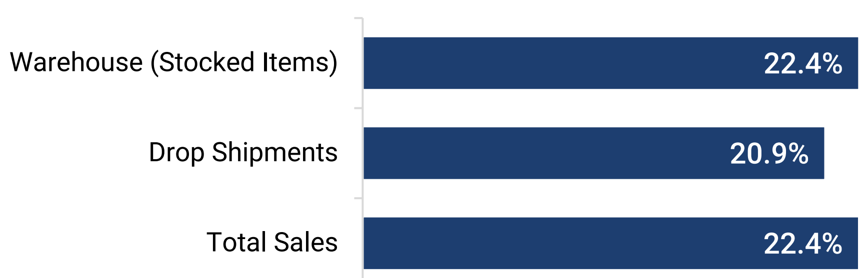




The percentage of sales from Drop Shipments varied considerably among the sales volume groupings, with the smallest distributors (under $25 million) indicating nearly double the amount of sales reported by the largest companies (those with $100 Million or more in net sales).

	All Distributors	Best in Class	Sales Growth Leaders	Net Sales			
				Under $25 Million	$25-$50 Million	$51-$100 Million	Over $100 Million
Sales							
Warehouse	68.2%	65.9%	65.7%	61.7%	62.2%	78.5%	79.5%
Drop Shipments	31.8%	34.1%	34.3%	38.3%	37.8%	21.5%	20.5%
Total Sales	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

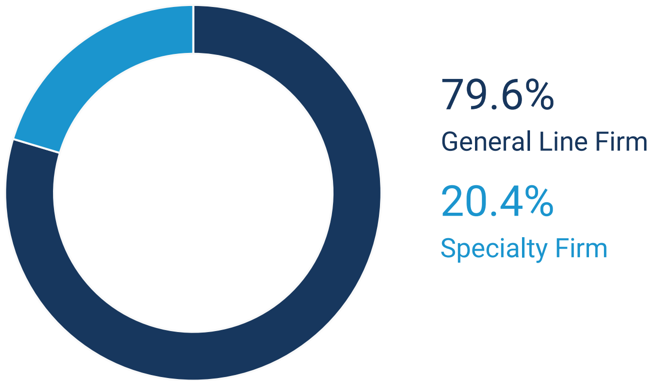
Gross Margins by Sales Type (All Respondents)



* The "same sample" is a grouping of distributors that participated in all of the past three survey cycles (covering fiscal years 2017, 2018, and 2019). Same sample data provides an "apples-to-apples" comparison that will typically be more reflective of the industry as a whole and is not skewed by sample variances.

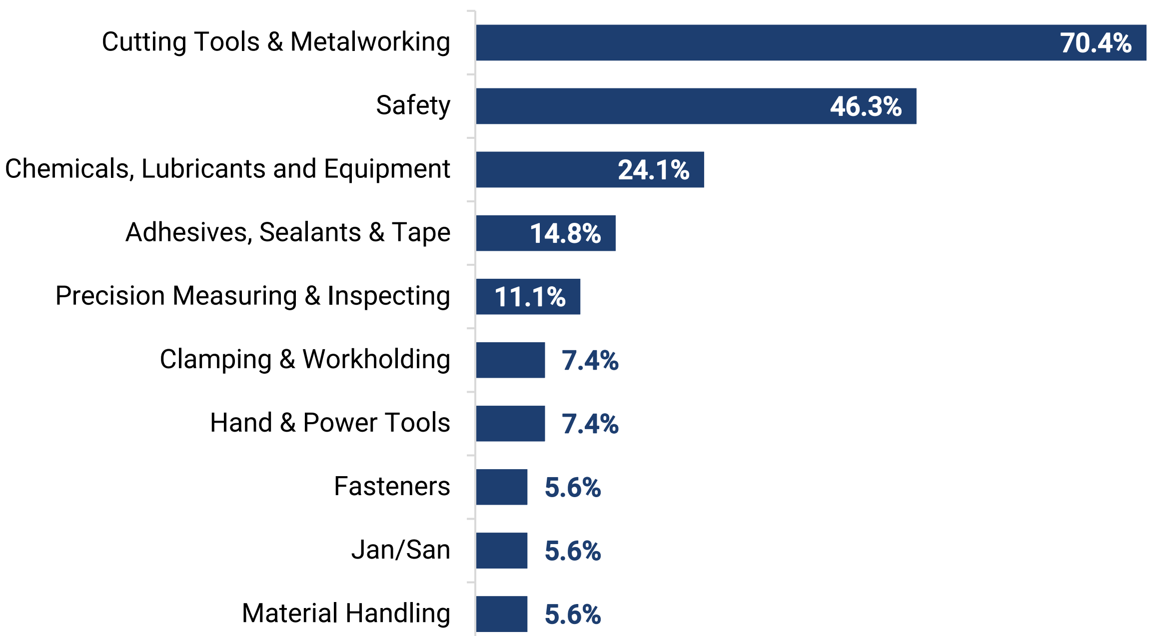
Distribution of Respondents by Line of Business

Respondents were segmented into two categories based on primary line of business. Close to 80% of respondents indicated sales are widely spread among several or more product categories. The distribution of respondents by line of business is largely consistent with the 2019 study.



General Line Firm: sales are widely spread among several or more product categories
Specialty Firm: majority of sales come from 1 or 2 product categories

Primary Product Categories[3] (Top 10)

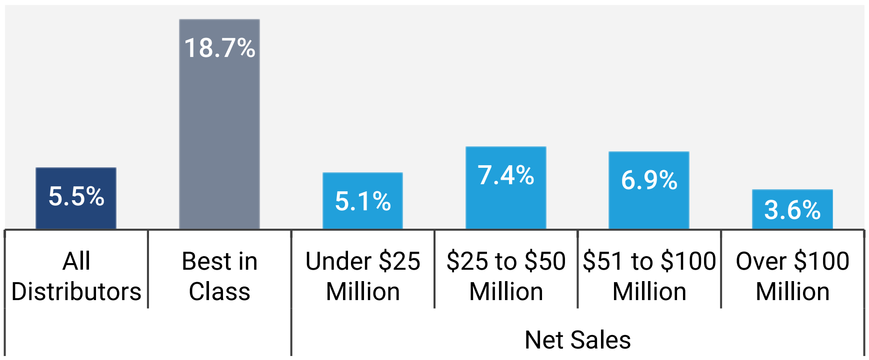


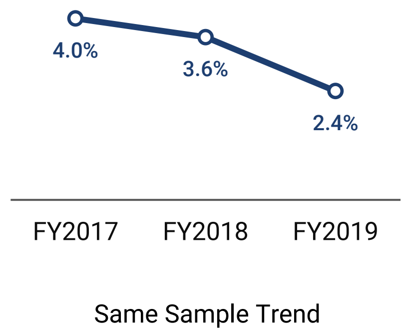
* Respondents were asked to select the top 3 products from their line.

OVERALL PROFITABILITY

Return on Assets

A good overall indicator of company profitability performance is the ratio "net profit as a percent of total assets," or "return on assets," as it is often labeled. Essentially, this provides an indication of what bottom line profit return is being earned on the dollars invested in total assets.



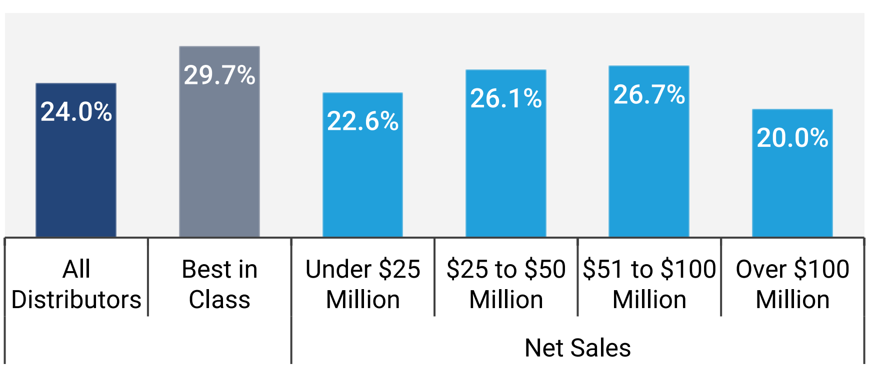


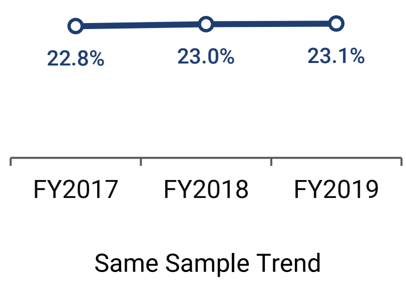
Too Low - Either revenues or net profit margin is too low to support your asset structure. Examination of your company's net profit margin and asset turnover will tell which metric is hurting you most.

Too High - No problem as a rule. You are effectively managing your business.

Average Gross Profit Margin*

Gross Margin represents profit earned after direct costs are subtracted from sales and other income generating activities. It is a useful ratio to measure your company's pricing strategy and operational efficiency.

