



**LAWSON** Products



# Investor Presentation

September 2017



# Lawson Products, Inc.

## "Safe Harbor" Statement under the Securities Litigation Reform Act of 1995:

This presentation contains certain forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 that involve risks and uncertainties. The terms "may," "should," "could," "anticipate," "believe," "continues," "estimate," "expect," "intend," "objective," "plan," "potential," "project" and similar expressions are intended to identify forward-looking statements. These statements are not guarantees of future performance and involve risks, uncertainties and assumptions that are difficult to predict. These statements are based on management's current expectations, intentions or beliefs and are subject to a number of factors, assumptions and uncertainties that could cause actual results to differ materially from those described in the forward-looking statements. Factors that could cause or contribute to such differences or that might otherwise impact the business include: failure to retain a talented workforce including productive sales representatives; the inability of management to successfully implement strategic initiatives; failure to manage change; the ability to adequately fund our operating and working capital needs through cash generated from operations; the ability to meet the covenant requirements of our line of credit; disruptions of the Company's information and communication systems; the effect of general economic and market conditions; inventory obsolescence; work stoppages and other disruptions at transportation centers or shipping ports; changing customer demand and product mixes; increases in commodity prices; violations of environmental protection regulations; a negative outcome related to tax matters; and, all other factors discussed in the Company's "Risk Factors" set forth in its Annual Report on Form 10-K for the year ended December 31, 2016.

The Company undertakes no obligation to update any such factors or to publicly announce the results of any revisions to any forward-looking statements contained herein whether as a result of new information, future events or otherwise.

# Lawson Products: At a Glance

- **Leading service based provider of consumables in MRO market**
- **Serves industrial, commercial, institutional and government markets in all 50 states, Canada, Mexico, Puerto Rico and the Caribbean**
- **Headquartered in Chicago, IL**
  - Strategically located distribution centers
  - Workforce ~1,600 (~ 1,000 sales reps)
- **Supplies a comprehensive line of products to the MRO marketplace**
- **VMI and private label drives high gross margins**

## Fasteners



## Cutting Tools



## Chemicals



## Hydraulics

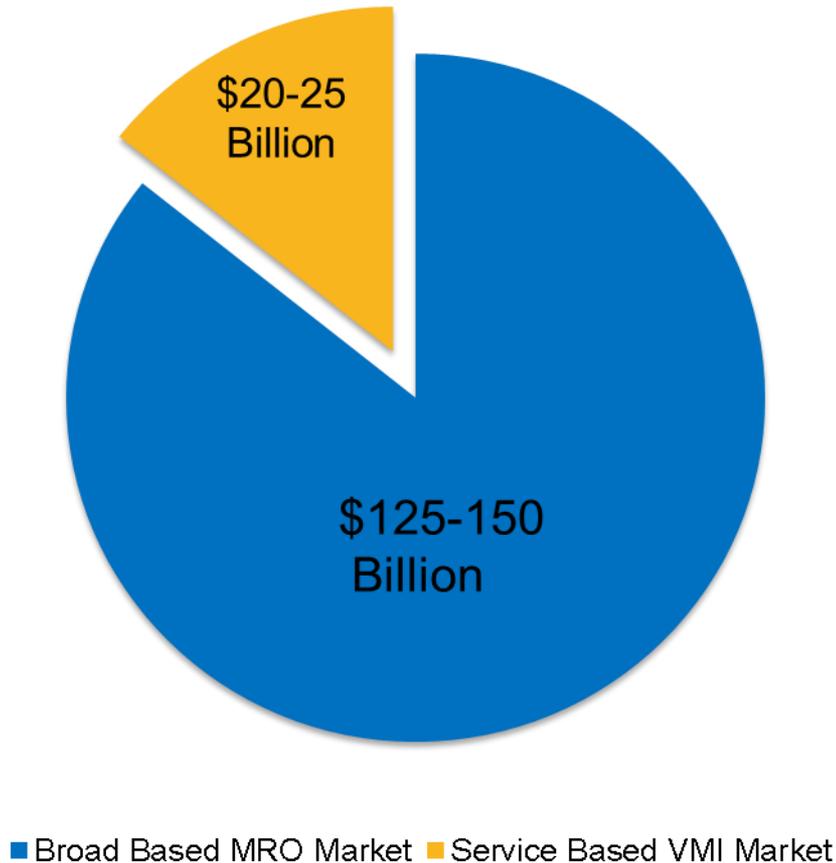


## Other



# Competitive Advantages and Differentiators

“Not the Typical MRO Distributor”



