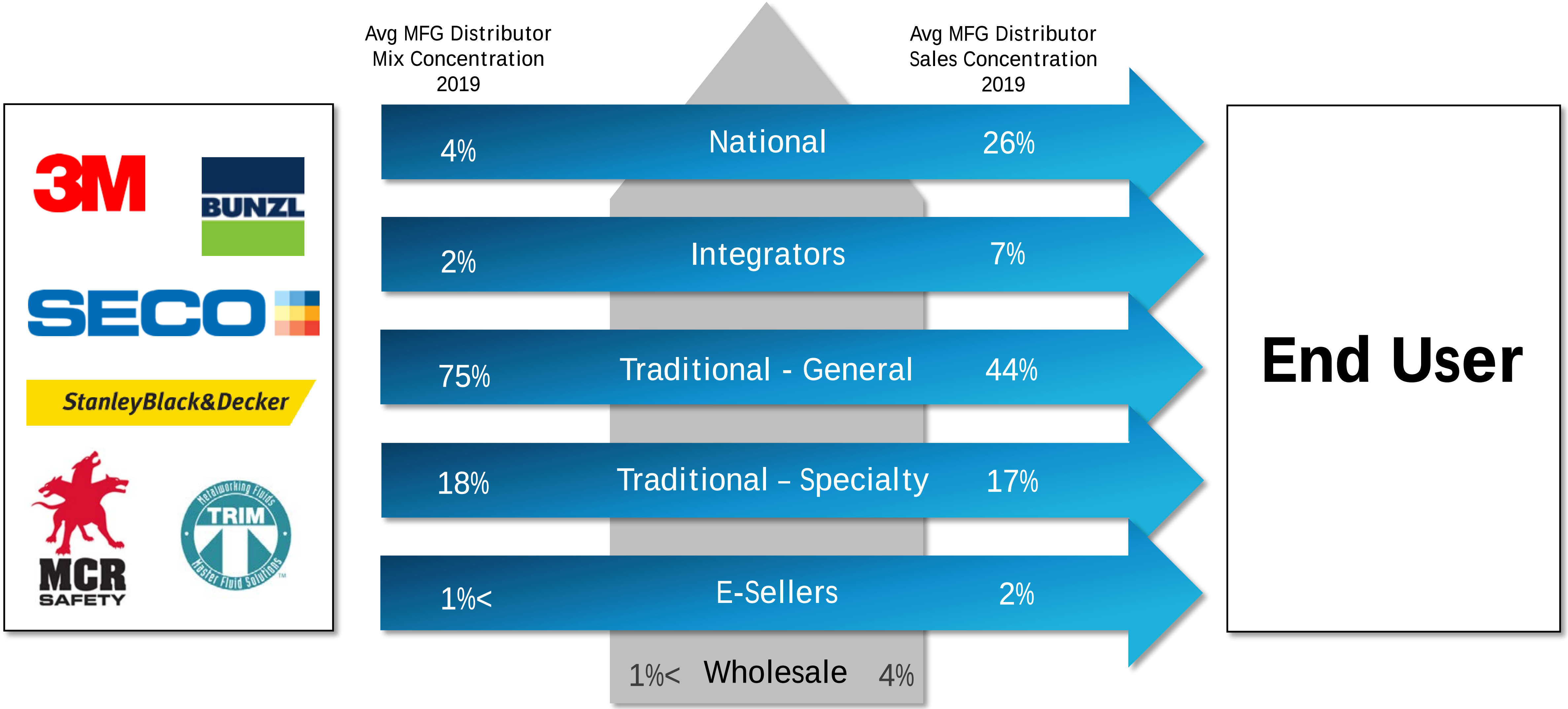
CHANNEL 2.0

ISA Channel Landscape



Source: ISA Manufacturer Analytics 2019

ISA Channel Landscape

Forecasted Channel Growth by Manufacturers 2019

Ranked by **General** Growth

% of Manufacturer Respondents

Channel	Respondents
National	85%
Traditional - General Line	83%
E-Sellers	72%
Traditional - Specialty	69%
Integrators	59%
Wholesalers	53%

