

# DSG

DISTRIBUTION  
SOLUTIONS GROUP

Powerful Solutions. Proven Results.

NASDAQ: DSGR

## Q3 2022 Financial Results

November 3, 2022



## **Cautionary Note Regarding Forward-Looking Statements**

This investor deck contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, that involve risks and uncertainties. The terms “aim,” “anticipate,” “believe,” “contemplates,” “continues,” “could,” “ensure,” “estimate,” “expect,” “forecasts,” “if,” “intend,” “likely,” “may,” “might,” “objective,” “outlook,” “plan,” “positioned,” “potential,” “predict,” “probable,” “project,” “shall,” “should,” “strategy,” “will,” “would,” and other words and terms of similar meaning and expression are intended to identify forward-looking statements. Forward-looking statements can also be identified by the fact that they do not relate strictly to historical or current facts. Such forward-looking statements are based on current expectations and involve inherent risks, uncertainties and assumptions, including factors that could delay, divert or change any of them, and could cause actual outcomes to differ materially from current expectations. Distribution Solutions Group (“DSG”) can give no assurance that any goal or plan set forth in forward-looking statements can be achieved and DSG cautions readers not to place undue reliance on such statements, which speak only as of the date made. DSG undertakes no obligation to release publicly any revisions to forward-looking statements as a result of new information, future events or otherwise. Actual results may differ materially from those projected as a result of certain risks and uncertainties. Certain risks associated with DSG’s business are also discussed from time to time in the reports DSG files with the SEC, including DSG’s (formerly Lawson Products, Inc.) Annual Report on Form 10-K for the fiscal year ended December 31, 2021, DSG’s Quarterly Reports on Form 10-Q and DSG’s Current Reports on Form 8-K. In addition, the following factors, among others, could cause actual outcomes and results to differ materially from those discussed in the forward-looking statements: (i) whether or not the terms of the earnout provisions in either of the merger agreements will be satisfied such that DSG would be required to issue additional shares of common stock in connection with the mergers; (ii) unanticipated difficulties or expenditures relating to the mergers; (iii) the risk that stockholder litigation in connection with the mergers results in significant costs of defense, indemnification and liability; and (iv) any problems arising in combining the businesses of Lawson Products, TestEquity and Gexpro Services, which may result in the combined company not operating as effectively and efficiently as expected.

Today's Conference Call Will Discuss Results Primarily on an Adjusted (Non-GAAP) and Comparable Operations Basis. The complexities of Reverse Merger Accounting treatment makes GAAP comparisons difficult.

