



LAWSON Products



Investor Presentation

Second Quarter 2018

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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, 2017.

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

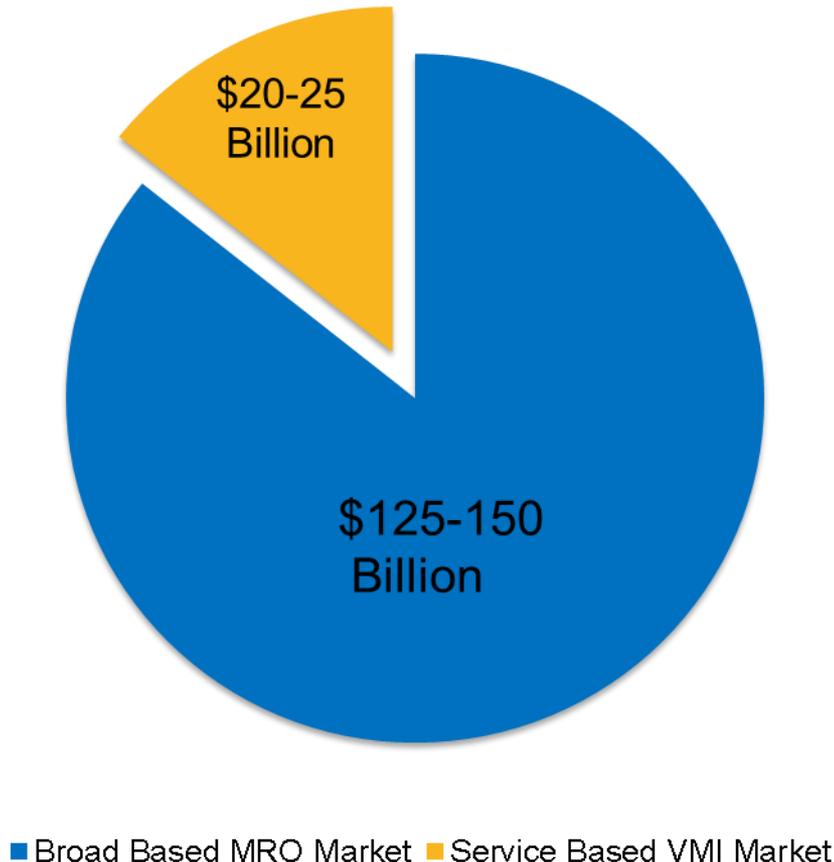


Other



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



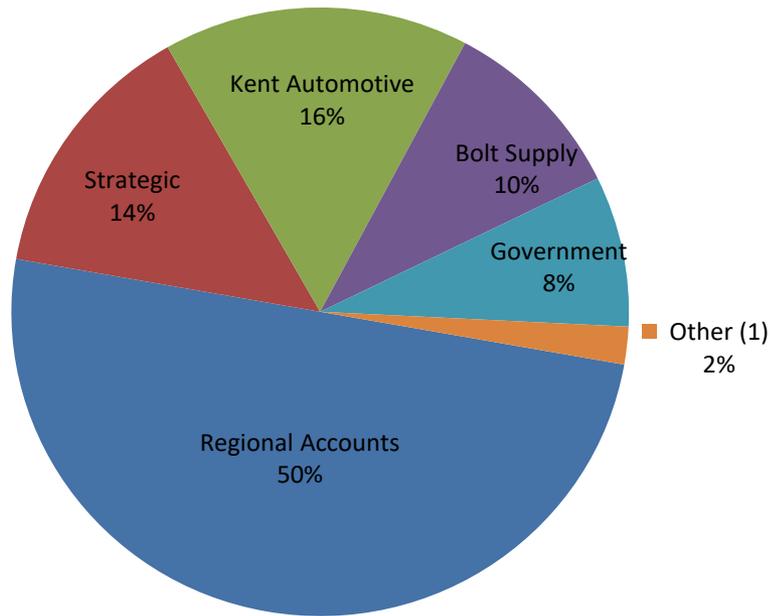
After



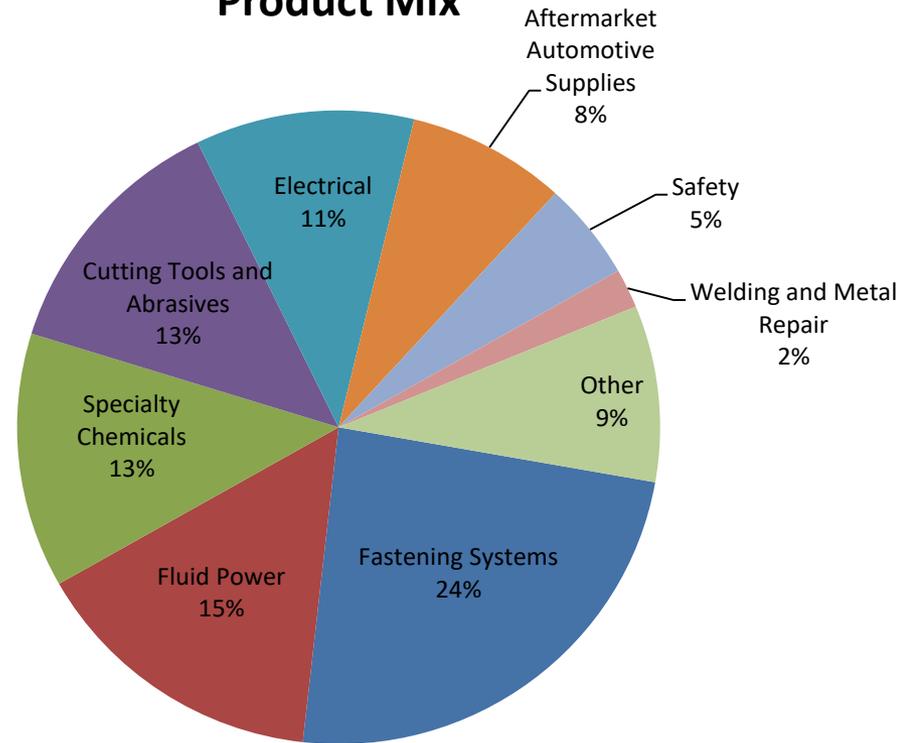
One Company, Zero Headaches	Inventory Management Options	Access to Industry Knowledge & Expertise