## ***What differentiates Lawson:***

- Service intensive “high touch” value proposition
- Vendor managed inventory or “keep fill”
- Deep product knowledge
- Broad geographic sales and service coverage throughout the US and Canada
- Leverage investments in sales team, facilities and technology to enable outstanding customer service
- Lowest total cost

# Our Commitment to our 70,000 Customers

High touch service and technical expertise drives customer relationships

**Before**



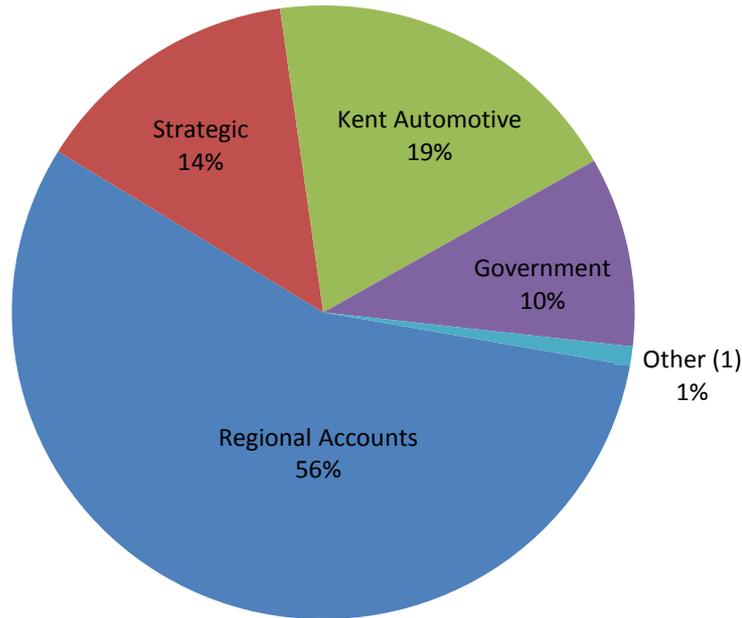
**After**



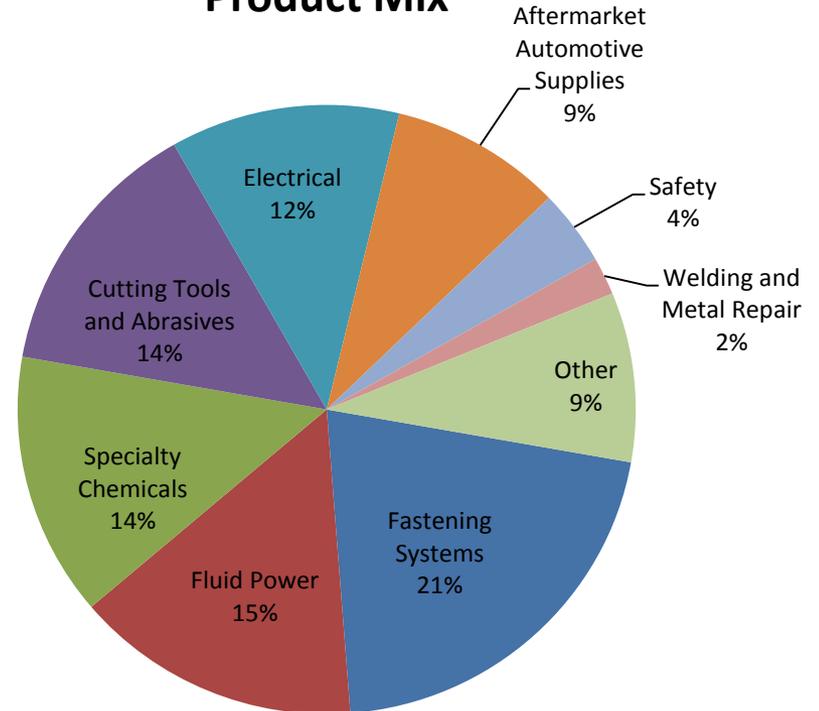
| One Company, Zero Headaches  | Inventory Management Options  | Access to Industry Knowledge & Expertise   |
|--|---|--|
| <ul style="list-style-type: none"> <li>Comprehensive line of products</li> </ul>           | <ul style="list-style-type: none"> <li>Lawson Managed Inventory</li> </ul>          | <ul style="list-style-type: none"> <li>Product recommendations from your Lawson Representative</li> </ul>    |
| <ul style="list-style-type: none"> <li>Hundreds of pre-built assortments</li> </ul>        | <ul style="list-style-type: none"> <li>Industrial vending</li> </ul>                | <ul style="list-style-type: none"> <li>Application advice from our test and application engineers</li> </ul> |
| <ul style="list-style-type: none"> <li>Unlimited sourcing of hard-to-find items</li> </ul> | <ul style="list-style-type: none"> <li>Self-service inventory management</li> </ul> | <ul style="list-style-type: none"> <li>Complimentary on-site safety &amp; product usage training</li> </ul>  |

