

BAIRD'S DISTRIBUTION SECTOR REVIEW

January 2024

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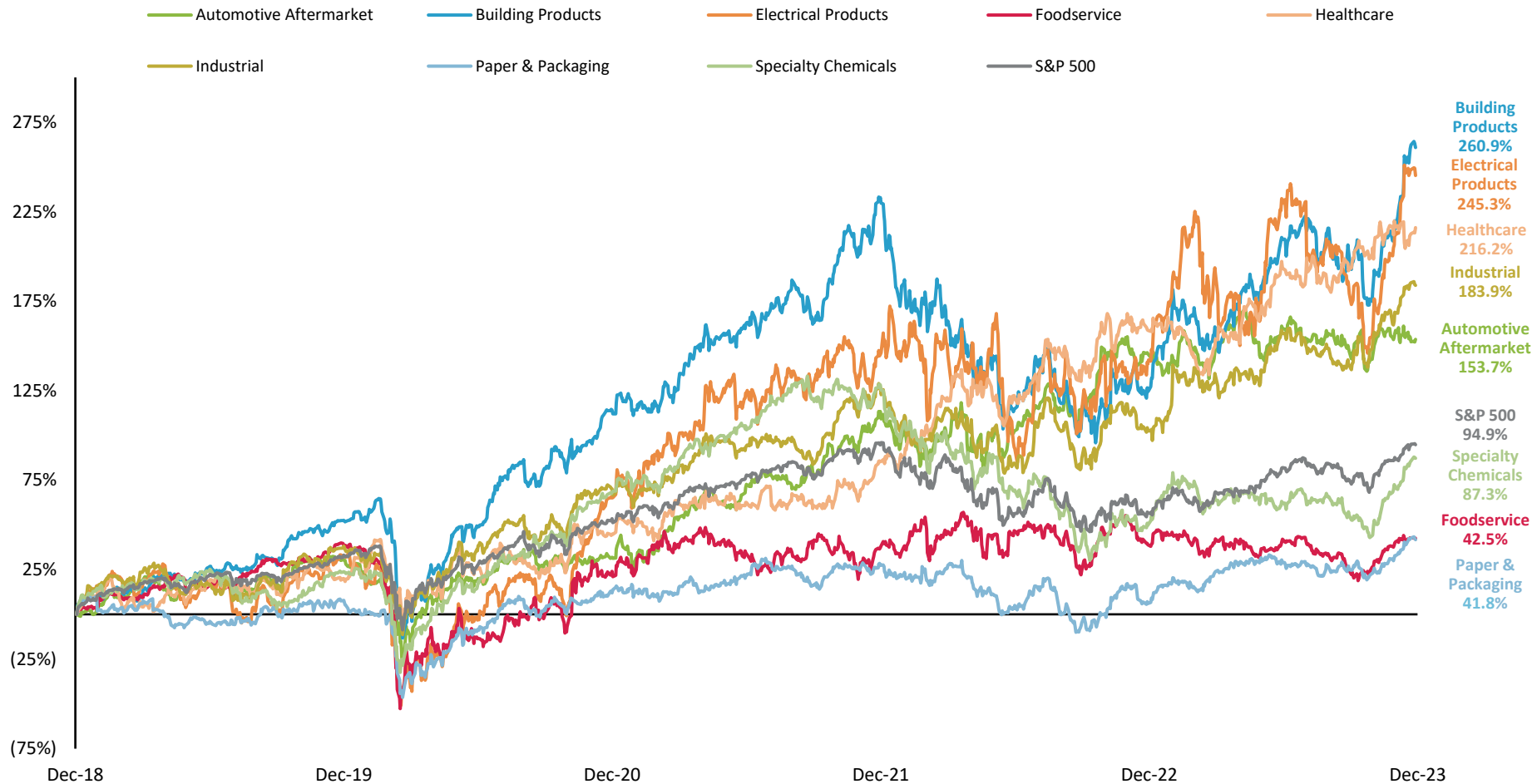


PUBLIC MARKET UPDATE

DISTRIBUTION STOCK PERFORMANCE

Distribution stocks across subsectors have provided investors positive returns over the last 5 years, with Building Products, Electrical, Healthcare, Industrial and Automotive Aftermarket outperforming the S&P 500

RELATIVE STOCK PRICE PERFORMANCE (LAST FIVE YEARS)



Source: Capital IQ as of December 31, 2023.

Note: Distributor subsector indexes inclusive of distributors listed on pages 3-4.

VALUATION STATISTICS AS OF DECEMBER 31, 2023

Company Name	Market Cap	TEV	Net Debt / EBITDA	TEV / EBITDA		Stock Performance	
				2023E	2024E	2022	2023
(USD in millions)							
Automotive Aftermarket							
AutoZone, Inc.	\$44,710	\$56,296	2.8x	13.8x	12.7x	18%	5%
Dorman Products, Inc.	2,626	3,295	2.4x	11.7x	10.7x	(28%)	3%
Genuine Parts Company	19,417	23,015	1.7x	10.7x	10.1x	27%	(18%)
LKQ Corporation	12,789	18,118	3.0x	10.4x	9.3x	(9%)	(9%)
O'Reilly Automotive, Inc.	56,209	63,456	2.0x	17.6x	16.4x	20%	13%
Median	\$19,417	\$23,015	2.4x	11.7x	10.7x	18%	3%
Building Products Distributors							
Beacon Roofing Supply, Inc.	\$5,508	\$8,442	3.2x	9.1x	8.9x	(8%)	65%
Beijer Ref AB (publ)	6,798	7,687	2.0x	18.7x	17.3x	(25%)	1%
BlueLinx Holdings Inc.	993	1,138	0.8x	6.3x	6.5x	(26%)	59%
Builders FirstSource, Inc.	20,592	24,418	1.4x	8.8x	9.8x	(24%)	157%
Core & Main, Inc.	10,196	12,176	1.7x	13.5x	13.3x	(36%)	109%
Ferguson plc	39,258	43,778	1.5x	14.7x	13.8x	(27%)	55%
GMS Inc.	3,282	4,469	1.9x	7.2x	7.5x	(17%)	66%
Hillman Solutions Corp.	1,795	2,642	3.9x	12.2x	11.5x	(33%)	28%
Pool Corporation	15,422	16,669	1.5x	20.7x	19.6x	(46%)	34%
SiteOne Landscape Supply, Inc.	7,333	8,164	2.1x	20.1x	18.6x	(52%)	39%
Travis Perkins plc	2,216	3,330	2.5x	7.4x	6.9x	(41%)	(3%)
Watsco, Inc.	15,735	16,491	0.4x	18.9x	17.7x	(18%)	77%
Median	\$7,066	\$8,303	1.8x	12.8x	12.4x	(26%)	57%
Electrical Products							
Rexel S.A.	\$8,255	\$11,716	1.9x	6.5x	6.5x	7%	43%
WESCO International, Inc.	8,881	14,212	3.0x	8.0x	7.7x	(5%)	40%
Median	\$8,568	\$12,964	2.5x	7.3x	7.1x	1%	41%
Foodservice							
Performance Food Group Company	\$10,760	\$15,862	3.6x	11.2x	10.1x	27%	18%
SpartanNash Company	795	1,594	3.1x	6.3x	6.1x	21%	(21%)
Sysco Corporation	36,885	48,048	2.7x	11.8x	10.8x	(0%)	(2%)
The Chefs' Warehouse, Inc.	1,167	2,029	4.5x	10.5x	9.5x	(0%)	(12%)
United Natural Foods, Inc.	964	4,505	7.3x	9.3x	8.0x	(21%)	(58%)
US Foods Holding Corp.	11,164	15,716	2.9x	10.1x	9.2x	(2%)	33%
Median	\$5,964	\$10,111	3.4x	10.3x	9.4x	(0%)	(7%)

VALUATION STATISTICS AS OF DECEMBER 31, 2023 (CONT.)

Company Name	Market Cap	TEV	Net Debt / EBITDA	TEV / EBITDA		Stock Performance	
				2023E	2024E	2022	2023
(USD in millions)							
Healthcare							
Cardinal Health, Inc.	\$24,844	\$25,669	0.3x	9.4x	8.7x	54%	34%
Henry Schein, Inc.	9,838	13,409	2.1x	13.3x	11.9x	3%	(5%)
McKesson Corporation	61,605	66,813	0.9x	12.7x	12.0x	52%	24%
Owens & Minor, Inc.	1,474	3,715	4.2x	6.9x	6.3x	(55%)	(1%)
Patterson Companies, Inc.	2,636	3,294	1.8x	8.9x	8.2x	(1%)	5%
Median	\$9,838	\$13,409	1.8x	9.4x	8.7x	3%	5%
Industrial							
Applied Industrial Technologies, Inc.	\$6,693	\$6,936	0.5x	12.9x	12.4x	24%	38%
Bossard Holding AG	2,020	2,411	2.2x	14.9x	14.0x	(38%)	13%
Bufab AB (publ)	1,450	1,805	2.7x	14.8x	14.5x	(47%)	68%
Diploma PLC	6,115	6,550	1.2x	18.9x	17.3x	(16%)	32%
Distribution Solutions Group, Inc.	1,478	2,064	3.6x	12.7x	10.8x	(30%)	71%
DXP Enterprises, Inc.	545	980	2.6x	5.9x	5.7x	7%	22%
Fastenal Company	37,023	37,264	0.1x	22.1x	20.8x	(24%)	41%
MRC Global Inc.	928	1,756	1.9x	7.1x	6.4x	68%	(5%)
MSC Industrial Direct Co., Inc.	5,712	6,197	0.8x	10.8x	10.2x	1%	29%
NOW Inc.	1,204	1,052	(0.9x)	6.0x	5.7x	49%	(11%)
RS Group plc	4,944	5,584	1.2x	10.8x	10.3x	(24%)	(6%)
W.W. Grainger, Inc.	41,131	43,573	0.8x	15.6x	14.9x	9%	51%
Median	\$3,482	\$3,997	1.2x	12.8x	11.6x	(8%)	30%
Paper & Packaging							
4imprint Group plc	\$1,639	\$1,577	(0.5x)	11.9x	11.0x	54%	15%
Bunzl plc	13,642	15,751	1.5x	11.2x	11.1x	(2%)	18%
Cimpress plc	2,129	3,722	3.9x	9.3x	8.2x	(61%)	190%
Macfarlane Group PLC	235	286	1.1x	6.2x	6.0x	(18%)	16%
TAKKT AG	969	1,122	1.2x	9.0x	8.5x	(5%)	7%
Median	\$1,639	\$1,577	1.2x	9.3x	8.5x	(5%)	16%
Specialty Chemicals							
Avantor, Inc.	\$15,442	\$20,803	4.1x	16.0x	15.9x	(50%)	8%
Brenntag SE	13,581	15,971	1.3x	9.1x	8.8x	(23%)	43%
DKSH Holding AG	4,504	4,963	0.7x	9.0x	8.6x	(4%)	(14%)
IMCD N.V.	9,907	11,310	2.3x	18.8x	17.6x	(31%)	20%
Parkland Corporation	5,699	10,332	3.1x	7.1x	6.9x	(11%)	49%
Median	\$9,907	\$11,310	2.3x	9.1x	8.8x	(23%)	20%
Overall Median ⁽¹⁾	\$6,404	\$7,925	2.0x	10.8x	10.1x	(10%)	21%