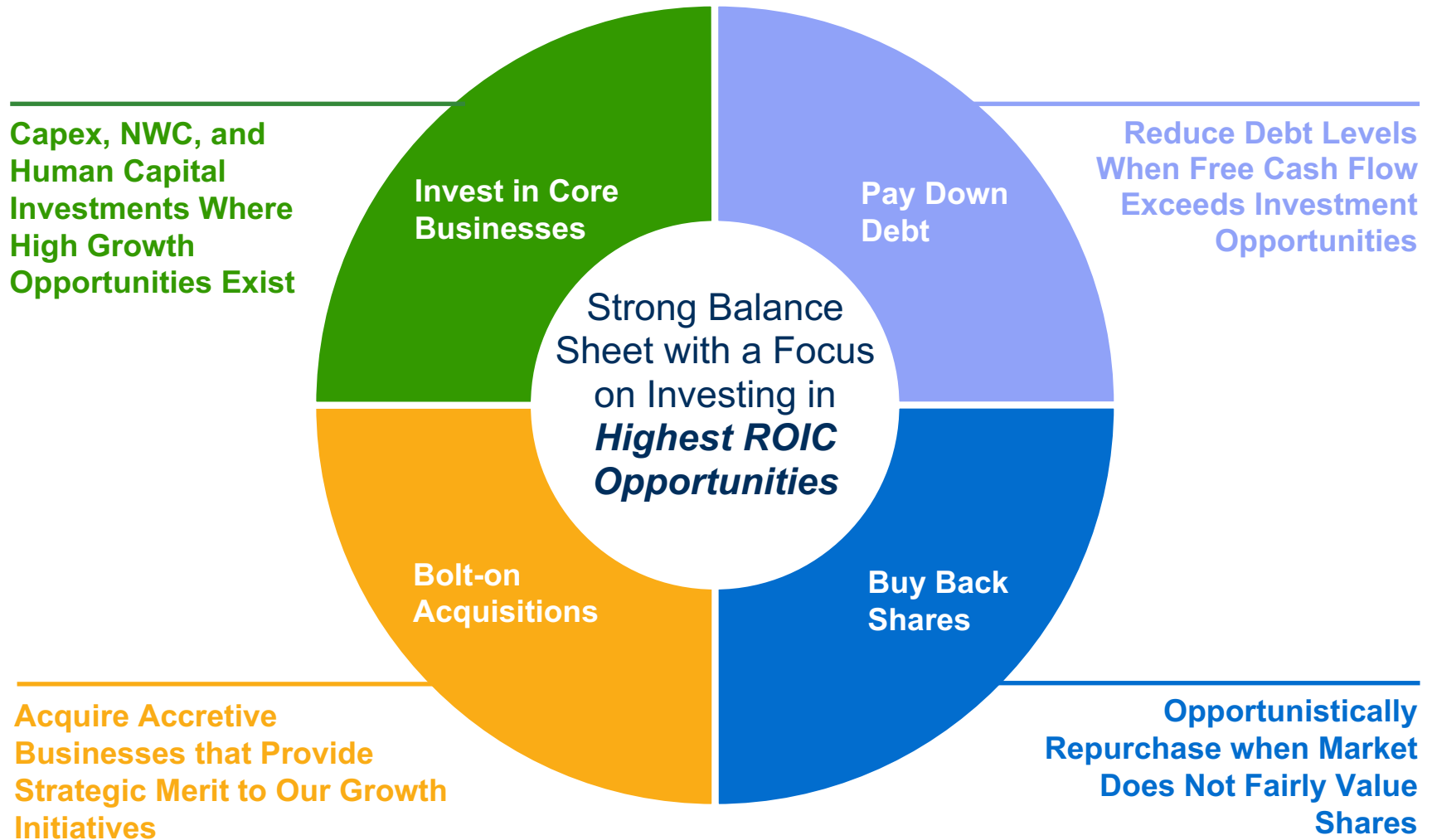
## Agenda

- Q3 2022 Consolidated Highlights & Financial Results
- Segment Highlights & Financial Results
- Q&A

GAAP results reported under Reverse Merger Accounting. Combined Gexpro Services/ TestEquity is accounting acquiror of Lawson Products given common control of entities and thus, include Lawson Products results commencing on the Merger date of April 1, 2022.

See appendix for Reconciliations.

- Strong top-line and bottom-line results across the three principal operating companies; performance of all three principal operating companies at or exceeding expected levels
- Combined sales growth of 46.1%; organic sales growth of 15.4% is broad based within all segments; acquired sales of \$68.4M
- Achieved 10.0% Adjusted EBITDA margin on EBITDA improvement of \$13.5M
- Good progress on realizing cross-selling among the operating companies; early wins on new customer business
- Product demand remains strong; monitoring current macro-environment
- Today, announced expansion of share repurchase plan to \$12.5M
- To date, four acquisitions closed in 2022 (Resolux, Frontier, TEquipment & National Test Equipment) – Total of over \$180M of annual acquired revenue and \$15.1M of acquired EBITDA



