

REFINITIV

DELTA REPORT

10-Q

DSGR - DISTRIBUTION SOLUTIONS GR

10-Q - MARCH 31, 2024 COMPARED TO 10-Q - SEPTEMBER 30, 2023

The following comparison report has been automatically generated

TOTAL DELTAS 2037

■ CHANGES	236
■ DELETIONS	1107
■ ADDITIONS	694

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended **September 30, 2023** **March 31, 2024**

or

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____

Commission file Number: 0-10546

DISTRIBUTION SOLUTIONS GROUP, INC.

(Exact name of registrant as specified in its charter)

Delaware

36-2229304

(State or other jurisdiction of incorporation or organization)

(I.R.S. Employer Identification No.)

301 Commerce Street, Suite 1700,

Fort Worth,

Texas

76102

(Address of principal executive offices)

(Zip Code)

(888) 611-9888

(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol	Name of each exchange on which registered
Common stock, \$1.00 par value	DSGR	NASDAQ Global Select Market

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	<input checked="" type="checkbox"/>	Accelerated filer	<input checked="" type="checkbox"/>
Non-accelerated filer	<input checked="" type="checkbox"/>	Smaller reporting company	<input checked="" type="checkbox"/>
		Emerging growth company	<input type="checkbox"/>

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

As of **October 23, 2023** **April 26, 2024**, **46,845,970** **46,808,801** shares of common stock, \$1.00 par value, were outstanding.

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CAUTIONARY STATEMENT REGARDING FORWARD LOOKING STATEMENTS

This Quarterly Report on Form 10-Q contains certain "forward-looking statements" within the meaning of the federal securities laws that involve risks and uncertainties. Terms such as "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 variations of them and other words and terms of similar meaning and expression (and the negatives of such words and terms) 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. 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 as of the date they are made 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 our business, financial condition and results of operations include:

- inventory obsolescence;
- work stoppages and other disruptions at transportation centers or shipping ports;
- the reliance of TestEquity Acquisition, LLC ("TestEquity" ("TestEquity")) on a significant supplier for a significant amount of its product inventory;

- changes in our customers, product mix and pricing strategy;
- disruptions of our information and communication systems;
- cyber-attacks or other information security incidents;
- the inability to successfully recruit, integrate and retain productive sales representatives;
- difficulties in integrating the business operations of TestEquity and 301 HW Opus Holdings, Inc., which conducts business as Gexpro Services ("Gexpro Services" Services), with our legacy Lawson Products Inc. operations, and/or the failure to successfully combine those operations within our expected timetable;
- failure to retain talented employees, managers and executives;
- the inability of management to successfully implement changes in operating processes;
- various risks involved in any pursuit or completion by us of additional acquisitions;
- competition in the markets in which we operate;
- potential impairment charges for goodwill and other intangible assets;
- changes that affect governmental and other tax-supported entities;
- failure to maintain effective internal control over financial reporting;
- our significant amount of indebtedness;
- failure to adequately fund our operating and working capital needs through cash generated from operations and borrowings available under our credit facility;
- failure to meet the covenant requirements of our credit facility;
- government efforts to combat inflation, along with other interest rate pressures, could lead to higher financing costs;
- declines in the market price of our common stock (the "DSG" "DSG common stock" stock");
- the significant influence of Luther King Capital Management Corporation ("LKCM" ("LKCM") over the Company in light of its ownership percentage;
- any sales of shares of DSG common stock held by entities affiliated with LKCM or the possibility of any such sales;
- violations of environmental protection regulations;
- changes in tax matters;
- risks arising from our international operations;
- potential limitations on our ability to use our net operating losses and certain other tax attributes generated prior to the Mergers (as defined below); April 1, 2022 merger transactions (the "Mergers") in which TestEquity and Gexpro Services merged with and into subsidiaries of DSG, with TestEquity and Gexpro Services surviving as wholly-owned subsidiaries of DSG, and in connection with which DSG issued shares of DSG common stock to the former equityholders of TestEquity and Gexpro Services in exchange for their equity interests in TestEquity and Gexpro Services;
- public health emergencies;
- business uncertainties as a result of the Mergers;
- stockholder litigation relating to the Mergers;
- TestEquity and/or Gexpro Services may not have in place the financial organization, reporting and internal controls necessary for a public company;
- a downturn in the economy or in certain sectors of the economy;
- changes in energy costs, tariffs, transportation costs and the cost of raw materials used in our products, and other inflationary pressures;
- supply chain constraints, inflationary pressure and labor shortages; and
- foreign currency exchange rate changes; and
- the other factors discussed in the "Risk Factors" section of our Annual Report on Form 10-K for the fiscal year ended December 31, 2022 and the "Risk Factors" section of this Quarterly Report on Form 10-Q, December 31, 2023.

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We undertake no obligation to update or revise any forward-looking statement contained herein, whether to reflect events or circumstances after the date on which such statement is made or to reflect the occurrence of unanticipated events or otherwise, except as may be required under applicable law.

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PART I - FINANCIAL INFORMATION

ITEM 1 - FINANCIAL STATEMENTS

Distribution Solutions Group, Inc.
Condensed Consolidated Balance Sheets
(Dollars in thousands, except share data)
(Uunaudited)

		September 30, 2023	December 31, 2022		
		March 31, 2024		March 31, 2024	December 31, 2023
ASSETS	ASSETS				
Current assets:	Current assets:				
Current assets:	Current assets:				
Cash and cash equivalents	Cash and cash equivalents	\$ 80,456	\$ 24,554		
Restricted cash	Restricted cash	20,703	186		
Accounts receivable, less allowances of \$2,288 and \$1,513, respectively		238,543	166,301		
Inventories, net		313,337	264,374		
Accounts receivable, less allowances of \$1,819 and \$2,120, respectively					
Inventories					
Prepaid expenses and other current assets	Prepaid expenses and other current assets	36,538	22,773		
Total current assets	Total current assets	689,577	478,188		
Property, plant and equipment, net	Property, plant and equipment, net	111,949	64,395		
Rental equipment, net	Rental equipment, net	26,320	27,139		
Goodwill	Goodwill	397,762	348,048		
Deferred tax asset		55	189		
Deferred tax asset, net					
Intangible assets, net	Intangible assets, net	265,319	227,994		
Cash value of life insurance	Cash value of life insurance	18,001	17,166		
Right of use operating lease assets	Right of use operating lease assets	79,791	46,755		
Other assets	Other assets	7,194	5,736		
Total assets	Total assets	\$1,595,968	\$1,215,610		
LIABILITIES AND STOCKHOLDERS' EQUITY	LIABILITIES AND STOCKHOLDERS' EQUITY				
Current liabilities:	Current liabilities:				
Current liabilities:	Current liabilities:				
Accounts payable	Accounts payable				
Accounts payable	Accounts payable	\$ 107,140	\$ 80,486		
Current portion of long-term debt	Current portion of long-term debt	32,335	16,352		
Current portion of lease liabilities	Current portion of lease liabilities	13,241	9,964		

Accrued expenses and other current liabilities					
Accrued expenses and other current liabilities					
Accrued expenses and other current liabilities	Accrued expenses and other current liabilities	97,191	62,677		
Total current liabilities	Total current liabilities	249,907	169,479		
Long-term debt, less current portion, net	Long-term debt, less current portion, net	550,526	395,825		
Lease liabilities	Lease liabilities	70,353	39,828		
Deferred tax liability		24,452	23,834		
Lease liabilities					
Lease liabilities					
Deferred tax liability, net					
Other liabilities	Other liabilities	24,621	23,649		
Total liabilities	Total liabilities	919,859	652,615		
Commitments and contingencies (Note 14)	Commitments and contingencies (Note 14)	Commitments and contingencies (Note 14)			
Stockholders' equity⁽¹⁾:					
Stockholders' equity:					
Preferred stock, \$1 par value:					
Preferred stock, \$1 par value:					
Preferred stock, \$1 par value:	Preferred stock, \$1 par value:				
Authorized - 500,000 shares, issued and outstanding — None	Authorized - 500,000 shares, issued and outstanding — None	—	—		
Authorized - 500,000 shares, issued and outstanding — None					
Authorized - 500,000 shares, issued and outstanding — None					
Common stock, \$1 par value:	Common stock, \$1 par value:				
Authorized - 70,000,000 shares					
Issued - 47,479,256 and 39,460,724 shares, respectively					
Outstanding - 46,844,598 and 38,833,568 shares, respectively		46,845	38,834		
Authorized - 70,000,000 shares					
Issued - 47,597,864 and 47,535,618 shares, respectively					
Outstanding - 46,806,573 and 46,758,359 shares, respectively					
Authorized - 70,000,000 shares					
Issued - 47,597,864 and 47,535,618 shares, respectively					
Outstanding - 46,806,573 and 46,758,359 shares, respectively					
Authorized - 70,000,000 shares					
Issued - 47,597,864 and 47,535,618 shares, respectively					
Outstanding - 46,806,573 and 46,758,359 shares, respectively					
Capital in excess of par value	Capital in excess of par value	670,287	572,379		

Retained deficit	Retained deficit	(18,377)	(25,736)
Treasury stock – 634,658 and 627,156 shares, respectively		(12,697)	(12,526)
Treasury stock – 791,291 and 777,259 shares, respectively			
Accumulated other comprehensive income (loss)	Accumulated other comprehensive income (loss)	(9,949)	(9,956)
Total stockholders' equity	Total stockholders' equity	<u>676,109</u>	<u>562,995</u>
Total liabilities and stockholders' equity	Total liabilities and stockholders' equity	<u><u>\$1,595,968</u></u>	<u><u>\$1,215,610</u></u>

See notes to Condensed Consolidated Financial Statements (Unaudited)

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Distribution Solutions Group, Inc.
Condensed Consolidated Statements of Operations and Comprehensive Income (Loss)
(Dollars in thousands, except per share data)
(Uaudited)

	Three Months Ended March 31,	
	2024	2023
Revenue	\$ 416,086	\$ 348,270
Cost of goods sold	272,677	215,399
Gross profit	<u>143,409</u>	<u>132,871</u>
Selling, general and administrative expenses	140,626	116,150
Operating income (loss)	<u>2,783</u>	<u>16,721</u>
Interest expense	(11,827)	(7,670)
Change in fair value of earnout liabilities	5	(57)
Other income (expense), net	<u>(262)</u>	<u>(975)</u>
Income (loss) before income taxes	<u>(9,301)</u>	<u>8,019</u>
Income tax expense (benefit)	<u>(4,077)</u>	<u>2,112</u>
Net income (loss)	<u><u>\$ (5,224)</u></u>	<u><u>\$ 5,907</u></u>
Basic income (loss) per share of common stock⁽¹⁾	<u><u>\$ (0.11)</u></u>	<u><u>\$ 0.14</u></u>
Diluted income (loss) per share of common stock⁽¹⁾	<u><u>\$ (0.11)</u></u>	<u><u>\$ 0.14</u></u>
Comprehensive income (loss)		
Net income (loss)	\$ (5,224)	\$ 5,907
Other comprehensive income (loss), net of tax:		
Foreign currency translation adjustment	(3,138)	2,624
Other	—	(200)
Comprehensive income (loss)	<u><u>\$ (8,362)</u></u>	<u><u>\$ 8,331</u></u>

(1) The accompanying Unaudited Condensed Consolidated Financial Statements and notes thereto have been retroactively adjusted to reflect the two-for-one stock split completed in August 2023. See Note 1 – Nature of Operations and Basis of Presentation for details.

See notes to Condensed Consolidated Financial Statements (Unaudited)

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Distribution Solutions Group, Inc.
Condensed Consolidated Statements of Operations and Comprehensive Income (Loss) Changes in Stockholders' Equity
(Dollars in thousands, except per share data)
(Uaudited)

	Common Stock		Capital in Excess of			Accumulated Other			Total Stockholders' Equity
	Outstanding Shares	\$1 Par Value	Par Value	Retained Deficit	Treasury Stock	(Loss)			
Balance at January 1, 2024	46,758,359	\$ 46,758	\$ 671,154	\$ (34,707)	\$ (16,434)	\$ (5,170)			\$ 661,601
Net income (loss)	—	—	—	(5,224)	—	—			(5,224)
Foreign currency translation adjustment	—	—	—	—	—	—			(3,138)
Stock-based compensation	—	—	998	—	—	—			998
Stock-based compensation liability paid in shares	—	—	870	—	—	—			870
Shares issued	62,246	62	(62)	—	—	—			—
Tax withholdings related to net share settlements of stock-based compensation awards	(14,032)	(14)	14	—	(449)	—			(449)
Balance at March 31, 2024	46,806,573	\$ 46,806	\$ 672,974	\$ (39,931)	\$ (16,883)	\$ (8,308)			\$ 654,658

See notes to Condensed Consolidated Financial Statements (Unaudited)

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	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023		2023	
	\$		\$	
Revenue	\$ 438,909		\$ 347,151	\$ 1,165,163
Cost of goods sold	293,612		227,984	750,972
Gross profit	145,297		119,167	414,191
Selling, general and administrative expenses	132,514		97,140	370,911
Operating income (loss)	12,783		22,027	43,280
Interest expense	(12,895)		(6,097)	(30,057)
Loss on extinguishment of debt	—		—	(3,395)
Change in fair value of earnout liabilities	667		9,641	646
Other income (expense), net	(1,133)		(550)	(2,869)
Income (loss) before income taxes	(578)		25,021	11,000
Income tax expense (benefit)	990		8,480	3,637
Net income (loss)	\$ (1,568)		\$ 16,541	\$ 7,363
Basic income (loss) per share of common stock⁽¹⁾	\$ (0.03)		\$ 0.43	\$ 0.17
Diluted income (loss) per share of common stock⁽¹⁾	\$ (0.03)		\$ 0.42	\$ 0.17

Comprehensive income (loss)						
Net income (loss)	\$	(1,568)	\$	16,541	\$	7,363
Other comprehensive income (loss), net of tax:						9,289
Foreign currency translation adjustment		(3,579)		(9,774)		128
Other		464		—		(121)
Comprehensive income (loss)	\$	(4,683)	\$	6,767	\$	7,370
						(2,805)

Distribution Solutions Group, Inc.
Condensed Consolidated Statements of Changes in Stockholders' Equity
(Dollars in thousands, except share data)
(Uaudited)

	Common Stock ⁽¹⁾		Capital in Excess of			Accumulated Other			Total Stockholders' Equity
	Outstanding Shares	\$1 Par Value	Par Value ⁽¹⁾	Retained Deficit	Treasury Stock	Comprehensive Income (Loss)			
Balance at January 1, 2023	38,833,568	\$ 38,834	\$ 572,379	\$ (25,736)	\$ (12,526)	\$ (9,956)			\$ 562,995
Net income (loss)	—	—	—	5,907	—	—			5,907
Foreign currency translation adjustment	—	—	—	—	—	2,624			2,624
Stock-based compensation	—	—	773	—	—	—			773
Stock-based compensation liability paid in shares	—	—	227	—	—	—			227
Shares issued	22,288	22	(22)	—	—	—			—
Shares issued - earnout	3,400,000	3,400	(3,400)	—	—	—			—
Tax withholdings related to net share settlements of stock-based compensation awards	(5,278)	(5)	5	—	(117)	—			(117)
Other	—	—	204	(4)	—	(200)			—
Balance at March 31, 2023	42,250,578	\$ 42,251	\$ 570,166	\$ (19,833)	\$ (12,643)	\$ (7,532)			\$ 572,409

⁽¹⁾ The accompanying Unaudited Condensed Consolidated Financial Statements and notes thereto have been retroactively adjusted to reflect the two-for-one stock split completed in August 2023. See Note 1 – Nature of Operations and Basis of Presentation for details.