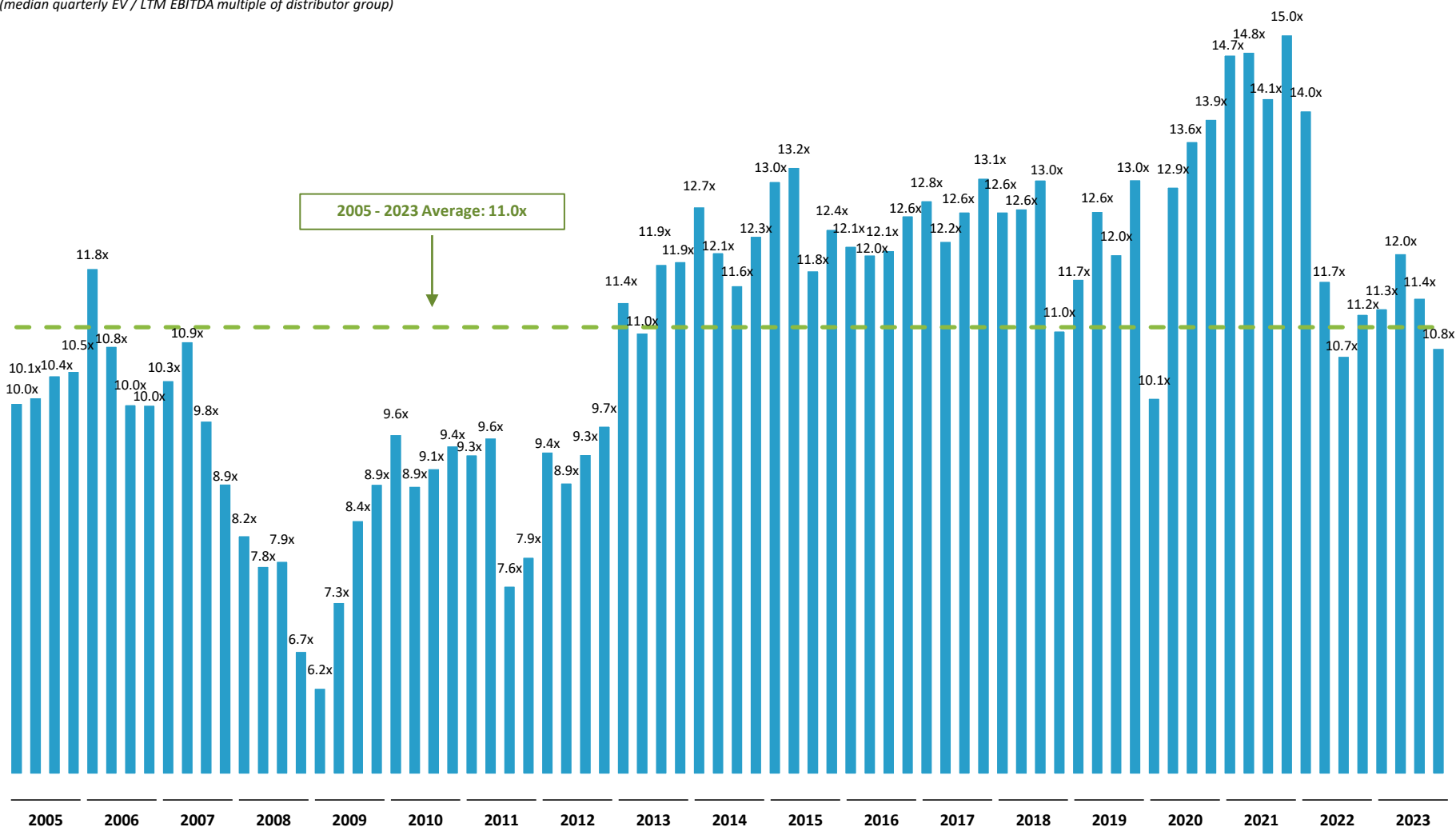
Source: Capital IQ as of December 31, 2023.

(1) Overall Median includes distributors listed on pages 3-4.

DISTRIBUTION VALUATION TRENDS SINCE 2005

Valuation multiples have contracted following record levels in 2020 and 2021, however, remain in-line with long-term historical averages

(median quarterly EV / LTM EBITDA multiple of distributor group)



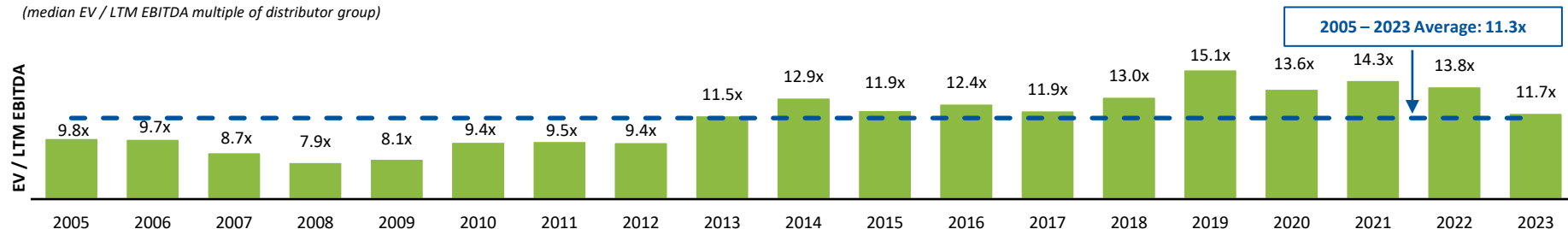
Source: Capital IQ as of December 31, 2023.

Note: Represents median of all distributors listed on pages 3-4. Q4 2023 represents the median EV / 2023E EBITDA multiple.

VALUATION TRENDS BY SUBSECTOR

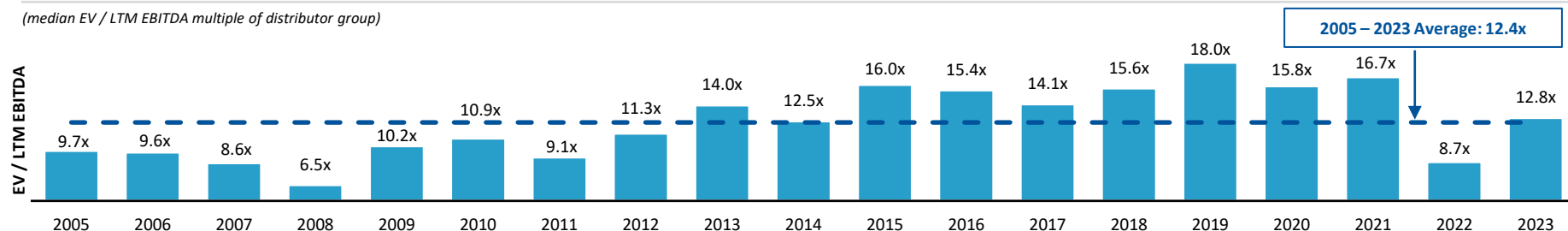
AUTOMOTIVE AFTERMARKET DISTRIBUTION (1)

(median EV / LTM EBITDA multiple of distributor group)



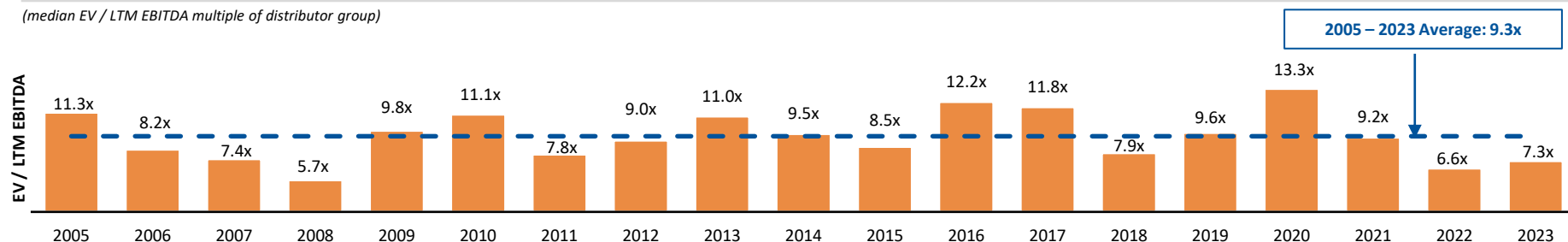
BUILDING PRODUCTS DISTRIBUTION (2)

(median EV / LTM EBITDA multiple of distributor group)



ELECTRICAL PRODUCTS DISTRIBUTION (3)

(median EV / LTM EBITDA multiple of distributor group)



Source: Capital IQ as of December 31, 2023. Multiples in 2023 represent EV / 2023E EBITDA.

(1) Includes: AutoZone, Dorman Products, Genuine Parts Company, LKQ and O'Reilly Automotive.

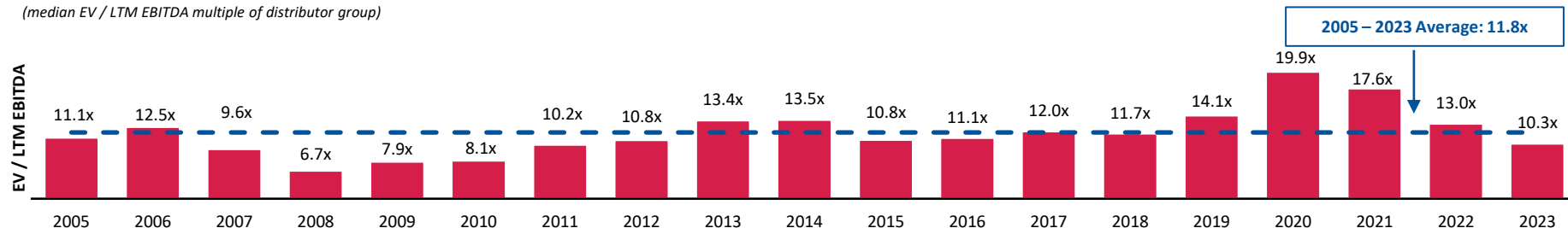
(2) Includes: Beacon Roofing Supply, Beijer Ref, BlueLinx, Builders FirstSource, Core & Main, Ferguson, GMS, Hillman, Pool Corporation, SiteOne Landscape Supply, Travis Perkins and Watsco.

(3) Includes: Rexel and WESCO International.

VALUATION TRENDS BY SUBSECTOR (CONT.)