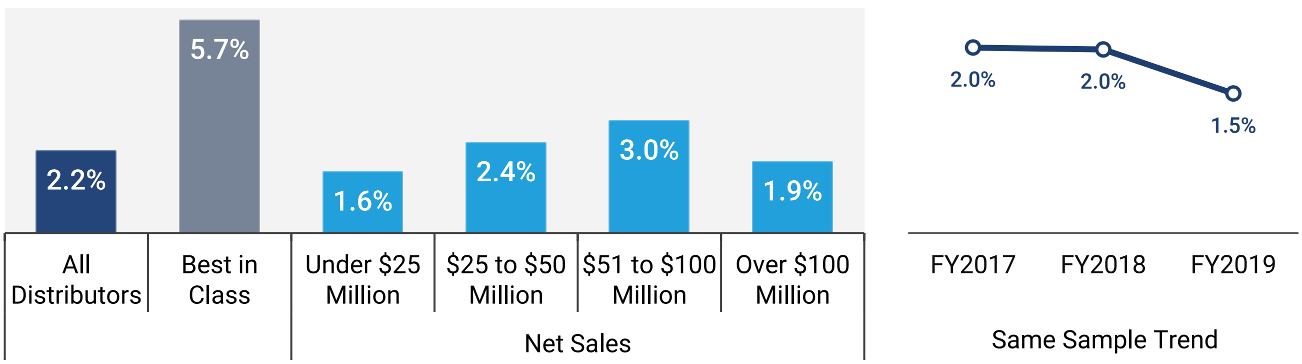




* Includes freight-in, less rebates from vendors and buying groups

Profit Margin – Before Tax

The profit before tax margin is a measure of profits earned as a percentage of sales before taxes are expensed. The High Profit Distributors, as expected, reported higher profits with a profit margin before taxes of 5.7%.

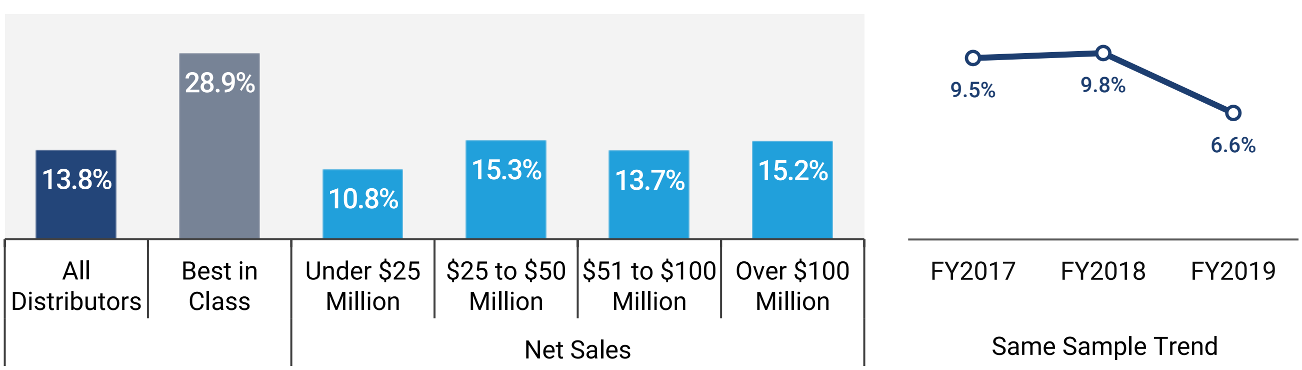


Too Low – Further investigation is warranted. Check to see if cost of goods sold is too high. If so, check all expense categories to see which need better control.

Too High – It is difficult to imagine a situation where this presents a problem, but you should know why your profit margin is so high versus your peers.

Return on Net Worth

Return on Net Worth indicates the profit earned as a percent of net worth (or owner's equity). It is determined by dividing Net Income Before Taxes by Net Worth. This ratio reflects the stockholders' ROE. A very high ratio may indicate an undercapitalized situation or conversely, a very profitable company.



Income Statement

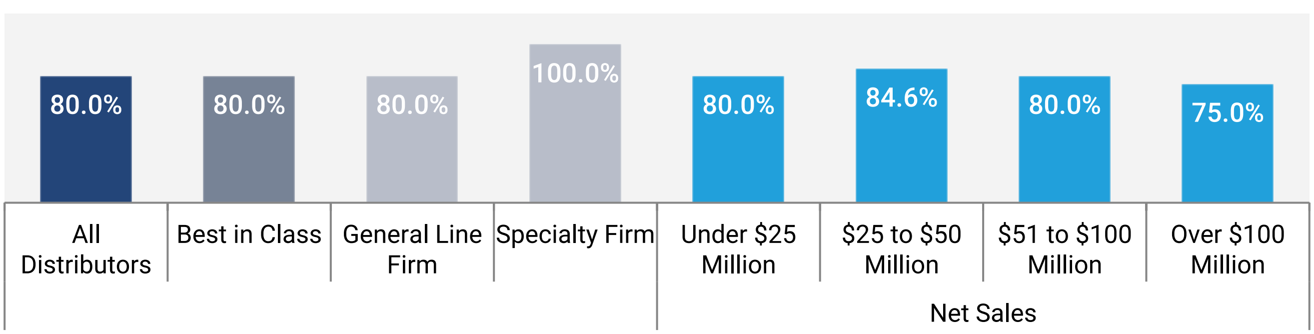
The table below provides a summary income statement for the various key aggregates.

Summary Income Statement by Key Groupings

	All Distr.	Best in Class	Company Type		Net Sales Volume			
			General Line	Specialty Firm	Under $25 Million	$25-$50 Million	$51-$100 Million	Over $100 Million
Summary Income Statement (as a % of net sales)								
Net Sales	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Cost of Goods Sold	76.0%	70.3%	75.5%	77.7%	77.4%	73.9%	73.3%	80.0%
Gross Margin	24.0%	29.7%	24.5%	22.3%	22.6%	26.1%	26.7%	20.0%
Operating Expenses:								
Sales and Marketing	7.4%	8.9%	7.9%	5.1%	5.4%	8.6%	8.7%	6.9%
Delivery	1.0%	1.3%	0.9%	1.6%	1.0%	0.8%	1.4%	1.0%
Warehouse	2.2%	1.8%	2.3%	1.6%	1.3%	2.3%	2.0%	3.3%
Occupancy	1.3%	1.2%	1.4%	1.2%	1.1%	1.6%	1.5%	1.1%
Information Technology	0.9%	0.8%	0.9%	1.0%	0.8%	0.9%	1.0%	0.9%
General & Administrative	8.7%	10.3%	8.7%	8.5%	11.5%	9.2%	7.5%	4.6%
Total Operating Expenses	21.4%	24.3%	22.0%	19.1%	21.0%	23.4%	22.0%	17.7%
Operating Profit	2.7%	5.4%	2.5%	3.2%	1.5%	2.7%	4.7%	2.3%
Interest Expense	0.6%	0.2%	0.6%	0.5%	0.5%	0.5%	0.5%	0.8%
Profit Before Taxes	2.2%	5.7%	2.2%	2.4%	1.6%	2.4%	3.0%	1.9%

*Some items may not total due to rounding

Expected 2020 Rebates* as a Percentage of 2019 Rebates



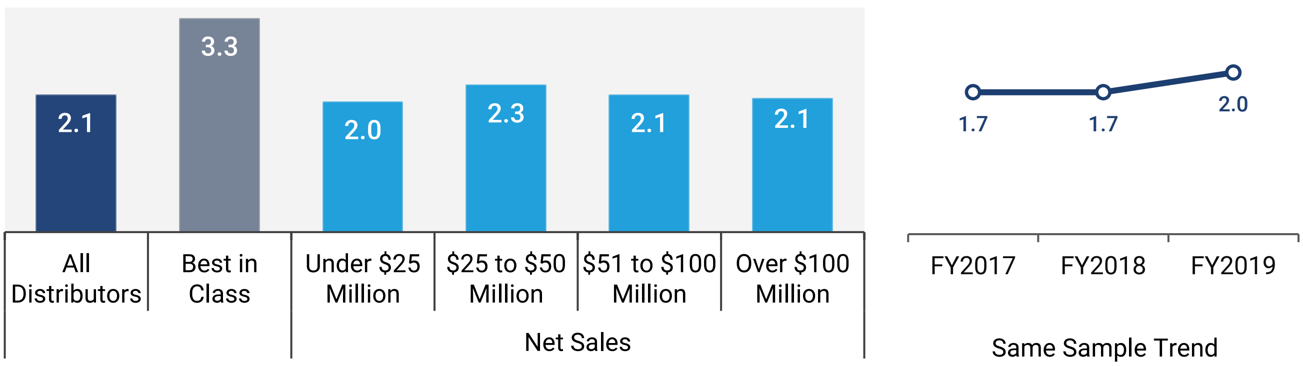
* Includes buying group rebates and all other rebates

Financial Ratios

The following ratios display some of the most important financial position and financial performance statistics. As displayed in these graphs, the typical firm achieved a current ratio (current assets / current liabilities) of 2.1 and a debt to equity metric of 1.2. Distributors turned their inventories 4.7 times during the year and achieved a GMROI figure of 139.5%.

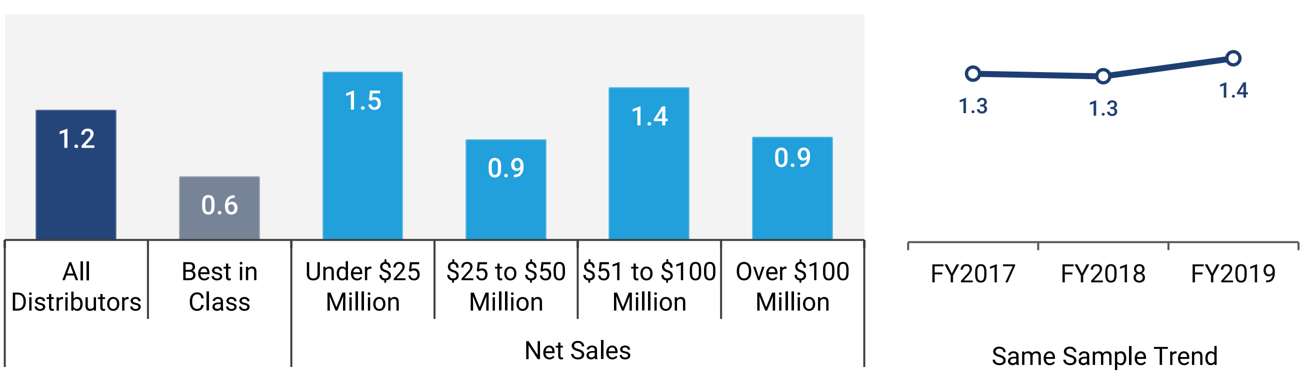
Current Ratio

Current Ratio measures a company's liquidity. It indicates a firm's ability to pay short-term debt with funds (assets) currently available. The current ratio is calculated by dividing current assets by current liabilities.



