LAWSON Products


# Investor Presentation

## Third Quarter 2021

Presenters: Michael DeCata, President & CEO
Ronald Knutson, EVP & CFO

**"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, 2020 and in the Form 10-Q for the quarter ended September 30, 2021.**

**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.**

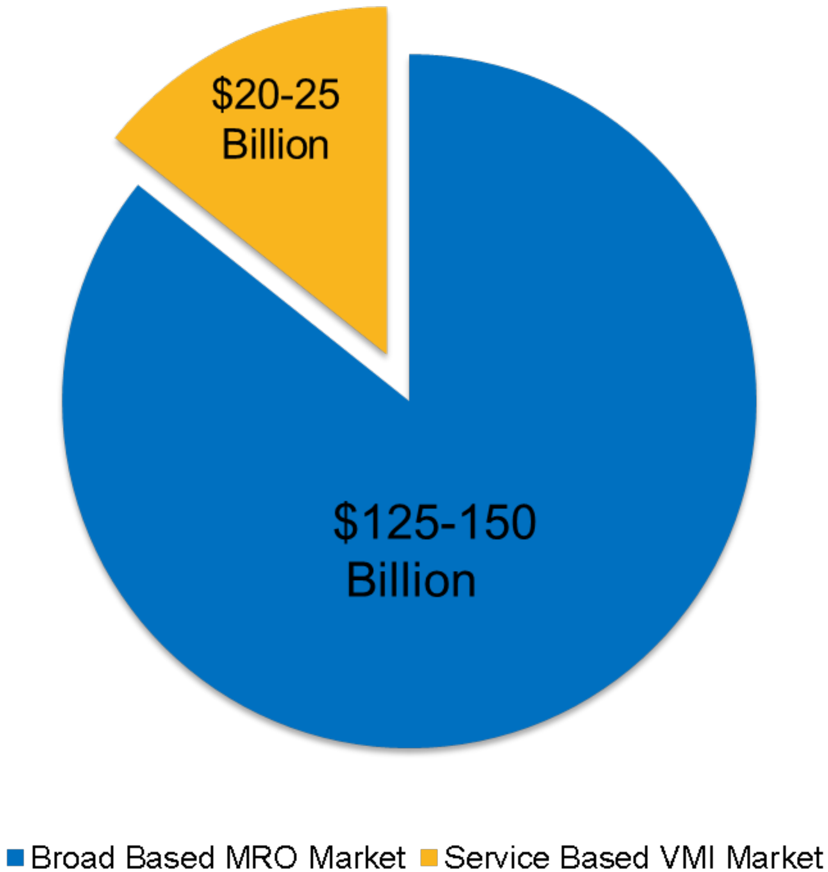
# Lawson Products: At a Glance

- **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 ~1,900 (~ 1,100 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"