## *Operating Companies Discussion*



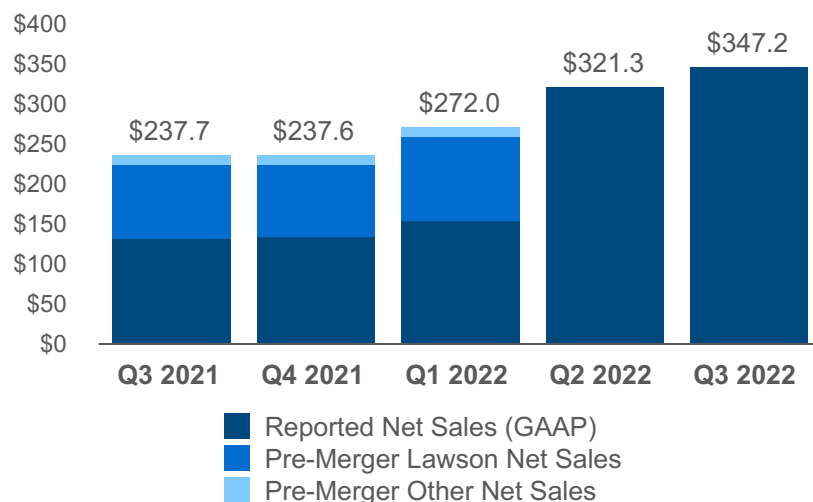
**LAWSON** Products



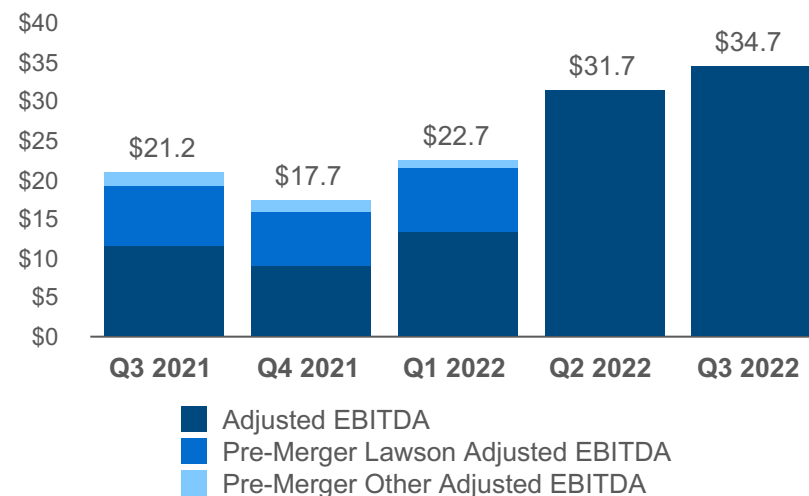
## Results Adjusted to Reflect Comparable Results Including Pre-Merger Lawson Products

- Adjusted Net Sales of \$347.2M, an increase of \$109.5M or +46.1% over year ago quarter; organic growth of +15.4%
- Adjusted EBITDA of \$34.7M with 10.0% margin; up 63.5% from \$21.2M with 8.9% margin
- Q4'22 has 4 fewer selling days than Q3'22