See notes to Condensed Consolidated Financial Statements (Unaudited)

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Distribution Solutions Group, Inc.
Condensed Consolidated Statements of Changes in Stockholders' Equity
(Dollars in thousands, except share data)
(Uaudited)

	Common Stock ⁽¹⁾		Capital in Excess of			Accumulated Other			Total Stockholders' Equity
	Outstanding Shares	\$1 Par Value	Par Value ⁽¹⁾	Retained Deficit	Treasury Stock	Comprehensive Income (Loss)			
Balance at January 1, 2023	38,833,568	\$ 38,834	\$ 572,379	\$ (25,736)	\$ (12,526)	\$ (9,956)			\$ 562,995
Net income (loss)	—	—	—	5,907	—	—			5,907
Foreign currency translation adjustment	—	—	—	—	—	2,624			2,624
Stock-based compensation	—	—	773	—	—	—			773
Stock-based compensation liability paid in shares	—	—	227	—	—	—			227
Shares issued	22,288	22	(22)	—	—	—			—
Shares issued - earnout	3,400,000	3,400	(3,400)	—	—	—			—
Tax withholdings related to net share settlements of stock-based compensation awards	(5,278)	(5)	5	—	(117)	—			(117)
Other	—	—	204	(4)	—	(200)			—
Balance at March 31, 2023	42,250,578	\$ 42,251	\$ 570,166	\$ (19,833)	\$ (12,643)	\$ (7,532)			\$ 572,409

Net income (loss)	—	—	—	3,024	—	—	—	3,024
Foreign currency translation adjustment	—	—	—	—	—	—	1,083	1,083
Stock-based compensation	—	—	1,062	—	—	—	—	1,062
Issuance of common stock in rights offering, net of offering costs of \$1,531	4,444,444	4,444	94,025	—	—	—	—	98,469
Shares issued	6,672	7	(7)	—	—	—	—	—
Tax withholdings related to net share settlements of stock-based compensation awards	(2,224)	(2)	2	—	(54)	—	—	(54)
Other	—	—	385	—	—	(385)	—	—
Balance at June 30, 2023	46,699,470	\$ 46,700	\$ 665,633	\$ (16,809)	\$ (12,697)	\$ (6,834)	\$ 675,993	
Net income (loss)	—	—	—	(1,568)	—	—	—	(1,568)
Foreign currency translation adjustment	—	—	—	—	—	—	(3,579)	(3,579)
Stock-based compensation	—	—	1,119	—	—	—	—	1,119
Shares issued	520	1	(1)	—	—	—	—	—
Shares issued through employee share purchases	144,608	144	3,109	—	—	—	—	3,253
Compensation expense related to employee share purchases	—	—	427	—	—	—	—	427
Other	—	—	—	—	—	—	464	464
Balance at September 30, 2023	46,844,598	\$ 46,845	\$ 670,287	\$ (18,377)	\$ (12,697)	\$ (9,949)	\$ 676,109	

^(a) The accompanying Unaudited Condensed Consolidated Financial Statements and notes thereto have been retroactively adjusted to reflect the two-for-one stock split completed in August 2023. See Note 1 – Nature of Operations and Basis of Presentation for details.

See notes to Condensed Consolidated Financial Statements (Unaudited)

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Distribution Solutions Group, Inc.
Condensed Consolidated Statements of Changes in Stockholders' Equity
(Dollars in thousands)
(Unaudited)

	Common Stock ⁽¹⁾			Capital in Excess of Par Value ⁽¹⁾			Accumulated Other Comprehensive Income			Total Stockholders' Equity
	Outstanding Shares	\$ 1 Par Value	Par Value ⁽¹⁾	Retained Deficit	Treasury Stock	(Loss)				
Balance at January 1, 2022	20,589,648	\$ 20,636	\$ 186,739	\$ (33,142)	\$ (10,033)	\$ 1,569	\$ 165,769			
Net income (loss)	—	—	—	(2,537)	—	—	—	—	—	(2,537)
Foreign currency translation adjustment	—	—	—	—	—	—	—	—	171	171
Shares issued	12,129	11	(11)	—	—	—	—	—	—	—
Tax withholdings related to net share settlements of stock-based compensation awards	(1,777)	—	33	—	(33)	—	—	—	—	—
Other	—	—	(95)	—	—	—	—	—	—	(95)
Balance at March 31, 2022	20,600,000	\$ 20,647	\$ 186,666	\$ (35,679)	\$ (10,066)	\$ 1,740	\$ 163,308			
Net income (loss)	—	—	—	(4,715)	—	—	—	—	—	(4,715)
Foreign currency translation adjustment	—	—	—	—	—	—	(2,491)	(2,491)	—	(2,491)
Stock-based compensation	—	—	573	—	—	—	—	—	—	573
Shares issued	51,364	52	(52)	—	—	—	—	—	—	—
Deemed consideration for reverse acquisition	18,240,334	18,240	333,251	—	—	—	—	—	—	351,491
Reclassification of issuable shares from earnout derivative liability	—	—	26,593	—	—	—	—	—	—	26,593
Fair value adjustment of stock-based compensation awards	—	—	1,910	—	—	—	—	—	—	1,910
Tax withholdings related to net share settlements of stock-based compensation awards	(3,734)	(4)	4	—	(78)	—	—	—	—	(78)

Settlement of related party liability	—	—	5,276	—	—	—	—	5,276
Other	—	—	(39)	—	—	—	—	(39)
Balance at June 30, 2022	38,887,964	\$ 38,935	\$ 554,182	\$ (40,394)	\$ (10,144)	\$ (751)	\$ 541,828	
Net income (loss)	—	—	—	16,541	—	—	—	16,541
Foreign currency translation adjustment	—	—	—	—	—	—	(9,774)	(9,774)
Stock-based compensation	—	—	489	—	—	—	—	489
Shares issued	35,984	36	(36)	—	—	—	—	—
Repurchase of common stock	(108,178)	(108)	108	—	(1,940)	—	—	(1,940)
Tax withholdings related to net share settlements of stock-based compensation awards	(15,760)	(16)	16	—	(391)	—	—	(391)
Other	—	—	(6)	—	—	—	—	(6)
Balance at September 30, 2022	38,800,010	\$ 38,847	\$ 554,753	\$ (23,853)	\$ (12,475)	\$ (10,525)	\$ 546,747	

^(a) The accompanying Unaudited Condensed Consolidated Financial Statements and notes thereto have been retroactively adjusted to reflect the two-for-one stock split completed in August 2023. See Note 1 – Nature of Operations and Basis of Presentation for details.

See notes to Condensed Consolidated Financial Statements (Unaudited)

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Distribution Solutions Group, Inc.
Condensed Consolidated Statements of Cash Flows
(Dollars in thousands)
(Uncaudited)

		Nine Months Ended September 30,			Three Months Ended March 31, 2023
		Three Months Ended March 31,		2024	
Operating activities	Operating activities	2023	2022		
Operating activities	Net income (loss)	Net income (loss)	\$ 7,363	\$ 9,289	2023
	Net income (loss)				
Adjustments to reconcile to net cash used in operating activities:	Adjustments to reconcile to net cash used in operating activities:				
Depreciation and amortization	Depreciation and amortization	47,316	31,314		
Amortization of debt issue costs	1,662	1,419			
Extinguishment of debt	—	3,395			
Depreciation and amortization					
Depreciation and amortization					
Amortization of debt issuance costs					
Stock-based compensation	Stock-based compensation	5,441	445		

Compensation expense related to employee share purchases	427	—
Stock-based compensation		
Stock-based compensation		
Deferred income taxes		
Deferred income taxes		
Deferred income taxes		
Change in fair value of earnout liabilities	Change in fair value of earnout liabilities	(646) (3,948)
Gain on sale of rental equipment	Gain on sale of rental equipment	(1,929) (2,463)
Gain on sale of property, plant and equipment		(86) —
Charge for step-up of acquired inventory		2,866 2,703
Net realizable value and reserve adjustment for obsolete and excess inventory		— 5,551
Loss on sale of property, plant and equipment		
Net realizable value adjustment and write-offs for obsolete and excess inventory		
Net realizable value adjustment and write-offs for obsolete and excess inventory		
Net realizable value adjustment and write-offs for obsolete and excess inventory		
Bad debt expense	Bad debt expense	1,045 564
Bad debt expense		
Bad debt expense		
Changes in operating assets and liabilities, net of acquisitions:	Changes in operating assets and liabilities, net of acquisitions:	
Accounts receivable		
Accounts receivable		
Accounts receivable	Accounts receivable	(8,329) (30,795)
Inventories	Inventories	9,639 (43,857)
Prepaid expenses and other current assets	Prepaid expenses and other current assets	(7,288) (2,224)
Accounts payable	Accounts payable	10,552 1,687

Accrued expenses and other current liabilities	Accrued expenses and other current liabilities	5,587	1,316
Other changes in operating assets and liabilities	Other changes in operating assets and liabilities	433	6,324
Net cash provided by (used in) operating activities	Net cash provided by (used in) operating activities	74,053	(19,280)
Investing activities	Investing activities		
Purchases of property, plant and equipment	Purchases of property, plant and equipment	(11,180)	(4,954)
Purchases of property, plant and equipment	Purchases of property, plant and equipment		
Business acquisitions, net of cash acquired	Business acquisitions, net of cash acquired	(252,007)	(113,681)
Purchases of rental equipment	Purchases of rental equipment	(7,735)	(7,913)
Proceeds from sale of rental equipment	Proceeds from sale of rental equipment	4,202	5,998
Net cash provided by (used in) investing activities	Net cash provided by (used in) investing activities	(266,720)	(120,550)
Net cash provided by (used in) investing activities	Net cash provided by (used in) investing activities		
Financing activities	Financing activities		
Proceeds from revolving lines of credit	Proceeds from revolving lines of credit	174,587	302,044
Proceeds from revolving lines of credit	Proceeds from revolving lines of credit		
Payments on revolving lines of credit	Payments on revolving lines of credit	(295,816)	(237,370)
Proceeds from term loans	Proceeds from term loans	305,000	445,630
Payments on term loans	Payments on term loans	(11,250)	(343,662)
Deferred financing costs	Deferred financing costs	(3,419)	(11,956)

Payments on term loans			
Payments on term loans			
Proceeds from rights offering, net of offering costs of \$1,531	98,469	—	
Repurchase of common stock	—	(1,940)	
Shares repurchased held in treasury	Shares repurchased held in treasury	(171)	(469)
Proceeds from employees for share purchases	3,253	—	
Shares repurchased held in treasury			
Shares repurchased held in treasury			
Payment of financing lease principal			
Payment of financing lease principal			
Payment of financing lease principal	Payment of financing lease principal	(358)	(457)
Payment of earnout	Payment of earnout	(1,000)	—
Net cash provided by (used in) financing activities			
Net cash provided by (used in) financing activities			
Net cash provided by (used in) financing activities	Net cash provided by (used in) financing activities	269,295	151,820
Effect of exchange rate changes on cash and cash equivalents	Effect of exchange rate changes on cash and cash equivalents	(209)	(1,309)
Increase (decrease) in cash, cash equivalents and restricted cash	Increase (decrease) in cash, cash equivalents and restricted cash	76,419	10,681
Cash, cash equivalents and restricted cash at beginning of period	Cash, cash equivalents and restricted cash at beginning of period	24,740	14,671
Cash, cash equivalents and restricted cash at end of period	Cash, cash equivalents and restricted cash at end of period	\$101,159	\$ 25,352
Cash and cash equivalents	Cash and cash equivalents	\$ 80,456	\$ 25,171
Restricted cash	Restricted cash	20,703	181
Total cash, cash equivalents and restricted cash	Total cash, cash equivalents and restricted cash	\$101,159	\$ 25,352

See notes to Condensed Consolidated Financial Statements (Unaudited)

Distribution Solutions Group, Inc.
Condensed Consolidated Statements of Cash Flows (Continued)
(Dollars in thousands)
(Uaudited)

Three Months Ended March 31,	Three Months Ended March 31,		
	2024	2023	
Supplemental disclosure of cash flow information			
Supplemental disclosure of cash flow information			
Supplemental disclosure of cash flow information			
Supplemental disclosure of cash flow information			
Net cash paid for income taxes			
Net cash paid for income taxes			
Net cash paid for income taxes			
Net cash paid for income taxes			
Net cash paid for interest			
Net cash paid for interest on supply chain financing			
Non-cash activities:			
Non-cash activities:			
Non-cash activities:			
	Nine Months Ended September 30,	2023	2022
Right of use assets obtained in exchange for finance lease liabilities			
Supplemental disclosure of cash flow information			
Net cash paid for income taxes	\$ 9,370	\$ 11,553	
Net cash paid for interest	\$ 26,187	\$ 12,093	
Net cash paid for interest on supply chain financing	\$ 1,753	\$ 579	
Non-cash activities:			
Fair value of common stock exchanged for reverse acquisition	\$ —	\$ 351,491	
Settlement of related party obligations	\$ —	\$ 5,276	
Additions of property, plant and equipment included in accounts payable	\$ 521	\$ 73	

Right of use assets obtained in exchange for finance lease liabilities	
Right of use assets obtained in exchange for finance lease liabilities	liabilities \$ 396 \$ 886
Right of use assets obtained in exchange for operating lease liabilities	liabilities \$ 19,879 \$ 12,773

See notes to Condensed Consolidated Financial Statements (Unaudited)

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Notes to Condensed Consolidated Financial Statements (Unaudited)

Note 1 – Nature of Operations and Basis of Presentation

Organization

Distribution Solutions Group, Inc. ("DSG"), a Delaware corporation, ("DSG"), is a global specialty distribution company providing value-added value added distribution solutions to the maintenance, repair and operations ("MRO" ("MRO"), original equipment manufacturer ("OEM" ("OEM")) and industrial technology markets. DSG has three principal operating companies: Lawson Products, Inc., an Illinois corporation ("Lawson" ("Lawson"), TestEquity Acquisition, LLC a Delaware limited liability company ("TestEquity" ("TestEquity"), and 301 HW Opus Holdings, Inc., a Delaware corporation conducting business as Gexpro Services ("("Gexpro Services" Services"). The complementary distribution operations of Lawson, TestEquity and Gexpro Services were combined on April 1, 2022 to create a global specialty distribution company. A summary of the Mergers (as defined below), including the legal entities party to the transactions and the stock consideration, is presented below.