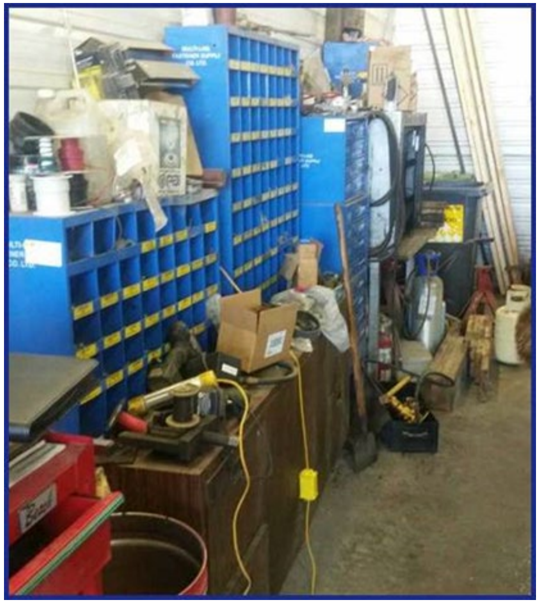

***What differentiates Lawson:***

- 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 90,000+ Customers

High touch service and technical expertise drives customer relationships

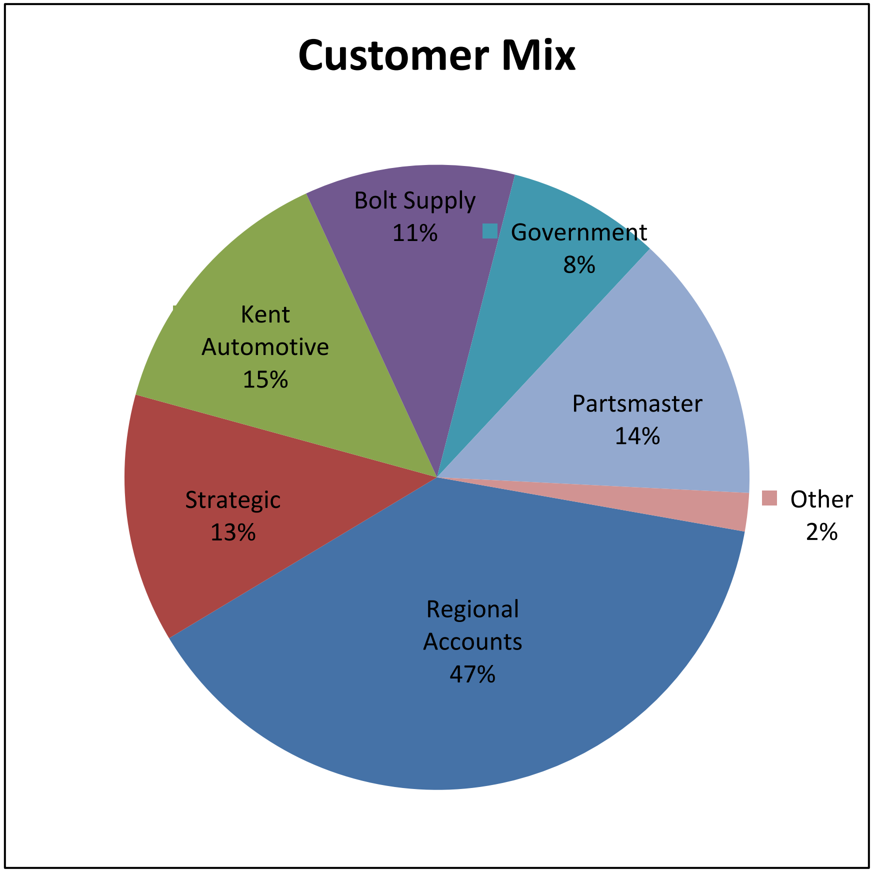
***Before***

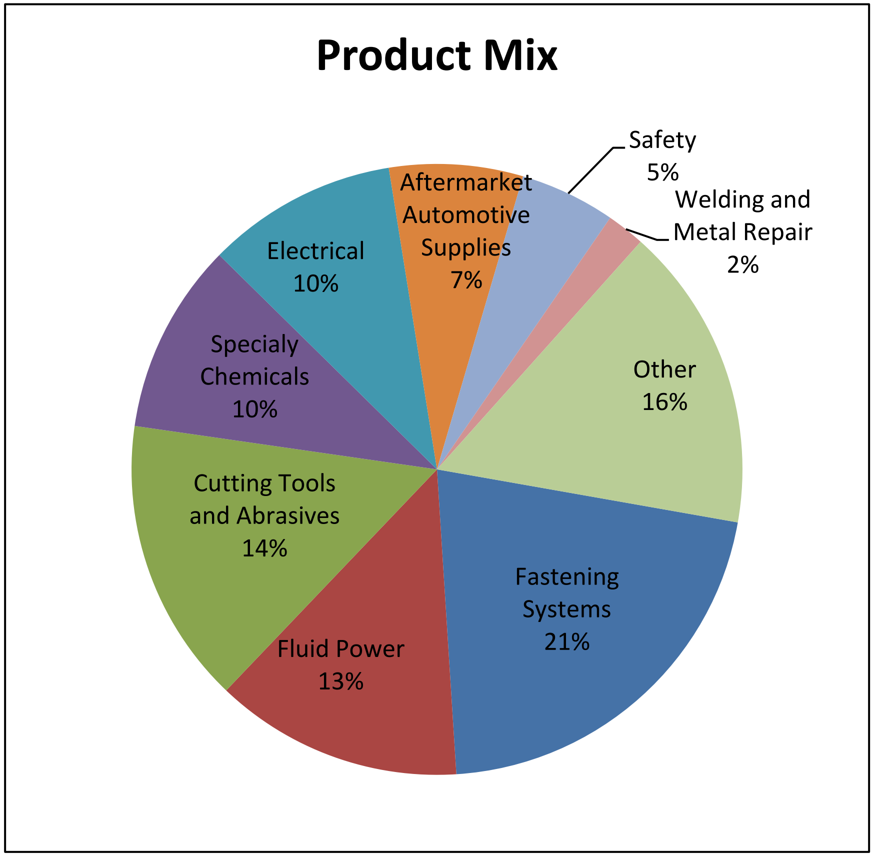


***After***

| One Company, Zero Headaches | Inventory Management Options | Access to Industry Knowledge & Expertise |
|---|---|---|
| • Comprehensive line of products | • Lawson Managed Inventory | • Product recommendations from your Lawson Representative |
| • Hundreds of pre-built assortments | • Industrial vending | • Application advice from our test and application engineers |
| • Unlimited sourcing of hard-to-find items | • Self-service inventory management | • Complimentary on-site safety & product usage training |

# Customer and Product Profile




***Retain approximately 90% of customer revenues from year to year***

# Partsmaster Acquisition

## What PARTSMASTER™ (A DIVISION OF LAWSON PRODUCTS, Inc.) adds to LAWSON Products

- **Very good strategic fit**