# Customer and Product Profile

## Customer Mix



## Product Mix



(1) Other consists primarily of freight revenue offset by rebates

# Lawson Growth Strategy

## Sales Growth Driven By

*Add New  
Sales  
Reps*

*Drive Sales  
Rep  
Productivity*

*Acquisitions*

*Foundational Support*

ERP

Network  
Optimization

Sales  
Transformation

Lean Six  
Sigma

Website

# 2017 Focus: Actions Across the Value Chain Driving Growth

## Add New Sales Reps and Drive Rep Productivity



### Sales Process / Sales Reps

- Increase sales rep count
- Onboarding process/training
- Sales Management dashboard
- EDI with customers

### Customer Service / Order Entry

- Reduction of cycle times
- Order pad
- Consolidation of shipments
- Sales service reps

### Product Management / Pricing

- Leverage vendor drop-ship programs
- Fleet maintenance focus
- Pricing enhancements
- Website

### DC Operations

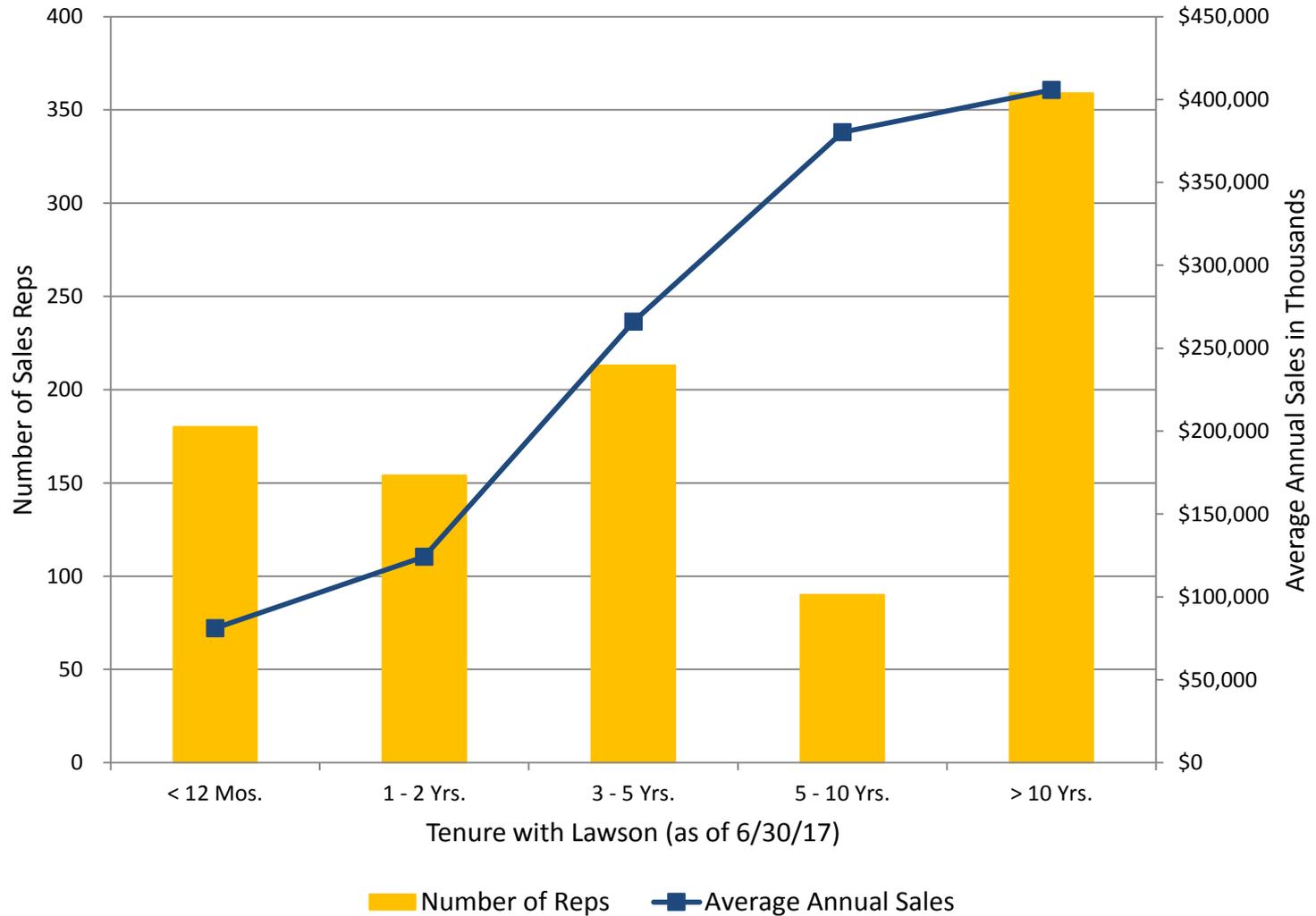
- Reduce cycle time
- Refine "Pull" strategy
- Freight enhancements
- Minimize backorders
- Improve service levels
- Forecasting tool