Unless the context requires otherwise, references in this Quarterly Report on Form 10-Q to "DSG", the "Company", "we" "we", "our" "our" or "us" "us" refer to Distribution Solutions Group, Inc., and all entities consolidated in the accompanying unaudited condensed consolidated financial statements.

Recent Events Nature of Operations

A summary of the nature of operations for each of DSG's operating companies is presented below. Information regarding DSG's reportable segments is presented in Note 16 – Segment Information.

Stock Split Lawson is a distributor of specialty products and services to the industrial, commercial, institutional and governmental MRO marketplace. Lawson primarily distributes MRO products to its customers through a network of sales representatives and an inside sales channel throughout the United States and Canada.

TestEquity is a distributor of test and measurement equipment and solutions, industrial and electronic production supplies, vendor managed inventory programs, and converting, fabrication and adhesive solutions from its leading manufacturer partners supporting the aerospace and defense, wireless and communication, semiconductors, industrial electronics and automotive, and electronics manufacturing industries.

Gexpro Services is a global supply chain solutions provider, specializing in the development of mission critical production line management, aftermarket and field installation programs.

Basis of Presentation and Consolidation

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States ("GAAP") for interim financial information, the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not contain all disclosures required by GAAP for complete consolidated financial statements. These unaudited condensed consolidated financial statements should be read in conjunction with DSG's audited consolidated financial statements and accompanying notes included in its Annual Report on Form 10-K for the year ended December 31, 2023 filed with the U.S. Securities and Exchange Commission ("SEC"). All normal recurring adjustments have been made that are necessary to fairly state the results of operations for the interim periods. Operating results for the three-month period ended March 31, 2024 are not necessarily indicative of the results that may be expected for the year ending December 31, 2024.

2023 Stock Split: On August 15, 2023, DSG announced that its Board of Directors approved and declared a two-for-one stock split (the "Stock Split"), which entitled each stockholder of record as of the close of business on August 25, 2023 to receive one additional share of DSG common stock for each share of DSG common stock then-held. The additional shares were distributed after the close of trading on August 31, 2023, and shares of DSG common stock began trading at the split-adjusted basis on September 1, 2023. Accordingly, all share and per share amounts have been retroactively adjusted to reflect the impact of the Stock Split for all periods presented herein.

In order to implement the Stock Split, on August 31, 2023, DSG filed a Third Amended and Restated Certificate of Incorporation of DGS with the Secretary of State of the State of Delaware to increase the number of authorized shares of DSG common stock from 35,000,000 to 70,000,000, which became effective on that date.

HIS Company, Inc. Acquisition

On March 30, 2023, DSG entered into a Stock Purchase Agreement (the "Purchase Agreement"), with various parties for the acquisition of all of the issued and outstanding capital stock of HIS Company, Inc., a Texas corporation ("Hisco," and the "Hisco Transaction"), a distributor of specialty products serving industrial technology applications. DSG completed the Hisco Transaction on June 8, 2023. The total purchase consideration exchanged for the Hisco Transaction was \$268.5 million, net of cash acquired of \$12.2 million, at closing, with a potential additional earn-out payment subject to Hisco achieving certain performance targets. DSG will also pay \$37.5 million in cash or DSG common stock in retention bonuses to certain Hisco employees that remain employed with Hisco or its affiliates for at least twelve months after the closing of the Hisco Transaction. In connection with the Hisco Transaction, DSG combined the operations of TestEquity and Hisco. DSG funded the Hisco Transaction with borrowings under its amended and restated credit facility and proceeds raised from the Rights Offering (as defined below) with existing stockholders, both discussed below. Refer to Note 3 – Business Acquisitions for further details about Hisco and the Hisco Transaction.

Debt Amendment

On June 8, 2023, the Company and certain of its subsidiaries entered into the First Amendment to Amended and Restated Credit Agreement (the "First Amendment"), which amended the Amended and Restated Credit Agreement, dated as of April 1, 2022 (as amended by the First Amendment, the "2023 Credit Agreement"), by and among the Company, certain subsidiaries of the Company as borrowers or guarantors, the lenders party thereto and JPMorgan Chase Bank, N.A., as administrative agent. The First Amendment provides for a \$305 million incremental term loan and for the Company to increase the commitments from time to time by up to \$200 million in the aggregate, subject to, among other things, receipt of additional commitments from existing and/or new lenders and pro forma compliance with certain financial covenants. Refer to Note 9 – Debt for additional information about the 2023 Credit Agreement.

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Rights Offering

On May 30, 2023, the Company issued 4,444,444 shares of DSG common stock for approximately \$100 million pursuant to a subscription rights offering (the "Rights Offering"). The Rights Offering provided one transferable subscription right for each share of DSG common stock held by holders of DSG common stock on record as of the close of business on May 1, 2023. Each subscription right entitled the holder to purchase 0.0525 shares of DSG common stock at a subscription price of \$22.50 per share. The subscription rights were transferable, but were not listed for trading on any stock exchange or market. In addition, holders of subscription rights who fully exercised their subscription rights were entitled to oversubscribe for additional shares of DSG common stock, subject to proration. **Period-end Dates:** Refer to Note 11 – Stockholders' Equity for additional information about the Rights Offering.

Combination with TestEquity and Gexpro Services

On December 29, 2021, DSG entered into:

• an Agreement and Plan of Merger (the "TestEquity Merger Agreement") by and among (i) LKCM TE Investors, LLC, a Delaware limited liability company (the "TestEquity Equityholder"), (ii) TestEquity, which was a wholly-owned subsidiary of the TestEquity Equityholder, (iii) DSG and (iv) Tide Sub, LLC, a Delaware limited liability company and a wholly-owned subsidiary of DSG ("Merger Sub 1"), pursuant to the terms and subject to the conditions of which the parties agreed, among other things, that Merger Sub 1 would merge with and into TestEquity, with TestEquity surviving the merger as a wholly-owned subsidiary of DSG (the "TestEquity Merger"); and

• an Agreement and Plan of Merger (the "Gexpro Services Merger Agreement" and, together with the TestEquity Merger Agreement, the "Merger Agreements") by and among (i) 301 HW Opus Investors, LLC, a Delaware limited liability company (the "Gexpro Services Stockholder"), (ii) Gexpro Services, which was a wholly-owned subsidiary of the Gexpro Services Stockholder, (iii) DSG and (iv) Gulf Sub, Inc., a Delaware corporation and a wholly-owned subsidiary of DSG ("Merger Sub 2"), pursuant to the terms and subject to the

conditions of which the parties agreed, among other things, that Merger Sub 2 would merge with and into Gexpro Services, with Gexpro Services surviving the merger as a wholly-owned subsidiary of DSG (the "Gexpro Services Merger" and, together with the TestEquity Merger, the "Mergers").

At the closing of the Mergers, each outstanding share of TestEquity and Gexpro Services common stock outstanding immediately prior to the closing of the Mergers was converted into approximately 0.1809 shares and 0.3838 shares, respectively, of DSG common stock, based on the ratio of outstanding shares of each entity immediately prior to the Mergers to the number of shares of DSG common stock acquired in the Mergers.

Completion of the TestEquity Merger

On April 1, 2022 (the "Merger Date"), the TestEquity Merger was consummated pursuant to the TestEquity Merger Agreement. In accordance with the TestEquity Merger Agreement, Merger Sub 1 merged with and into TestEquity, with TestEquity surviving as a wholly-owned subsidiary of DSG.

In accordance with and under the terms of the TestEquity Merger Agreement, in connection with the closing of the TestEquity Merger on the Merger Date, DSG: (i) issued to the TestEquity Equityholder 6,600,000 shares of DSG common stock, (ii) on behalf of TestEquity, paid certain indebtedness of TestEquity and (iii) on behalf of TestEquity, paid certain transaction expenses of TestEquity.

The TestEquity Merger Agreement provided that up to an additional 1,400,000 shares of DSG common stock would be potentially issuable to the TestEquity Equityholder in accordance with, and subject to the terms and conditions of, the earnout provisions of the TestEquity Merger Agreement. On March 20, 2023, DSG issued 1,400,000 shares of DSG common stock to the TestEquity Equityholder (the "TestEquity Holdback Shares") pursuant to the terms of the earnout provisions of the TestEquity Merger Agreement. The TestEquity Holdback Shares issued represented the maximum number of additional shares that could be issued under the TestEquity Merger Agreement, and no further shares are available for issuance, and no additional shares will be issued, in connection with the TestEquity Merger Agreement. Refer to Note 8 – Earnout Liabilities for information about the earnout derivative liability related to the TestEquity Holdback Shares.

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Completion of the Gexpro Services Merger

On the Merger Date, the Gexpro Services Merger was consummated pursuant to the Gexpro Services Merger Agreement. In accordance with the Gexpro Services Merger Agreement, Merger Sub 2 merged with and into Gexpro Services, with Gexpro Services surviving as a wholly-owned subsidiary of DSG.

In accordance with and under the terms of the Gexpro Services Merger Agreement, in connection with the closing of the Gexpro Services Merger on the Merger Date, DSG: (i) issued to the Gexpro Services Stockholder 14,000,000 shares of DSG common stock, (ii) on behalf of Gexpro Services, paid certain indebtedness of Gexpro Services and (iii) on behalf of Gexpro Services, paid certain specified transaction expenses of Gexpro Services.

The Gexpro Services Merger Agreement provided that up to an additional 2,000,000 shares of DSG common stock would be potentially issuable to the Gexpro Services Stockholder in accordance with, and subject to the terms and conditions of, the earnout provisions of the Gexpro Services Merger Agreement. On March 20, 2023, DSG issued 2,000,000 shares of DSG common stock to the Gexpro Services Stockholder (the "Gexpro Services Holdback Shares") pursuant to the terms of the earnout provisions of the Gexpro Services Merger Agreement. The Gexpro Services Holdback Shares issued represented the maximum number of additional shares that could be issued under the Gexpro Services Merger Agreement, and no further shares are available for issuance, and no additional shares will be issued, in connection with the Gexpro Services Merger Agreement.

As of April 1, 2022, approximately 1,076,000 of the Gexpro Services Holdback Shares had been expected to be issued under the first earnout opportunity in the Gexpro Services Merger Agreement based on certain earnout metrics related to the consummation of certain additional acquisitions which were completed prior to the Merger Date. Under the Gexpro Services Merger Agreement, if any Gexpro Services Holdback Shares remained after the calculation of the first earnout opportunity, there was a second earnout opportunity under the Gexpro Services Merger Agreement based on certain earnout performance metrics. On March 20, 2023, all 2,000,000 Gexpro Services Holdback Shares were issued under the earnout opportunities. The incremental 924,000 Gexpro Services Holdback Shares that were issued in excess of the 1,076,000 Gexpro Services Holdback Shares that were originally expected to be issued had been remeasured at fair value immediately prior to and reclassified to equity at December 31, 2022. Refer to Note 8 – Earnout Liabilities for information about the earnout derivative liability related to the Gexpro Services Holdback Shares.

Accounting for the Mergers

TestEquity and Gexpro Services were treated as a combined entity as the accounting acquirer for financial reporting purposes, and DSG was identified as the accounting acquiree. Accordingly, periods prior to the April 1, 2022 Merger Date reflect the results of operations of TestEquity and Gexpro Services on a consolidated basis, and the results of operations of DSG's legacy Lawson business are only included subsequent to the April 1, 2022 Merger Date.

For more information about the Mergers, refer to Note 3 – Business Acquisitions.

Nature of Operations

A summary of the nature of operations for each of DSG's operating companies is presented below. Information regarding DSG's reportable segments is presented in Note 16 – Segment Information.

Lawson is a distributor of specialty products and services to the industrial, commercial, institutional and government maintenance, repair and operations market.

TestEquity is a distributor of test and measurement equipment and solutions, industrial and electronic production supplies, vendor managed inventory programs, converting, fabrication and adhesive solutions from its leading manufacturer partners supporting the technology, aerospace, defense, automotive, electronics, education, automotive and medical industries.

Gexpro Services is a global supply chain solutions provider, specializing in developing and implementing vendor managed inventory ("VMI") and kitting programs to high-specification manufacturing customers.

Basis of Presentation and Consolidation

The Mergers were accounted for as a reverse merger under the acquisition method of accounting in accordance with the accounting guidance for reverse acquisitions as provided in Accounting Standards Codification ("ASC") 805, *Business Combinations* ("ASC 805"). Under this guidance, TestEquity and Gexpro Services were treated as a combined entity as the accounting acquirer for financial reporting purposes, and DSG was identified as the accounting acquiree. This determination

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was primarily made as TestEquity and Gexpro Services were under the common control of an entity that owns a majority of the voting rights of the combined entity, and therefore, only DSG experienced a change in control. Accordingly, the unaudited condensed consolidated financial statements for the nine months ended September 30, 2022 reflect the results of operations of TestEquity and Gexpro Services on a consolidated basis, and the results of operations of DSG's legacy Lawson business are only included subsequent to the April 1, 2022 Merger Date. The combined operations of all three entities are included in the unaudited condensed consolidated financial statements for the three and nine months ended September 30, 2023 and the three months ended September 30, 2022. The unaudited condensed consolidated financial statements as of September 30, 2023 and December 31, 2022 reflect the financial position of TestEquity, Gexpro Services and DSG's legacy Lawson business on a consolidated basis.