Ranked by **10%+** Growth

% of Manufacturer Respondents

Channel	Respondents
E - Sellers	33%
National	21%
Traditional - Specialty	17%
Traditional – General Line	14%
Integrators	13%
Wholesalers	10%

Indicator of confidence by channel? …

Source: ISA Manufacturer Analytics 2019

ISA Channel Landscape

Distributor Economics (x public companies)

Key Metrics	2018	2017
Sales Change	7.3%	5.1%
COGS	75.7%	75.6%
Gross Margin	24.3%	24.4%
Profit Margin Before Tax*	1.9%	2.1%
Return on Assets	3.2%	3.8%

Same Sample Trend
Distributor Analytics 2019

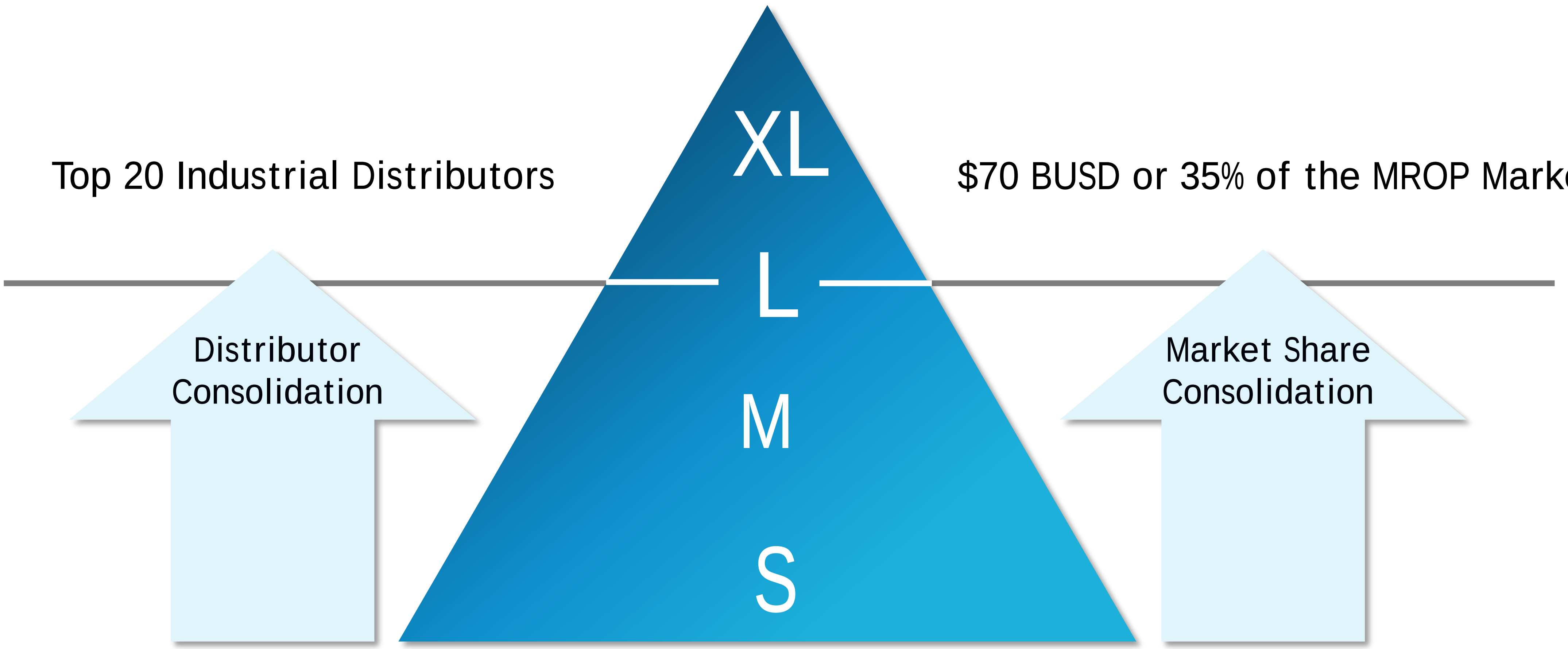
Financial Pressures

OPEX % of Revenue	2018	2017
Delivery Expense	1.3%	1.0%
IT Expense	1.1%	0.9%
Cash Discounts on Sales	0.3%	0.2%
Interest Expense	0.5%	0.4%