<ul style="list-style-type: none"> Comprehensive line of products 	<ul style="list-style-type: none"> Lawson Managed Inventory 	<ul style="list-style-type: none"> Product recommendations from your Lawson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

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

2018 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

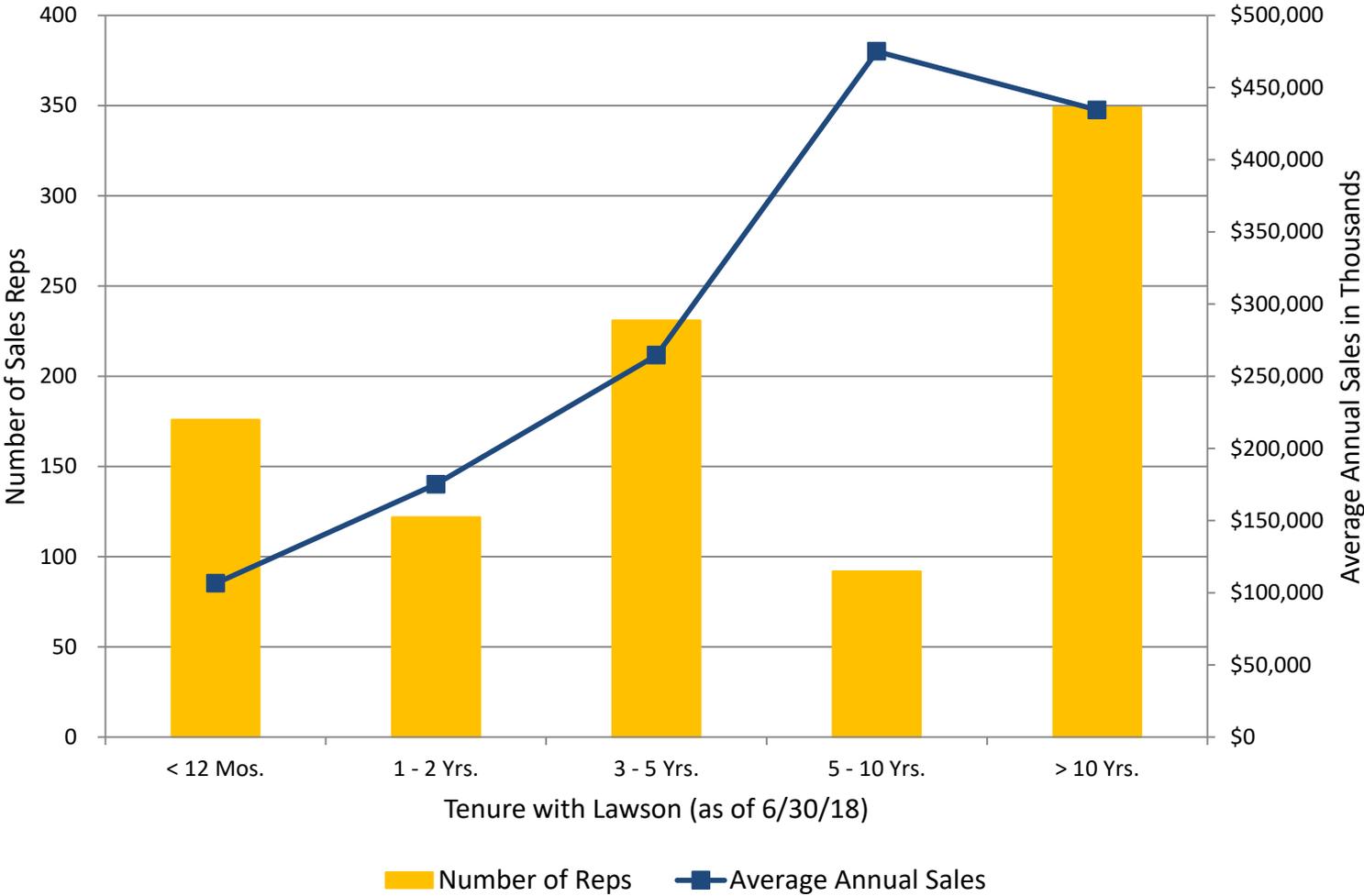
- Reduce cycle time
- Refine “Pull” strategy
- Freight enhancements
- Minimize backorders
- Improve service levels
- Forecasting tool