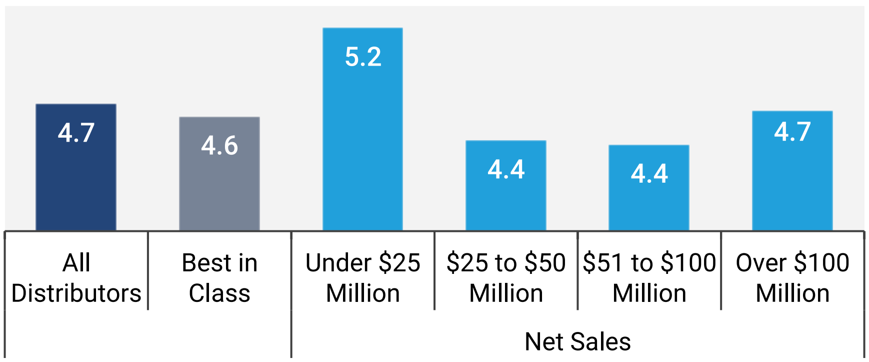
Debt to Equity

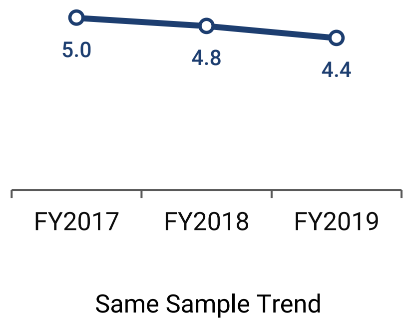
Debt to Equity is calculated by dividing total liabilities by net worth. A higher metric indicates that a higher portion of debt is being carried by the business. Debt levels are often associated with the company's position of general risk, from a purely financial perspective.



Inventory Turnover

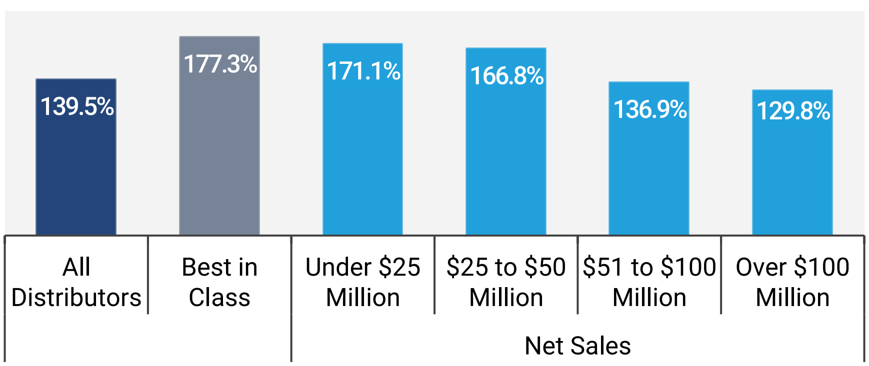
Inventory productivity is best measured by inventory turnover, defined as the cost of goods sold divided by average inventory. This ratio shows how rapidly inventory is moving. Inventory turnover is expressed as “annual turns.”

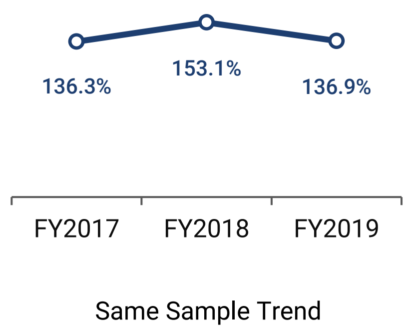




Gross Margin Return on Inventory

Gross margin return on inventory (GMROI) is an inventory profitability metric that measures the number of gross margin dollars produced by each dollar invested in inventory.

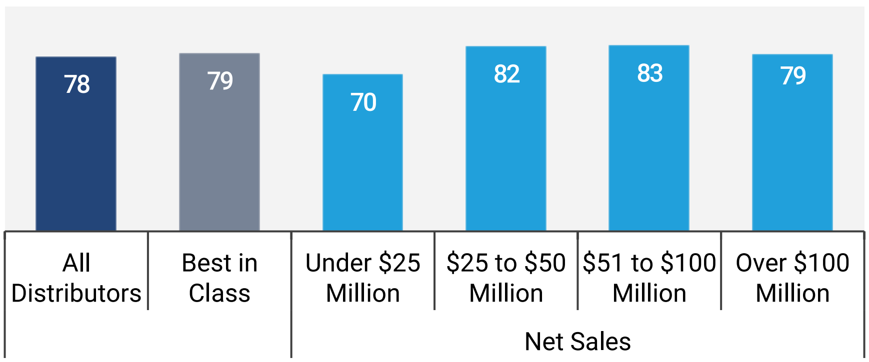


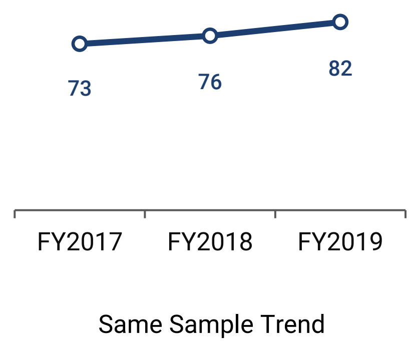


Cash Cycle Components

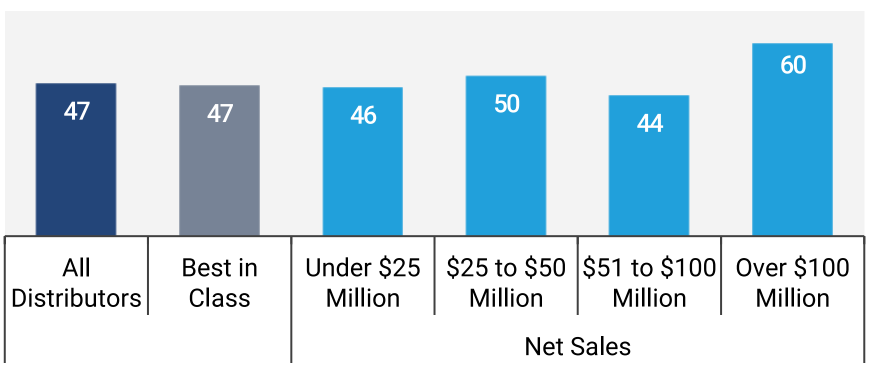
The availability of cash is a major concern for many businesses. The rate at which companies are able to flush cash through their business can make a world of difference to cash flow. The Cash Cycle metric provides a "simplistic" – yet helpful – ratio for examining the rate at which components that greatly impact cash flow work together. The cash cycle estimates the number of days between when a company pays for its inventory and when it collects on that inventory's resulting receivables. Distributors reportedly needed 108 days to cycle cash during 2019.

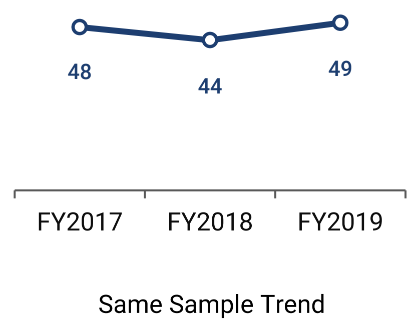
Inventory Holding Period (Days)



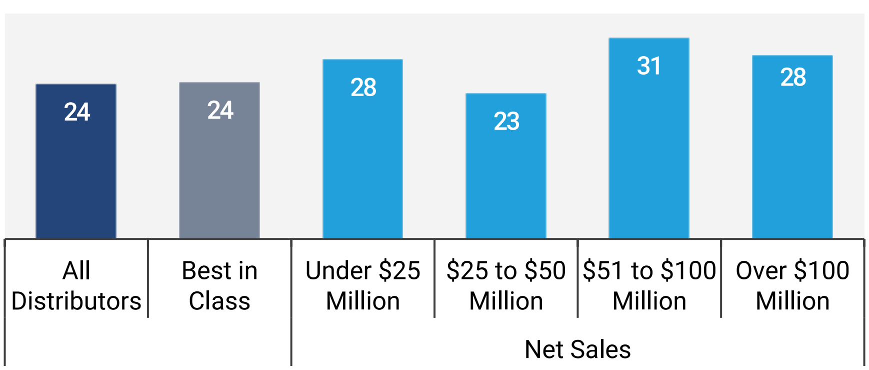


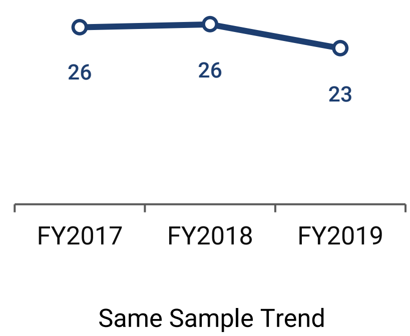
Average Collection Period (Days)