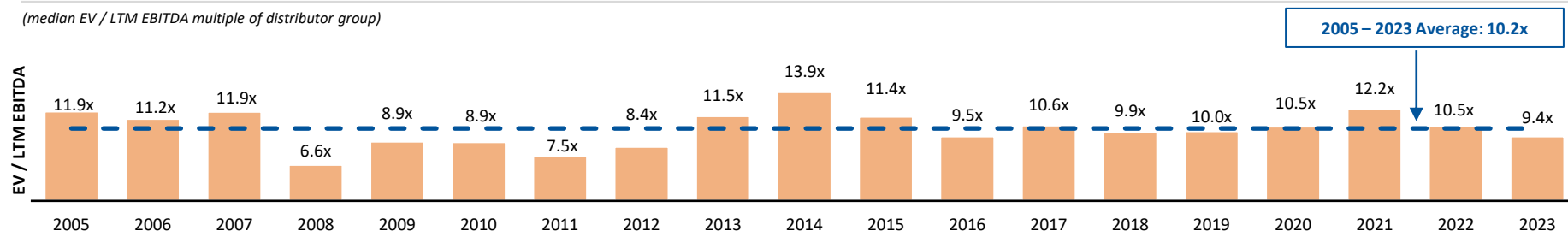
FOODSERVICE DISTRIBUTION ⁽¹⁾

(median EV / LTM EBITDA multiple of distributor group)



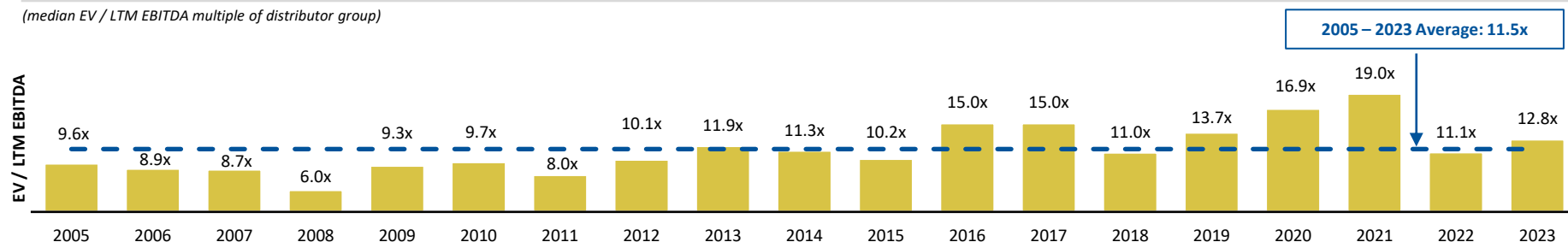
HEALTHCARE DISTRIBUTION ⁽²⁾

(median EV / LTM EBITDA multiple of distributor group)



INDUSTRIAL DISTRIBUTION ⁽³⁾

(median EV / LTM EBITDA multiple of distributor group)



Source: Capital IQ as of December 31, 2023. Multiples in 2023 represent EV / 2023E EBITDA.

(1) Includes: Performance Food Group, SpartanNash, Sysco, The Chefs' Warehouse, United Natural Foods and US Foods.

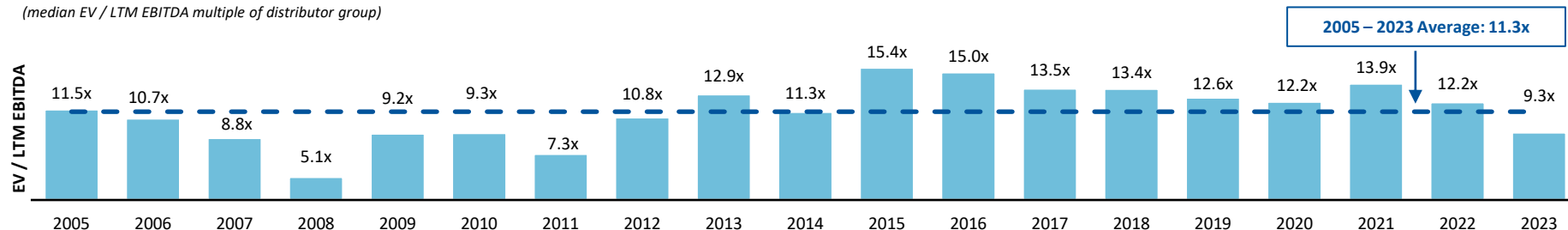
(2) Includes: Cardinal Health, Henry Schein, McKesson, Owens & Minor and Patterson Companies.

(3) Includes: Applied Industrial Technologies, Bossard Holding, Bufab, Diploma, Distributions Solutions Group, DXP Enterprises, Fastenal, MRC Global, MSC Industrial Direct, NOW Inc., RS Group and W.W. Grainger.

VALUATION TRENDS BY SUBSECTOR (CONT.)

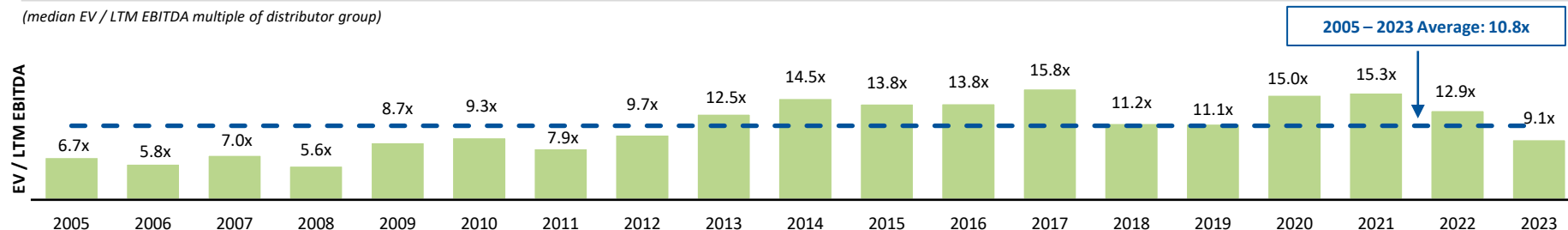
PAPER & PACKAGING DISTRIBUTION ⁽¹⁾

(median EV / LTM EBITDA multiple of distributor group)



SPECIALTY CHEMICALS DISTRIBUTION ⁽²⁾

(median EV / LTM EBITDA multiple of distributor group)



Source: Capital IQ as of December 31, 2023. Multiples in 2023 represent EV / 2023E EBITDA.

(1) Includes: 4imprint Group, Bunzl, Cimpress, Macfarlane Group and TAKKT.

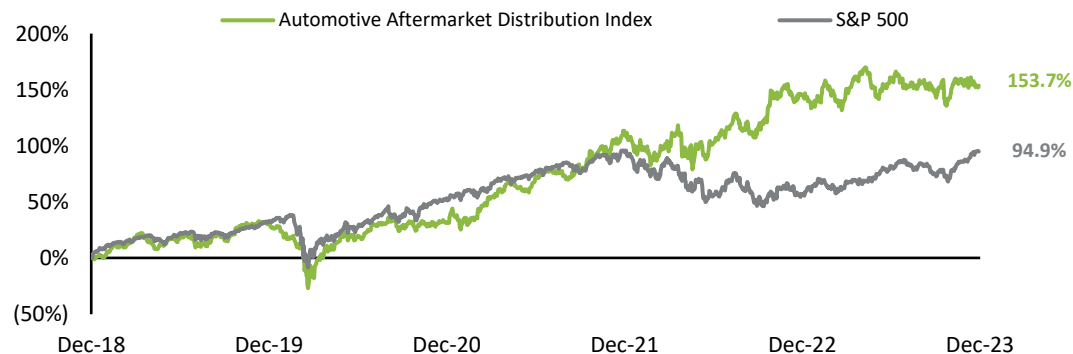
(2) Includes: Avantor, Brenntag, DKSH Holding, IMCD and Parkland Corporation.



DISTRIBUTION SUBSECTOR UPDATES

AUTOMOTIVE AFTERMARKET DISTRIBUTION

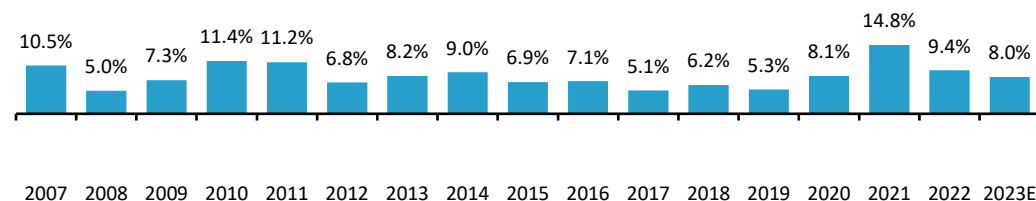
5-YEAR STOCK PERFORMANCE



REVENUE GROWTH

(median annual growth rate of distributor group)

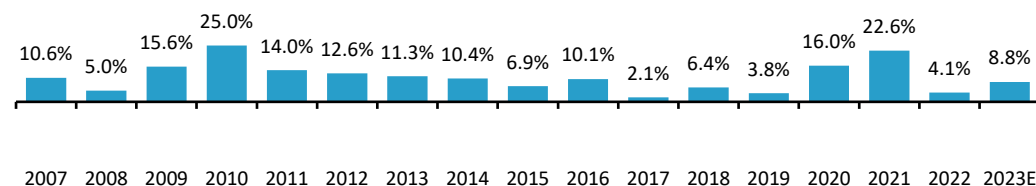
Median 2007-2023E Growth Rate: 8.0%



ADJUSTED EBITDA GROWTH

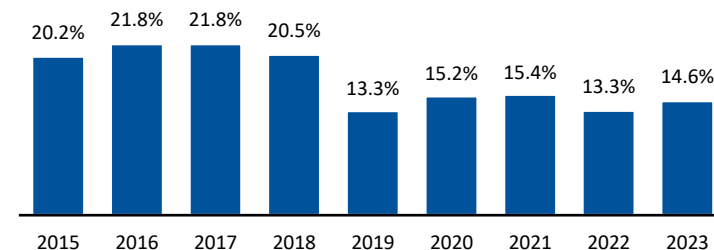
(median annual growth rate of distributor group)

Median 2007-2023E Growth Rate: 10.4%



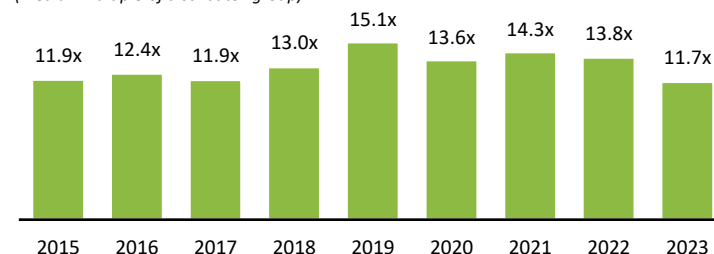
EBITDA MARGIN

(median LTM EBITDA margin of distributor group)