Sourcing / Purchasing

- Supplier negotiation process
- Vendor metrics
- Electronic communication

Information Technology – Integration of Web and SAP
Lean Six Sigma

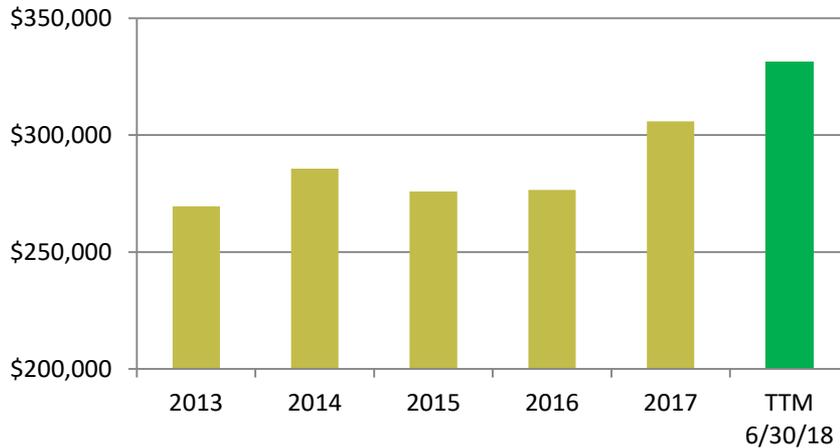
Longer Sales Rep Tenure Drives Rep Productivity