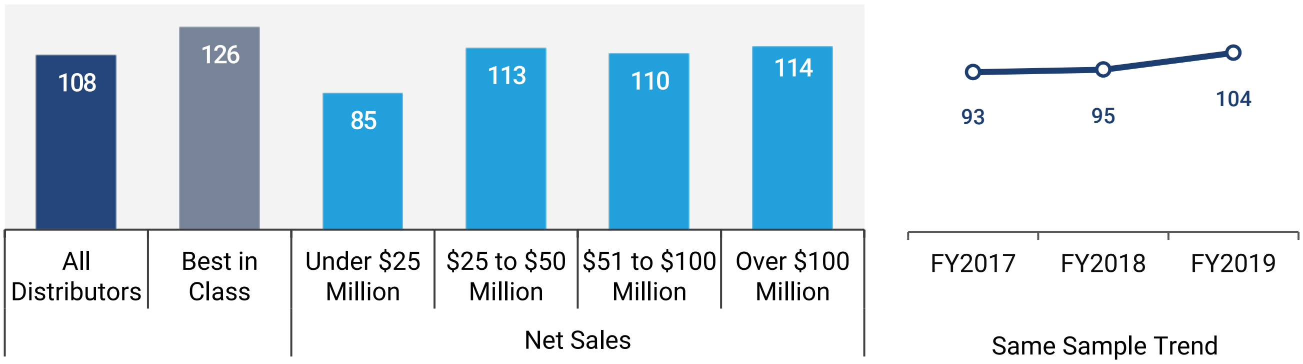


Accounts Payable Payout Period (Days)





Cash Cycle



Balance Sheet

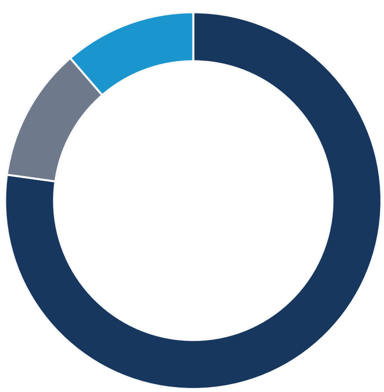
The percentage Balance Sheet provides a view of the portions of total assets that were held in each category.

FY2019 Balance Sheet (as a % of total assets)								
			Company Type		Net Sales Volume			
	All Distr.	Best in Class	General Line	Specialty Firm	Under $25 Million	$25-$50 Million	$51-$100 Million	Over $100 Million
Assets								
Cash & Marketable Securities	3.9%	6.6%	3.9%	4.2%	6.5%	2.8%	1.5%	4.4%
Accounts Rec. (trade, net)	37.3%	37.4%	35.8%	43.3%	39.9%	38.8%	35.1%	32.9%
Inventory	37.7%	37.8%	37.1%	40.1%	37.4%	38.1%	40.4%	34.6%
Other Current Assets	4.3%	3.7%	4.9%	2.2%	3.5%	3.9%	7.4%	3.4%
Total Current Assets	83.3%	85.5%	81.7%	89.7%	87.3%	83.6%	84.4%	75.3%
Net Fixed & Noncurr. Assets	16.7%	14.5%	18.4%	10.3%	12.7%	16.4%	15.6%	24.7%
Total Assets	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Liabilities and Net Worth								
Accounts Payable (trade)	18.0%	19.9%	17.9%	18.3%	23.7%	15.6%	18.6%	12.4%
Notes Payable	13.2%	4.1%	11.5%	20.0%	10.8%	12.4%	15.3%	16.6%
Other Current Liabilities	9.7%	8.7%	8.8%	12.9%	7.2%	11.7%	8.8%	10.8%
Total Current Liabilities	40.9%	32.7%	38.2%	51.2%	41.7%	39.6%	42.7%	39.8%
Long Term Liabilities	12.9%	14.6%	13.9%	9.3%	17.6%	13.3%	8.5%	9.4%
Loans from Stockholders	1.2%	1.4%	1.1%	1.7%	0.0%	1.8%	2.4%	0.7%
Net Worth or Owners Equity	45.0%	51.3%	46.9%	37.7%	40.7%	45.3%	46.4%	50.1%
Total Liab. And Net Worth	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

*Some items may not total due to rounding

Balance Sheet as of June 30, 2020 (as a % of total assets)								
			Company Type		Net Sales Volume			
	All Distr.	Best in Class	General Line	Specialty Firm	Under $25 Million	$25-$50 Million	$51-$100 Million	Over $100 Million
Assets								
Cash & Marketable Securities	7.0%	11.4%	7.0%	6.9%	11.5%	5.4%	2.7%	6.9%
Accounts Rec. (trade, net)	33.0%	34.8%	31.7%	38.9%	34.6%	34.7%	30.3%	29.9%
Inventory	37.8%	35.2%	37.5%	39.3%	35.2%	39.0%	43.6%	33.8%
Other Current Assets	4.8%	2.8%	4.8%	4.7%	5.7%	3.3%	7.6%	3.1%
Total Current Assets	82.6%	84.1%	81.0%	89.8%	86.9%	82.4%	84.2%	73.6%
Net Fixed & Noncurr. Assets	17.4%	15.9%	19.1%	10.2%	13.1%	17.6%	15.9%	26.4%
Total Assets	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Liabilities and Net Worth								
Accounts Payable (trade)	14.7%	16.7%	14.4%	15.8%	19.1%	11.7%	14.7%	12.9%
Notes Payable	13.4%	5.4%	11.8%	20.1%	11.6%	12.2%	16.2%	15.4%
Other Current Liabilities	9.4%	6.7%	9.0%	11.0%	7.3%	11.0%	7.4%	12.1%
Total Current Liabilities	37.4%	28.8%	35.2%	46.9%	38.0%	34.9%	38.4%	40.5%
Long Term Liabilities	16.0%	18.9%	17.0%	11.7%	21.8%	15.7%	11.2%	11.4%
Loans from Stockholders	2.1%	4.5%	1.2%	6.3%	0.0%	3.4%	4.5%	0.8%
Net Worth or Owners Equity	44.5%	47.8%	46.7%	35.1%	40.2%	46.1%	45.9%	47.3%
Total Liab. And Net Worth	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

Aging of Inventory (% of Total Inventory)