** Inclusive of all rebates and marketing funds*

Source: ISA Distributor Analytics 2019

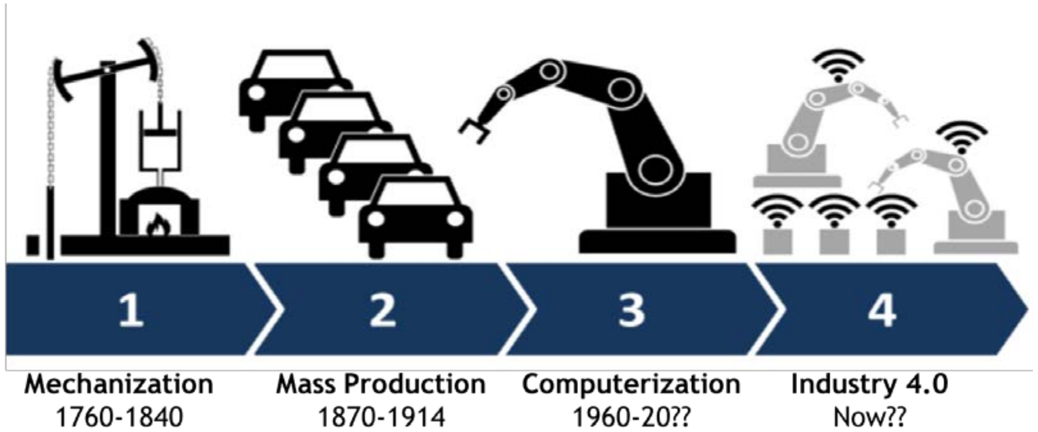
ISA Channel Landscape
Industry Consolidation



Source: MDM Top Industrial Distributors 2018

End Users

Industry 4.0



A transition from machines with computers in isolation to **machines communicating** with each other