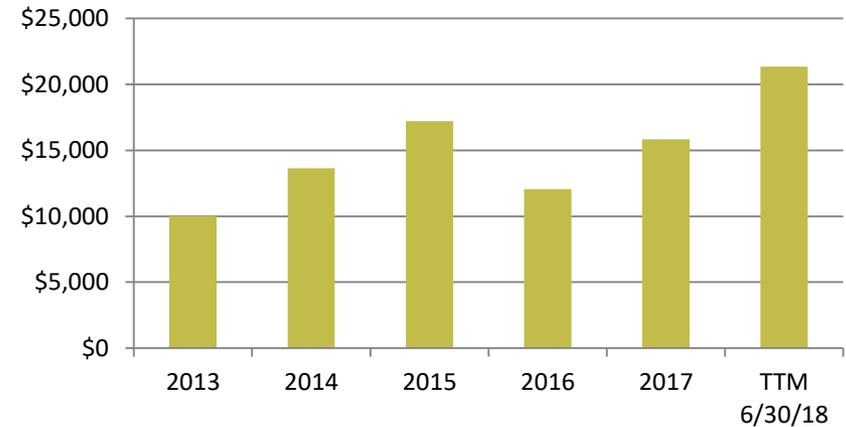
Historical Financial Performance

Recent sales growth and earnings expansion providing financial flexibility

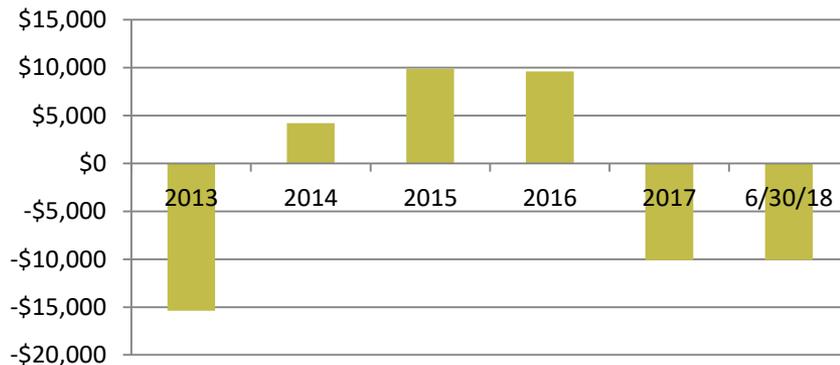
MRO Revenues



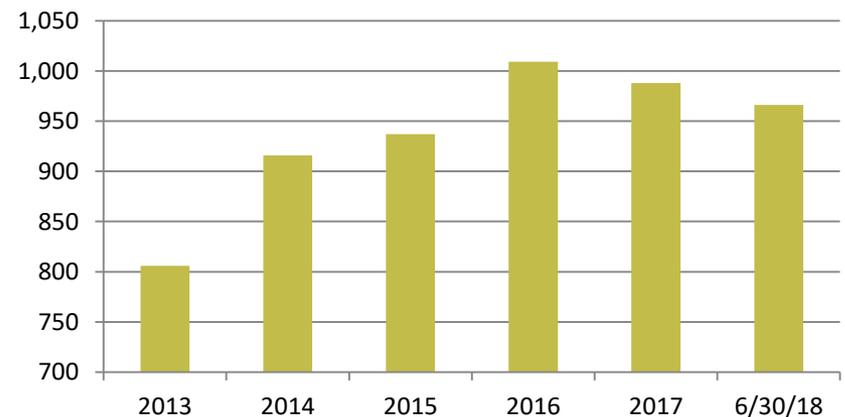
Adjusted EBITDA



Net Cash/(Debt)



Rep Count



Financial Highlights for Second Quarter 2018

- **Sales increased 20.5% YOY**
- **Strong gross margins**
- **Adjusted EBITDA margin improving**
 - ✓ Organic adjusted EBITDA leverage > 40%
 - ✓ 8.6% in Q2 2018 v. 6.0% in Q2 2017 and 6.1% in Q1 2018
 - ✓ Continued investment in new sales reps
 - ✓ Cost control measures in place
- **Continued expansion through acquisitions**
 - ✓ Acquired Bolt Supply House in October 2017
 - ✓ Completed three acquisitions in 2016
- **Strong balance sheet**
 - ✓ Significant capital investments completed to support growth
 - ✓ \$40 million credit facility in place

Lawson Products: Poised for Growth

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

For More Information

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And see our Website at

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

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 ➤ Entered into new five-year \$40M credit facility
October 2012	➤ Announced new CEO and President, Michael G. DeCata ➤ 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. Feeney 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
October 2017	➤ Completed Bolt Supply House acquisition
April 2018	➤ Opened MRO distribution center in Calgary, Canada