77.2%
0-12 Months

11.5%
12-24 Months

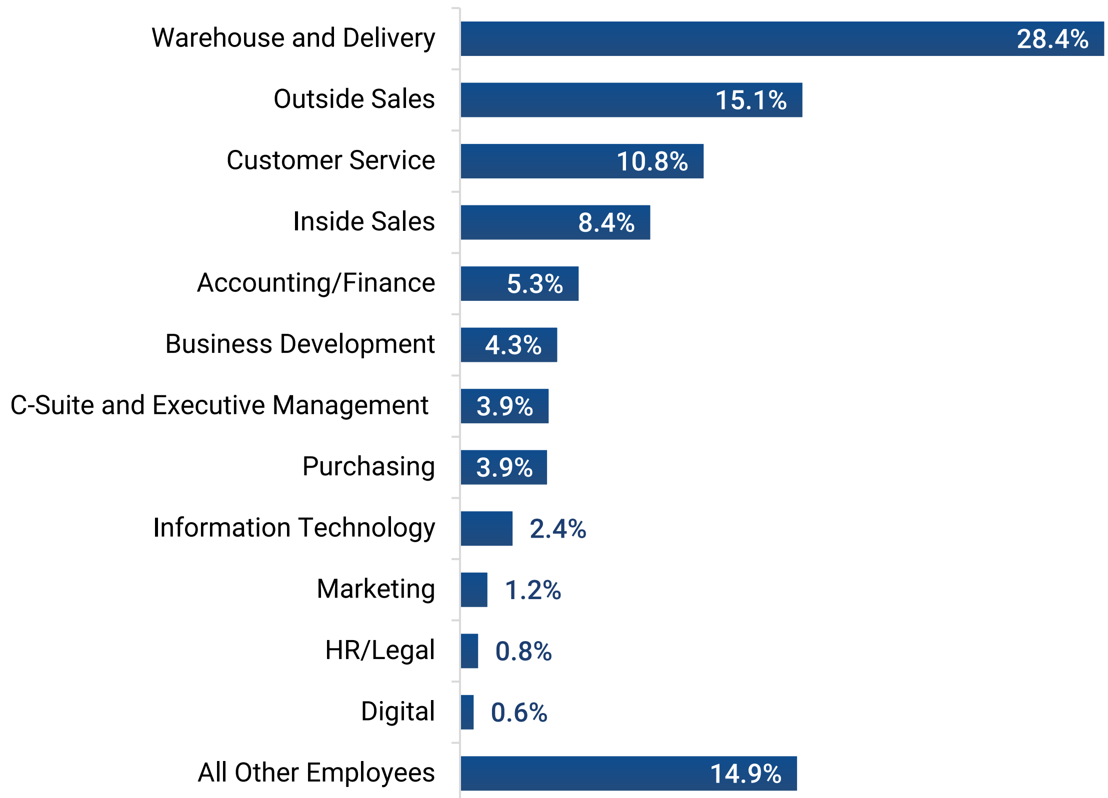
11.3%
24 Months +

Operations Metrics

	All Distr.	Best in Class	Company Type		Net Sales Volume			
			General Line	Specialty Firm	Under $25 Million	$25-$50 Million	$51-$100 Million	Over $100 Million
Stockkeeping Units								
Number of SKUs	18,166	25,000	23,536	10,695	6,125	10,390	39,162	65,000
Sales Per SKU	$2,591	$3,290	$2,377	$6,544	$1,827	$3,435	$2,143	$3,290
Inventory Per SKU	$287	$338	$260	$616	$282	$287	$243	$396
Invoices								
Invoices Filled Per Year	54,288	45,617	60,770	25,273	26,604	37,754	72,600	338,637
Drop Ship. Invoices (% of invoices)	25.8%	25.8%	28.6%	13.1%	31.7%	39.8%	21.4%	13.1%
Sales Per Invoice	$680	$566	$654	$1,563	$551	$768	$978	$683
Operating Expenses Per Invoice	$143	$126	$136	$300	$124	$153	$155	$142
Invoice Lines								
Invoice Lines/Year (whse. & Direct)	169,202	137,788	208,093	128,777	86,240	114,389	296,502	938,387
Lines Per Invoice	2.7	2.6	2.7	3.2	3.1	2.6	2.7	2.7
Sales Per Invoice Line	$249	$230	$209	$483	$150	$326	$264	$339
Operating Expense/Invoice Line	$50	$40	$43	$68	$36	$61	$68	$52
Customers								
Number of Active Customers	936	1,074	1,037	600	655	758	1,298	3,000
Sales Per Customer	$39,389	$36,339	$38,867	$60,671	$20,831	$45,019	$56,143	$42,827
Gross Margin Per Customer	$9,301	$8,749	$9,149	$11,939	$4,398	$9,711	$12,588	$9,301
Invoices Per Customer	49	28	53	39	39	52	51	67
Invoice Lines Per Customer	150	80	148	179	128	161	181	179

HUMAN RESOURCES

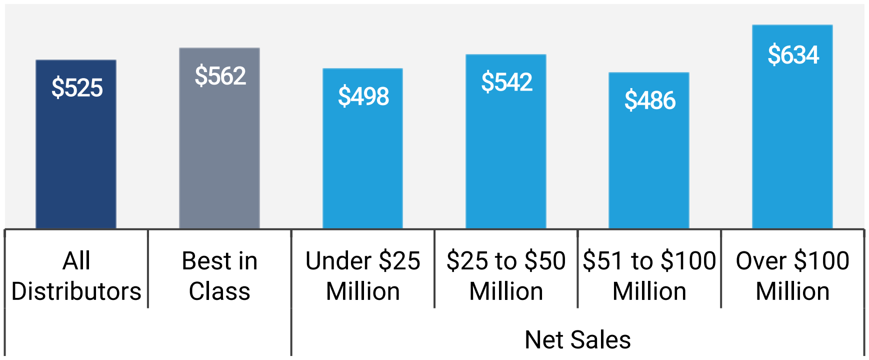
Full-time Equivalent Headcount (% of Total FTE Employees)

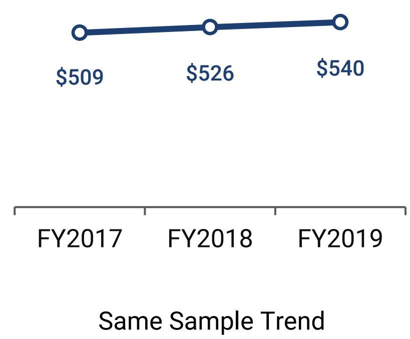


Employee Productivity

The following productivity metrics provide a measure of performance and efficiency that directly result from a company's employees. Such metrics provide insight and feedback that is critical to continuous improvement and profitability.

Sales per Employee ($000)



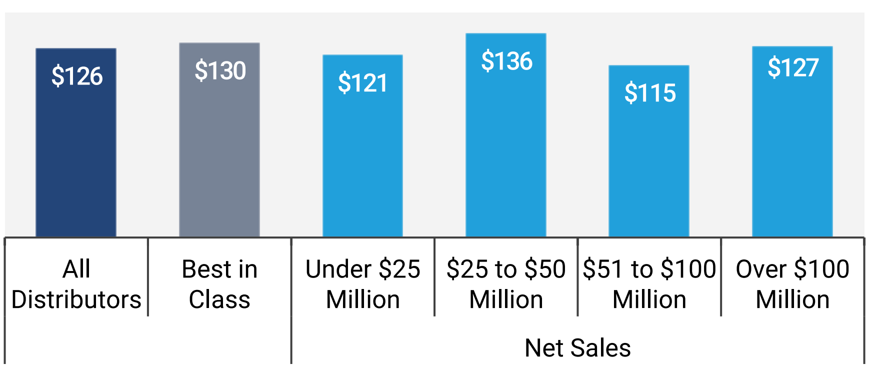


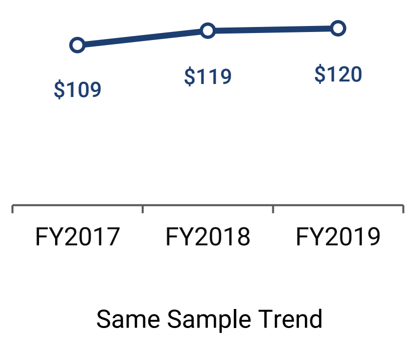
Too Low - Low personnel productivity during normal business conditions may indicate the business is too "people heavy." Consider decreasing staff size or strive to generate more volume from existing personnel.

Too High - No problem as a rule. May be artificially high if many functions are performed by outside contractors not on the payroll.

Gross Profit per Employee

A measurement of the gross margin dollars generated per full-time equivalent employee. It is determined by dividing the Annual Gross Margin by average Full-Time Equivalent Employees.





Employee Compensation Summary

	Average Number of Employees	Employee Compensation			
		Average	25th Percentile	Median	75th Percentile
FTE Employees and Compensation by Function					
C-Suite and Executive Management	5.0	$187,882	$134,914	$163,667	$205,000
Outside Sales	19.2	$95,138	$74,766	$87,351	$109,705
Inside Sales	10.7	$52,890	$42,708	$50,840	$60,000
Business Development	5.5	$58,957	$47,730	$52,333	$61,226
Customer Service	13.7	$45,084	$38,579	$42,500	$54,896
Marketing	1.6	$61,270	$47,133	$55,200	$69,332
Digital	0.8	$66,281	$50,489	$62,757	$82,500
Warehouse and Delivery	36.1	$37,548	$31,966	$36,649	$45,286
Information Technology	3.0	$70,479	$58,116	$68,043	$79,714
Purchasing	4.9	$54,660	$44,539	$50,027	$58,186
Accounting/Finance	6.7	$50,178	$40,426	$48,611	$60,100
HR/Legal	1.1	$61,553	$50,644	$58,567	$66,808
All Other Employees	18.9	$51,082	$36,315	$48,972	$59,176

Talent Recruiting

Methods Used to Recruit Talent*

Rank	Methods
1	Job Boards (Indeed, Monster, Glassdoor)
2	Employee Referrals
3	LinkedIn
4	Career Site (part of company website)
5	Other Social Media Platforms
6	Summer Internships
7	On-Campus Recruiting
8	Training Programs
9	Career Fairs
10	Online Communities (alumni blogs, discussion forums)

*Respondents were asked to select their top 3 methods

Other Methods (open-end)

Customer Referrals (2)
Employment Agency (4)
Industry Networking
Referrals - Suppliers
Referrals - Vendors
Signage
Temp for Hire
Word of Mouth

A parenthesis and number (e.g., “(2)”) indicates the frequency at which the item was listed

Recruiting Challenges* Businesses Will Face (Next 3 to 5 Years)

Rank	Recruiting Challenges
1	Career Path/Upward Mobility Expectations
2	Industry Appeal
3	Competitive Compensation/Earning Potential
4	Competitive Benefits Package
5	Geographic Appeal (location)
6	Personal Development Program Expectations
7	Our Culture vs. Candidate's Desired Culture
8	Creative Job Postings and Job Descriptions that Inspire
9	Speed to Offer Expectations
10	Effective Digital or Seamless App./Interview Process

*Respondents were asked to select their top 5 challenges

Other Challenges (open-end)

Product Knowledge
Industry Knowledge
Training/Onboarding
Working from Home Option

Talent Retention

Retention Challenges* Businesses Will Face (Next 3 to 5 Years)

Rank	Retention Challenges
1	Career Path/Upward Mobility
2	Compensation/Earning Potential
3	Aligning Work with Purpose/Fulfillment
4	Qualified Coaching/Mentoring
5	Work Flexibility (office vs. remote)
6	Company Culture
7	Work Life Balance
8	Inclusion Environment (involvement and empowerment)
9	Diversity Environment (embracing differences)

*Respondents were asked to select their top 5 challenges

Other Challenges (open-end)

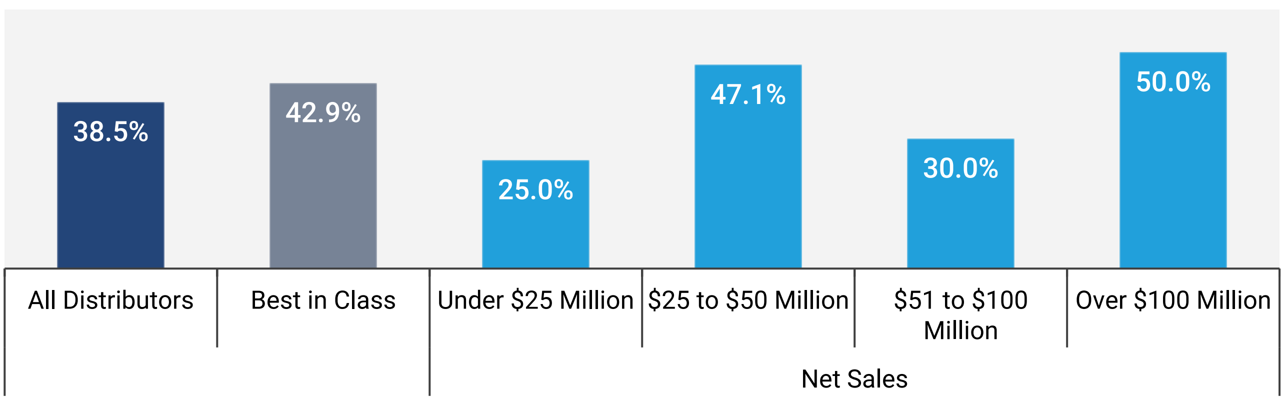
Communicating Strategy
Geographic Location
Incentives
Time Off
Training