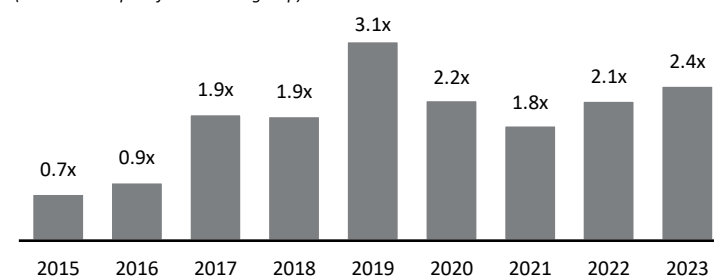
TEV / EBITDA MULTIPLE

(median multiple of distributor group)



NET DEBT / EBITDA MULTIPLE

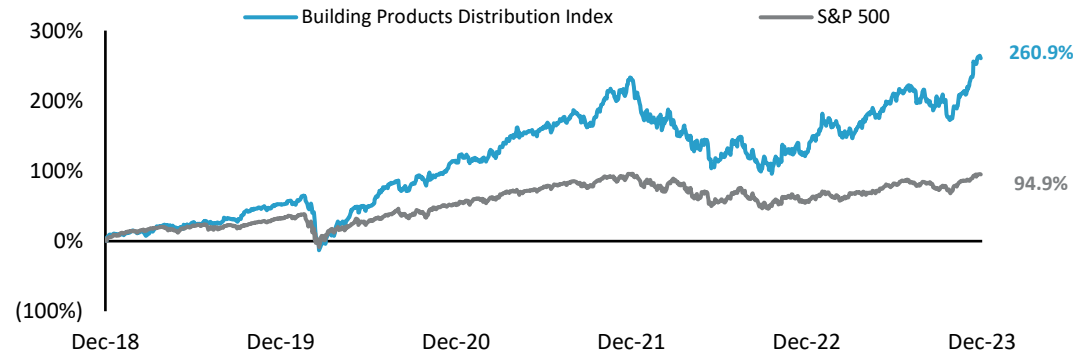
(median multiple of distributor group)



BUILDING PRODUCTS DISTRIBUTION

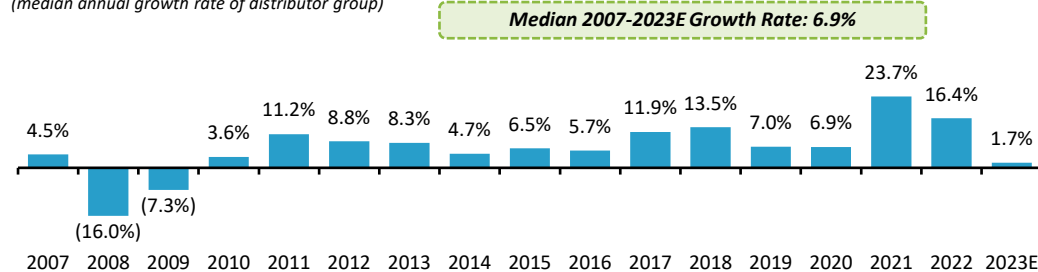
BAIRD

5-YEAR STOCK PERFORMANCE



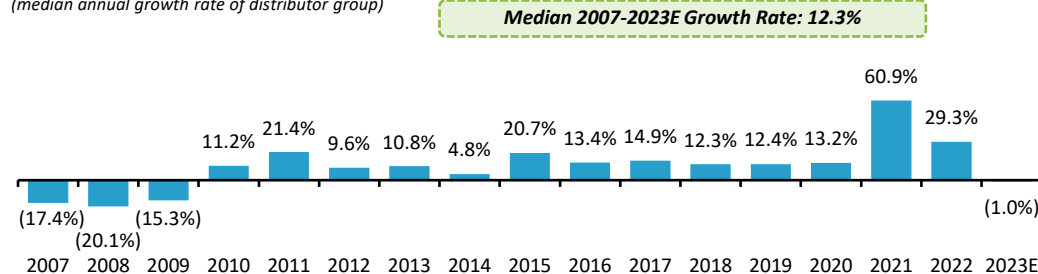
REVENUE GROWTH

(median annual growth rate of distributor group)



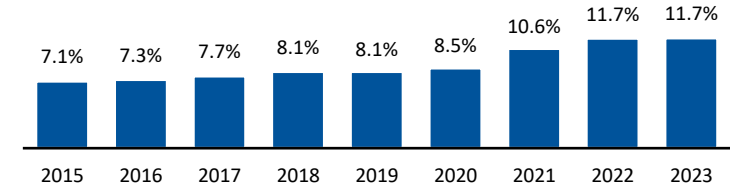
ADJUSTED EBITDA GROWTH

(median annual growth rate of distributor group)



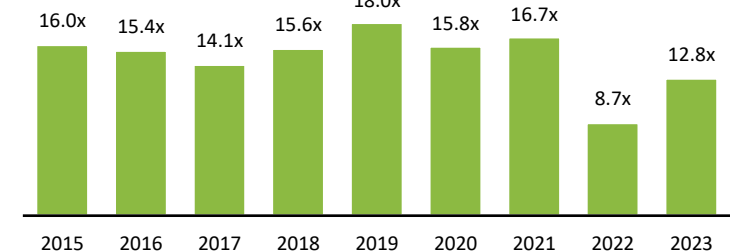
EBITDA MARGIN

(median LTM EBITDA margin of distributor group)



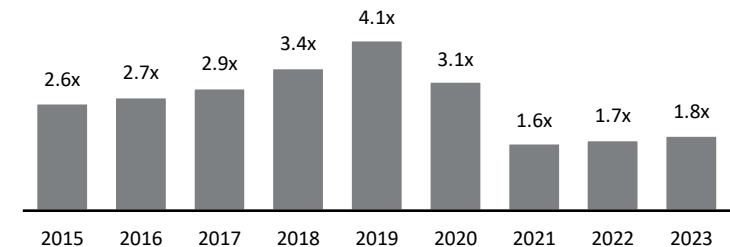
TEV / EBITDA MULTIPLE

(median multiple of distributor group)



NET DEBT / EBITDA MULTIPLE

(median multiple of distributor group)



Source: Capital IQ as of December 31, 2023. Multiples in 2023 use 2023E EBITDA.

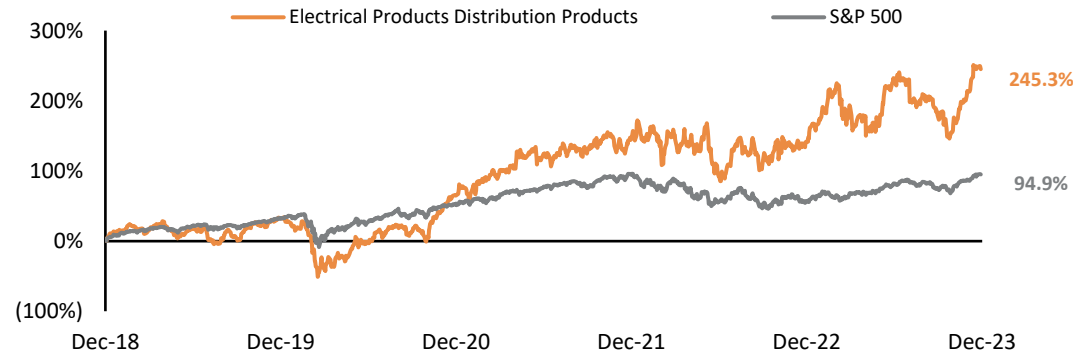
Note: Financial detail includes Beacon Roofing Supply, Beijer Ref, BlueLinx, Builders FirstSource, Core & Main, Ferguson, GMS, Hillman, Pool Corporation, SiteOne Landscape Supply, Travis Perkins and Watsco.

Note that Core & Main and Hillman went public between 2015-2023.

ELECTRICAL PRODUCTS DISTRIBUTION

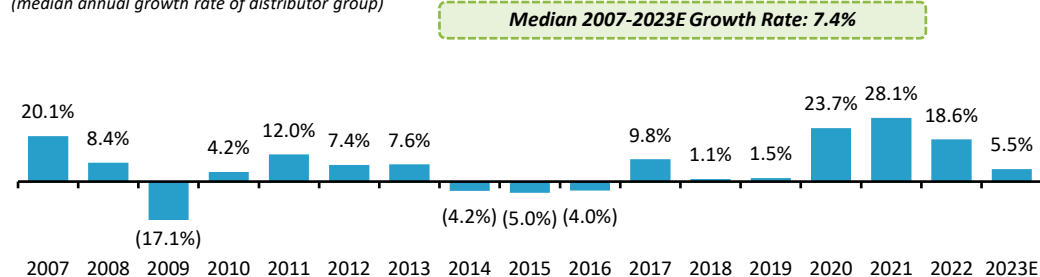
BAIRD

5-YEAR STOCK PERFORMANCE



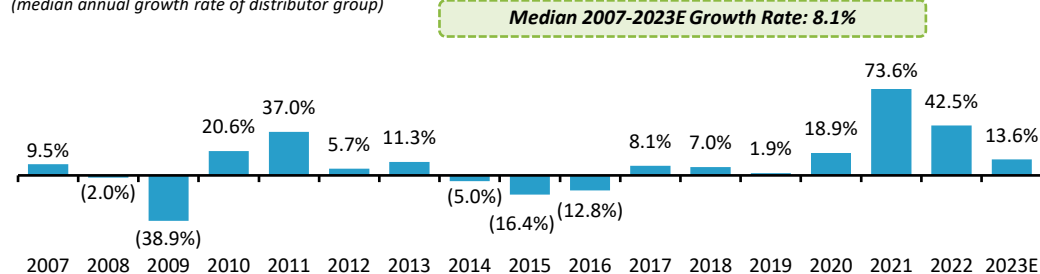
REVENUE GROWTH

(median annual growth rate of distributor group)



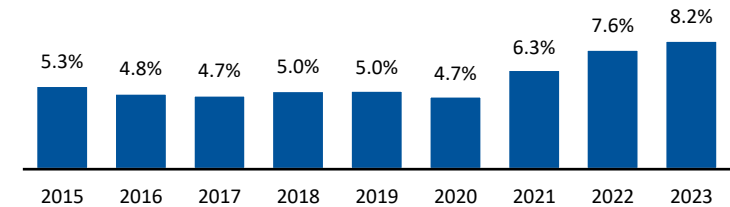
ADJUSTED EBITDA GROWTH

(median annual growth rate of distributor group)



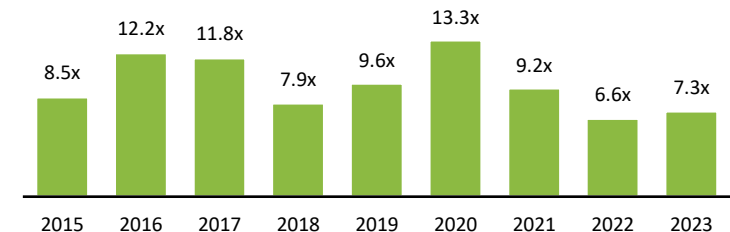
EBITDA MARGIN

(median LTM EBITDA margin of distributor group)