  - ✓ Similar high touch, consumable MRO provider
  - ✓ High quality VMI service to customers
  - ✓ Diverse, complimentary product portfolio
  - ✓ Private label products

- **Key statistics**
  - $63 million annual sales
  - 16,000 customers
  - 200 sales reps in US and Canada
  - 40,000 SKUs
  - DC located in Greenville, TX

- **Acquisition details**
  - Acquired in August 2020
  - Purchase price of $35.3 million cash and additional assumed liabilities
  - $2.3 million paid at closing; additional $33.0 million paid in May 2021
  - Contributed $44.6 million of revenue in 2021
  - Fully integrated as of July 2021

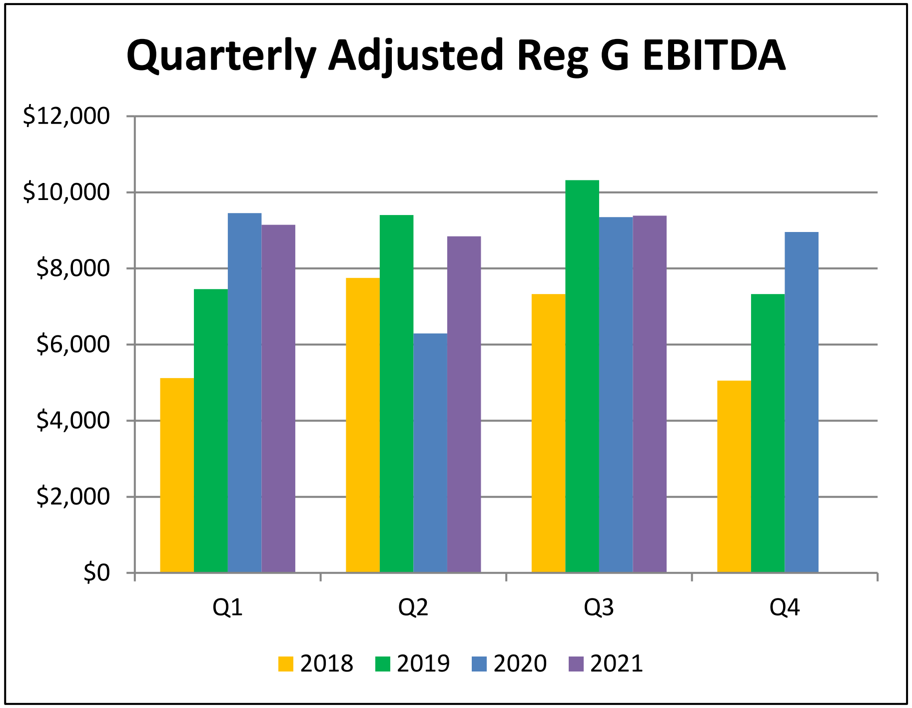
PARTSMASTER™

# Financial Highlights for Third Quarter 2021

- **Sales increased 16.9% compared to Q3 2021**
  - Includes $13.6 million from Partsmaster acquisition compared to $5.4 million in one-month post-acquisition period in Q3 2020
  - Sales returned to pre-pandemic levels
  - Organic sales grew 8.4% over a year ago