Big Data
Computational Power
Connectivity/IoT

Digital to Physical
Additive Manufacturing
Advanced Robotics

Analytics
Business Intelligence
Proactive Decisions

Augmented Reality
Human-Machine Interactions
Touch Interfaces

End Users
Industry 4.0

Industry 4.0 is less about invention and more about **Optimization**

McKinsey & Company Digital Compass

Leading the Channel Forward®

End Users
Industry 4.0 – Impact on Industrial Channel

Planned Spend

80% of $ - 20% of Work

- <100 Suppliers
- Easier to Predict
- Easier to Source

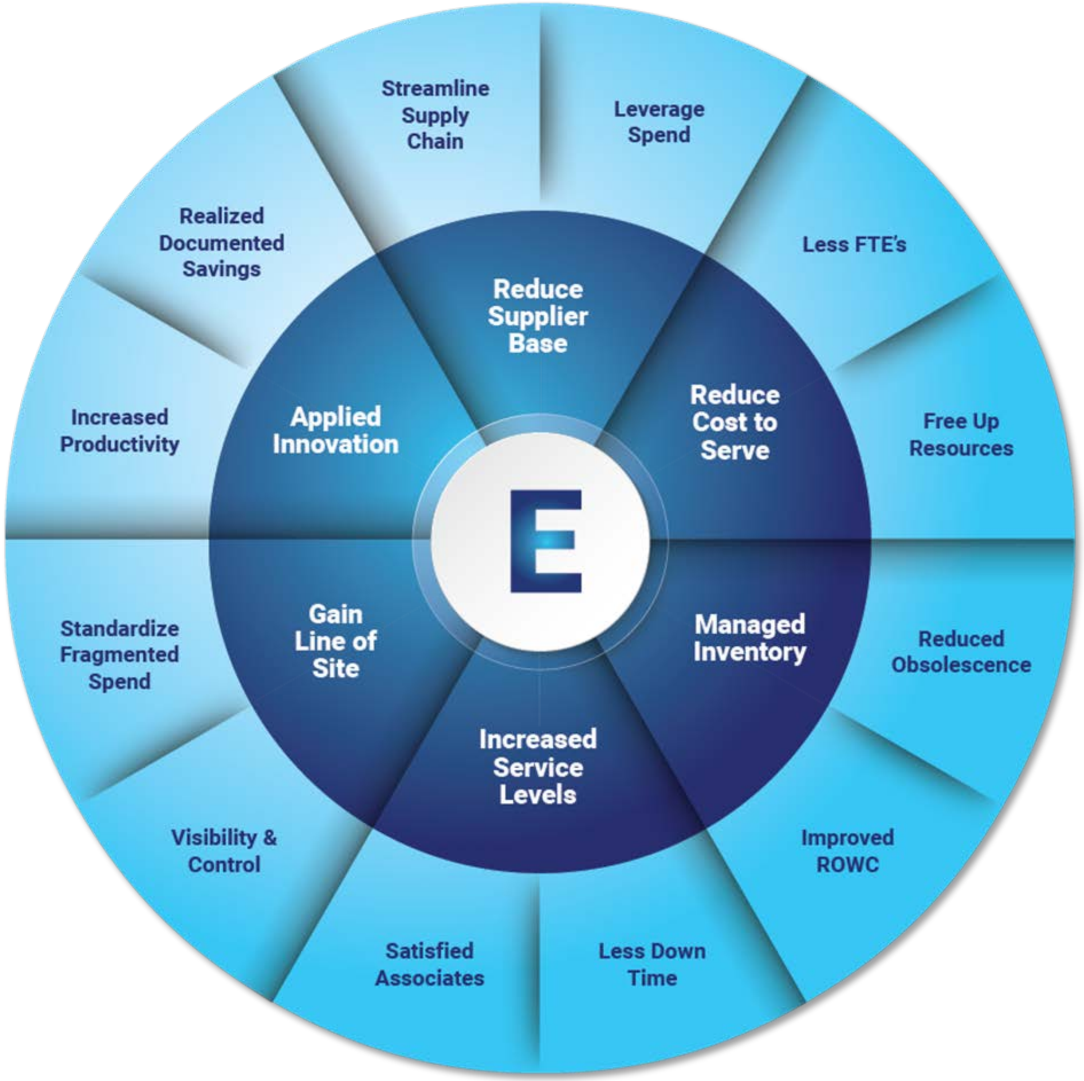
Unplanned Spend (The “Tail”)