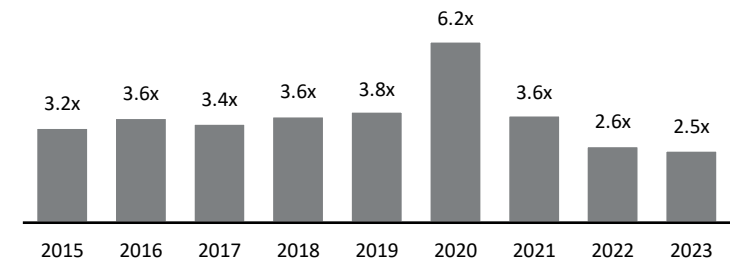
TEV / EBITDA MULTIPLE

(median multiple of distributor group)



NET DEBT / EBITDA MULTIPLE

(median multiple of distributor group)



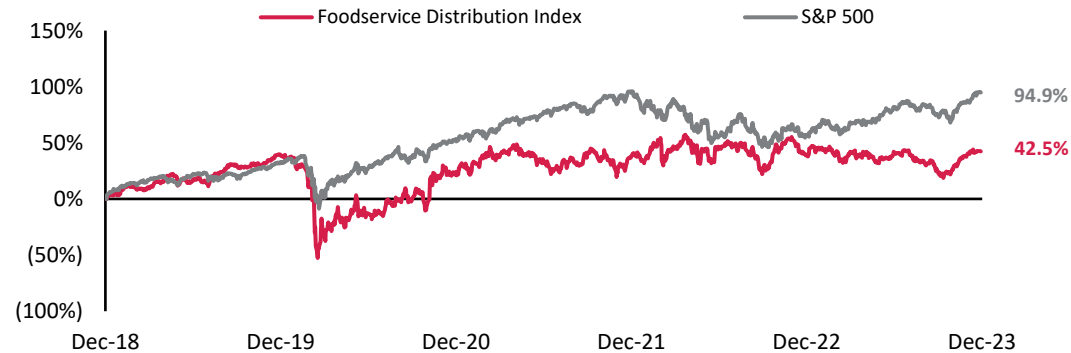
Source: Capital IQ as of December 31, 2023. Multiples in 2023 use 2023E EBITDA.

Note: Financial detail includes Rexel and WESCO International.

FOODSERVICE DISTRIBUTION

BAIRD

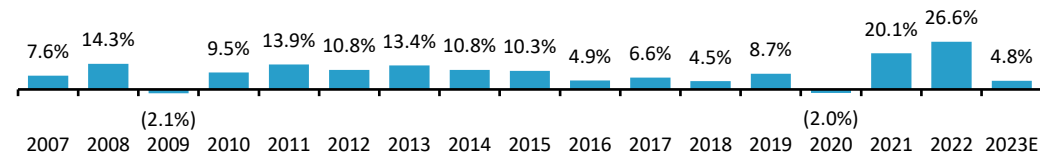
5-YEAR STOCK PERFORMANCE



REVENUE GROWTH

(median annual growth rate of distributor group)

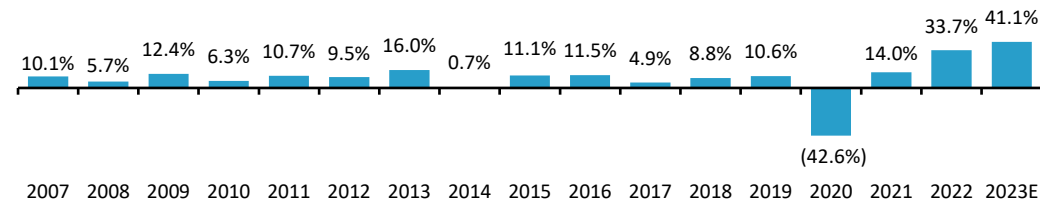
Median 2007-2023E Growth Rate: 9.5%



ADJUSTED EBITDA GROWTH

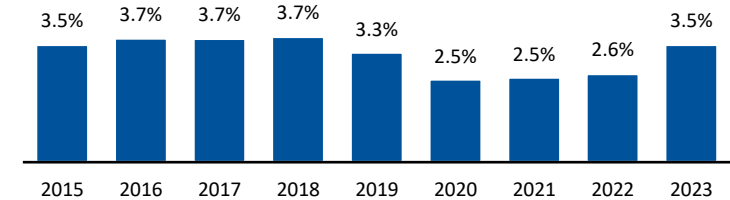
(median annual growth rate of distributor group)

Median 2007-2023E Growth Rate: 10.6%



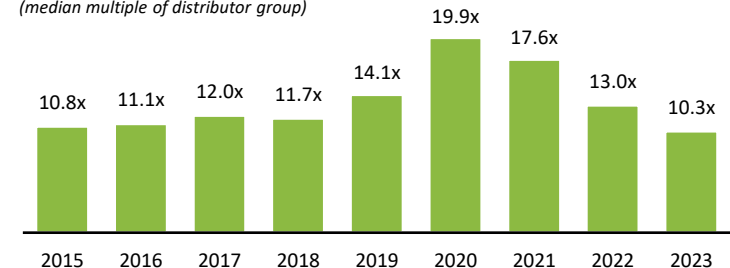
EBITDA MARGIN

(median LTM EBITDA margin of distributor group)



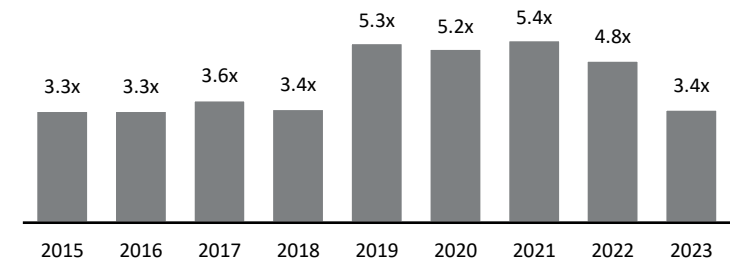
TEV / EBITDA MULTIPLE

(median multiple of distributor group)



NET DEBT / EBITDA MULTIPLE

(median multiple of distributor group)



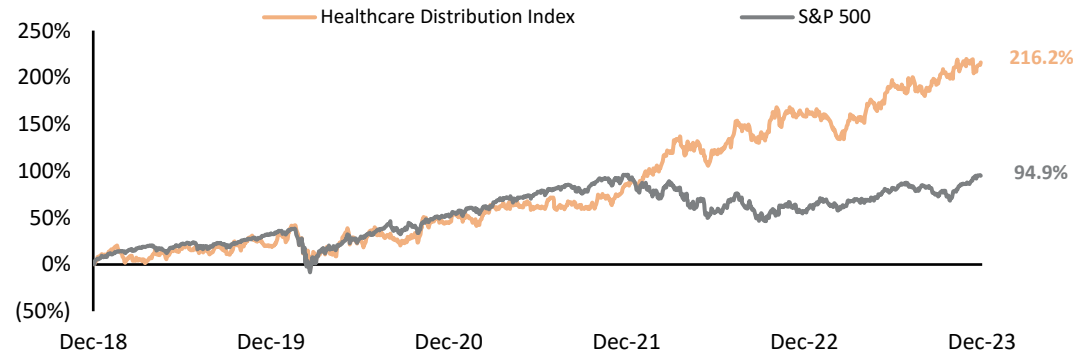
Source: Capital IQ as of December 31, 2023. Multiples in 2023 use 2023E EBITDA.

Note: Financial detail includes Performance Food Group, SpartanNash, Sysco, The Chefs' Warehouse, United Natural Foods and US Foods.

HEALTHCARE DISTRIBUTION

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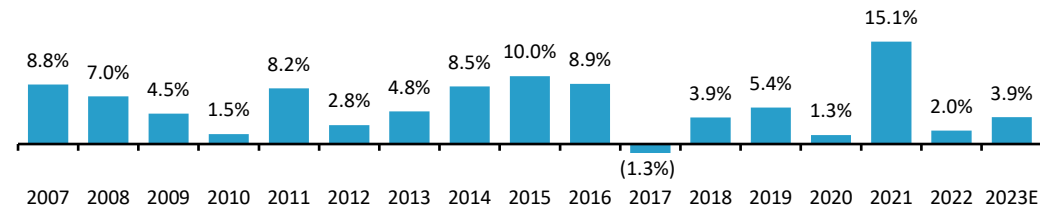
5-YEAR STOCK PERFORMANCE



REVENUE GROWTH

(median annual growth rate of distributor group)

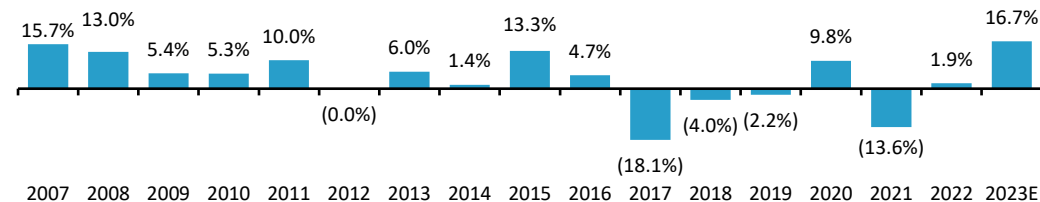
Median 2007-2023E Growth Rate: 4.8%



ADJUSTED EBITDA GROWTH

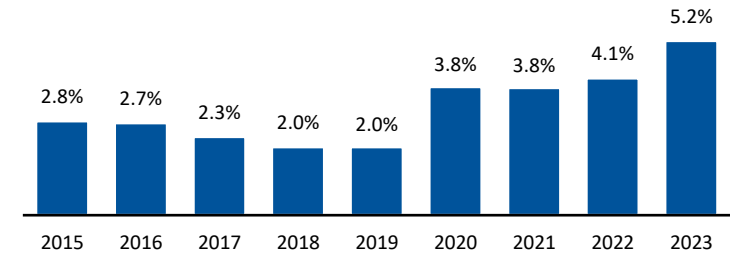
(median annual growth rate of distributor group)

Median 2007-2023E Growth Rate: 5.3%



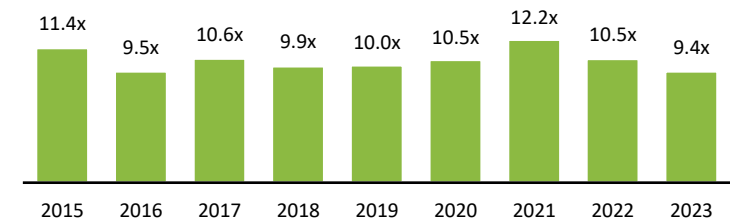
EBITDA MARGIN

(median LTM EBITDA margin of distributor group)