- **Adjusted EBITDA of $9.4 million**
  - 8.9% of sales
  - Taking actions to offset negative impacts of global supply chain issues and higher price inflation; gross margins in line with Q1 2021

- **Key trends**
  - ✓ Ended quarter in a net borrowing position of $3.4 million
  - ✓ Ended quarter with $87.4 million in available borrowing capacity



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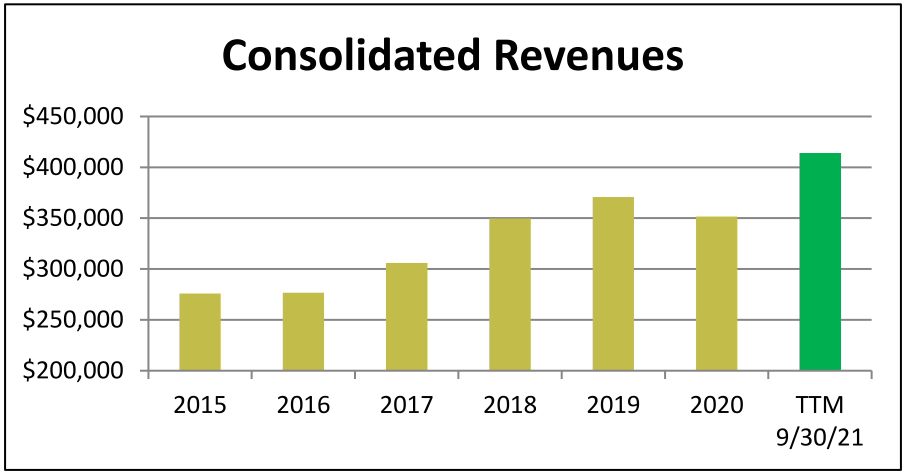
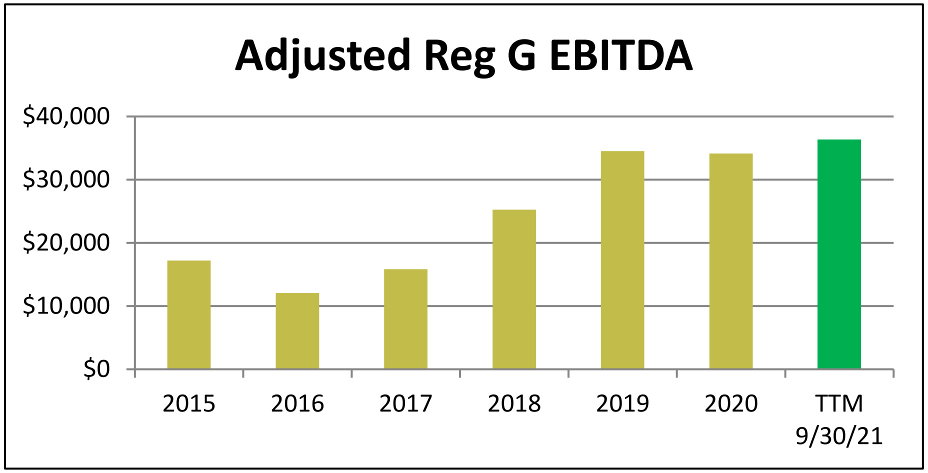
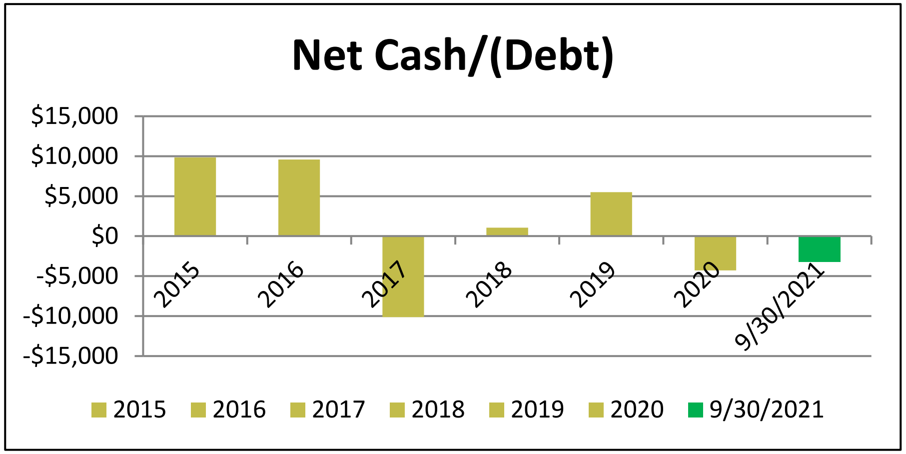
# Historical Financial Performance