Diversity & Inclusion

Diversity in Age and Gender

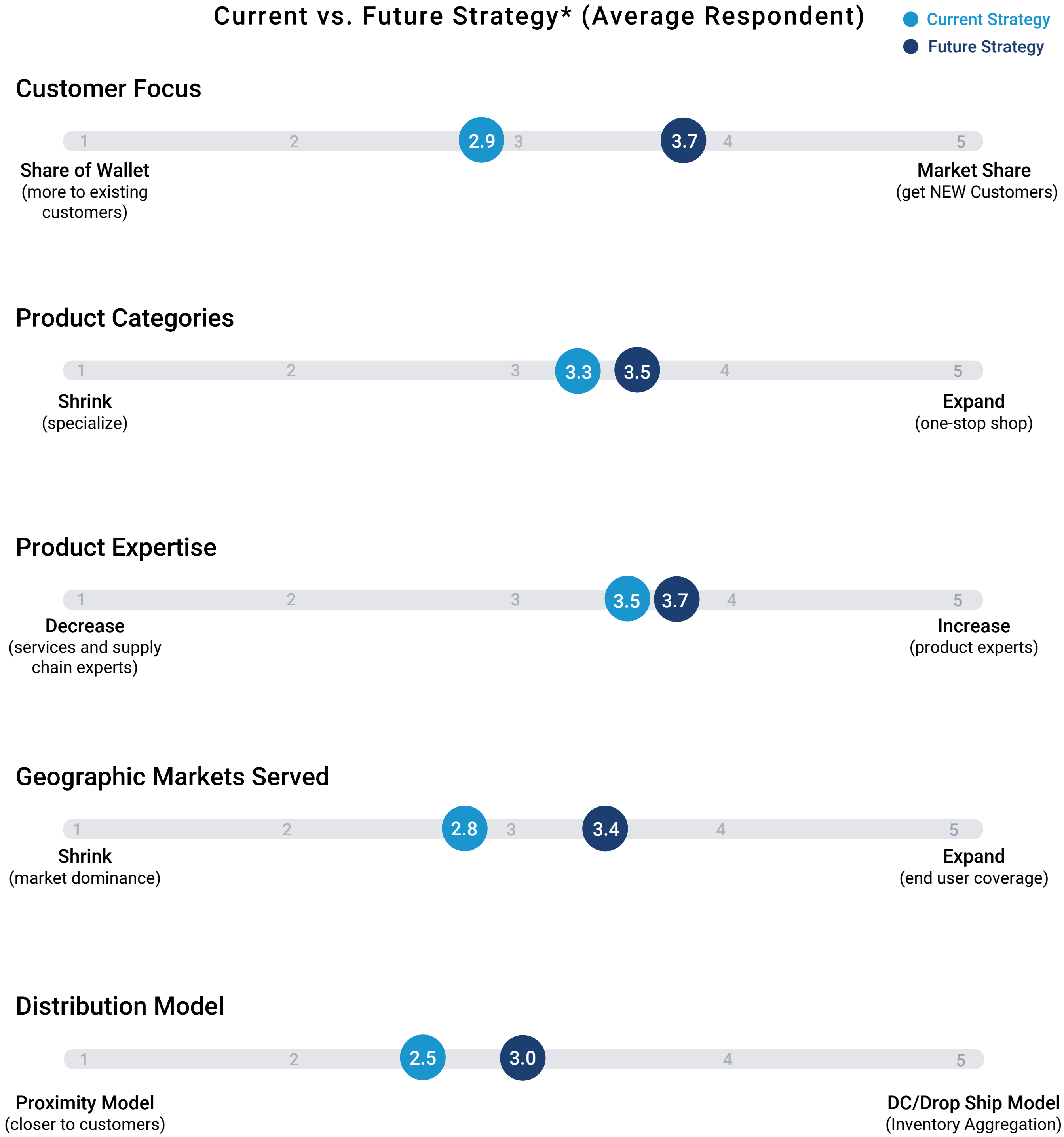
Rank	Function	Average Age	% Female
	C-Suite	53 Years	13.3%
	Middle Management	47 Years	28.0%
	Everyone Else	43 Years	33.2%

Percent of Organizations with Diversity & Inclusion Initiatives in Place



Strategy

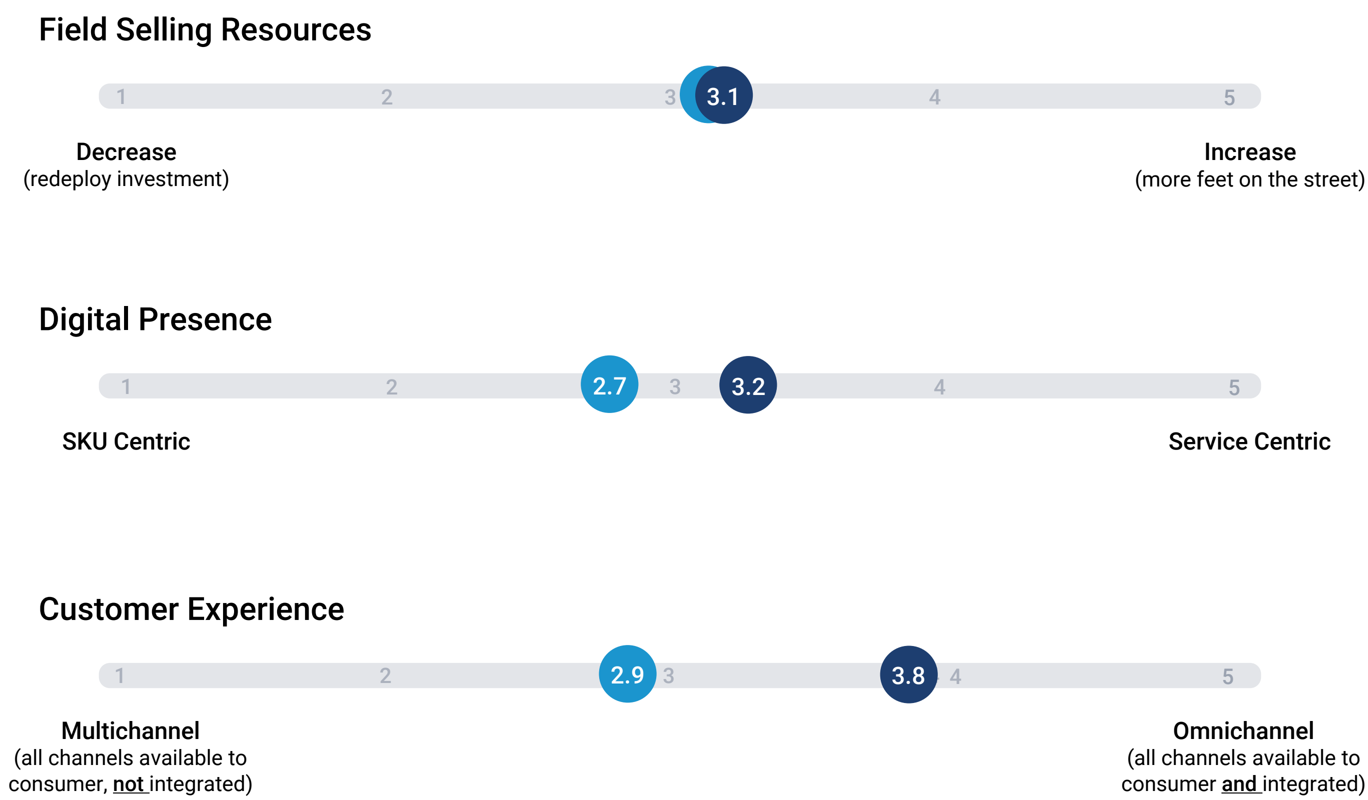
Current vs. Future Strategy* (Average Respondent)



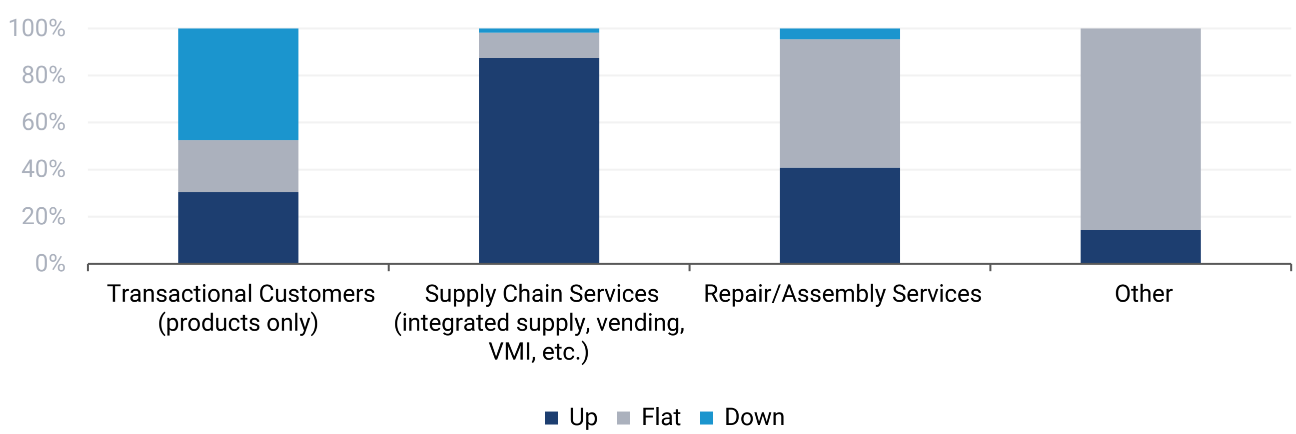
* Respondents were asked to indicate where they fall on a continuum (scale of 1 to 5) regarding their current and future strategy