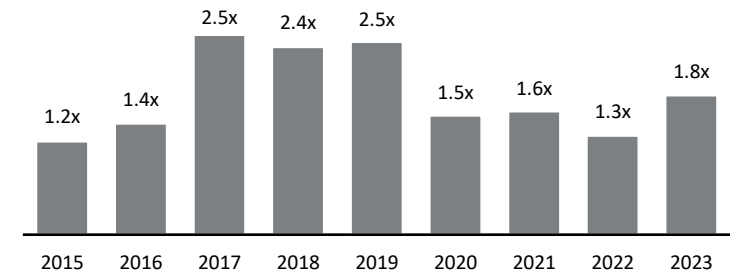
TEV / EBITDA MULTIPLE

(median multiple of distributor group)



NET DEBT / EBITDA MULTIPLE

(median multiple of distributor group)



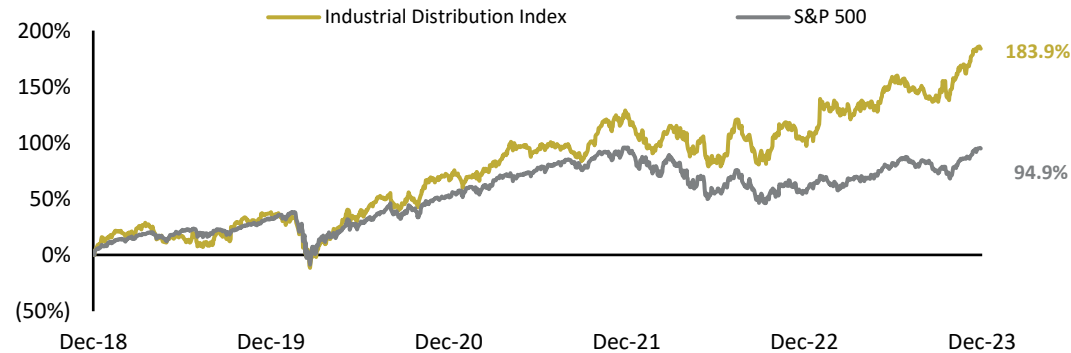
Source: Capital IQ as of December 31, 2023. Multiples in 2023 use 2023E EBITDA.

Note: Financial detail includes Cardinal Health, Henry Schein, McKesson, Owens & Minor and Patterson Companies.

INDUSTRIAL DISTRIBUTION

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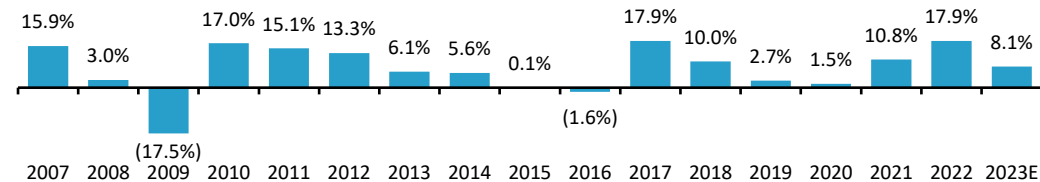
5-YEAR STOCK PERFORMANCE



REVENUE GROWTH

(median annual growth rate of distributor group)

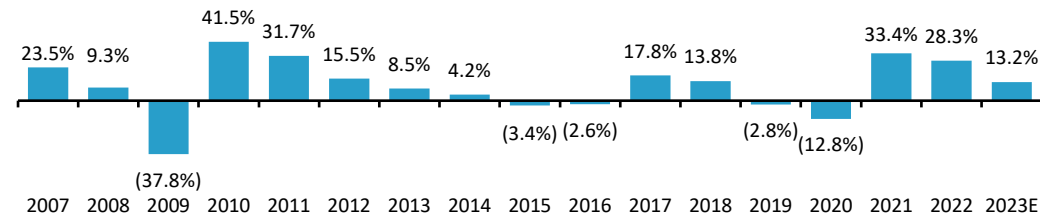
Median 2007-2023E Growth Rate: 8.1%



ADJUSTED EBITDA GROWTH

(median annual growth rate of distributor group)

Median 2007-2023E Growth Rate: 13.2%

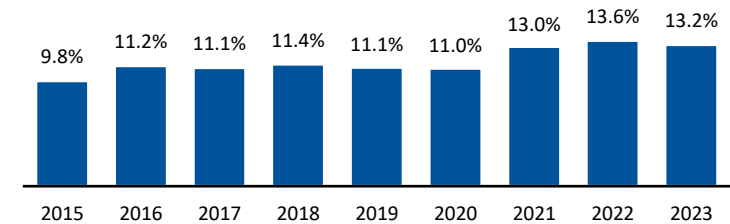


Source: Capital IQ as of December 31, 2023. Multiples in 2023 use 2023E EBITDA.

Note: Financial detail includes Applied Industrial Technologies, Bossard Holding, Bufab, Diploma, Distributions Solutions Group, DXP Enterprises, Fastenal, MRC Global, MSC Industrial Direct, NOW Inc., RS Group and W.W. Grainger.

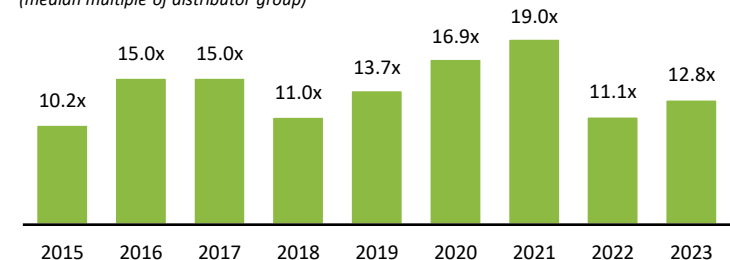
EBITDA MARGIN

(median LTM EBITDA margin of distributor group)



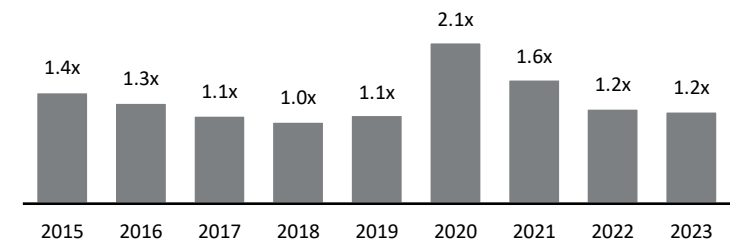
TEV / EBITDA MULTIPLE

(median multiple of distributor group)



NET DEBT / EBITDA MULTIPLE

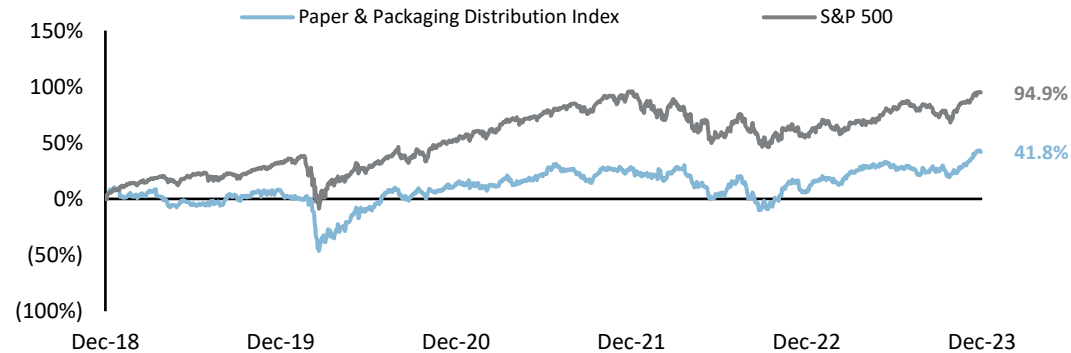
(median multiple of distributor group)



PAPER & PACKAGING DISTRIBUTION

BAIRD

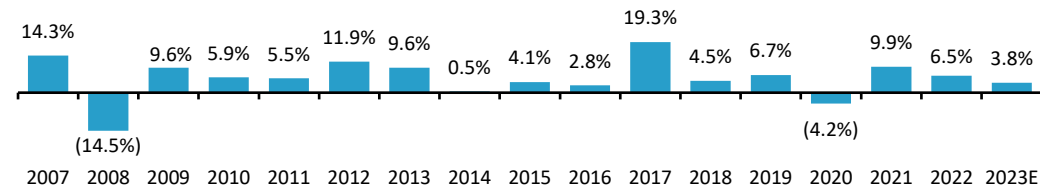
5-YEAR STOCK PERFORMANCE



REVENUE GROWTH

(median annual growth rate of distributor group)

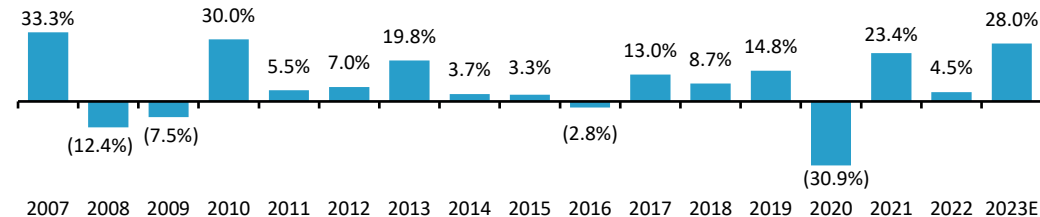
Median 2007-2023E Growth Rate: 5.9%



ADJUSTED EBITDA GROWTH

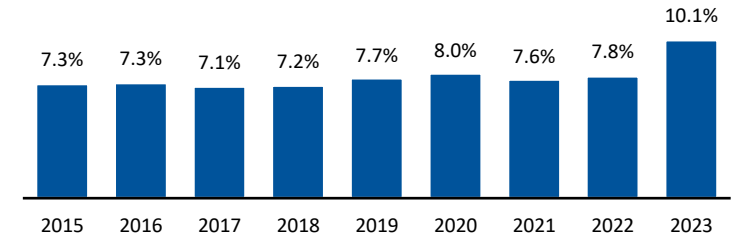
(median annual growth rate of distributor group)

Median 2007-2023E Growth Rate: 7.0%



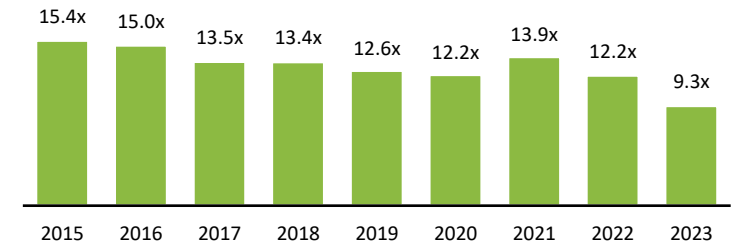
EBITDA MARGIN

(median LTM EBITDA margin of distributor group)