***Recent sales growth and earnings expansion providing financial flexibility***




## Key Take-Aways:

- Continued growth through rep productivity and acquisitions
- Took actions in 2020 to preserve strength; retained certain 2020 cost saving actions
- Coming out of 2020 in strong position
- Strong balance sheet

# Capital Allocation Priorities

**Maintain Strong Balance Sheet**

- $3.4 million net borrowing position at the end of Q3; $87.4 million of available borrowing capacity under our credit agreement
- Paid $33.0 million in May 2021 for Partsmaster acquisition

**Reinvest for Growth**

- Increased our borrowing capacity to $100.0 million (additional $50.0 million accordion) in late 2019
- Capital expenditures expected to be approximately $6.0 - $6.5 million in 2021
- Growth initiatives: add new reps and increase sales rep productivity

**Pursue Disciplined M&A**

- Closed Partsmaster acquisition in August 2020
- Closed Screw Products Inc. acquisition in October 2018
- Closed Bolt Supply House acquisition in October 2017

**Return Capital**

- Share repurchase to offset award dilution; opportunistic purchases
- $7.5 million stock repurchase program announced Q2 2019; $4.5 million remaining

# Lawson Growth Strategy

## Sales Growth Driven By

***New Sales Reps***

***Sales Rep Productivity***

***Acquisitions***

## *Foundational Support*

| | | | | |
|---|---|---|---|---|
| ERP | Network Optimization | Sales Transformation | Lean Six Sigma | Website |

# 2021 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

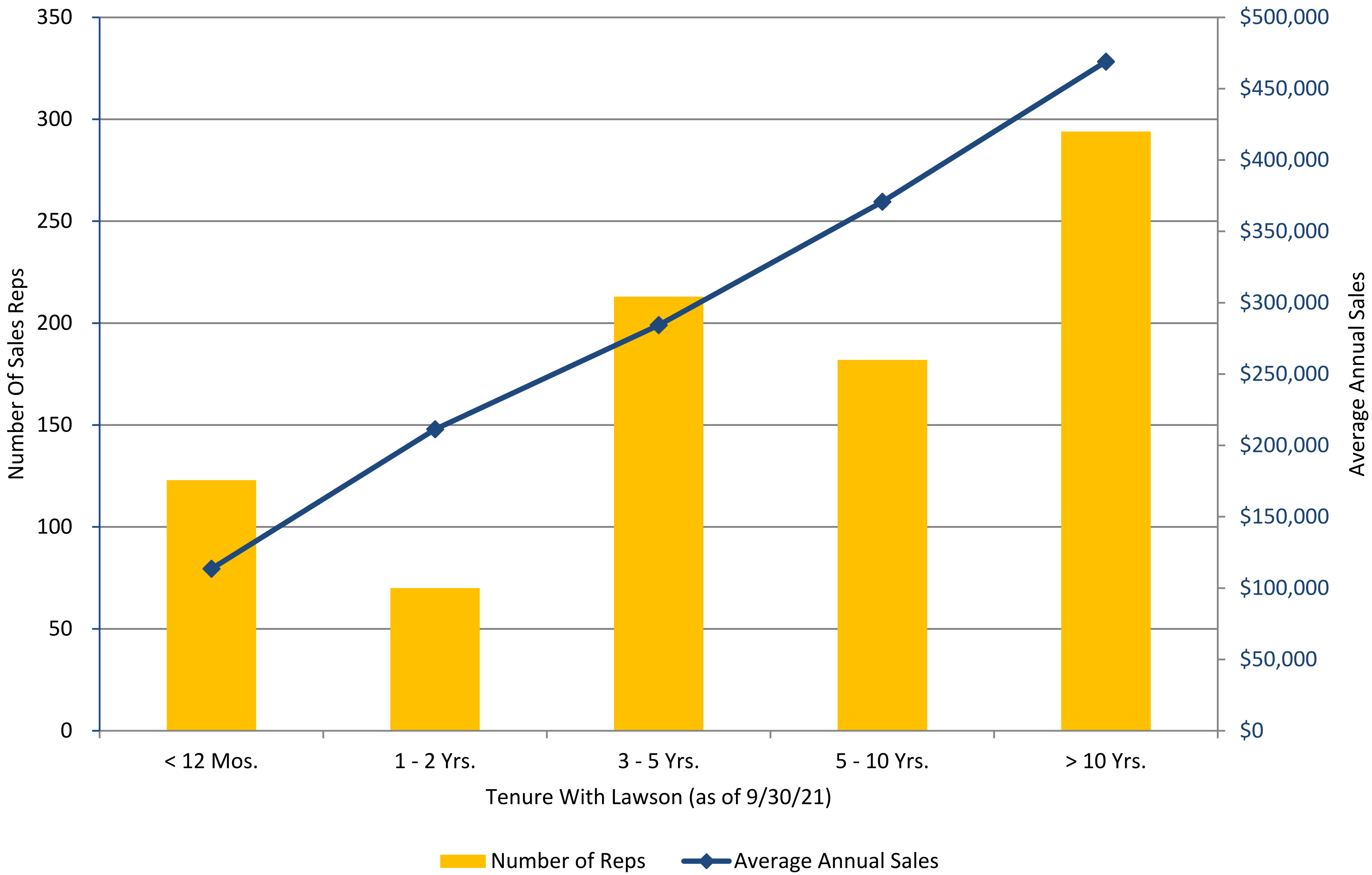
- Reduce cycle time
- Refine “Pull” strategy
- Freight enhancements
- Minimize backorders
- Improve service levels
- Forecasting tool