20% of $ - 80% of Work

- 1000+ Suppliers
- Difficult to Predict
- Difficult to Source

*Disruption **will** optimize the supply chain*

Channel 2.0
End User Compass

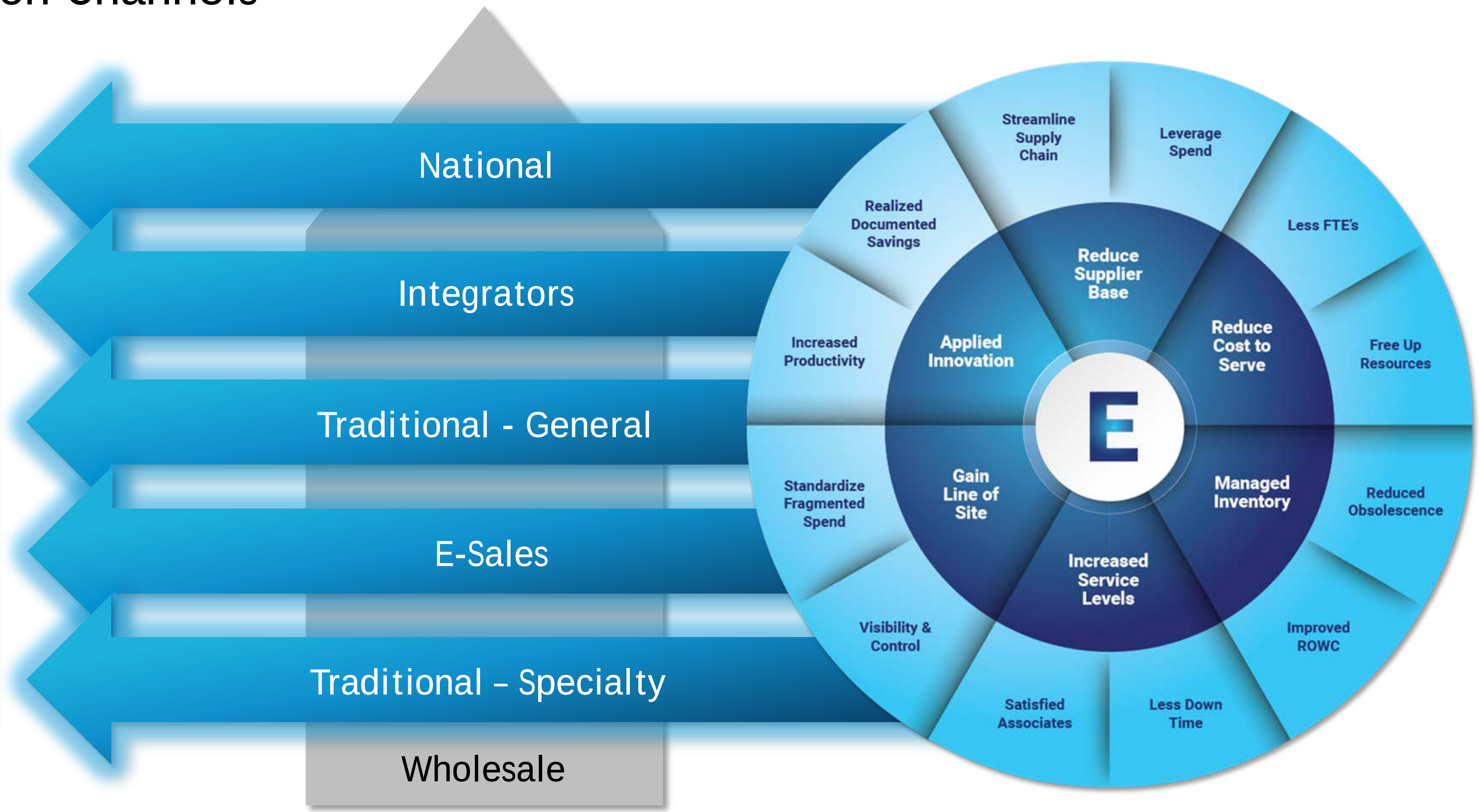


End Users will optimize their MROP supply chain to maximize productivity and efficiency gains

The benefits are clear…..

Channel 2.0

End User Impact on Channels



Channel 2.0

It’s all about the End User

It’s not about how you want to sell ….it’s about
how End Users want to buy

“the Waterfall effect”

Channel 2.0

Distributor Compass

- Distributor focus will move from products to supply chain solutions/service to differentiate value add
- M&A will accelerate to get scale (get bigger or specialize)
- Marginalization of the middle (can't be everything to everybody)
- As Distributors broaden product portfolio, product specification at the End User will move from Distributors to Manufacturers

Leading the Channel Forward®

Channel 2.0

Manufacturer Compass

- End User technical support and brand growth will shift from the Distributor to the Manufacturer
- Shift on how End Users want to buy will drive new channel practices and strategic relationships
- Need for increased selling resources at the End User will create Opex margin pressure and will drive variable cost and digital sales models

Channel 2.0
IMR Compass

- IMRs will transform to professionally managed sales organizations focused on the End User
- Certifications ensuring sales process, pipeline transparency and technical competency for selling resources will be the norm
- IMRs will expand localized value-added services

Leading the Channel Forward®

Channel 2.0

Connecting the Dots