### Sourcing / Purchasing

- Supplier negotiation process
- Vendor metrics
- Electronic communication

Information Technology – Integration of Web and SAP  
Lean Six Sigma

# Longer Sales Rep Tenure Drives Rep Productivity



# Financial Highlights for Second Quarter 2017

- **Sales increased 8.2% YOY**
- **Strong gross margins** – Consistently over 60%
- **Adjusted EBITDA margin improving**
  - ✓ 6.0% in Q2 2017 v. 4.2% in Q2 2016 and 3.8% in Q1 2017
  - ✓ Continued investment in new sales reps
  - ✓ Cost control measures in place
- **Continued expansion through acquisitions**
  - ✓ Three acquisitions completed in 2016
  - ✓ Contributed 1.3% of the increase in Q2 2017 sales YOY
- **Strong balance sheet**
  - ✓ Available cash of \$11 million at the end of Q2
  - ✓ Significant capital investments completed to support growth
  - ✓ \$40 million credit facility in place

# Lawson Products: Poised for Growth

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- **Foundational Investments Completed**
- **Operational Excellence**
- **Leverage Current Infrastructure**
- **Continued Sales Force Expansion**
- **Large Fragmented Market**

# For More Information

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## Contact:

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**Investor Relations**

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**And see our Website at**

**<http://www.lawsonproducts.com/company-info/investor-relations.jsp>**

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# Appendices

# Significant Activities

|                |  |
|----------------|--|
| August 2011    | ➤ Implemented SAP  |
| October 2011   | ➤ Commenced construction of new McCook, Ill distribution center  |
| May 2012       | ➤ Relocated corporate headquarters   |
| June 2012      | ➤ Restructured senior team. Announced \$20M cost savings plan  |
| August 2012    | ➤ Transitioned packaging facility to McCook, Ill distribution center<br>➤ Entered into new five-year \$40M credit facility |
| October 2012   | ➤ Announced new CEO and President, Michael G. DeCata<br>➤ Consolidated Vernon Hills distribution center into McCook, Ill   |
| November 2012  | ➤ Rolled out new website to existing web customers   |
| December 2012  | ➤ Completed transition of U.S. independent agents to employees   |
| April 2013     | ➤ Roll-out of new website to new web customers   |
| April/May 2013 | ➤ McCook DC begins to ship customer orders   |
| November 2013  | ➤ Entered into sub-lease of headquarters space to generate \$2.9M of future cash savings                                   |
| December 2013  | ➤ Ended year with over 800 sales reps – First increase in 8 years  |
| February 2014  | ➤ Closed on Automatic Screw Machine Products sale for net proceeds of \$12.1M  |
| June 2014      | ➤ Entered into sale-leaseback of Reno distribution facility for net proceeds of \$8.3M                                     |
| December 2014  | ➤ Ended year with over 900 sales reps  |
| February 2015  | ➤ Held North American sales meeting  |
| September 2015 | ➤ Completed West Coast Fasteners acquisition   |
| March 2016     | ➤ Completed Perfect Products of Michigan acquisition   |
| May 2016       | ➤ Completed F. B. Feeny acquisition  |
| June 2016      | ➤ Expanded sales team to over 1,000 sales reps   |
| September 2016 | ➤ Extended credit facility to August, 2020   |
| November 2016  | ➤ Completed Mattic Industries acquisition  |
| March 2017     | ➤ Consolidated Fairfield, NJ distribution operations into McCook, Ill and Suwanee, GA                                      |
| May 2017       | ➤ Sold Fairfield, NJ distribution center for a gain of \$5.4M  |