### Adjusted Net Sales (in millions)



### Adjusted EBITDA (in millions)

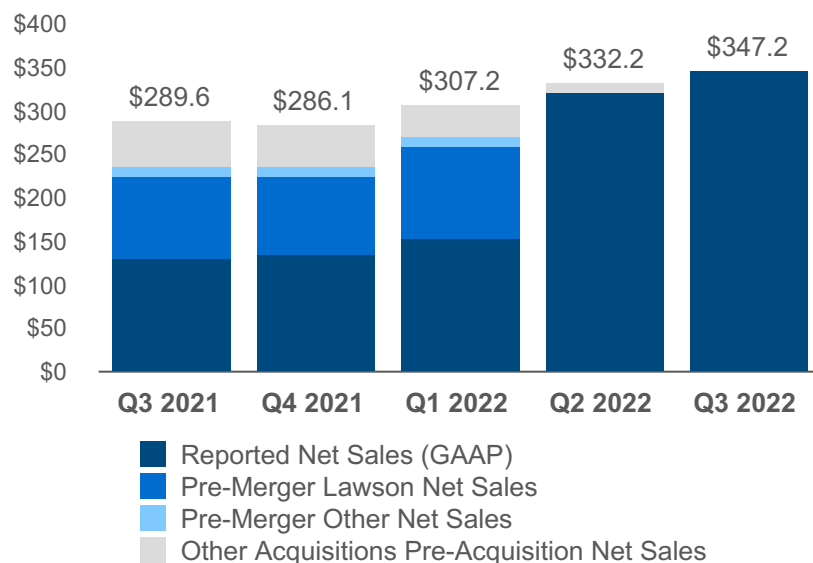


***Sequentially strong revenue and Adjusted EBITDA growth***

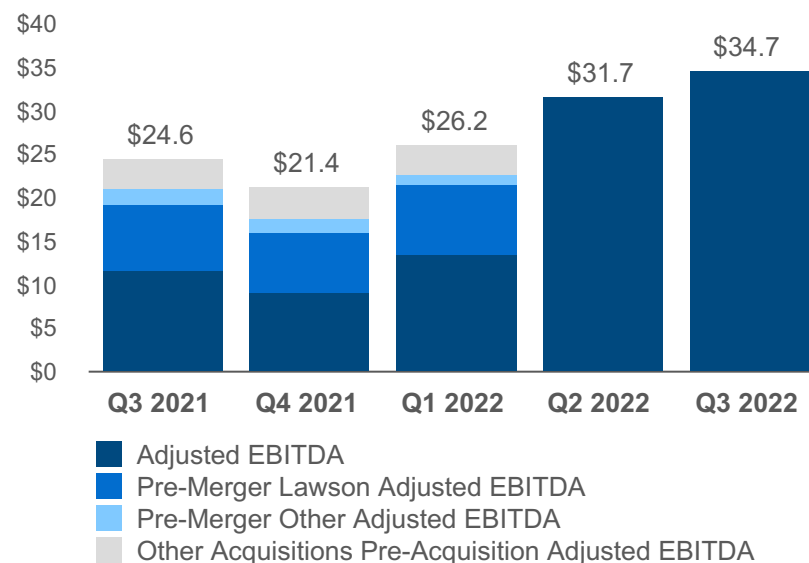
## Results Inclusive of Lawson Products and Other Acquisitions Pre-Merger Results

- Adjusted Net Sales and Adjusted EBITDA below include the reported GAAP results and (1) pre-Merger results of the Lawson and Other segment and (2) the pre-acquisition results of other businesses that were acquired at any time during the Q3 2021-Q3 2022 period.
- Positive quarterly trends in Adjusted Net Sales and Adjusted EBITDA as acquisitions become integrated

### Adjusted Net Sales (in millions)



### Adjusted EBITDA (in millions)

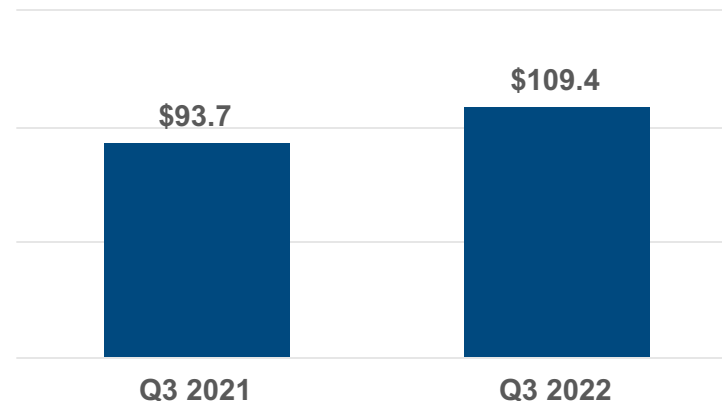




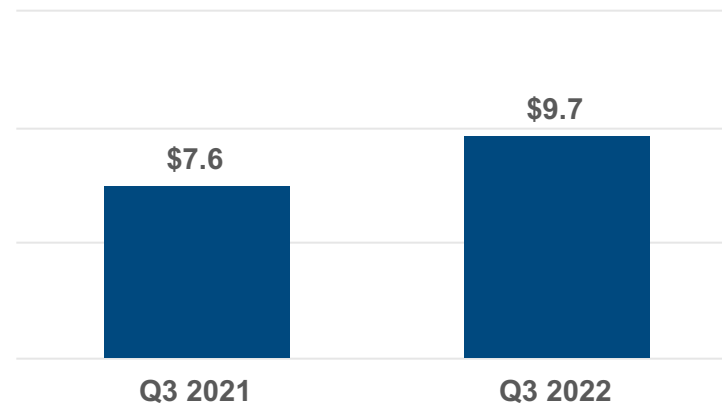
## Q3 2022 Highlights:

- Prior year Q3 2021 results are pre 4/1/2022 Merger
- Sales +16.8%; all organic growth
- Price increases in late 2021 and 2022 being realized
- Ended September 30, 2022 with 1,010 sales reps. Sales per rep per day productivity improved 24.4% vs. Q3 2021
- Adjusted EBITDA of \$9.7M or 8.8% of sales
- Strong growth in strategic business, Kent Automotive and core business; new customer wins within strategic business

## Adjusted Net Sales (in millions)



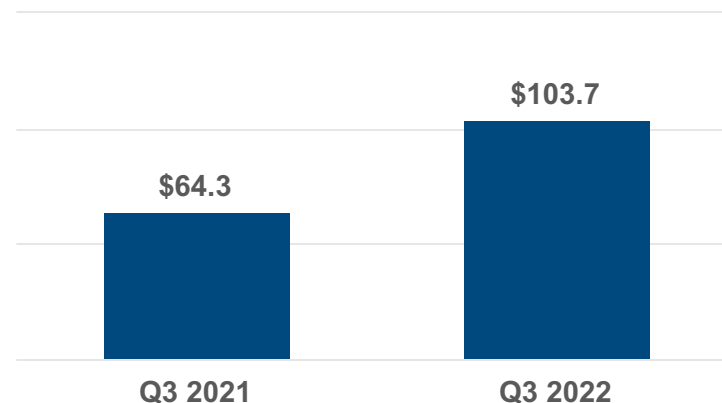
## Adjusted EBITDA (in millions)



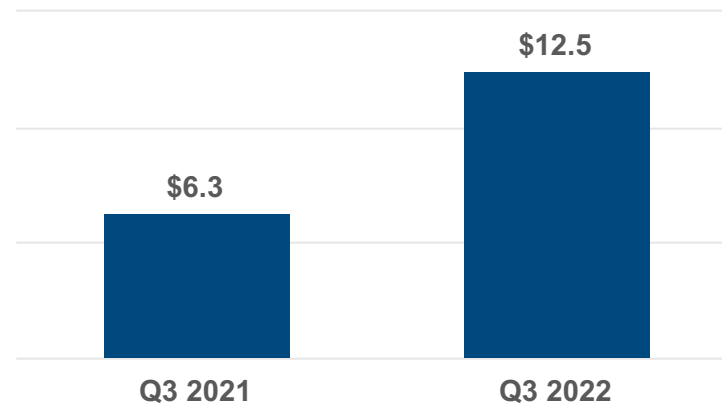
## Q3 2022 Highlights:

- Sales of \$103.7M; up \$39.5M or 61.4%; organic growth of 13.9%
- Q3 2022 sales includes \$30.8M incremental revenue from 2021 and 2022 acquisitions (Omni, NEF, SIS, Resolux, and Frontier). Integrations continuing strong.
- Strong demand continues across all end markets partially offset by renewables headwinds; wallet share and new business development remains strong
- Continued expansion in gross margin through recapturing vendor and freight increases
- Adjusted EBITDA of \$12.5M or 12.0% of sales; incremental EBITDA of \$5.1M from acquisitions