The Company and its consolidated subsidiaries, except for Gexpro Services, operate on a calendar year-end. Gexpro Services operates on a calendar year-end for annual reporting purposes. However, quarterly financial statements for Gexpro Services are prepared on financial close dates that may differ from that of the Company. For the quarter ended **September 30, 2023** **March 31, 2024**, there was **no** a one day difference in the period end. The Company utilizes the exchange rates in effect at Gexpro Services' reporting date and the appropriate weighted-average rate for its fiscal reporting period.

The accompanying unaudited condensed consolidated financial statements of DSG have been prepared in accordance with accounting principles generally accepted in the United States ("GAAP") for interim financial information, the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not contain all disclosures required by GAAP for complete consolidated financial statements. These unaudited condensed consolidated financial statements should be read in conjunction with DSG's audited consolidated financial statements and accompanying notes included in its Annual Report on Form 10-K for the year ended December 31, 2022 filed with the U.S. Securities and Exchange Commission ("SEC") and the Lawson Products, Inc. unaudited condensed consolidated financial statements and accompanying notes included in DSG's Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2022. All normal recurring adjustments have been made that are necessary to fairly state the results of operations for the interim periods. Operating results for the three and nine month period ended September 30, 2023 are not necessarily indicative of the results that may be expected for the year ending December 31, 2023.

There were no significant changes to the Company's accounting policies⁴¹ from those disclosed in DSG's Annual Report on Form 10-K for the year ended December 31, 2022 December 31, 2023. See Note 2 of the 2022 2023 consolidated financial statements included in DSG's Annual Report on Form 10-K for the year ended December 31, 2022 December 31, 2023 for further details of the Company's significant accounting policies.

Recent Accounting Pronouncements - Not Yet Adopted

In June 2016, November 2023, the FASB issued ASU 2016-13, *Financial Instruments-Credit Losses* 2023-07, *Segment Reporting* (Topic 326) 280: *Measurement of Credit Losses on Financial Instruments, Improvements to Reportable Segment Disclosures*, which revises expands annual and interim disclosure requirements for how an entity should measure credit losses on financial instruments, reportable segments, primarily through enhanced disclosures about significant segment expenses. The pronouncement was effective for smaller reporting companies in annual periods beginning after December 15, 2023 and interim periods within fiscal years beginning after December 15, 2022 December 15, 2024, including interim periods within those fiscal years, and the new guidance will with early adoption permitted. The adoption of ASU 2023-07 should be applied on a prospective basis, retrospectively to all prior periods presented in the financial statements. The Company adopted this guidance is currently evaluating the impact that the adoption will have on January 1, 2023. The adoption had no material impact on the Company's its financial condition, results of operations or cash flows, statement disclosures.

In October 2021, December 2023, the FASB issued ASU 2021-08, *Business Combinations* 2023-09, *Income Taxes* (Topic 805) 740: *Accounting for Contract Assets Improvements to Income Tax Disclosures to require greater disaggregation of income tax disclosures related to the income tax rate reconciliation and Contract Liabilities from Contracts with Customers*, which requires an entity to apply Topic 606 to recognize and measure contract assets and contract liabilities in a business combination, income taxes paid. The pronouncement is effective in fiscal years on a prospective basis for annual periods beginning after December 15, 2022 and December 15, 2024, with early adoption is permitted. The Company adopted this guidance on January 1, 2023. The adoption had no is currently evaluating the impact on the Company's financial condition, results of operations or cash flows and will be applied to business combinations on or after the adoption date.

on its financial statement disclosures.

Note 3 – Business Acquisitions

Combination with TestEquity and Gexpro Services

On April 1, 2022, the Mergers with TestEquity and Gexpro Services were completed via all-stock merger transactions. Pursuant to the Merger Agreements, DSG issued an aggregate of 20.6 million shares of DSG common stock on April 1, 2022 to the former owners of TestEquity and Gexpro Services. On March 20, 2023, an additional 3.4 million shares of DSG common stock were issued. Refer to Note 1 – Nature of Operations and Basis of Presentation for further information regarding the Mergers.

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The business combination of Lawson, TestEquity and Gexpro Services combines three value-added complementary distribution businesses. Lawson is a distributor of products and services to the industrial, commercial, institutional, and governmental MRO marketplace. TestEquity is a distributor of parts and services to the industrial, commercial, institutional and governmental electronics manufacturing and test and measurement market. Gexpro Services is a provider of supply chain solutions, specializing in developing and implementing VMI and kitting programs to high-specification manufacturing customers. Gexpro Services provides critical products and services to customers throughout the lifecycle of highly technical OEM products. Refer to Note 1 – Nature of Operations and Basis of Presentation for more information on the nature of operations for these businesses.

The Mergers were accounted for as a reverse merger under the acquisition method of accounting for business combinations, whereby TestEquity and Gexpro Services were identified as the accounting acquirers and were treated as a combined entity for financial reporting purposes, and DSG was identified as the accounting acquiree. Accordingly, under the acquisition method of accounting, the purchase price was allocated to DSG's tangible and identifiable intangible assets acquired and liabilities assumed, based on their estimated acquisition-date fair values. These estimates were determined through established and generally accepted valuation techniques.

Allocation of Consideration Exchanged

Under the acquisition method of accounting, the estimated consideration exchanged was calculated as follows:

(in thousands, except share data)	April 1, 2022
Number of DSG common shares	18,240,334
DSG common stock closing price per share on March 31, 2022	\$ 19.27
Fair value of shares exchanged	\$ 351,491
Other consideration ⁽¹⁾	1,910
Total consideration exchanged	\$ 353,401

⁽¹⁾ Fair value adjustment of stock-based compensation awards.

Due to the publicly traded nature of shares of DSG common stock, the equity issuance of shares of DSG common stock based on this value was considered to be a more reliable measurement of the fair market value of the transaction compared to the equity interests of the accounting acquirer.

The allocation of consideration exchanged to the tangible and identifiable intangible assets acquired and liabilities assumed was based on estimated fair values as of the Merger Date. The accounting for the Mergers was complete as of December 31, 2022. Goodwill generated from the Mergers is not deductible for tax purposes.

The following table summarizes the allocation of consideration exchanged to the estimated fair values of assets acquired and liabilities assumed at the Merger Date after applying measurement period adjustments:

(in thousands)	Final Purchase Price Allocation
Current assets	\$ 148,308
Property, plant and equipment	57,414
Right of use assets	18,258
Other intangible assets	119,060
Deferred tax liability, net of deferred tax asset	(19,394)
Other assets	18,373
Current liabilities	(71,165)
Long-term obligations	(25,746)
Lease and financing obligations	(28,827)
Derivative earnout liability	(43,900)
Goodwill	181,020
Total consideration exchanged	\$ 353,401

The allocation of consideration exchanged to other intangible assets acquired was as follows:

(in thousands)	Fair Value	Estimated Life (in years)
Customer relationships	\$ 76,050	19
Trade names	43,010	8
Total other intangible assets	\$ 119,060	

Other Acquisitions

DSG and its operating companies acquired other businesses during the first nine months of 2023 and the year ended December 31, 2022 December 31, 2023. The acquisitions were accounted for under ASC 805, the acquisition method of accounting. For each acquisition, the allocation of consideration exchanged to the assets acquired and liabilities assumed was based on estimated acquisition-date fair values. The final valuations will be completed within the one-year measurement period following the respective acquisition date, and any adjustments will be recorded in the period in which the adjustments are determined.

Purchase 2024 Acquisition

On January 19, 2024, DSG acquired 100% of HIS the certain assets of Safety Supply Illinois LLC, conducting business as Emergent Safety Supply ("ESS" and the "ESS Transaction"), with a purchase price of \$9.9 million. ESS is a national distributor of safety products based near Chicago in Batavia, Illinois that generates annual sales of approximately \$13 million. ESS was acquired to expand Lawson's safety product category. Accordingly, the results of operations of ESS are included within the Lawson reportable segment. The acquisition was funded using DSG's cash on hand.

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The following table summarizes the preliminary allocation of consideration exchanged to the estimated fair values of assets acquired and liabilities assumed, including the allocation to other intangible assets acquired:

(in thousands)	Emergent Safety Supply
	January 19, 2024 Acquisition
	Date
Accounts receivable ⁽¹⁾	\$ 1,363
Inventory	1,399
Other current assets	10
Property, plant and equipment	228
Right of use assets	550
Other intangible assets:	
Customer relationships	2,700
Trade names	1,400
Other assets	11
Accounts payable	(205)
Lease liabilities	(550)
Accrued expenses and other liabilities	(25)
Goodwill	2,973
Total purchase consideration exchanged, net of cash acquired	\$ 9,854
Cash consideration	\$ 8,904
Deferred consideration	950
Total purchase consideration exchanged, net of cash acquired	\$ 9,854

⁽¹⁾ Accounts receivable had an estimated fair value of \$1.4 million and a gross contractual value of \$1.4 million. The difference represents the Company's best estimate of the contractual cash flows that will not be collected.

Certain estimated values for the ESS Transaction, including the valuation of intangibles and property, plant and equipment, are not yet finalized, and the preliminary purchase price allocation is subject to change as the Company Inc. completes its analysis of the fair value at the date of acquisition.

The customer relationships and trade names intangible assets have estimated useful lives of 16 years and 8 years, respectively. As a result of the ESS Transaction, the Company recorded tax deductible goodwill of \$3.0 million in 2024 that may result in a tax benefit in future periods and is primarily attributable to the benefits we expect to derive from expected synergies, including expanded product and service offerings and cross-selling opportunities.

2023 Acquisition

On June 8, 2023, DSG acquired all of the issued and outstanding capital stock of Hisco, HIS Company, Inc., a Texas corporation ("Hisco" and the "Hisco Transaction"), a distributor of specialty products serving industrial technology applications, pursuant to the Stock Purchase Agreement dated March 30, 2023 (the "Purchase Agreement"). In connection with this transaction, DSG combined the operations of TestEquity and Hisco, further expanding the product and service offerings at TestEquity, as well as all of our operating businesses under DSG.

Hisco operates in 38 locations across North America, including its Precision Converting facilities that provide value-added fabrication and its Adhesive Materials Group that provides an array of custom repackaging solutions. Hisco offers customers a broad range of products, including adhesives, chemicals and tapes, as well as specialty materials such as electrostatic discharge, thermal management materials and static shielding bags. Hisco also offers vendor-managed inventory and RFID programs with specialized warehousing for chemical management, logistics services and cold storage.

The total purchase consideration exchanged for the Hisco Transaction was \$268.5 million, net of cash acquired of \$12.2 million, with a potential additional earn-out payment subject to Hisco achieving certain performance targets. Refer to Note 8 – Earnings Liabilities for additional information on the earn-out. DSG will also pay \$37.5 million in cash or DSG common stock in retention bonuses to certain Hisco employees that remain employed with Hisco or its affiliates for at least twelve months after the closing of the Hisco Transaction. For the three and nine months ended September 30, 2023 March 31, 2024, \$10.1 million and \$12.4 million respectively, was recorded as compensation expense over the service period for the retention bonuses as a component of Selling, general and administrative expenses in the Unaudited Condensed Consolidated Statements of Operations and Comprehensive Income (Loss).

DSG funded the Hisco Transaction with borrowings under its 2023 Amended Credit Agreement (as defined below) and proceeds raised from the Rights Offering (as defined below). Refer to Note 9 – Debt for information about the 2023 Amended Credit Agreement and Note 11 – Stockholders' Equity for details on the Rights Offering.

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The Purchase Agreement allowed certain eligible Hisco employees to invest all or a portion of their respective closing payment in DSG common stock at \$22.50 per share, up to an aggregate value of DSG common stock issued to such eligible Hisco employees of \$25.0 million. During the three and nine months ended September 30, 2023, third quarter of 2023, the Company issued 144,608 shares of DSG common stock to the eligible Hisco employees and received approximately \$3.25 million. For During the three and nine months ended September 30, 2023, third quarter of 2023, approximately \$0.4 million was recorded as compensation expense for the discount between the prevailing market price of the DSG common stock on the date of purchase and the purchase price of \$22.50 per share as a component of Selling, general and administrative expenses in the Unaudited Condensed Consolidated Statements of Operations and Comprehensive Income (Loss).

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The following table summarizes the preliminary allocation of consideration exchanged to the estimated fair values of assets acquired and liabilities assumed, including the allocation to other intangible assets acquired:

Hisco				
Hisco				
		June 8, 2023	Measurement	
(in thousands)	(in thousands)	Acquisition Date	Period Adjustments	Adjusted Total
Current assets				
Current assets		\$ 131,950	\$ (2,565)	\$ 129,385
Accounts receivable ⁽¹⁾				
Inventory				

Other current assets				
Property, plant and equipment	Property, plant and equipment	48,326	—	48,326
Right of use assets	Right of use assets	21,102	1,188	22,290
Other intangible assets:	Other intangible assets:			
Customer relationships	Customer relationships	41,800	(200)	41,600
Customer relationships	Customer relationships			
Trade names	Trade names	25,600	—	25,600
Deferred tax liability, net of deferred tax asset				
Deferred tax liability, net of deferred tax asset				
Deferred tax liability, net of deferred tax asset	Deferred tax liability, net of deferred tax asset	(2,544)	40	(2,504)
Other assets	Other assets	2,495	—	2,495
Accounts payable	Accounts payable	(16,689)	—	(16,689)
Lease liabilities	Lease liabilities	(22,372)	293	(22,079)
Accrued expenses and other liabilities	Accrued expenses and other liabilities	(8,961)	—	(8,961)
Goodwill	Goodwill	49,718	(713)	49,005
Goodwill	Goodwill			
Goodwill	Goodwill			
Total purchase consideration exchanged, net of cash acquired	Total purchase consideration exchanged, net of cash acquired	\$ 270,425	\$ (1,957)	\$ 268,468
Cash consideration	Cash consideration	\$ 252,007	\$ —	\$ 252,007
Deferred consideration	Deferred consideration	12,418	3,943	16,361
Deferred consideration ⁽²⁾	Deferred consideration ⁽²⁾			
Contingent consideration	Contingent consideration	6,000	(5,900)	100
Total purchase consideration exchanged, net of cash acquired	Total purchase consideration exchanged, net of cash acquired	\$ 270,425	\$ (1,957)	\$ 268,468

⁽¹⁾ Accounts receivable had an estimated fair value of \$64.5 million and a gross contractual value of \$66.8 million. The difference represents the Company's best estimate of the contractual cash flows that will not be collected.

⁽²⁾ The Company paid \$4.2 million of the Hisco deferred consideration during the three months ended March 31, 2024.