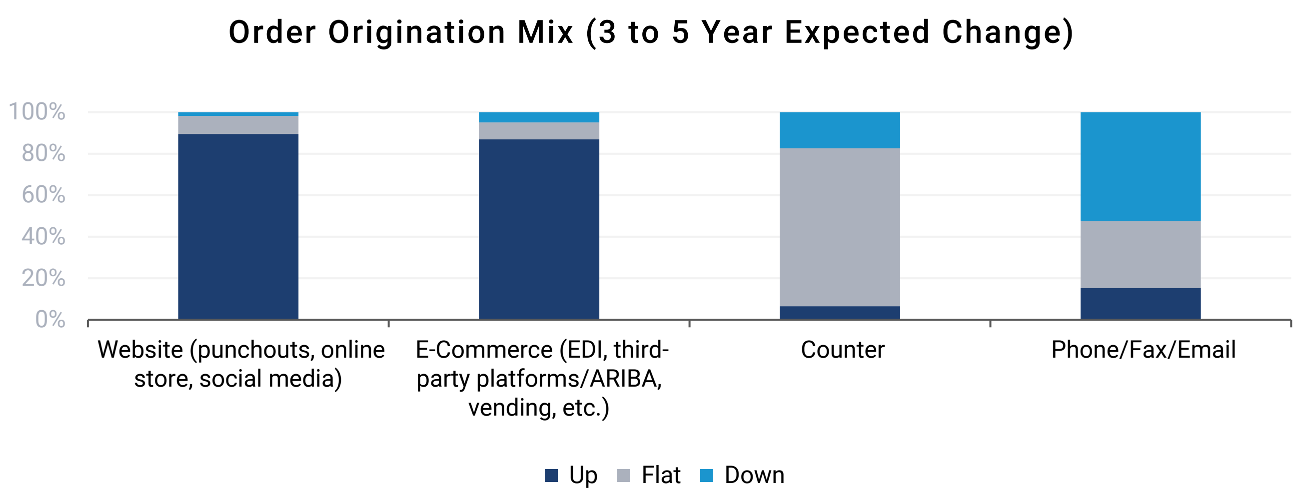
Current vs. Future Strategy (All Respondents)

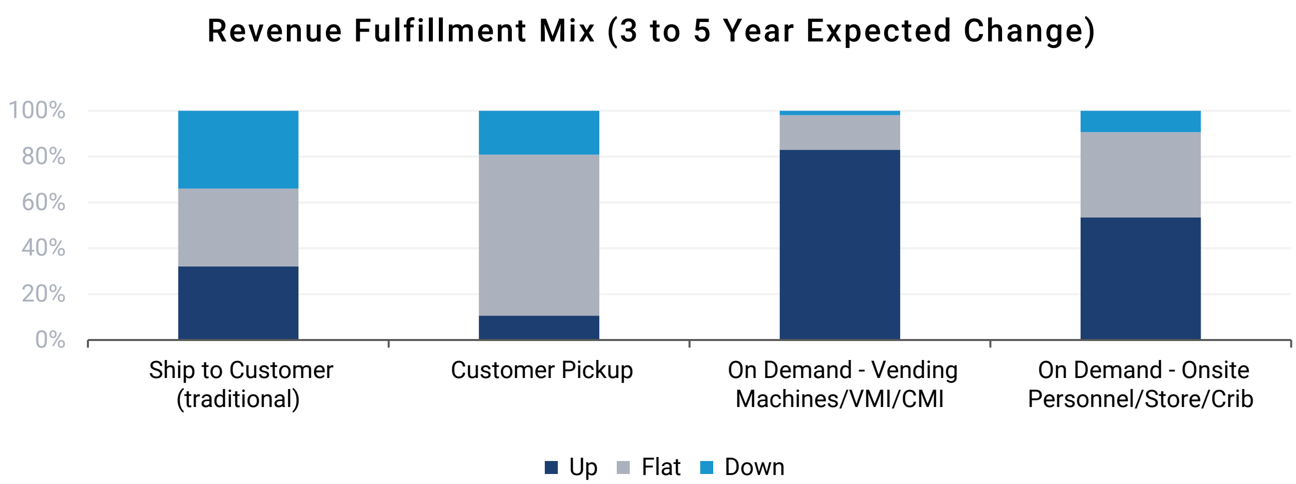
Current Strategy
Future Strategy

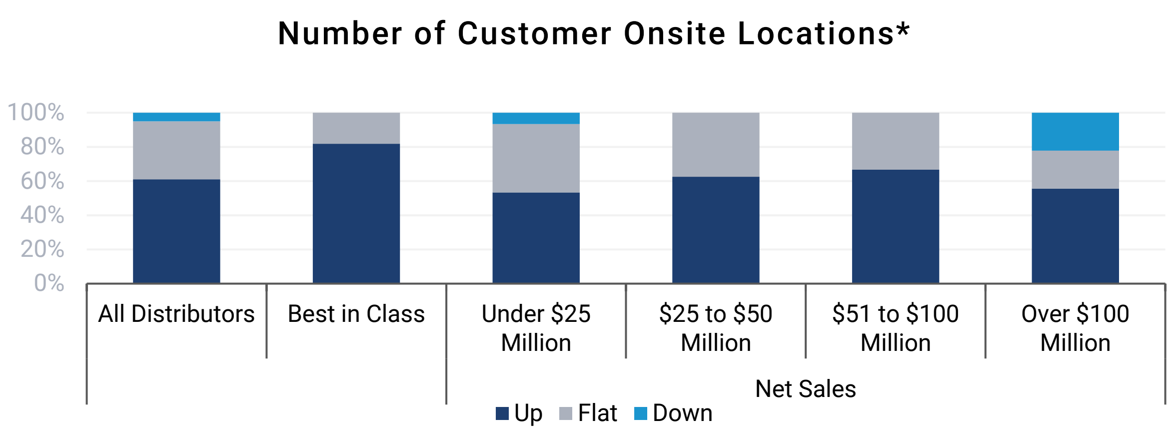


Revenue Portfolio Mix (3 to 5 Year Expected Change)









* based on ship-to – integrated supply, onsite stores, vending, excluding VMI

APPENDIX

ISA
INDUSTRIAL SUPPLY ASSOCIATION
Leading the Channel Forward

SURVEY METHODOLOGY AND DEMOGRAPHICS

In July 2020, an email was issued to ISA member distributors with a link to a strictly confidential, online questionnaire. The primary intent of this survey was to collect detailed financial, operating, and sales data from members and aggregate the information by profitability, sales volume, line of business, etc.

Once the questionnaires were received by Industry Insights, a confidential company identification code was assigned to each company. The data were then entered into a proprietary system and edited by Industry Insights' financial analysts for accuracy and consistency. In all, 67 questionnaires were received by Industry Insights. The statistical sample for the aggregates displayed in this report consists of the following:

	Number of Respondents
All Reporting Distributors	67
Best in Class	14
Sales Growth Leaders	13
Distributors by Sales Volume	
Under $25 Million	16
$25-$50 Million	18
$51-$100 Million	10
Over $100 Million	10
Line of Business	
General Line Firm	43
Specialty Firm	11

Additional data aggregations are available through ISA Distributor Analytics Portal (**www.ISADistAnalytics.com**).

The statistical information contained in this report is believed to be representative of the companies responding to the survey. All reasonable efforts were taken by Industry Insights, Inc. to assure data comparability within the limitations of accounting reporting procedures. However, the data used in this report are not necessarily based on audited financial statements and the statistical validity of any given number varies depending upon sample sizes and the amount of consistency among responses for that particular ratio. Industry Insights and ISA, therefore, make no representations or warranties with respect to the results of this study and shall not be liable to clients or anyone else for any information inaccuracies, or errors or omissions in contents, regardless of the cause of such inaccuracy, error or omission. In no event shall Industry Insights and/or ISA be liable for any consequential damages.

Key Ratio Definitions

The primary purpose of this **2020 ISA Distributor Annual Performance Report** is to provide a basis for comparing your own performance with your peers. In order to do this, it is necessary to calculate your own ratios using the same methods that were used to compute the ratios reported for ISA's Distributor Analytics. These definitions appear on the pages that follow.

Note: Those ISA members that participate in the survey automatically receive a confidential individualized **Company Performance Report.** This report presents a participant's own ratios and data already computed in a manner consistent with those appearing in the full report, which are displayed alongside the appropriate comparatives. As a result, participating firms received invaluable information about their own business performance without having to spend time and effort to make the calculations manually.