# Regulation G – GAAP Reconciliation

## Non GAAP Reconciliation of Adjusted EBITDA to Sales Percentage

The Company reports its financial results in accordance with U.S. generally accepted accounting principles (GAAP). However, the Company's management believes that certain non-GAAP financial measures may provide users of this financial information additional meaningful comparisons between current results and results in prior operating periods. Management believes that these non-GAAP financial measures can provide additional meaningful reflection of underlying trends of the business because they provide a comparison of historical information that excludes certain non-operational, non-recurring or intermittently recurring items that impact the overall comparability. See the table below for supplemental financial data and corresponding reconciliations to GAAP financial measures for quarterly adjusted EBITDA as a percentage of net sales. Non-GAAP financial measures should be viewed in addition to, and not as an alternative for, the Company's reported results prepared in accordance with GAAP.

| (\$ in thousands)                   | <u>Q2 2015</u> | <u>Q3 2015</u> | <u>Q4 2015</u> | <u>Q1 2016</u> | <u>Q2 2016</u> | <u>Q3 2016</u> | <u>Q4 2016</u> | <u>Q1 2017</u> | <u>Q2 2017</u> |
|-------------------------------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|
| Net Sales                           | \$ 70,726      | \$ 70,243      | \$ 64,961      | \$ 69,711      | \$ 69,348      | \$ 70,199      | \$ 67,315      | \$ 74,617      | \$ 75,006      |
| Operating Income (Loss)             | 3,243          | 2,810          | (2,985)        | 1,169          | 29             | 2,389          | (5,044)        | 712            | 7,891          |
| Depreciation & Amortization         | 2,126          | 2,119          | 2,202          | 2,187          | 2,226          | 1,973          | 1,680          | 1,705          | 1,644          |
| EBITDA                              | 5,369          | 4,929          | (783)          | 3,356          | 2,255          | 4,362          | (3,364)        | 2,417          | 9,535          |
| <u>Excluded Costs</u>               |                |                |                |                |                |                |                |                |                |
| Severance                           | 50             | 372            | 280            | 204            | 143            | 367            | 1,662          | 465            | (9)            |
| Stock Based Compensation (Benefit)  | 971            | (30)           | 1,693          | (1,217)        | 515            | (630)          | 3,801          | (30)           | 415            |
| Loss/(Gain) on Disposal of Property | -              | (2)            | 9              | -              | -              | -              | -              | -              | (5,422)        |
| Remediation expense                 | -              | -              | 931            | -              | -              | -              | -              | -              | -              |
| Adjusted EBITDA                     | \$ 6,390       | \$ 5,269       | \$ 2,130       | \$ 2,343       | \$ 2,913       | \$ 4,099       | \$ 2,099       | \$ 2,852       | \$ 4,519       |
| <i>Adjusted EBITDA % of Sales</i>   | 9.0%           | 7.5%           | 3.3%           | 3.4%           | 4.2%           | 5.8%           | 3.1%           | 3.8%           | 6.0%           |