### 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



# Lawson Products: Poised for Growth

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

# For More Information

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**And see our Website at**
**http://www.lawsonproducts.com/company-info/investor-relations.jsp**

# Appendices

# Significant Activities



| | |
|---|---|
| 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. Feeney acquisition |
| June 2016 | ➢Expanded sales team to over 1,000 sales reps |
| September 2016 | ➢Extended credit facitlity 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 |
| October 2018 | ➢Completed Screw Products acquisition and added Bolt Supply branch |
| June 2019 | ➢Achieved Q2 9.8% adjusted EBITDA |
| September 2019 | ➢Achieved Q3 10.9% adjusted EBITDA; hired VP, M&A |
| October 2019 | ➢Entered into new five-year $100M credit facility, with additional $50 million accordion feature |
| August 2020 | ➢Completed Partsmaster acquisition |
| July 2021 | ➢Completed integration of Partsmaster |



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# 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) | Q1 2018 | Q2 2018 | Q3 2018 | Q4 2018 | Q1 2019 | Q2 2019 | Q3 2019 | Q4 2019 | Q1 2020 | Q2 2020 | Q3 2020 | Q4 2020 | Q1 2021 | Q2 2021 | Q3 2021 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Net Sales | $ 84,459 | $ 90,382 | $ 88,530 | $ 86,266 | $ 91,343 | $ 96,097 | $ 94,779 | $ 88,566 | $ 91,035 | $ 72,146 | $ 90,277 | $ 98,133 | $ 103,556 | $ 106,540 | $ 105,570 |
| Operating Income (Loss) | 1,837 | 5,554 | (2,266) | 4,085 | 5,544 | 1,623 | 6,446 | (4,547) | 18,638 | 569 | 2,001 | (658) | 4,810 | 3,382 | 4,620 |
| Depreciation & Amortization | 1,686 | 1,679 | 1,755 | 1,735 | 1,478 | 1,455 | 1,468 | 1,492 | 1,509 | 1,511 | 1,640 | 2,041 | 1,935 | 2,004 | 2,051 |
| EBITDA | 3,523 | 7,233 | (511) | 5,820 | 7,022 | 3,078 | 7,914 | (3,055) | 20,147 | 2,080 | 3,641 | 1,383 | 6,745 | 5,386 | 6,671 |
| Excluded Costs | | | | | | | | | | | | | | | |
| Severance | 628 | 64 | 31 | 126 | 27 | 1,485 | 30 | 214 | 7 | 1,025 | 488 | 557 | 404 | 29 | 241 |
| Stock Based Compensation (Benefit) | 970 | 87 | 7,637 | (1,186) | 408 | 4,839 | 2,374 | 10,167 | (10,700) | 3,187 | 4,746 | 4,776 | 1,000 | 1,574 | (1,171) |
| Acquisition Related Costs | - | - | 168 | 62 | - | - | - | - | - | - | 473 | 325 | 172 | - | - |
| Lease Termination Gain | - | (164) | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Goodwill Impairment | - | - | - | - | - | - | - | - | - | - | - | 1,918 | - | - | - |
| Inventory Adjustments | - | - | - | - | - | - | - | - | - | - | - | - | 825 | 500 | 425 |