Certain estimated values for the Hisco Transaction, including the valuation of intangibles property, plant and equipment, contingent consideration, and income taxes (including deferred taxes and associated valuation allowances), are not yet finalized, and the preliminary purchase price allocation is subject to change as the Company completes its analysis of the fair value at the date of acquisition. The final valuation will be completed within the one-year measurement period following the acquisition date, and any adjustments will be recorded in the period in which the adjustments are determined.

Following the initial fair value measurement, the Company updated the purchase price allocation for Hisco primarily related to the ongoing review of the opening balance sheet and contractual working capital adjustments and revised certain assumptions used in estimating the fair value of the contingent consideration. **The** During 2023, **the** adjustments to these balances resulted in a **\$0.7** **\$0.2** million **decrease** **increase** to goodwill and a **\$2.0** **\$3.2** million decrease to the total purchase consideration, net of cash acquired.

The customer relationships and trade names **intangibles** **intangible** assets have estimated useful lives of 12 years and 8 years, respectively. As a result of the Hisco Transaction, the Company recorded tax deductible goodwill of **\$42.9** **\$41.4** million in 2023 that may result in a tax benefit in future periods and is primarily attributable to the benefits we expect to derive from expected synergies, including expanded product and service offerings and cross-selling opportunities.

Purchases of Other Companies in 2022

During the year ended December 31, 2022, TestEquity acquired Interworld Highway, LLC, National Test Equipment, and Instrumex, and Gexpro Services acquired Resolux ApS ("Resolux") and Frontier Technologies Brewton, LLC and Frontier Engineering and Manufacturing Technologies, Inc. ("Frontier"). The consideration exchanged for these acquired businesses included various combinations of cash and sellers' notes. The accounting for the Interworld Highway, LLC, Resolux, Frontier and National Test Equipment acquisitions was complete within the one-year measurement periods following the respective acquisition dates. Certain estimated values for the Instrumex acquisition, including working capital and other liability adjustments, are not yet finalized, and the preliminary purchase price allocation is subject to change as the Company completes its analysis of the fair value at the date of acquisition. The final valuation will be completed within the one-year measurement period following the acquisition date, and any adjustments will be recorded in the period in which the adjustments are determined. The purchase consideration for each business acquired and the allocation of the consideration exchanged to the estimated fair values of assets acquired and liabilities assumed is summarized below:

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(in thousands)	Interworld Highway, LLC					National Test Equipment		Instrumex		Total
	April 29, 2022	January 3, 2022	March 31, 2022	June 1, 2022	December 1, 2022					
Current assets	\$ 15,018	\$ 10,210	\$ 2,881	\$ 2,187	\$ 3,495	\$ 33,791				
Property, plant and equipment	313	459	1,189	642	30	2,633				
Right of use assets	—	1,125	9,313	—	—	10,438				
Other intangible assets:										
Customer relationships	6,369	11,400	9,300	2,100	800	29,969				
Trade names	4,600	6,100	3,000	—	—	13,700				
Other assets	10	86	—	—	14	110				
Accounts payable	(8,856)	(3,058)	(778)	(196)	(1,305)	(14,193)				
Current portion of long-term debt	—	—	—	(2,073)	—	(2,073)				
Accrued expenses and other liabilities	—	(4,747)	(1,462)	(1,171)	(626)	(8,006)				
Lease liabilities	—	(1,125)	(9,313)	—	—	(10,438)				
Long-term debt	—	—	—	—	(2,105)	(2,105)				
Goodwill	37,236	10,305	11,544	5,703	1,989	66,777				
Total purchase consideration exchanged, net of cash acquired	\$ 54,690	\$ 30,755	\$ 25,674	\$ 7,192	\$ 2,292	\$ 120,603				
Cash consideration	\$ 54,690	\$ 30,755	\$ 25,674	\$ 6,023	\$ 1,818	\$ 118,960				
Seller's notes	—	—	—	1,169	—	1,169				
Deferred consideration	—	—	—	—	474	474				
Total purchase consideration exchanged, net of cash acquired	\$ 54,690	\$ 30,755	\$ 25,674	\$ 7,192	\$ 2,292	\$ 120,603				

The consideration for the Frontier acquisition includes a potential earn-out payment [Table of up to \\$3.0 million based upon the achievement of certain milestones and relative thresholds during the earn out measurement period which ends on December 31, 2024. Refer to Note 8 – Earnout Liabilities for additional information on the earn-out.](#)

[Following the initial fair value measurement, the Company updated the purchase price allocation for Instrumex in 2023 related to accrued expenses and other liabilities and long-term debt. The adjustments to these balances resulted in a \\$0.9 million increase to goodwill and a \\$1.6 million decrease to the total purchase consideration, net of cash acquired.](#)

[As a result of acquisitions completed in 2022, the Company recorded tax deductible goodwill of \\$53.6 million in 2022 that may result in a tax benefit in future periods.](#)

[The pro forma information for other acquisitions was included in the estimated unaudited pro forma consolidated financial information for DSG, which is presented below under \[Unaudited Pro Forma Information\]\(#\). \[Contents\]\(#\)](#)

Unaudited Pro Forma Information

The following table presents estimated unaudited pro forma consolidated financial information for DSG as if the **Mergers and other** acquisitions disclosed above occurred on **January 1, 2022** **January 1, 2023** for the acquisition completed during **2023** **2024** and **January 1, 2021** **January 1, 2022** for the acquisitions completed during **2022** **2023**. The unaudited pro forma information reflects adjustments including amortization on acquired intangible assets, interest expense, and the related tax effects. This information is presented for informational purposes only and is not necessarily indicative of future results or the results that would have occurred had the **Mergers and other** acquisitions been completed on the date indicated.

		Three Months Ended September 30,		Nine Months Ended September 30,	
		Three Months Ended March 31,			
		Three Months Ended March 31,			
(in thousands)	(in thousands)	2023	2022	2023	2022
(in thousands)					
Revenue					
Revenue	Revenue	\$ 438,909	\$ 457,958	\$ 1,347,226	\$ 1,320,226
Net income	Net income	\$ (1,568)	\$ 13,056	\$ 8,175	\$ 12,147
Net income					
Net income					

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Actual Results of Business Acquisitions

The following table presents actual results attributable to our **business combinations acquisitions** that were included in the unaudited condensed consolidated financial statements for the **third quarter and first nine three** months of **2023** **2024** and **2022**, **2023**. The results of DSG's legacy Lawson business are included only subsequent to the April 1, 2022 Merger Date, and the results for other these acquisitions are only included subsequent to their respective acquisition dates provided above.

		Three Months Ended September 30, 2023		Three Months Ended September 30, 2022								
		Three Months Ended March 31,				Three Months Ended March 31,						
(in thousands)	(in thousands)	Other	Lawson	Acquisitions	Total	Other	Lawson	Acquisitions	Total	(in thousands)	2024	2023
Revenue	Revenue	\$ —	\$ 104,796	\$ 104,796	\$ 126,693	\$ 71,216	\$ 197,909					
Net	Net											
Income	Income	\$ —	\$ (7,388)	\$ (7,388)	\$ 8,282	\$ 4,363	\$ 12,645					
		Nine Months Ended September 30, 2023		Nine Months Ended September 30, 2022								
(in thousands)		Other	Lawson	Acquisitions	Total	Other	Lawson	Acquisitions	Total			
Revenue		\$ —	\$ 132,797	\$ 132,797	\$ 250,364	\$ 146,742	\$ 397,106					
Net Income		\$ —	\$ (8,253)	\$ (8,253)	\$ 12,883	\$ 12,651	\$ 25,534					

The Company incurred transaction and integration costs (**credits**) related to the **Mergers and other** completed and contemplated acquisitions of **(\$0.1) million and \$9.1** **\$2.0 million** for the **three and nine months ended September 30, 2023**, respectively, **March 31, 2024** and **\$2.4 million and \$10.8** **\$4.1 million** for the **three and nine months ended September 30, 2022** **March 31, 2023**, respectively, which are included in Selling, general and administrative expenses in the Unaudited Condensed Consolidated Statements of Operations and Comprehensive Income (Loss).

Note 4 – Revenue Recognition

Under the definition **Disaggregation of a contract as defined by ASC 606**, the Company considers contracts Revenue

The Company's revenue is primarily comprised of product sales to be created at the time an order to purchase product and services is agreed upon regardless of whether there is a written contract. Revenue from customers is recognized when obligations under the terms of a contract are satisfied; this generally occurs with the delivery of products or services. Revenue from customers is measured as the amount of consideration the Company expects to receive in exchange for the delivery of products or services. Contracts may last from one month to one year or more and may have renewal terms that extend indefinitely at the option of either party. Price is typically based on market conditions, competition, changes in the industry and product availability. Volumes fluctuate primarily as a result of customer demand and product availability. Consistent with the way the Company manages its businesses, the Company refers to sales under service agreements, which includes both products (such as parts, equipment and equipment upgrades) and related services (such as monitoring, maintenance and repairs) as sales of "services," which is an important part of the Company's operations. The Company has no significant financing components in its disaggregated revenue by geographic area and by segment as it most reasonably depicts the amount, timing and uncertainty of revenue and cash flows generated from our contracts with customers. The Company records revenue net of certain taxes, such as sales taxes, that are assessed by governmental authorities on the Company's customers.

The Company also operates as a lessor and recognizes lease revenue on a straight-line basis over the life of each lease. The Company has adopted the practical expedient not to separate the non-lease components that would be within the scope of ASC 606 from the associated lease component as the relevant criteria under ASC 842 are met.

The Company does not incur significant costs to obtain contracts. Incidental items that are immaterial in the context of the contract are recognized as expenses. Sales of products and services to customers are invoiced and settled on a monthly basis. ASC 606 requires an entity to present a contract liability in instances where the customer is entitled to a volume rebate based on purchases made during the period. The Company is not usually subject to obligations for warranties, rebates, returns or refunds except in the case of rebates for select customers if predetermined purchase thresholds are met as discussed for the TestEquity segment below. The Company does not typically receive payment in advance of satisfying its obligations under the terms of its sales contracts with customers; therefore, liabilities related to such payment are not significant to the Company. Accounts receivable represents the Company's unconditional right to receive consideration from its customers.

Lawson Segment

The Lawson segment has two distinct performance obligations offered to its customers: a product performance obligation and a service performance obligation, and accordingly, two separate revenue streams. Although Lawson has identified that it offers its customers both a product and a service obligation, the customer only receives one invoice per transaction with no

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price allocation between these obligations. Lawson does not price its offerings based on any allocation between these obligations.

Lawson generates revenue primarily from the sale of MRO products to its customers. Revenue related to product sales is recognized at the time that control of the product has been transferred to the customer; either at the time the product is shipped or the time the product has been received by the customer. Lawson does not commit to long-term contracts to sell customers a certain minimum quantity of products.

Lawson offers a VMI service proposition to its customers. A portion of these services, primarily related to stocking of product and maintenance of the MRO inventory, is provided over a short period of time after control of the purchased product has been transferred to the customer. Since certain obligations pursuant to the VMI service agreement have not been provided at the time the control of the product transfers to the customer, that portion of expected consideration is deferred until the time that those services have been provided and the related performance obligations have been satisfied.

TestEquity Segment

TestEquity's contracts with customers generally represent a single performance obligation to sell its products. Revenue from contracts with customers reflect the transaction prices for contracts reduced by variable consideration. TestEquity provides a rebate to select customers if pre-determined purchase thresholds are met. The rebate consideration is not in exchange for a distinct product or service. Variable consideration is estimated using the expected-value method considering all reasonably available information, including TestEquity's historical experience and current expectations, and is reflected in the transaction price when sales are recorded. Sales returns are generally accepted by TestEquity; however, sales returns are not material to the Company's operations. TestEquity provides an assurance type warranty which is not sold separately and does not represent a separate performance obligation.

TestEquity generates revenue from contracts with customers through the sale of new and used electronic test and measurement products, industrial and electronic production supplies, and adhesive solutions. Typically, TestEquity has a purchase order or master service agreement with the customer that specifies the products and/or services to be provided. TestEquity generally invoices customers as products are shipped. Payment terms on invoiced amounts are typically due and payable 30 days after the date of shipment. Generally, customers gain control of the products upon providing the product to the carrier, or when services are completed. For the majority of transactions, TestEquity recognizes revenue at the time of shipment, when control passes to the customer. For consigned inventory, revenue is recognized when inventory is removed from TestEquity's stock location and control passes to the customer.

Gexpro Services Segment

Gexpro Services' contracts with customers generally represent a single performance obligation to sell its products. Revenue from sales of Gexpro Services' products is recognized upon transfer of control to the customer, which is typically when the product has been shipped from its distribution facilities. The transaction price is the amount of consideration to which Gexpro Services expects to be entitled in exchange for transferring products to the customer. Revenue is recorded based on the transaction price, which includes fixed consideration and an estimate of variable consideration such as, early payment/volume discounts and rebates. The amount of variable consideration included in the

transaction price is constrained and is included only to the extent it is probable that a significant reversal of cumulative revenue recognized will not occur when the uncertainty associated with the variable consideration is subsequently resolved.

Gxpro Services' products are marketed and sold primarily to original equipment manufacturers globally. Sales of products are subject to economic conditions and may fluctuate based on changes in the industry, trade policies and financial markets. Payment terms on invoiced amounts range from 10 to 120 days. In instances where the timing of revenue recognition differs from the timing of the right to invoice, the Company has determined that a significant financing component does not exist.

Disaggregated consolidated revenue by geographic area (based on the location to which the product is shipped to):

		Three Months Ended September 30,		Nine Months Ended September 30,	
		Three Months Ended March 31,	Three Months Ended March 31,	Three Months Ended March 31,	
(in thousands)					
(in thousands)	(in thousands)	2023	2022	2023	2022
United States	United States	\$ 344,920	\$ 284,771	\$ 936,289	\$ 668,504
United States					
United States					
Canada					
Canada	Canada	35,727	36,879	108,380	82,931
Europe	Europe	20,805	13,391	55,261	35,377
Europe					
Europe					
Pacific Rim					
Pacific Rim					
Pacific Rim	Pacific Rim	2,477	2,549	5,468	7,711
Latin America	Latin America	31,971	8,501	52,839	24,853
Latin America					
Latin America					
Other	Other	3,009	1,060	6,926	3,196
Other					
Other					
Intersegment revenue elimination					
Intersegment revenue elimination					
Intersegment revenue elimination					
Total revenue	Total revenue	\$ 438,909	\$ 347,151	\$ 1,165,163	\$ 822,572
Total revenue					
Total revenue					

See Note 16 – Segment Information for disaggregation of revenue by segment.