# Quarterly Results

Appendix P-3

(Dollars in thousands)  
Three Months Ended

|  | Jun. 30<br>2017 | Mar. 31<br>2017 | Dec. 31<br>2016   | Sep. 30<br>2016 | Jun. 30<br>2016 |
|--|-----------------|-----------------|-------------------|-----------------|-----------------|
| Number of business days                    | 64              | 64              | 60                | 64              | 64              |
| Average daily net sales                    | \$ 1,172        | \$ 1,166        | \$ 1,122          | \$ 1,097        | \$ 1,084        |
| Sequential quarter increase (decrease)     | 0.5%            | 3.9%            | 2.3%              | 1.2 %           | (0.5)%          |
| Average active sales rep. count            | 981             | 990             | 1,007             | 1,007           | 981             |
| Period-end active sales rep. count         | 987             | 979             | 1,009             | 1,006           | 1,020           |
| Sales per rep. per day                     | \$ 1.195        | \$ 1.178        | \$ 1.114          | \$ 1.089        | \$ 1.105        |
| Sequential quarter increase (decrease)     | 1.4%            | 5.7%            | 2.3%              | (1.4)%          | (3.7)%          |
| Net sales                                  | \$ 75,006       | \$ 74,617       | \$ 67,315         | \$ 70,199       | \$ 69,348       |
| Gross profit                               | 45,141          | 44,879          | 40,504            | 42,573          | 42,526          |
| Gross profit percentage                    | 60.2%           | 60.1%           | 60.2%             | 60.6%           | 61.3%           |
| Selling, general & administrative expenses | \$ 42,672       | \$ 44,167       | \$ 45,548         | \$ 40,184       | \$ 42,497       |
| Gain on sale of property                   | (5,422)         | —               | —                 | —               | —               |
|  | <u>37,250</u>   | <u>44,167</u>   | <u>45,548</u>     | <u>40,184</u>   | <u>42,497</u>   |
| Operating income (loss)                    | <u>\$ 7,891</u> | <u>\$ 712</u>   | <u>\$ (5,044)</u> | <u>\$ 2,389</u> | <u>\$ 29</u>    |

# Consolidated Balance Sheet

|  | June 30,<br>2017  | December 31,<br>2016 |
|--|-------------------|----------------------|
| <b>ASSETS</b>  |                   |                      |
| <b>Current assets:</b>                                     |                   |                      |
| Cash and cash equivalents                                  | \$ 11,123         | \$ 10,421            |
| Restricted cash  | 800               | 800                  |
| Accounts receivable, less allowance for doubtful accounts  | 35,017            | 30,200               |
| Inventories, net   | 42,373            | 42,561               |
| Miscellaneous receivables and prepaid expenses             | 3,492             | 3,788                |
| <b>Total current assets</b>                                | <b>92,805</b>     | <b>87,770</b>        |
| Property, plant and equipment, net                         | 27,547            | 30,907               |
| Cash value of life insurance                               | 10,443            | 10,051               |
| Goodwill   | 5,681             | 5,520                |
| Deferred income taxes                                      | 20                | 20                   |
| Other assets   | 934               | 1,039                |
| <b>Total assets</b>  | <b>\$ 137,430</b> | <b>\$ 135,307</b>    |
| <b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>                |                   |                      |
| <b>Current liabilities:</b>                                |                   |                      |
| Revolving line of credit                                   | \$ —              | \$ 841               |
| Accounts payable   | 7,206             | 11,307               |
| Accrued expenses and other liabilities                     | 26,050            | 27,289               |
| <b>Total current liabilities</b>                           | <b>33,256</b>     | <b>39,437</b>        |
| Security bonus plan  | 13,427            | 14,216               |
| Financing lease obligation                                 | 6,998             | 7,543                |
| Deferred compensation                                      | 5,026             | 4,830                |
| Deferred rent liability                                    | 3,637             | 3,676                |
| Other liabilities  | 4,388             | 4,472                |
| <b>Total liabilities</b>                                   | <b>66,732</b>     | <b>74,174</b>        |
| <b>Stockholders' equity:</b>                               |                   |                      |
| Preferred stock, \$1 par value:                            |                   |                      |
| Authorized - 500,000 shares, issued and outstanding — None | —                 | —                    |
| Common stock, \$1 par value:                               |                   |                      |
| Authorized - 35,000,000 shares                             |                   |                      |
| Issued - 8,907,639 and 8,864,929 shares, respectively      |                   |                      |
| Outstanding - 8,874,365 and 8,832,623 shares, respectively | 8,908             | 8,865                |
| Capital in excess of par value                             | 11,843            | 11,055               |
| Retained earnings  | 49,895            | 41,943               |
| Treasury stock – 33,274 and 32,306 shares, respectively    | (711)             | (691)                |
| Accumulated other comprehensive income (loss)              | 763               | (39)                 |
| <b>Total stockholders' equity</b>                          | <b>70,698</b>     | <b>61,133</b>        |
| <b>Total liabilities and stockholders' equity</b>          | <b>\$ 137,430</b> | <b>\$ 135,307</b>    |