| Costs related to potential acquisitions | - | - | - | - | - | - | - | - | - | - | - | - | - | 1,354 | 3,222 |
| Discontinued Operation Accrual | - | 529 | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Building Impairment | - | - | - | 231 | - | - | - | - | - | - | - | - | - | - | - |
| Reg G Adjusted EBITDA | $ 5,121 | $ 7,749 | $ 7,325 | $ 5,053 | $ 7,457 | $ 9,402 | $ 10,318 | $ 7,326 | $ 9,454 | $ 6,292 | $ 9,348 | $ 8,959 | $ 9,146 | $ 8,843 | $ 9,388 |
| *Adjusted EBITDA % of Sales* | *6.1%* | *8.6%* | *8.3%* | *5.9%* | *8.2%* | *9.8%* | *10.9%* | *8.3%* | *10.4%* | *8.7%* | *10.4%* | *9.1%* | *8.8%* | *8.3%* | *8.9%* |



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# Consolidated Balance Sheet

| | September 30, 2021 | December 31, 2020 |
|---|---|---|
| **ASSETS** | (Unaudited) | |
| **Current assets:** | | |
| Cash and cash equivalents | $ 7,460 | $ 28,393 |
| Restricted cash | 197 | 998 |
| Accounts receivable, less allowance for doubtful accounts of $771 and $654, respectively | 50,779 | 44,515 |
| Inventories, net | 67,452 | 61,867 |
| Miscellaneous receivables and prepaid expenses | 8,629 | 7,289 |
| **Total current assets** | 134,517 | 143,062 |
| Property, plant and equipment, net | 17,794 | 15,800 |
| Goodwill | 35,253 | 35,176 |
| Deferred income taxes | 18,877 | 18,482 |
| Intangible assets, net | 16,796 | 18,503 |
| Cash value of life insurance | 18,240 | 16,185 |
| Right of use assets | 12,702 | 8,764 |
| Other assets | 318 | 332 |
| **Total assets** | $ 254,497 | $ 256,304 |
| **LIABILITIES AND STOCKHOLDERS' EQUITY** | | |
| **Current liabilities:** | | |
| Accrued acquisition liability | $ — | $ 32,673 |
| Accounts payable | 25,585 | 22,262 |
| Lease obligation | 4,348 | 4,568 |
| Accrued expenses and other liabilities | 39,083 | 38,492 |
| **Total current liabilities** | 69,016 | 97,995 |
| Revolving line of credit | 10,900 | — |
| Security bonus plan | 10,853 | 11,262 |
| Deferred compensation | 11,821 | 10,461 |
| Lease obligation | 9,744 | 5,738 |
| Deferred tax liability | 2,945 | 2,841 |
| Other liabilities | 4,862 | 5,585 |
| **Total liabilities** | 120,141 | 133,882 |
| **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<br>Issued - 9,305,566 and 9,287,625 shares, respectively<br>Outstanding - 9,078,347 and 9,061,039 shares, respectively | 9,306 | 9,288 |
| Capital in excess of par value | 21,546 | 19,841 |
| Retained earnings | 111,796 | 101,609 |
| Treasury stock – 227,219 and 226,586 shares, respectively | (9,048) | (9,015) |
| Accumulated other comprehensive income | 756 | 699 |
| **Total stockholders' equity** | 134,356 | 122,422 |
| **Total liabilities and stockholders' equity** | $ 254,497 | $ 256,304 |



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