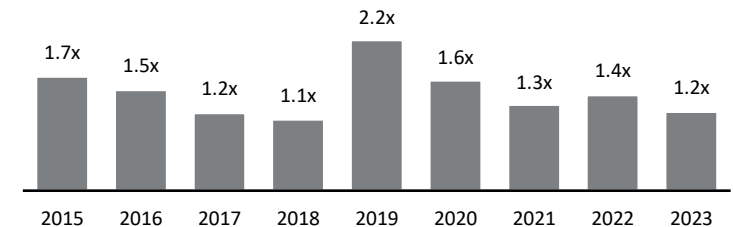
TEV / EBITDA MULTIPLE

(median multiple of distributor group)



NET DEBT / EBITDA MULTIPLE

(median multiple of distributor group)

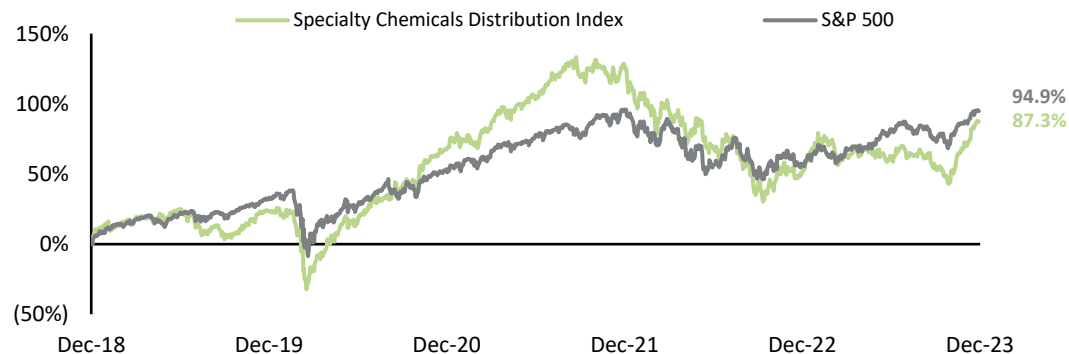


Source: Capital IQ as of December 31, 2023. Multiples in 2023 use 2023E EBITDA.

Note: Financial detail includes 4imprint Group, Bunzl, Cimpress, Macfarlane Group and TAKKT.

SPECIALTY CHEMICALS DISTRIBUTION

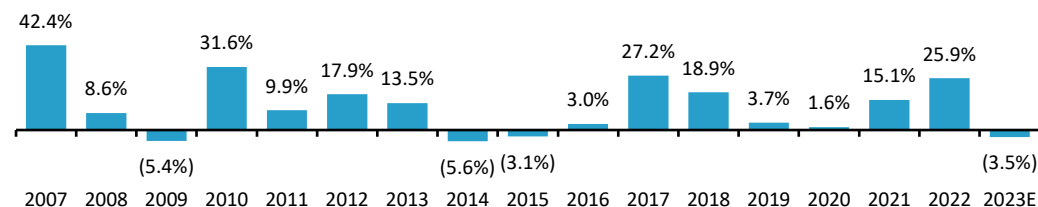
5-YEAR STOCK PERFORMANCE



REVENUE GROWTH

(median annual growth rate of distributor group)

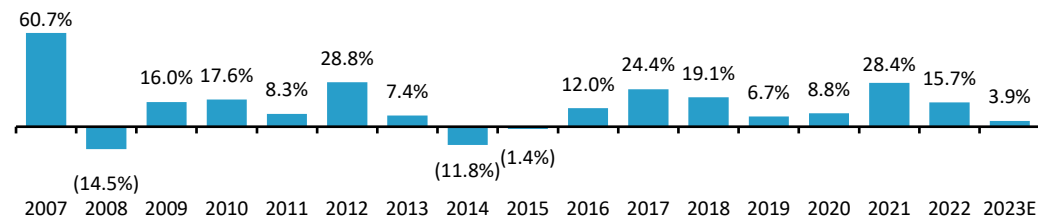
Median 2007-2023E Growth Rate: 9.9%



ADJUSTED EBITDA GROWTH

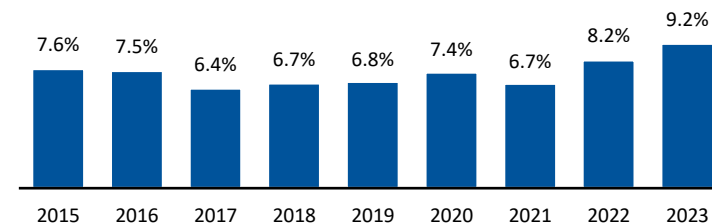
(median annual growth rate of distributor group)

Median 2007-2023E Growth Rate: 12.0%



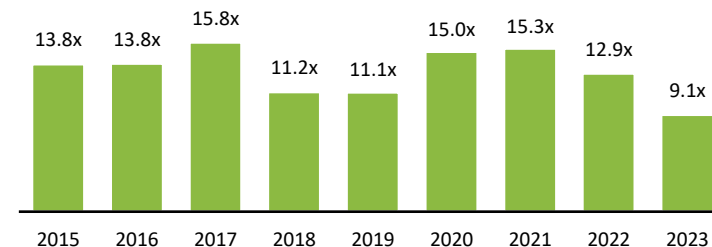
EBITDA MARGIN

(median LTM EBITDA margin of distributor group)



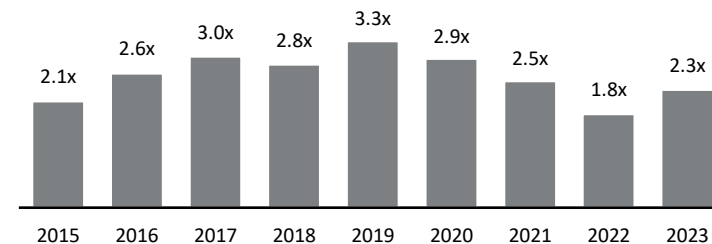
TEV / EBITDA MULTIPLE

(median multiple of distributor group)



NET DEBT / EBITDA MULTIPLE

(median multiple of distributor group)



Source: Capital IQ as of December 31, 2023. Multiples in 2023 use 2023E EBITDA.

Note: Financial detail includes Avantor, Brenntag, DKSH Holding, IMCD and Parkland Corporation.



BAIRD'S INDUSTRIAL DISTRIBUTION RESEARCH

BAIRD INDUSTRIAL DISTRIBUTION RESEARCH

BAIRD

Leading distribution research with extensive coverage for 14 public distributors

DAVE MANTHEY – SENIOR RESEARCH ANALYST



- Over 25 years of experience
- Extensive and close relationships with institutional investors in the distribution sector
- As shown to the right, Baird's Quarterly Distribution Survey, which polls ~500 private companies with ~\$100 billion in aggregate annual revenue, provides unique industry insight

BROAD PUBLIC COMPANY COVERAGE (2)



REVENUE GROWTH BY DISTRIBUTION SECTOR (1)

	2021	2022	2023E	2024E
Metalworking / Cutting Tools	10.4%	5.7%	5.6%	6.4%
Facilities MRO / Jan San	5.4%	9.4%	3.5%	4.2%
Hoses & Accessories	8.2%	9.8%	4.4%	3.1%
Mechanical / PT	11.4%	11.4%	4.5%	3.0%
HVAC	14.5%	9.2%	1.4%	2.8%
General Industrial	9.9%	7.0%	2.3%	2.7%
Safety	5.7%	3.5%	0.5%	2.6%
Industrial PVF	8.2%	8.1%	2.6%	2.4%
Plumbing	14.5%	7.6%	3.0%	2.0%
Waterworks	13.2%	8.0%	3.4%	1.8%
Electrical	16.2%	11.3%	(0.5%)	0.8%
Datacomm	14.1%	12.0%	(2.8%)	0.7%
Lumber & Building Materials	13.7%	7.6%	(2.9%)	(0.6%)
Roofing	10.0%	9.7%	(0.3%)	(1.8%)
OEM Fasteners	18.6%	8.8%	(1.4%)	(3.2%)
Pool & Spa	16.5%	7.0%	(1.0%)	(5.0%)
Landscape Supplies	11.1%	4.9%	(2.3%)	(5.3%)
Wallboard / Gypsum	13.2%	8.0%	(5.0%)	(7.9%)
Overall	13.0%	8.6%	0.4%	1.6%

(1) Source: Baird's Quarterly Distribution Survey results – ~500 respondents and ~\$100 billion in aggregate revenue.

(2) Other public company coverage includes Clean Harbors, Republic Services, Stericycle and Waste Management.

SELECT BAIRD RESEARCH COMMENTARY

BAIRD



“

Cross selling between the Service Center and Engineered Solutions segments looks to be building momentum, with management outlining a potential 100bps of contribution to organic growth over time. Automation softness in the June quarter was largely driven by project timing but the pipeline continues to increase and management sees the business doubling longer term to ~10% of total company mix. The demand environment was characterized as “constructive” with some normalization in growth rates “to be expected”. Management believes any broad-based slowdown will be “shorter in duration and more shallow” but expects a “very favorable” industrial backdrop 2H24 through 2027 driven by industrial infrastructure buildout, CHIPS act, and growing customer capex/operational spend requirements.”

— Baird Research note on 11/14/23



“

BECN reported another strong quarter and raised 2023 guidance for the third time as Ambition 2025 continues to power strong results. Looking ahead, we see a mostly flattish market outlook for 2024, with growth likely having to be driven by self-help levers (greenfields, tuck-in acquisitions, share gains, digital/private label). Against this backdrop and with our continued concerns over industry pricing/margin discipline, we’re staying Neutral, but with BECN’s improving execution under the current management team, we are incrementally more positive on a secular basis. Our Neutral rating continues to be underpinned by uncertainty in the roofing distribution industry discipline/competitive environment, sustainability of price/margins, and potential pull-forward demand in 2023 given the active storm year. We’d look to re-engage with more visibility/confidence in the 2024 outlook for these factors.”

— Baird Research note on 11/03/23



“

New three-year financial targets imply continued strong cash generation/deployment primarily towards share buybacks, implying the attractive “low-leverage recap” story continues. Management also endorsed a new higher normalized gross margin, which we expect to be viewed favorably (although largely anticipated) and support further base business EBITDA margin expansion. Our view on the stock is unchanged as targets were essentially in line with our expectations and imply attractive but less spectacular upside when compared with the previous two years. Assuming low-to-mid-single-digit market growth, BLDR sees 2024-2026 base business revenue CAGR of +9%, with ~150bps annual outgrowth driven by digital and value-add. Continued tuck-in M&A also contributes. Base business adjusted EBITDA margin is expected to expand at a 30bps annual rate to ~14.4%.”

— Baird Research note on 12/05/23



“

CNM reported 3QF23 results with no surprises (in line with pre-announced ranges) and raised full-year guidance by more than the 3QF23 beat. Gross margin of 27.0% matched our estimate and normalized 50bps y/y as inventory costs continue to approach selling prices, eliminating inventory profits; SG&A matched our estimate in dollar and percentage of sales terms. Looking to 2024, management provided an informal outlook that implies a normal growth year and was generally consistent with company’s investor day long-term growth algorithm. Although the stock has nicely outperformed in 2023, we remain very positive as we think we’re still early in CNM’s attractive compounding story and the shares could ultimately migrate towards ~\$100 over the next 4/5 years.”