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 2016</u>	<u>Q3 2016</u>	<u>Q4 2016</u>	<u>Q1 2017</u>	<u>Q2 2017</u>	<u>Q3 2017</u>	<u>Q4 2017</u>	<u>Q1 2018</u>	<u>Q2 2018</u>
Net Sales	\$ 69,348	\$ 70,199	\$ 67,315	\$ 74,617	\$ 75,006	\$ 75,651	\$ 80,633	\$ 84,459	\$ 90,382
Operating Income (Loss)	29	2,389	(5,044)	712	7,891	1,090	243	1,837	5,554
Depreciation & Amortization	2,226	1,973	1,680	1,705	1,644	1,591	1,830	1,686	1,679
EBITDA	2,255	4,362	(3,364)	2,417	9,535	2,681	2,073	3,523	7,233
<u>Excluded Costs</u>									
Severance	143	367	1,662	465	(9)	139	144	628	64
Stock Based Compensation (Benefit)	515	(630)	3,801	(30)	415	2,337	384	970	87
Acquisition Related Costs	198	178	120	-	-	286	425	-	-
Loss/(Gain) on Disposal of Property	-	-	-	-	(5,422)	-	-	-	-
Lease termination gain	-	-	-	-	-	-	-	-	(164)
Discontinued operation accrual	-	-	-	-	-	-	-	-	529
Adjusted EBITDA	\$ 3,111	\$ 4,277	\$ 2,219	\$ 2,852	\$ 4,519	\$ 5,443	\$ 3,026	\$ 5,121	\$ 7,749
<i>Adjusted EBITDA % of Sales</i>	4.5%	6.1%	3.3%	3.8%	6.0%	7.2%	3.8%	6.1%	8.6%

Quarterly Results

(Dollars in thousands)

Three Months Ended

	Jun. 30 2018	Mar. 31 2018	Dec. 31 2017	Sep. 30 2017	Jun. 30 2017
Average daily net sales	\$ 1,412	\$ 1,341	\$ 1,322	\$ 1,201	\$ 1,172
Year over year increase	20.5%	15.0%	17.8%	9.5%	8.1%
Sequential quarter increase	5.3%	1.4%	10.1%	2.5%	0.5%
Net Sales	\$ 90,382	\$ 84,459	\$ 80,633	\$ 75,651	\$ 75,006
Gross profit ⁽¹⁾	49,131	46,218	46,993	46,005	45,141
Gross profit percentage ⁽¹⁾	54.4%	54.7%	58.3%	60.8%	60.2%
Selling, general & administrative expenses	\$ 43,577	\$ 44,381	\$ 46,750	\$ 44,915	\$ 42,672
Gain on sale of property ⁽²⁾	—	—	—	—	(5,422)
	<u>43,577</u>	<u>44,381</u>	<u>46,750</u>	<u>44,915</u>	<u>37,250</u>
Operating income	<u>\$ 5,554</u>	<u>\$ 1,837</u>	<u>\$ 243</u>	<u>\$ 1,090</u>	<u>\$ 7,891</u>

(1) Includes reclassification of service costs to gross profit of \$3.4 million in March 31, 2018

Consolidated Balance Sheet

Appendix P-4

	June 30, 2018	December 31, 2017
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 5,992	\$ 4,416
Restricted cash	800	800
Accounts receivable, less allowance for doubtful accounts of \$447 and \$476, respectively	42,613	38,575
Inventories, net	51,032	50,928
Miscellaneous receivables and prepaid expenses	4,295	3,728
Total current assets	104,732	98,447
Property, plant and equipment, net	25,605	27,333
Deferred income taxes	19,892	21,248
Goodwill	18,804	19,614
Cash value of life insurance	12,074	11,964
Intangible assets, net	10,963	11,813
Other assets	316	248
Total assets	\$ 192,386	\$ 190,667
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Revolving lines of credit	\$ 16,071	\$ 14,543
Accounts payable	14,794	12,394
Accrued expenses and other liabilities	29,329	33,040
Total current liabilities	60,194	59,977
Security bonus plan	12,802	12,981
Financing lease obligation	5,833	6,420
Deferred compensation	5,862	5,476
Deferred rent liability	2,452	3,512
Deferred tax liability	3,007	3,115
Other liabilities	4,782	5,696
Total liabilities	94,932	97,177
Stockholders' equity:		
Preferred stock, \$1 par value:		
Authorized - 500,000 shares, issued and outstanding — None	—	—
Common stock, \$1 par value:		
Authorized - 35,000,000 shares		
Issued - 8,951,913 and 8,921,302 shares, respectively		
Outstanding - 8,918,639 and 8,888,028 shares, respectively	8,952	8,921
Capital in excess of par value	14,298	13,005
Retained earnings	75,554	71,453
Treasury stock – 33,274 shares	(711)	(711)
Accumulated other comprehensive income (loss)	(639)	822
Total stockholders' equity	97,454	93,490
Total liabilities and stockholders' equity	\$ 192,386	\$ 190,667