## Net Sales (in millions)



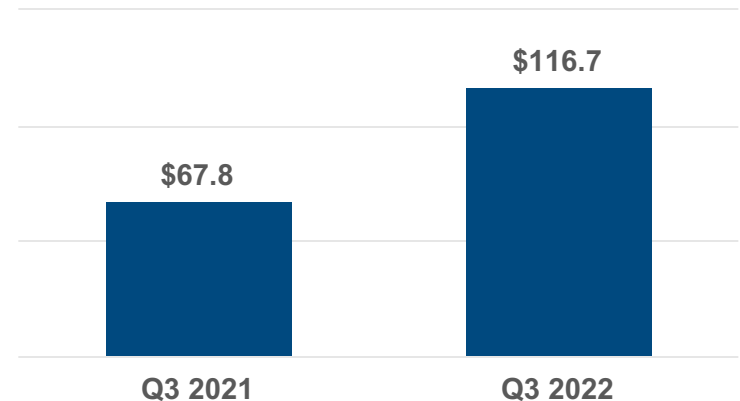
## Adjusted EBITDA (in millions)



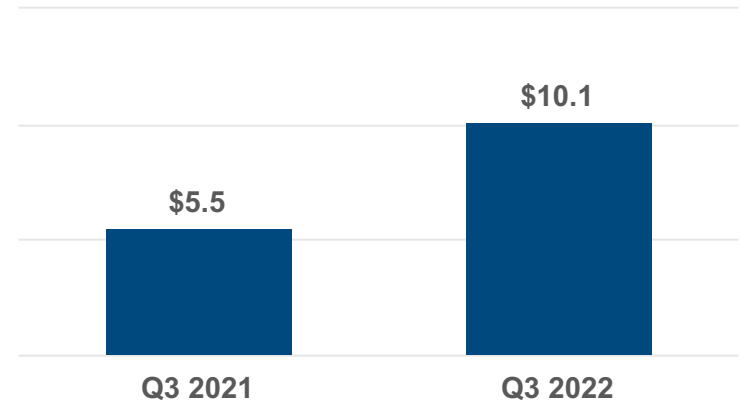
## Q3 2022 Highlights:

- Sales of \$116.7M; up \$48.9M or 72.1%; organic growth of 16.9%
- Q3 2022 sales includes \$37.6M incremental revenue from 2021 and 2022 acquisitions (MCS, TEquipment and National Test Equipment). Integrations well underway
- Continue SKU expansion; > 69,000 added YTD primarily in Electronic Production Supplies business
- Adjusted EBITDA of \$10.1M or 8.7% of sales, up from 8.1% a year ago; incremental EBITDA of \$3.4M from acquisitions

## Net Sales (in millions)



## Adjusted EBITDA (in millions)



# Financial Position and Capitalization Table

## Strong Balance Sheet and Capital Allocation Framework

- Prudent leverage target of 3 - 4x Net Debt to Adjusted EBITDA
- Trailing leverage of 3.4x, due partially to \$63M in acquisitions closed since the Merger date
- Cash of \$25.2M and \$75.1M of availability under existing credit facility, ability to access \$200M accordion for M&A
- Disciplined approach to capital allocation, focused on balance sheet strength and investment in highest ROIC opportunities
- Maturities of debt over the next 12 months nominal (\$15M)

## Capitalization Table as of 9/30

<i>\$000s</i>	<b>Q3 2022</b>
Cash	\$ 25,171
Current Assets	460,873
Long-term Assets	746,671
<b>Total Assets</b>	<b>\$ 1,232,715</b>
Current Liabilities	\$ 194,364
Long-term Debt	397,461
Other Long-term Liabilities	94,143
<b>Total Liabilities</b>	<b>685,968</b>
Total Stockholders' Equity	546,747
<b>Total Liabilities &amp; Stockholders' Equity</b>	<b>\$ 1,232,715</b>

# Progress Since April 2022 Mergers

Enhanced Go-to-  
Market Strategy

Expanded Channels-  
to-Market

Superior Leadership  
Incentives for Cross-  
Selling

Fully Executed Cost  
Synergies for IT,  
Insurance

Develop Meaningful  
Business Pipeline

Sensitive to Economic  
Environment with  
Adjusted Hurdles,  
Leverage Targets

Fully Built-out  
Experienced M&A  
Team

Operationalized  
LKCM Support for  
OpCo Businesses

- **Continuing strong path** on a combined basis
- Q3 results driven by both organic growth and acquired sales – aligns with growth strategy; **combined 46.1% sales growth**
- Improvement in Adjusted EBITDA margin to **10.0%**
- All three operating companies **at or exceeding expected performance** levels
- Companies **collaborating well together** to identify growth and cost saving opportunities
- Given macro economic environment, **conservative financial management** and prudent capital allocation to continue
- Today, announced **expanded share repurchase program to \$12.5M;** repurchased 54K shares in Q3
- **Pipeline for add-on acquisitions remains robust**