Rental Revenue

TestEquity rents new and used electronic test and measurement equipment to customers in multiple industries. These Lawson leases are classified as operating leases under ASC 842. Rental parts washer machines to customers. This leased equipment is included in Rental equipment, net in the Unaudited

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Condensed Consolidated Balance Sheet, Sheets, and rental revenue is included in Revenue in the Unaudited Condensed Consolidated Statements of Operations and Comprehensive Income (Loss). The unearned rental revenue related to customer prepayments on equipment leases was nominal at September 30, 2023 March 31, 2024 and December 31, 2022.

Lawson leases parts washer machines to customers through its Torrents leasing program. These leases are classified as operating leases under ASC 842. The leased machines are included in Rental equipment, net, in the Unaudited Condensed Consolidated Balance Sheet, and the leasing revenue is recognized on a straight-line basis and is included in Revenue in the Unaudited Condensed Consolidated Statements of Operations and Comprehensive Income (Loss). The unearned rental revenue related to customer prepayments on equipment leases was nominal at September 30, 2023 and December 31, 2022 December 31, 2023.

Rental revenue from operating leases:

		Three Months Ended September 30,		Nine Months Ended September 30,	
		Three Months Ended March 31,	Three Months Ended March 31,	Three Months Ended March 31,	Three Months Ended March 31,
(in thousands)					
(in thousands)	(in thousands)	2023	2022	2023	2022
Revenue from operating leases	Revenue from operating leases	\$ 4,323	\$ 5,542	\$ 12,831	\$ 13,879
Revenue from operating leases	Revenue from operating leases				
Revenue from operating leases	Revenue from operating leases				

Note 5 – Supplemental Financial Statement Information

Restricted Cash

The Company has agreed to maintain restricted cash of \$20.7 million \$12.5 million under agreements with outside parties. An escrow account of \$12.5 million was established in conjunction with the Hisco Transaction, to be released upon Hisco meeting certain working capital and other post-closing requirements as of the one year one-year post-acquisition date, date with a balance of \$3.1 million at March 31, 2024. The Company is restricted from withdrawing this balance without the prior consent of the sellers. The remaining restricted cash balance of \$8.2 million of restricted cash \$9.4 million represents collateral for certain borrowings under the 2023 Amended Credit Agreement, and the Company is restricted from withdrawing this balance without the prior consent of the respective lenders.

Inventories, net

Inventories, net, consisting of purchased products and manufactured electronic equipment offered for resale, were as follows:

(in thousands)	September 30, 2023	December 31, 2022
Inventories, gross	\$ 329,221	\$ 275,072
Reserve for obsolete and excess inventory	(15,884)	(10,698)
Inventories, net	\$ 313,337	\$ 264,374

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Property, Plant and Equipment, net

Components of property, plant and equipment, net were as follows:

(in thousands)	September December		March 31, 2024	December 31, 2023
(in thousands)	(in thousands)	30, 2023	31, 2022	
Land	Land	\$ 16,753	\$ 9,578	

Buildings and improvements	Buildings and improvements	50,009	27,199
Machinery and equipment	Machinery and equipment	48,235	26,948
Capitalized software	Capitalized software	9,140	7,889
Furniture and fixtures	Furniture and fixtures	10,707	6,346
Vehicles	Vehicles	1,703	1,713
Construction in progress ⁽¹⁾	Construction in progress ⁽¹⁾	3,804	3,140
Total	Total	140,351	82,813
Accumulated depreciation and amortization	Accumulated depreciation and amortization	(28,402)	(18,418)
Property, plant and equipment, net	Property, plant and equipment, net	\$ 111,949	\$ 64,395

⁽¹⁾ Construction in progress primarily relates to upgrades to certain of the Company's information technology systems that we expect to place in service in the next 12 months.

Depreciation expense for property, plant and equipment was \$3.5 million and \$1.1 million for the third quarter of 2023 and 2022, respectively, and \$9.5 million and \$4.0 million for the first nine months of 2024 and 2022, respectively. \$3.5 million for the first quarter of 2023. Amortization expense for capitalized software was \$0.5 million and \$0.0 million for the third quarter of 2023 and 2022, respectively, and \$2.0 million and \$1.0 million for the first nine months of 2024 and 2022, respectively. \$0.7 million for the first quarter of 2023.

Rental Equipment, net

Rental equipment, net consisted of the following:

(in thousands)	September December		March 31, 2024	December 31, 2023
(in thousands)	(in thousands)	30, 2023	31, 2022	
Rental equipment	Rental equipment	\$ 63,310	\$ 63,184	
Accumulated depreciation	Accumulated depreciation	(36,990)	(36,045)	
Rental equipment, net	Rental equipment, net	\$ 26,320	\$ 27,139	

Depreciation expense included in cost of sales for rental equipment was \$1.7 million and \$1.8 million and \$2.3 million for the first quarter of 2024 and 2022, respectively and \$5.9 million and \$5.4 million for the first nine months of 2023 and 2022, respectively. Refer to Note 4 – Revenue Recognition for a discussion on the Company's activities as lessor.

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Accrued Expenses and Other Current Liabilities

Accrued expenses and other current liabilities consisted of the following:

(in thousands)	September December		(in thousands)	March 31, 2024	December 31, 2023
(in thousands)	(in thousands)	30, 2023	31, 2022		

Accrued severance and acquisition related retention bonus			
Accrued compensation	Accrued compensation	\$ 27,532	\$ 24,094
Deferred acquisition payments and accrued earnout liabilities		16,461	1,383
Accrued severance and acquisition related retention bonus		12,648	927
Accrued and withheld taxes, other than income taxes	Accrued and withheld taxes, other than income taxes	8,758	4,885
Accrued stock-based compensation	Accrued stock-based compensation	5,055	3,340
Accrued interest			
Accrued customer rebates	Accrued customer rebates	4,710	5,053
Accrued interest		3,592	1,775
Deferred acquisition payments and accrued earnout liabilities			
Accrued health benefits	Accrued health benefits	1,743	1,306
Deferred revenue	Deferred revenue	1,136	2,313
Accrued income taxes	Accrued income taxes	734	731
Other	Other	14,822	16,870
Total accrued expenses and other current liabilities	Total accrued expenses and other current liabilities	\$ 97,191	\$ 62,677

Other Liabilities

Other liabilities consisted of the following:

(in thousands)		September		December	(in thousands)	March 31, 2024	December 31, 2023
		30, 2023	31, 2022	(in thousands)			
Security bonus plan	Security bonus plan	\$ 9,109	\$ 9,651				

Deferred compensation	Deferred compensation	10,854	9,962
Other	Other	4,658	4,036
Total other liabilities	Total other liabilities	\$ 24,621	\$ 23,649

Note 6 – Goodwill and Intangible Assets

Goodwill

Changes in the carrying amount of goodwill by segment were as follows:

(in thousands)	Lawson	TestEquity	Gexpro Services	All Other	Total
Balance at December 31, 2022	\$ 155,773	\$ 114,104	\$ 55,421	\$ 22,750	\$ 348,048
Acquisitions ⁽¹⁾	—	49,941	—	—	49,941
Impact of foreign exchange rates	(11)	—	(174)	(42)	(227)
Balance at September 30, 2023	\$ 155,762	\$ 164,045	\$ 55,247	\$ 22,708	\$ 397,762

(d) Refer to Note 3 – Business Acquisitions for information related to measurement period adjustments

(in thousands)	Lawson	TestEquity	Gexpro Services	All Other	Total
Balance at December 31, 2023	\$ 155,915	\$ 164,990	\$ 55,743	\$ 23,277	\$ 399,925
Acquisitions	2,973	—	—	—	2,973
Impact of foreign exchange rates	(135)	—	(250)	(504)	(889)
Balance at March 31, 2024	\$ 158,753	\$ 164,990	\$ 55,493	\$ 22,773	\$ 402,009

Intangible Assets

The gross carrying amount and accumulated amortization for definite-lived intangible assets were as follows:

		September 30, 2023			December 31, 2022				
		March 31, 2024			March 31, 2024				
		March 31, 2024						December 31, 2023	
(in thousands)	(in thousands)	Gross Carrying Amount	Accumulated Amortization	Net Value	Gross Carrying Amount	Accumulated Amortization	Net Value	Gross Carrying Amount	Accumulated Amortization
Trade names	Trade names	\$117,780	\$ (26,498)	\$ 91,282	\$ 92,286	\$ (17,401)	\$ 74,885		
Customer relationships	Customer relationships	234,346	(64,276)	170,070	192,934	(44,481)	148,453		
Other ⁽¹⁾	Other ⁽¹⁾	7,974	(4,007)	3,967	7,961	(3,305)	4,656		
Total	Total	\$360,100	\$ (94,781)	\$265,319	\$293,181	\$ (65,187)	\$227,994		

(1) Other primarily consists of non-compete agreements

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Amortization expense for definite-lived intangible assets was \$11.3 million and \$29.9 million \$10.7 million for the three and nine months ended September 30, 2023, respectively, March 31, 2024 and \$5.6 million and \$20.9 million \$9.2 million for the three and nine months ended September 30, 2022, respectively, March 31, 2023. Amortization expense related to intangible assets was recorded in Selling, general and administrative expenses.

The estimated aggregate amortization expense for the remaining year 2023, 2024, and each of the next five four years and thereafter are as follows:

(in thousands)	(in thousands)	Amortization (in thousands)	Amortization
Remaining 2023	\$ 8,952		
2024	42,856		

Remaining		
2024		
2025	2025	39,191
2026	2026	36,217
2027	2027	31,409
2028	2028	27,537
Thereafter	Thereafter	79,157
Total	Total	\$ 265,319
Total		
Total		

Note 7 – Leases

Activities as Lessee

The Company leases property used for warehousing, distribution centers, office space, branch locations, equipment and vehicles. The expenses generated by related to our leasing activity for the three and nine months ended September 30, 2023 March 31, 2024 and 2022 2023 were as follows (in thousands):

		Three Months Ended March 31,		Three Months Ended September 30,		Nine Months Ended September 30,							
		Three Months Ended March 31,		Three Months Ended March 31,		Three Months Ended March 31,							
Lease Type													
Lease Type													
Lease Type	Lease Type	Classification	2023	2022	2023	2023	2022						
Operating Lease Expense (1)	Operating Lease Expense (1)	Operating expenses	\$ 5,850	\$ 4,519	\$ 14,980	\$ 10,581							
Operating Lease Expense (1)													
Operating Lease Expense (1)													
Financing Lease Amortization													
Financing Lease Amortization													
Financing Lease Amortization	Financing Lease Amortization	Operating expenses	133	207	393	471							
Financing Lease Interest	Financing Lease Interest	Interest expense	23	37	65	68							
Financing Lease Interest													
Financing Lease Interest													
Financing Lease Expense													
Financing Lease Expense													
Financing Lease Expense	Financing Lease Expense		156	244	458	539							
Net Lease Cost	Net Lease Cost		\$ 6,006	\$ 4,763	\$ 15,438	\$ 11,120							
Net Lease Cost													
Net Lease Cost													

(1) Includes short term short-term lease expense, which is immaterial.

The value of net assets and liabilities related to our operating and finance leases as of September 30, 2023 March 31, 2024 and December 31, 2022 2023 was as follows (in thousands):

Lease Type	September 30, 2023	December 31, 2022
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Total ROU operating lease assets ⁽¹⁾	\$ 79,791	\$ 46,755
Total ROU financing lease assets ⁽²⁾	1,514	1,519
Total lease assets	\$ 81,305	\$ 48,274
Total current operating lease liabilities	\$ 12,711	\$ 9,480
Total current financing lease liabilities	530	484
Total current lease liabilities	\$ 13,241	\$ 9,964
Total long term operating lease liabilities	\$ 69,558	\$ 38,898
Total long term financing lease liabilities	795	930
Total long term lease liabilities	\$ 70,353	\$ 39,828

⁽¹⁾ Operating lease assets are recorded net of accumulated amortization of \$23.2 million as of September 30, 2023 and \$14.8 million as of December 31, 2022.

⁽²⁾ Financing lease assets are recorded net of accumulated amortization as a component of Other assets in the Unaudited Condensed Consolidated Balance Sheet of \$1.3 million as of September 30, 2023 and \$0.9 million as of December 31, 2022.

Lease Type	March 31, 2024	December 31, 2023
Total ROU operating lease assets	\$ 79,024	\$ 76,340
Total ROU financing lease assets	1,810	1,560
Total lease assets	\$ 80,834	\$ 77,900
Total current operating lease obligation	\$ 14,110	\$ 13,010
Total current financing lease obligation	528	539
Total current lease obligation	\$ 14,638	\$ 13,549
Total long-term operating lease obligation	\$ 68,275	\$ 66,234
Total long-term financing lease obligation	1,048	831
Total long-term lease obligation	\$ 69,323	\$ 67,065

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The value of lease liabilities related to our operating and finance leases as of **September 30, 2023** **March 31, 2024** was as follows (in thousands):

Maturity	Maturity				Maturity	Date of Lease Liabilities	Operating Leases	Financing Leases	Total
Date of Lease	Lease Liabilities	Leases	Leases	Total					
Remaining 2023	\$ 5,030	\$ 165	\$ 5,195						
2024	18,477	558	19,035						
Remaining 2024									
2025	2025	18,179	364	18,543					
2026	2026	14,406	282	14,688					
2027	2027	12,326	95	12,421					
2028									
Thereafter	Thereafter	40,120	5	40,125					
Total lease payments	Total lease payments	108,538	1,469	110,007					
Less: Interest	Less: Interest	(26,269)	(144)	(26,413)					

Present value of lease liabilities	Present value of lease liabilities	\$ 82,269	\$ 1,325	\$83,594
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The weighted average lease terms and interest rates of leases held as of September 30, 2023 March 31, 2024 and December 31, 2023 were as follows:

Lease Type	Weighted Average Term in Years	Weighted Average Interest Rate	
		Operating Leases	Financing Leases
Operating Leases	6.8	7.8%	
Financing Leases	2.8	6.9%	

	March 31, 2024		December 31, 2023	
	Operating Leases	Finance Leases	Operating Leases	Finance Leases
Weighted average remaining lease term	6.7 years	3.2 years	6.6 years	2.8 years
Weighted average interest rate	7.9%	7.4%	7.8%	7.1%

The cash outflows of leasing activity for the nine three months ended September 30, 2023 March 31, 2024 and December 31, 2023 were as follows (in thousands):

Cash Flow Source	Source	Classification	March 31, 2024		December 31, 2023			
			2023	2022	Cash Flow Source	Classification	2024	2023
Operating cash flows from operating leases	Operating leases	Operating activities	\$ (9,083)	\$ (3,330)				
Operating cash flows from financing leases	Operating leases	Operating activities	(186)	37				
Financing cash flows from financing leases	Financing leases	Financing activities	(358)	(457)				

Refer to Note 4 – Revenue Recognition for a discussion on the Company's activities as lessor.