Ratio	Calculation
Accounts Payable Payout Period (days)	Accounts Payable ÷ (Purchases ÷ 365 days)
Accounts Payable to Inventory	Accounts Payable ÷ Year-end Inventory X 100
Asset Turnover	Net Sales ÷ Total Assets
Average Collection Period (days)	Accounts Receivable ÷ (Credit Sales ÷ 365 days)
Cash Cycle (days)	Avg. Collection Period + Inventory Holding Period – Accounts Payable Payout Period
Cash to Current Liabilities	Cash ÷ Current Liabilities X 100
Contribution Margin per Employee	Contribution Margin ÷ FTE Employees
Credit & Collection Expense	Credit & Collection Expense ÷ Credit Sales X 100
Current Ratio	Current Assets ÷ Current Liabilities
Debt to Equity	Total Liabilities ÷ Net Worth
EBIT to Total Assets	(Profit Before Taxes + Interest) ÷ Total Assets X 100
Financial Leverage	Total Assets ÷ Net Worth
Gross Margin	Gross Profit Dollars ÷ Net Sales
Gross Margin Return on Inventory	Gross Profit ÷ Average Inventory X 100
Gross Margin per Employee	Gross Profit Dollars ÷ Full-Time Equivalent Employees
Growth Potential Index	Profit After Taxes ÷ (Accounts Recv. + Inv. - Accounts Payable)
Inventory Holding Period (days)	365 days ÷ Inventory Turnover
Inventory Per Stockkeeping Unit	Average Inventory ÷ Number of Stockkeeping Units

Ratio	Calculation
Inventory Turnover	Warehouse Cost of Goods Sold ÷ Average Inventory
Operating Expense Percentage	Operating Expense ÷ Net Sales X 100
Payroll Expense % (% of operating exp.)	Payroll Expense ÷ Operating Expense X 100
Payroll Expense % (% of sales)	Payroll Expense ÷ Net Sales X 100
Payroll per Employee	Payroll Expenses ÷ Full-Time Equivalent Employees
Personnel Productivity Ratio	Payroll Expense ÷ Gross Profit X 100
Profit Margin	Profit Before Taxes ÷ Net Sales X 100
Quick Ratio	(Cash + Accounts Receivable) ÷ Current Liabilities
Return on Assets	Profit Before Taxes ÷ Total Assets X 100
Return on Net Worth	Profit Before Taxes ÷ Net Worth X 100
Sales Per Customer	Net Sales ÷ Number of Active Customers
Sales per Employee	Net Sales ÷ Full-Time Equivalent Employees
Sales Per Invoice	Net Sales ÷ Number of Invoices Filled
Sales Per Invoice Line	Net Sales ÷ Average Number of Lines per Invoice
Sales Per Stockkeeping Unit	Net Sales ÷ Number of Stockkeeping Units
Sales to Inventory	Warehouse Sales ÷ Average Inventory
Sales to Working Capital	Net Sales ÷ (Current Assets – Current Liabilities)
Times Interest Earned	(Profit Before Taxes + Interest) ÷ Interest

Understanding the Metrics

In using this report, it is important to prioritize time and effort by starting with the key performance metrics. As discrepancies are identified between your company's performance measures and the reported norms, further investigation will be needed as to the reasons for these discrepancies.

Profitability

While there are several ways to look at profitability, the most useful are those that compare profits to some other quantity. Perhaps the most frequently cited is net profit margin, or net profit as a percent of sales. This ratio measures the difference between a company's sales and what it spends over a period of time. It is highly dependent upon a company's pricing policy, and expense control. If gross margin (Net Sales minus Cost of Goods Sold) increases or expenses decrease as a percent of revenues, net profit margin will rise. From a benchmarking perspective, it is recommended that companies compare themselves based on profit **before income taxes,** since the amount of income taxes paid in a given year is often influenced by factors other than those involved in running the business. Net profit margin is a good overall measure of how well gross margin and expenses are being controlled.

Perhaps the best measure of overall profitability is return on investment (ROI). The two most important measures of ROI are Return on Assets (ROA) and Return on Net Worth (RONW). Return on Assets is defined as year-end profits divided by end-of-year total assets. It is an excellent indicator of the percentage return on total assets employed in the business. As is the case with net profit margin, it is recommended that you compute the metric based on profits **before taxes**.

While return on assets measures ROI from a business management standpoint, return on net worth is the best measure of return to the owners of the business. It is defined as year-end profits divided by end-of-year net worth. Return on net worth is the percentage return to the owners compared to the amount that they have currently invested in the business. Business owners are investors, and RONW provides a solid ratio for gauging their rate of return earned during the year.

Productivity

Productivity is simply the output produced compared with input expended. As a rule, the more output produced per labor hour, employee, dollar investment, or whatever the input, the more profitable a company can be. Organizations need to continually strive to improve the productivity of their principal assets. However, in order to improve your company's productivity, you first need to measure it.

Asset Productivity – (measured by Asset turnover: sales divided by total assets) presents a good overall indicator of total company productivity. The ratio tells us how many sales dollars are being generated by each dollar of assets employed in running the business.

Inventory Productivity is best measured by inventory turnover, defined as the cost of goods sold from warehoused goods (stock and special orders) divided by average inventory during the year. This ratio shows how rapidly inventory is moving. Inventory turnover is expressed as "annual turns."

Personnel Productivity can be measured in several ways. The easiest and most commonly used methods are:

Sales per Employee – a good overall measure, but subject to distortion by inflation. Always be sure to use full-time equivalents for employee counts.

Payroll Expense as a percent of Total Net Sales – complements the previous measure by adding the dimension of compensation levels instead of just number of employees. It is not distorted by inflation.

Financial Management

There are two financial management issues that should be of primary importance to all businesses – **liquidity** and **leverage**.

Liquidity represents the short-term financial strength of the firm. It is your ability to meet short-term obligations out of currently available funds. Two liquidity measures are commonly used.

Current Ratio (current assets divided by current liabilities) --This measures the extent to which fairly liquid assets (all current assets) exceeds current debt.

Quick Ratio (current assets less inventory divided by current liabilities) --This ratio eliminates inventory from the numerator (since it may not be easily converted to cash), and compares the result to current debt. Therefore, the quick ratio in this industry is often considerably lower than the current ratio.

Leverage is merely the extent to which a company is financed by debt as opposed to the owners' funds. It is the amount of liabilities in relation to the amount of net worth on the right hand side of the balance sheet. The most significant ratio of overall company leverage is Total Assets to Net Worth. The higher this ratio is, the higher the leverage. Debt to Equity (Total Liabilities divided by Net Worth) is another common measure of company leverage provided within this report. For both leverage statistics, a higher metric indicates that a higher portion of debt is being carried by the business. Debt levels are often associated with the company's position of general risk, from a purely financial perspective.

Improving Performance Based on the Overall Performance Measures

It is important to remember that while the key ratios are excellent "yardsticks" for gauging the success of your business, they must be understood, not just applied blindly. For instance, if your company's profitability is far below the reported norm, it is important to know why. Is your business really suffering or is your profitability artificially low because you are paying higher salaries? With this warning in mind, let us examine some of the key performance measures and some possible actions that can be taken if you deviate significantly from the reported average. The following are only guidelines for action and should not be considered to be specific recommendations.

Profitability

Net Profit Margin

Too Low Further investigation is warranted. Check to see if cost of goods sold is too high, given your product/sales mix. If so, check costs by product type and sales channel. Check all expense categories to see which need better control.

Too High It is difficult to imagine a situation where this presents a problem, but you should seek to understand why your net profit margin is so high.

Return on Assets

Too Low Either revenues or net profit margin is too low to support your asset structure. Examination of your company's net profit margin and asset turnover will tell which metric is hurting you most.

Too High No problem as a rule. You are effectively managing your business.

Return on Net Worth

Too Low If return on assets is sufficient, you may have more of your funds invested in the business than necessary (see Leverage under Financial Management).

Too High This is a very good situation unless the degree of leverage is too high.

Productivity

Personnel Productivity

Too Low Low personnel productivity during normal business conditions may indicate the business is too "people heavy." Consider decreasing staff size or strive to generate more volume from existing personnel.

Too High No problem as a rule. May be artificially high if many functions are performed by outside contractors not on the payroll.

Inventory Productivity

Too Low This could indicate either a lack of sales volume or an overstocked condition. Investigate your turns by product type.

Too High Excessively high inventory productivity generally means too little inventory is available and may result in shortages.

Average Collection Period

Too Low Usually is preferred unless credit policies are too restrictive and thus result in lost sales.

Too High May signal a poorly organized and managed receivables management system.

Asset Turnover

Too Low — Low asset turnover can indicate a need for more attention to the productivity of the areas previously described.

Too High — Asset turnover figures that are significantly above the reported norm, might be caused by the absence of owned fixed assets (e.g., renting your warehouse rather than owning it) or the lack of any significant amount of inventory or receivables. Check your percentage balance sheet against the industry norms for your closest peers.

Financial Management

Liquidity

Too Low — If the current and quick ratios are too low, it is possible you are operating with insufficient liquid capital. This can be dangerous if business takes a turn for the worse or a loan payment becomes due unexpectedly. Liquidity can be increased by using more long-term financing and/or by leaving more profits in the business.

Too High — If liquidity is exceptionally high, it is possibly a sign of excess inventories and receivables. Check productivity ratios for these items. Otherwise, this is no reason for concern.

Leverage

Too Low — You have excess capacity for debt should it become necessary to borrow. Although some owners do not like borrowing any more than absolutely necessary, additional debt will increase overall profitability as long as the business can earn a before tax return which exceeds the borrowing rate.

Too High — This will severely curtail your ability to attract new borrowed funds. In addition, interest charges could be strongly affecting profitability. Try to retain more profits in the business or attract new sources of equity if you wish to lower leverage.