— Baird Research note on 12/05/23

SELECT BAIRD RESEARCH COMMENTARY (CONT.)

BAIRD

FASTENAL®

“

November ADS growth of +3.8% y/y beat our +2.5% estimate and the +2.8% implied by FAST's benchmark. However, given weather swings/holidays/seasonality, November/December daily sales are notoriously volatile so we'd caution against reading too much into one month. Nonresidential construction and fastener sales remain lower y/y, which we view as consistent with a still soft industrial economy. Net, no change to our thesis as we're favorably inclined on FAST's secular positioning/cyclical setup but looking for an opportunity to get more aggressive. Looking forward, we now model December daily sales +4.0% y/y, which is in line with normal seasonality/benchmark growth based on a slightly above 50 (50.4) forward-looking indicator in our November FDI survey on private fastener distributors.”

— Baird Research note on 12/06/23

FERGUSON®

“

FERG reported in-line October quarter results and reiterated full-year guidance, sending the shares +3.5% (S&P flattish). While our estimates are largely unchanged, we are encouraged by sequential stabilization in commodity pricing, expectations for margins to resume normalized modest expansion, and a stable management tone on the non-residential outlook. Overall, we see a good setup for FERG as residential markets bottom, RMI demand remains resilient, and non-residential demand should be better than feared, while continued investor discovery and additional potential index inclusion also augments. While we do anticipate a modest degree of non-residential end market declines in 2024, we continue to believe actual declines are likely to be less sharp than some investors fear given aforementioned offsets/pockets of strength, company specific share gains, and a balanced demand mix.”

— Baird Research note on 12/05/23

GRAINGER®

“

GWG beat 3Q23 estimates on better sales/gross margin and narrowed full-year guidance (EPS midpoint +1%). With normalized gross margin a lingering investor question/concern, management sized 2023 temporary tailwinds as just ~40bps, implying a higher sustainable US gross margin target than originally contemplated at the 2022 Investor Day. After another quarter outpacing the 400-500bps market outgrowth target (550bps this quarter), we have increased confidence in the US HTS growth algorithm; Endless Assortment growth (particularly Zoro) needs to accelerate to hit management's +16-18% targets but GWG is making progress in acquiring new customers and driving repeat purchases with the expanded product assortment, while consumer-customer noise will fade.”

— Baird Research note on 10/26/23

HILLMAN

“

Foot traffic continues to be the biggest swing factor in management's 2024 outlook but HLMN's product categories should outpace overall retailer foot traffic declines. Typical gains from new business wins should also occur next year (+2-3%). While overall revenue could be flattish with some price give back to leading retailers, management expressed confidence in growing EBITDA next year, pointing to 2009 as an example (commodities declined and revenues were -5% but EBITDA +10%). Management sees strong potential in the MinuteKey 3.5 machine, which begins rolling out in 2024; new capabilities include office RFID duplication, transponder, and auto smart fob duplication. Retailers are also excited about MinuteKey 3.5 given the stronger economics (e.g. 25% revenue share on a \$4 “dumb” key vs. 25% on a \$75 “smart” key).”

— Baird Research note on 11/14/23

SELECT BAIRD RESEARCH COMMENTARY (CONT.)

BAIRD



“

MSC reported an in-line quarter and introduced initial 2024 guidance capturing Street estimates. Growth is decelerating, but this was well telegraphed given persistently soft ISM/IP. We see many parallels between MSC's new strategic pillars and Grainger's highly successful post-2016 initiatives that have driven strong outperformance. With continued execution/ROIC improvement and recent corporate governance improvements, we believe MSM could see multiple expansion over time, while conservative margin estimates seemingly have room to move higher, creating a favorable setup. Additionally, the recent removal of dual-classes of stock and execution of new Mission Critical goals (20%+ ROIC, ~mid-teens operating margins) could aid sentiment/valuation.”

— Baird Research note on 10/25/23



“

As the law of large numbers eventually makes growing +7-10% from acquisitions more challenging for SITE, management believes organic growth can step up from +4-5% to +7-8% to offset the difference, pointing to opportunities to grow share with smaller customers (just 7-8% share today), national accounts growth, better digital capabilities than competitors, and improved salesforce performance from newly implemented CRM. Management expressed confidence in eventually reaching the higher end of the stated 13-15% EBITDA margin goal as some regions with the full product line in place are already operating within this range. Turning to 2024, management hears builders are optimistic, R&R should be “consistent and resilient” (supported by outdoor living secular trend/work from home), maintenance demand should be steady, and commercial should be solid through at least 1H24.”

— Baird Research note on 11/14/23



“

The upcoming 2025 A2 refrigerant transition is seen as a significant tailwind to both price/mix (+10-20%) and replacement rates (declining R-410A likely to spur replacement instead of repair). Rheem disruption from the 2023 SEER change (estimated \$150 million in lost sales for WSO) is likely to be a positive growth driver in 1H24 as Rheem is intent on putting marketing dollars and programs into the market to resecure lost business. ~27% gross margin continues to be seen as the appropriate target with opportunities for continued expansion towards 30% driven by new pricing tools (just the third inning of this initiative), non-equipment gains, freight optimization, and supply chain normalization.”

— Baird Research note on 11/14/23



“

Management attributes the implied acceleration from October sales need to reach the 4Q23 guide to project timing and backlog release. Secular growth drivers are expected to contribute a +1-2% lift to growth over time, and in 2024 specifically, WCC expects federal funding to be a more meaningful contributor. Rahi Systems (acquired late 2022) continues to perform well (tracking towards ~20% growth in 2023) and has added several capabilities to the legacy WCC data center business (hyperscale focus, services such as rack and roll and other product solutions). Supplier price increase rates/notifications have moderated but management still sees pricing being a positive driver to 2024 growth. WCC has remaining inventory reduction opportunities but extra days of inventory on hand is tied to firm customer PO's for projects (not speculative inventory).”

— Baird Research note on 11/14/23

The background image is a grayscale photograph of a large industrial facility, possibly a warehouse or factory, with a high ceiling and various structural elements. Overlaid on this is a semi-transparent blue horizontal band. Above and below this band are white wireframe graphics. These include a network diagram with nodes and arrows in the top left, a line graph with an upward arrow in the top right, a shield icon on the right, and several 3D wireframe cubes and rectangular blocks scattered across the bottom. The overall aesthetic is high-tech and digital.

BAIRD'S GLOBAL DISTRIBUTION GROUP

RESPECTED DISTRIBUTION M&A FRANCHISE

BAIRD

LEADING DISTRIBUTION M&A VELOCITY

34

Closed Distribution M&A Transactions Since 2021

82

Closed Distribution M&A Transactions Since 2010

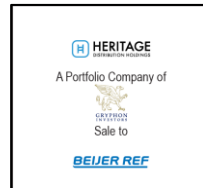
\$40B+

Total Distribution M&A Transaction Volume Since 2021

\$55B+

Total Distribution M&A Transaction Volume Since 2010

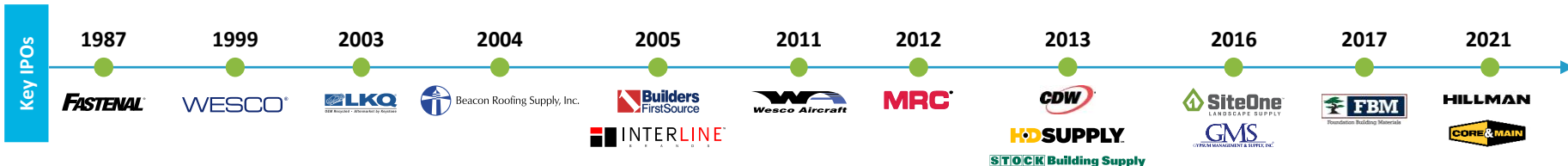
Select Baird distribution M&A transactions since 2021



LEADING DISTRIBUTION EQUITY UNDERWRITING FRANCHISE

BAIRD

Baird has supported leading distributors in the capital markets for 35+ years



Recent Transactions

HILLMAN \$175,149,000 Common Stock <i>Follow-on Offering</i>	HILLMAN \$230,000,000 Common Stock <i>Follow-on Offering</i>	HILLMAN \$149,500,000 Common Stock <i>Follow-on Offering</i>
watsco \$300,000,000 Common Stock <i>At-the-Market Offering</i>	CORE & MAIN \$1,043,023,251 Common Shares <i>Initial Public Offering</i>	HILLMAN Merger with LANDCADIA HOLDINGS
GMS GYPSUM MANAGEMENT & SUPPLY, INC. \$189,750,000 Common Stock <i>Follow-on Offering</i>	SiteOne LANDSCAPE SUPPLY \$546,250,000 Common Stock <i>Follow-on Offering</i>	watsco \$250,000,000 Common Stock <i>At-the-Market Offering</i>
GMS GYPSUM MANAGEMENT & SUPPLY, INC. \$233,780,625 Common Stock <i>Follow-on Offering</i>	SiteOne LANDSCAPE SUPPLY \$341,550,000 Common Stock <i>Follow-on Offering</i>	watsco \$609,938,640 Common Stock <i>Bought Deal</i>

Select Additional Equity Offerings

FBM Foundation Building Materials \$206,080,000 Common Stock <i>Initial Public Offering</i>	HD SUPPLY \$897,000,000 Common Stock <i>Follow-on Offering</i>	STOCK Building Supply \$112,700,000 Common Stock <i>Initial Public Offering</i>	HD SUPPLY \$1,101,063,816 Common Stock <i>Initial Public Offering</i>
CDW \$454,537,500 Common Stock <i>Initial Public Offering</i>	Wesco Aircraft \$276,000,000 Common Stock <i>Follow-on Offering</i>	MRC \$477,272,733 Common Stock <i>Initial Public Offering</i>	Wesco Aircraft \$315,000,000 Common Stock <i>Initial Public Offering</i>
WESCO \$345,000,000 Convertible Debt <i>Exchange Offer</i>	LKO Corporation \$427,800,000 Common Stock <i>Follow-on Offering</i>	Beacon Roofing Supply, Inc. \$276,718,750 Common Stock <i>Follow-on Offering</i>	Builders FirstSource \$225,400,000 Common Stock <i>Initial Public Offering</i>
WESCO \$289,200,000 Common Stock <i>Follow-on Offering</i>	INTERLINE \$215,625,000 Common Stock <i>Initial Public Offering</i>	Beacon Roofing Supply, Inc. \$201,825,000 Common Stock <i>Initial Public Offering</i>	MSC Industrial Direct \$191,820,000 Common Stock <i>Follow-on Offering</i>

BAIRD'S GLOBAL DISTRIBUTION GROUP

BAIRD

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