# *Appendix*

# GAAP to Non-GAAP Reconciliations

## Adjusted Net Sales and EBITDA Reconciliation (\$000s)

Results Inclusive of Lawson Products Pre-Merger Results

	Lawson Products		Gexpro Services		TestEquity		Other		Consolidated DSG	
	Q3 2022	Q3 2021	Q3 2022	Q3 2021	Q3 2022	Q3 2021	Q3 2022	Q3 2021	Q3 2022	Q3 2021
GAAP Net Sales	\$ 109,418	\$ —	\$ 103,749	\$ 64,264	\$ 116,709	\$ 67,826	\$ 17,275	\$ —	\$ 347,151	\$ 132,090
Pre-Merger Sales(1)	—	93,686	—	—	—	—	—	11,884	—	105,570
Adjusted Net Sales	\$ 109,418	\$ 93,686	\$ 103,749	\$ 64,264	\$ 116,709	\$ 67,826	\$ 17,275	\$ 11,884	\$ 347,151	\$ 237,660
GAAP Operating Income	\$ 5,352	\$ —	\$ 7,992	\$ 4,437	\$ 7,576	\$ 1,054	\$ 1,107	\$ —	\$ 22,027	\$ 5,491
Pre-Merger Operating Income(1)	—	3,488	—	—	—	—	—	1,132	—	4,620
Adjusted Operating Income	5,352	3,488	7,992	4,437	7,576	1,054	1,107	1,132	22,027	10,111
Depreciation and amortization	2,009	1,354	4,065	1,271	1,896	3,458	1,009	697	8,979	6,780
Adjustments:										
Merger/integration costs(2)	1,556	3,223	664	385	144	245	—	—	2,364	3,853
Stock-based compensation(3)	(3,568)	(1,171)	—	—	—	—	—	—	(3,568)	(1,171)
Severance costs(4)	763	241	—	7	178	8	3	—	944	256
Acquisition related costs(5)	—	425	(290)	3	328	759	—	—	38	1,187
Inventory net realizable value adjustment(6)	1,737	—	—	—	—	—	—	—	1,737	—
Inventory step-up(7)	778	—	—	118	—	—	304	—	1,082	118
Other non-recurring(8)	1,043	—	54	87	—	—	—	—	1,097	87
Adjusted EBITDA	\$ 9,670	\$ 7,560	\$ 12,485	\$ 6,308	\$ 10,122	\$ 5,524	\$ 2,423	\$ 1,829	\$ 34,700	\$ 21,221
Operating income as a percent of GAAP Net Sales	4.9 %	— %	7.7 %	6.9 %	6.5 %	1.6 %	6.4 %	— %	6.3 %	4.2 %
Adjusted EBITDA as a percent of Adjusted Net Sales	8.8 %	8.1 %	12.0 %	9.8 %	8.7 %	8.1 %	14.0 %	15.4 %	10.0 %	8.9 %

(1) Represents Lawson Products pre-merger sales and operating income

(2) Merger transaction costs related to the negotiation, review and execution of the merger agreements relating to the business combination of Lawson Products, TestEquity and Gexpro Services and subsequent integration costs

(3) Expense (benefit) primarily for stock-based compensation, of which a portion varies with the Company's stock price

(4) Includes severance expense for actions taken in 2022 and 2021

(5) Expense for acquisition related costs, unrelated to the business combination of Lawson Products, TestEquity and Gexpro Services

(6) Inventory net realizable value adjustment recorded to reduce inventory related to discontinued products where the anticipated net realizable value was lower than the cost reflected in the Company's records