Note 8 – Earnout Liabilities

Combination with TestEquity and Gexpro Services

On the Merger Date, the Company recorded an earnout derivative liability for the two earnout provisions within the Merger Agreements. The Company estimated the initial fair value of the earnout derivative liability based on an aggregate of 2,324,000 additional shares available to be issued under the two earnout provisions of the Merger Agreements. The aggregate of 2,324,000 shares was comprised of 1,400,000 shares of DSG common stock that were contingently issuable to (or forfeitable by) the TestEquity Equityholder and 924,000 shares of DSG common stock that were contingently issuable to (or forfeitable by) the Gexpro Services Stockholder, in each case as of the Merger Date. The additional 1,076,000 shares that were potentially issuable as of the Merger Date under the earnouts were not recorded as an earnout derivative liability as the acquisition contingency for these shares was determined to have been met at the Merger Date.

The Company's earnout derivative liability was classified as a Level 3 instrument and was measured at fair value on a recurring basis. The fair value of the earnout derivative liability was measured using the Monte Carlo simulation valuation model using a distribution of potential outcomes on a monthly basis for the year ended December 31, 2022. Inputs to that model included the expected time to liquidity, the risk-free interest rate over the term, expected volatility based on representative peer companies and the estimated fair value of the underlying class of common stock. The significant unobservable inputs used in the fair value measurement of the earnout derivative liability were the fair value of the underlying stock at the valuation date and the estimated term of the earnout arrangement periods. Generally, increases (decreases) in the fair value of the underlying stock and estimated term would result in a directionally similar impact to the fair value measurement.

The estimated aggregate fair value of the earnout derivative liability recorded on the April 1, 2022 Merger Date was \$43.9 million, with an offsetting entry to additional paid-in capital. As of April 29, 2022 and December 31, 2022, 1,400,000 and 924,000 of the 2,324,000 shares, respectively, were reclassified to equity, as the contingencies had been determined to have been met. There was no remaining earnout derivative liability at December 31, 2022. Immediately prior to the reclassifications, the respective shares were remeasured to fair value. For the year ended December 31, 2022, the Company recorded income of \$0.3 million as a component of Change in fair value of earnout liabilities in the Unaudited Consolidated Statements of Operations and Comprehensive Income (Loss) due to changes in the fair value of the earnout derivative liability.

On March 20, 2023, all of the 3.4 million shares of DSG common stock available to be issued under the earnout provisions within the Merger Agreements were issued in accordance with the two earnout provisions within the Merger Agreements.

As the remaining additional shares had been reclassified to equity as of December 31, 2022, there was no change in fair value for the first nine months of 2023. For the three and nine months ended September 30, 2022, the Company recorded income of \$10.3 million and \$4.6 million, respectively, as a component of Change in fair value of earnout liabilities in the Unaudited Condensed Consolidated Statements of Operations and Comprehensive Income (Loss) due to changes in the fair value of the earn-out derivative liability.

Hisco Acquisition

The Hisco Transaction includes a potential earn-out payment of up to \$12.6 million, subject to Hisco achieving certain performance targets. The earn-out payment is calculated based on the gross profit of Hisco and its affiliates for the twelve months ending October 31, 2023, subject to certain adjustments and exclusions set forth in the Purchase Agreement. The fair value of the contingent consideration arrangement was classified as a Level 3 instrument and was determined using a probability-based scenario analysis approach. As of June 8, 2023 (the Hisco Transaction date) and September 30, 2023 December 31, 2023, the fair value of the earn-out was \$6.0 \$0.1 million and \$0.1 \$0.0 million, respectively, with amounts recorded in Accrued expenses and other current liabilities in the Unaudited Condensed Consolidated Balance Sheet.

Prior to Sheets. As the Hisco Transaction by DSG, Hisco had a preexisting contingent consideration arrangement from an acquisition Hisco made during 2022. DSG assumed this liability with a potential performance targets were not achieved, no earn-out payment of up to \$3.8 million, subject to the achievement of certain EBITDA performance targets for the twelve months ending December 27, 2023, subject to certain adjustments and exclusions set forth in the Purchase Agreement. The fair value of the contingent consideration arrangement was classified as a Level 3 instrument and was determined using a probability-based scenario analysis approach. As of June 8, 2023 (the Hisco acquisition date) and September 30, 2023, the fair value of the earn-out was \$1.5 million and \$1.5 million, respectively, with amounts recorded in Accrued expenses and other current liabilities in the Unaudited Condensed Consolidated Balance Sheet. There was no change in the fair value of the earn-out liability for the nine months ended September 30, 2023, will be made.

Frontier Acquisition

On March 31, 2022, Gexpro Services acquired Frontier Technologies Brewton, LLC and Frontier Engineering and Manufacturing Technologies, Inc. ("Frontier"). The consideration for the Frontier acquisition includes a potential earn-out payment of up to \$3.0 million based upon the achievement of certain milestones and relative thresholds during the earn out measurement period, which ends on December 31, 2024, with payments made annually beginning in 2023 and ending in 2025. During the first quarter of 2023, a \$1.0 million earn-out payment was made based on the achievement of certain milestones in 2022. The fair value of the contingent consideration arrangement was classified as a Level 3 instrument and was determined using a probability-based scenario analysis approach. As of March 31, 2022 (the Frontier acquisition date), December 31, 2022 December 31, 2023 and September 30, 2023 March 31, 2024, the fair value of the earn-out was \$0.9 million, \$1.7 \$0.0 million and \$0.0 million, respectively, with amounts recorded in Accrued expenses and other current liabilities and Other liabilities in the Unaudited Condensed Consolidated Balance Sheet. The Company recorded income of \$0.7 million for changes in the fair value of the earn-out liability for the nine months ended September 30, 2023 as a component of Change in fair value of earnout liabilities in the Unaudited Condensed Consolidated Statements of Operations and Comprehensive Income (Loss). Sheets.

Note 9 – Debt

The Company's Company's outstanding long-term debt was comprised of the following:

(in thousands)	September 30, 2023	December 31, 2022
Senior secured revolving credit facility	\$ —	\$ 122,000
Senior secured term loan	234,375	243,750
Senior secured delayed draw term loan	48,125	50,000
Incremental term loan	305,000	—
Other revolving line of credit	2,085	1,352
Total debt	589,585	417,102
Less current portion of long-term debt	(32,335)	(16,352)
Less deferred financing costs	(6,724)	(4,925)
Total long-term debt	\$ 550,526	\$ 395,825

Amended and Restated Credit Agreement

On April 1, 2022, DSG and certain of its subsidiaries entered into an Amended and Restated Credit Agreement by and among DSG, certain subsidiaries of DSG as borrowers or guarantors, the lenders party thereto and JPMorgan Chase Bank, N.A., as administrative agent. Pursuant to the Amended and Restated Credit Agreement, the Company's previous credit agreement was amended and restated in its entirety.

(in thousands)	March 31, 2024	December 31, 2023
Senior secured revolving credit facility	\$ —	\$ —
Senior secured term loan	228,125	228,125
Senior secured delayed draw term loan	46,250	46,875
Incremental term loan	297,375	297,375
Other revolving line of credit	—	2,301
Total debt	571,750	574,676
Less: current portion of long-term debt	(30,250)	(32,551)
Less: deferred financing costs	(5,764)	(6,244)
Total long-term debt	\$ 535,736	\$ 535,881

On June 8, 2023, the Company and certain of its subsidiaries entered into the First Amendment to Amended and Restated Credit Agreement (the "First Amendment" and as amended, the "2023 Amended Credit Agreement"), which amended and replaced the Amended and Restated Credit Agreement, previous credit agreement, dated as of April 1, 2022 (as amended by the First Amendment, the "2023 Credit Agreement"). The First Amendment provides for a \$305 million incremental term loan.

The 2023 Amended Credit Agreement provides for (i) a \$200 million senior secured revolving credit facility, with a \$25 million letter of credit sub-facility and a \$10 million swingline loan sub-facility, (ii) a \$250 million senior secured initial term loan facility, (iii) a \$305 million incremental term loan, (iv) a \$50 million senior secured delayed draw term loan facility and (v) the Company to increase the commitments thereunder from time to time by up to \$200 million in the aggregate, subject to, among other things, the receipt of additional commitments from existing and/or new lenders and pro forma compliance with the financial covenants in the 2023 Amended Credit Agreement.

On June 8, 2023, in connection with the Hisco Transaction, the Company borrowed the \$305 million under the incremental term loan. These borrowings were used, among other things, to partially fund the Hisco Transaction, to repay certain existing indebtedness of Hisco, HISCO Acquisition Subsidiary I, Inc. and HISOCAN Inc. and their respective subsidiaries and to pay fees and expenses incurred in connection with the Hisco Transaction and the First Amendment. Refer to Note 3 – Business Acquisitions for further details about the Hisco Transaction.

Each of the loans under the 2023 Amended Credit Agreement mature on April 1, 2027. The Company is required to repay principal of approximately \$7.6 million each quarter.

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Future maturities of long-term debt are \$30.3 million per year payable in equal quarterly installments in 2024, 2025 and 2026, with the remaining balance of \$481.6 million due in 2027 upon maturity.

Net of outstanding letters of credit, there was \$198.3 million of borrowing availability under the revolving credit facility as of September 30, 2023. The weighted average interest rate from January 1, 2023 through September 30, 2023 was 7.4% March 31, 2024.

The loans under the 2023 Amended Credit Agreement bear interest, at the Company's option, at a rate equal to (i) the Alternate Base Rate or the Canadian Prime Rate (each as defined in the 2023 Amended Credit Agreement), plus, in each case, an additional margin ranging from 0.0% to 1.75% per annum, depending on the total net leverage ratio of

the Company and its restricted subsidiaries as of the most recent determination date under the 2023 Amended Credit Agreement or (ii) the Adjusted Term SOFR Rate or the CDOR Rate (each as defined in the 2023 Amended Credit Agreement), plus, in each case, an additional margin ranging from 1.0% to 2.75% per annum, depending on the total net leverage ratio of the Company and its restricted subsidiaries as of the most recent determination date under the 2023 Amended Credit Agreement.

On April 1, 2022, deferred financing costs of \$4.0 million were incurred in connection with the original Amended and Restated Credit Agreement, and on June 8, 2023, deferred financing costs of \$3.4 million were incurred in connection with the First Amendment. 2023 Amended Credit Agreement, and deferred financing costs of \$4.0 million were incurred during 2022 in connection with the previous credit agreement. Deferred financing costs are amortized over the life of the debt instrument and reported as interest expense, a component of Interest expense in the Unaudited Condensed Consolidated Statements of Operations and Comprehensive Income (Loss). Amortization of deferred financing costs was \$0.7 million and \$0.5 million for the first three months of 2024 and 2023, respectively. As of September 30, 2023 March 31, 2024, total deferred financing costs net of accumulated amortization were \$9.2 million \$7.9 million of which \$6.7 million \$5.8 million are included in Long-term debt, less current portion, net (related to the senior secured term loan, senior secured delayed draw term loan and incremental term loan) and \$2.5 million \$2.2 million are included in Other assets (related to the senior secured revolving credit facility) in the Unaudited Condensed Consolidated Balance Sheet. Sheets.

Subject to certain exceptions as set forth in the 2023 Amended Credit Agreement, the obligations of the Company and its U.S. subsidiaries under the 2023 Amended Credit Agreement are guaranteed by the Company and certain of the Company's U.S. subsidiaries and the obligations of each of the Company's Canadian subsidiaries under the 2023 Amended Credit Agreement are guaranteed by the Company and certain of its U.S. and Canadian subsidiaries.

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Subject to certain exceptions as set forth in the 2023 Amended Credit Agreement, the obligations under the 2023 Amended Credit Agreement are secured by a first priority security interest in and lien on substantially all assets of the Company, each other borrower and each guarantor.

The 2023 Amended Credit Agreement contains various covenants, including financial maintenance covenants requiring the Company to maintain compliance with a consolidated minimum interest coverage ratio and a maximum total net leverage ratio, each determined in accordance with the terms of the 2023 Amended Credit Agreement. The 2023 Amended Credit Agreement contains various events of default (subject to exceptions, thresholds and grace periods as set forth in the 2023 Amended Credit Agreement). Under certain circumstances, a default interest rate will apply on all obligations at a rate equal to 2.0% per annum above the applicable interest rate. The Company was in compliance with all financial covenants set forth in the 2023 Credit Agreement as of September 30, 2023 March 31, 2024.

Note 10 – Stock-Based Compensation

The Company recorded stock-based compensation expense of \$1.0 million and \$5.4 million \$2.2 million for the three and nine months ended September 30, 2023, respectively, March 31, 2024 and a benefit of \$3.6 million and expense of \$0.4 million \$2.2 million for the three and nine months ended September 30, 2022, respectively March 31, 2023 in Selling, general and administrative expenses in the Unaudited Condensed Consolidated Statements of Operations and Comprehensive Income (Loss). A portion of the Company's stock-based awards are liability-classified. Accordingly, changes in the market value of DSG common stock may result in stock-based compensation expense or benefit in certain periods. A stock-based compensation liability of \$5.1 million \$5.7 million as of September 30, 2023 March 31, 2024 and \$3.3 million \$5.6 million as of December 31, 2022 December 31, 2023 was included in Accrued expenses and other current liabilities in the Unaudited Condensed Consolidated Balance Sheet. Sheets.

Impact of Stock Split

The equity compensation plans contain anti-dilution provisions whereby in the event of any change in the capitalization of the Company (including in the event of a stock split), the number and type of awards underlying outstanding stock-based compensation awards must be adjusted, as appropriate, in order to prevent dilution or enhancement of rights. The impact of these provisions resulted in a modification of all outstanding stock-based compensation awards upon the Stock Split. As the fair value of the awards immediately after the Stock Split did not change when compared to the fair value of such awards immediately prior to the Stock Split, no incremental compensation costs were recognized as a result of such modifications. In addition, there was no change to the vesting conditions or classification of each of the outstanding stock-based compensation awards.