(7) Inventory fair value step-up adjustments resulting from the reverse merger acquisition accounting for Lawson Products and acquisition accounting for additional acquisitions completed by Gexpro Services

(8) Other non-recurring costs consists of sales force optimization and other non-recurring items



# GAAP to Non-GAAP Reconciliations

## Adjusted Net Sales and Adjusted EBITDA Reconciliation (\$000s)

Results Inclusive of Lawson Products Pre-Merger Results and Other Acquisitions – Pre-Acquisition Date

### Consolidated DSG

	Q3 2021	Q4 2021	Q1 2022	Q2 2022	Q3 2022
GAAP Net Sales	\$ 132,090	\$ 135,561	\$ 154,085	\$ 321,336	\$ 347,151
Pre-Merger Lawson Sales(1)	93,686	89,791	104,902	—	—
Pre-Merger Other Sales(1)	11,884	12,276	12,975	—	—
Pre-Acquisition Sales(1)	51,952	48,437	35,217	10,907	—
Adjusted Net Sales	<u>\$ 289,612</u>	<u>\$ 286,065</u>	<u>\$ 307,179</u>	<u>\$ 332,243</u>	<u>\$ 347,151</u>
GAAP Operating Income	\$ 5,491	\$ (1,790)	\$ 2,988	\$ 4,113	\$ 22,027
Pre-Merger Lawson Operating Income(1)	3,488	(1,995)	11,096	—	—
Pre-Merger Other Operating Income(1)	1,132	1,170	980	—	—
Pre-Acquisition Operating Income(1)	3,397	3,675	3,434	2	—
Adjusted Operating Income	13,508	1,060	18,498	4,115	22,027
Depreciation and amortization	6,780	7,385	9,678	14,746	8,979
Adjustments:					
Merger/integration costs(2)	3,853	5,018	4,416	5,790	2,364
Stock-based compensation(3)	(1,171)	3,435	(8,595)	4,013	(3,568)
Severance costs(4)	256	121	1,082	953	944
Acquisition related costs(5)	1,187	4,194	840	334	38
Inventory net realizable value adjustment(6)	—	—	—	—	1,737
Inventory step-up(7)	118	94	163	1,622	1,082
Other non-recurring(8)	87	26	24	82	1,097
Pre-Acquisition add-backs(9)	14	101	60	58	—
Adjusted EBITDA	<u>\$ 24,632</u>	<u>\$ 21,434</u>	<u>\$ 26,166</u>	<u>\$ 31,713</u>	<u>\$ 34,700</u>
Operating income as a percent of GAAP Net Sales	4.2 %	(1.3)%	1.9 %	1.3 %	6.3 %
Adjusted EBITDA as a percent of Adjusted Net Sales	8.5 %	7.5 %	8.5 %	9.5 %	10.0 %

References to table footnotes on slide 19

## Adjusted Net Sales and EBITDA Reconciliation – Table Footnotes

- (1) Represents additional sales and operating income of Lawson pre-Merger results and Other Acquisitions results prior to their acquisition dates not in reported GAAP results
- (2) Merger transaction costs related to the negotiation, review and execution of the Merger agreements relating to the business combination of Lawson Products, TestEquity and Gexpro Services and subsequent integration costs
- (3) Expense (benefit) primarily for stock-based compensation, of which a portion varies with the Company's stock price
- (4) Includes severance expense for actions taken in 2022 and 2021
- (5) Expense for acquisition related costs, unrelated to the business combination of Lawson Products, TestEquity and Gexpro Services
- (6) Inventory net realizable value adjustment recorded to reduce inventory related to discontinued products where the anticipated net realizable value was lower than the cost reflected in the Company's records
- (7) Inventory fair value step-up adjustments resulting from the reverse Merger acquisition accounting for Lawson Products and acquisition accounting for additional acquisitions completed by Gexpro Services
- (8) Other non-recurring costs consists of sales force optimization and other non-recurring items
- (9) Represents additional EBITDA adjustments of Other Acquisitions prior to their acquisition dates