Restricted Stock Awards

For the nine months ended September 30, 2023, the Company issued approximately 53,000 Restricted stock awards ("RSAs") that vest over five years from the grant date with a grant date fair value of \$1.2 million. Upon vesting, the vested RSAs are exchanged for an equal number of shares of DSG common stock. The participants have no voting or dividend rights with the RSAs. The RSAs are valued at the closing price of shares of DSG common stock on the date of grant and the expense is recorded ratably over the vesting period.

Stock Options

For the nine months ended September 30, 2023, the Company issued approximately 1,354,000 stock options to key employees that vest over five years from the grant date. The fair value was determined using a Black-Scholes valuation model with a grant date fair value of \$9.6 million. Each stock option can be exchanged for one share of DSG common stock at the stated exercise price. Upon vesting, stock options are recognized as a component of equity. Unrecognized compensation related

to stock options as of September 30, 2023 was \$10.0 million, which is expected to be recognized over a weighted-average period of 2.3 years.

Activity related to the Company's stock options during 2023 was as follows:

	Number of Stock Options	Weighted Average Exercise Price
Outstanding on December 31, 2022	576,000	\$ 38.80
Granted	1,353,706	37.05
Outstanding on September 30, 2023	<u>1,929,706</u>	<u>37.50</u>
Exercisable on September 30, 2023	<u>180,800</u>	<u>29.74</u>

The weighted average fair value assumptions used in the Black-Scholes model for the stock options issued during 2023 were as follows:

Expected volatility	45.2% to 45.5%
Risk-free rate of return	3.6% to 4.5%
Expected term (in years)	6.2 years to 6.5 years
Expected annual dividend	\$0

The expected volatility was based on the historic volatility of the Company's stock price commensurate with the expected life of the stock options. The risk-free rate of return reflects the interest rate offered for zero coupon treasury bonds over the expected life of the stock options. The expected life represents the period of time that options granted are expected to be outstanding and was calculated using the simplified method allowed by the SEC, which approximates our historical experience. The estimated annual dividend was based on the recent dividend payout trend.

Note 11 – Stockholders' Equity

Stock Split

On August 15, 2023, DSG announced that its Board of Directors approved and declared the Stock Split which entitled each stockholder of record as of the close of business on August 25, 2023 to receive one additional share of DSG common stock for each share of DSG common stock then-held. The additional shares were distributed after the close of trading on August 31, 2023, and shares of DSG common stock began trading at the split-adjusted basis on September 1, 2023. Accordingly, all share and per share amounts presented herein have been retroactively adjusted to reflect the impact of the Stock Split. Stockholders' equity has been retroactively adjusted, where applicable, to give effect to the Stock Split for all periods presented by reclassifying the par value of the additional shares issued in connection with the Stock Split to Common stock from Capital in excess of par value.

Rights Offering

On May 9, 2023, the Company commenced completed a Rights Offering to raise subscription rights offering on May 30, 2023 (the "Rights Offering") that raised gross proceeds of up to approximately \$100 million. The Rights Offering provided one transferable subscription right for each share of DSG common stock held by holders of DSG common stock on record as of the close of business on May 1, 2023. Each subscription right entitled the holder to purchase 0.0525 shares of DSG common stock at a subscription price of \$22.50 per share. The subscription rights were transferable, but were not listed for trading on any stock exchange or market. In addition, holders of subscription rights who fully exercised their subscription rights were entitled to oversubscribe for additional shares of DSG common stock, subject to proration.

The Rights Offering closed on May 30, 2023 and was fully subscribed (taking into account the exercise of over-subscription rights) and raised approximately \$100 million \$100.0 million and resulted in the issuance of 4,444,444 shares of DSG common stock at a purchase price of \$22.50 \$22.50 per share. The Company incurred Net proceeds were approximately \$98.5 million after transaction costs of \$1.5 million related to the issuance of DSG common stock for the Rights Offering, of \$1.5 million, which were recorded against Capital in excess of par value in the Unaudited Condensed Consolidated Balance Sheet.

DSG used the proceeds from the Rights Offering, in combination with borrowings under the 2023 Amended Credit Agreement, to fund the Hisco Transaction.

Stock Repurchase Program

Under an existing stock repurchase program authorized by the Board of Directors, the Company may repurchase its common stock from time to time in open market transactions, privately negotiated transactions or by other methods. No shares were repurchased during the three and nine months ended **September 30, 2023** **March 31, 2024** or **2023** under the Company's stock repurchase plan. During the third quarter of 2022, the Company repurchased 108,178 shares of Company common stock under the repurchase plan at an average cost of \$17.93 per share for a total cost of \$1.9 million. The remaining availability for stock repurchases under the program was **\$7.6 million** **\$29.0 million** at **September 30, 2023** **March 31, 2024**.

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Note 12 – Earnings Per Share

As a result of the Stock Split and Mergers discussed in Note 1 – Nature of Operations and Basis of Presentation, all historical per share data, number of shares and numbers of equity awards were retroactively adjusted. The following table provides the computation of basic and diluted earnings per share:

		Three Months Ended September 30,		Nine Months Ended September 30,						
		Three Months Ended March 31,	Three Months Ended March 31,	Three Months Ended March 31,						
(in thousands, except share and per share data)										
(in thousands, except share and per share data)										
(in thousands, except share and per share data)	(in thousands, except share and per share data)	2023	2022	2023	2022					
Basic income per share:	Basic income per share:									
Basic income per share:										
Basic income per share:										
Net income (loss)	Net income (loss) \$	(1,568)	\$ 16,541	\$ 7,363	\$ 9,289					
Basic weighted average shares outstanding	Basic weighted average shares outstanding	46,737,443	38,879,992	44,216,541	34,287,628					
Basic weighted average shares outstanding										
Basic weighted average shares outstanding										
Basic income (loss) per share of common stock	Basic income (loss) per share of common stock									
Basic income (loss) per share of common stock	Basic income (loss) per share of common stock									
Basic income (loss) per share of common stock	Basic income (loss) per share of common stock	(0.03)	\$ 0.43	\$ 0.17	\$ 0.27					
Diluted income per share:	Diluted income per share:									
Diluted income per share:										
Diluted income per share:										
Net income (loss)	Net income (loss) \$	(1,568)	\$ 16,541	\$ 7,363	\$ 9,289					

Basic weighted average shares outstanding	Basic weighted average shares outstanding	46,737,443	38,879,992	44,216,541	34,287,628
Basic weighted average shares outstanding					
Basic weighted average shares outstanding					
Effect of dilutive securities					
Effect of dilutive securities					
Effect of dilutive securities	Effect of dilutive securities	—	426,716	380,878	626,506
Diluted weighted average shares outstanding	Diluted weighted average shares outstanding	46,737,443	39,306,708	44,597,419	34,914,134
Diluted weighted average shares outstanding					
Diluted weighted average shares outstanding					
Diluted income (loss) per share of common stock					
Diluted income (loss) per share of common stock					
Diluted income (loss) per share of common stock	Diluted income (loss) per share of common stock	\$ (0.03)	\$ 0.42	\$ 0.17	\$ 0.27
Anti-dilutive securities excluded from the calculation of diluted income per share	Anti-dilutive securities excluded from the calculation of diluted income per share	448,910	493,914	—	496,000
Anti-dilutive securities excluded from the calculation of diluted income per share					
Anti-dilutive securities excluded from the calculation of diluted income per share					

Note 13 – Income Taxes

The Company recorded an income tax expense benefit of \$1.0 million \$4.1 million, a (171.3)% 43.8% effective tax rate for the three months ended September 30, 2023 March 31, 2024. Income tax expense of \$8.5 million \$2.1 million, a 33.9% 26.3% effective tax rate was recorded for the three months ended September 30, 2022 March 31, 2023. The effective tax rate for the three months ended September 30, 2023 March 31, 2024 was higher than the U.S. statutory rate primarily due to adjustments to uncertain state taxes, foreign income and a change in valuation allowances related to interest expense limitation deferred tax positions, a book loss for the current quarter, and other permanent items assets. The effective tax rate for the three months ended September 30, 2022 was higher than the U.S. statutory rate primarily due to state taxes, transaction costs, and other permanent items.

The Company recorded income tax expense of \$3.6 million, a 33.1% effective tax rate for the nine months ended September 30, 2023. Income tax expense of \$3.9 million, a 29.6% effective tax rate was recorded for the nine months ended September 30, 2022. The effective tax rate for the nine months ended September 30, 2023 March 31, 2023 was higher than the U.S. statutory rate primarily due to state taxes, foreign operations, and other permanent items, offset by the release of a reserve for an uncertain tax benefit. The effective tax rate for the nine months ended September 30, 2022 was higher than the U.S. statutory rate primarily due to state taxes, transaction costs, and other permanent items.

The Company and its subsidiaries are subject to U.S. federal income tax, as well as income tax of multiple state and foreign jurisdictions. As of September 30, 2023 March 31, 2024, the Company is subject to U.S. federal income tax examinations for the years 2019 2020 through 2021 2022 and income tax examinations from various other jurisdictions for the years 2016 through 2022.

Earnings from the Company's foreign subsidiaries are considered to be indefinitely reinvested. A distribution of these non-U.S. earnings in the form of dividends or otherwise may subject the Company to foreign withholding taxes and U.S. federal and state taxes.

Note 14 – Commitments and Contingencies

Merger Litigation

In February 2022, three purported DSG stockholders made demands pursuant to Section 220 of the Delaware General Corporation Law to inspect certain books and records of DSG (collectively, the "Books and Records Demands"). One stated purpose of the Books and Records Demands was to investigate questions of director disinterestedness and independence and the alleged possibility of wrongdoing, mismanagement and/or material non-disclosure related to the Special Committee's and the DSG Board of Directors' approval of the Mergers. On March 16, 2022, one of the purported DSG stockholders who previously made a Books and Records Demand filed a lawsuit entitled Robert Garfield v. Lawson Products, Inc., Case No. 2022-0252, in the Court of Chancery of the State of Delaware against DSG (the "Garfield Action"). On March 22, 2022, another of the purported DSG stockholders who previously made a Books and Records Demand filed a lawsuit entitled Jeffrey Edelman v. Lawson Products, Inc., Case No. 2022-0270, in the Court of Chancery of the State of Delaware against DSG (the "Edelman Action"). The Garfield Action and the Edelman Action, which were consolidated and re-captioned as Lawson Products, Inc. Section 220 Litigation, Case No. 2022-0270, are collectively referred to as the "Books and Records Actions." The Books and Records Actions sought to compel inspection of certain books and records of DSG to investigate questions of director disinterestedness and independence and the alleged possibility of wrongdoing, mismanagement and/or material non-disclosure

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related to the Special Committee's and the DSG Board of Directors' approval of the Mergers. Following briefing, the Delaware Court of Chancery held a trial on July 14, 2022 to adjudicate the Books and Records Actions. At the conclusion of the trial, the Court ruled orally that the stockholders' demands would be granted only in one respect (production of documents sufficient to show the identities of any guarantors of debt of the acquired companies) and the Court denied the remainder of the stockholders' requests. The Court's ruling was memorialized in an order issued on July 20, 2022. Thereafter, DSG produced excerpts of certain documents as required by the Court's ruling and subsequent order.

On October 3, 2022, the plaintiffs in the Books and Records Actions filed a shareholder derivative action (the "Derivative Action") entitled Jeffrey Edelman and Robert Garfield v. John Bryan King et al., Case No. 2022-0886, in the Court of Chancery of the State of Delaware (the "Delaware Chancery Court"). The Derivative Action names as defendants J. Bryan King, Lee S. Hillman, Bianca A. Rhodes, Mark F. Moon, Andrew B. Albert, I. Steven Edelson and Ronald J. Knutson (collectively, "Director and Officer Defendants"), and LKCM Headwater Investments II, L.P., LKCM Headwater II Sidecar Partnership, L.P., Headwater Lawson Investors, LLC, PDLP Lawson, LLC, LKCM Investment Partnership, L.P., LKCM Micro-Cap Partnership, L.P., LKCM Core Discipline, L.P. and Luther King Capital Management Corporation (collectively, the "LKCM Defendants"). Purporting to act on behalf of DSG, in the Derivative Action the plaintiffs allege, among other things, various claims of alleged breach of fiduciary duty against the Director and Officer Defendants and the LKCM Defendants in connection with the Mergers. The Derivative Action seeks, among other things, money damages, equitable relief and the costs of the Derivative Action, including reasonable attorneys', accountants' and experts' fees. On October 24, 2022, the plaintiffs voluntarily dismissed PDLP Lawson, LLC and LKCM Investment Partnership, L.P. from the Derivative Action without prejudice.

The Delaware Chancery Court held a hearing on September 13, 2023, to hear arguments on the defendants' motions to dismiss. At the conclusion of the hearing, in rulings issued on September 13, 2023, and September 19, 2023, the entire complaint was dismissed with prejudice for failure to state a claim. On October 16, 2023, the plaintiffs filed a notice of appeal from the dismissal of their claims with respect to all defendants other than the members of the Special Committee (Messrs. Hillman, Albert and Edelson) and Mr. Moon. On October 25, 2023, Plaintiff Garfield voluntarily dismissed his appeal. The voluntary dismissal did not impact the appeal by Plaintiff Edelman, who continued to advance his appeal. Plaintiff's opening brief on appeal was filed on November 30, 2023. Defendants' joint answering brief was filed on January 5, 2024. Plaintiff's optional reply brief was filed on January 25, 2024. The Delaware Supreme Court has not set a date for scheduled oral argument in the hearing appeal to occur on the plaintiffs' appeal of the ruling. May 22, 2024.

DSG disagrees with and intends to vigorously defend against the Derivative Action. The Derivative Action could result in additional costs to DSG, including costs associated with the indemnification of directors and officers. At this time, DSG is unable to predict the ultimate outcome of the Derivative Action or, if the outcome is adverse, to reasonably estimate an amount or range of reasonably possible loss, if any, associated with the Derivative Action. Accordingly, no amounts have been recorded in the unaudited condensed consolidated financial statements for these matters. No assurance can be given that additional lawsuits will not be filed against DSG and/or its directors and officers and/or other persons or entities in connection with the Mergers.

Cyber Incident Litigation

On February 10, 2022, DSG disclosed that its computer network was the subject of a cyber incident potentially involving unauthorized access to certain confidential information (the "Cyber Incident"). On April 4, 2023, a putative class action lawsuit (the "Cyber Incident Suit") was filed against DSG entitled Lardone Davis, on behalf of himself and all others similarly situated.

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v. Lawson Products, Inc., Case No. 1:23-cv-02118, in the United States District Court for the Northern District of Illinois, Eastern Division. The plaintiff in this case, who purports to represent the class of individuals harmed by alleged actions and/or omissions by DSG in connection with the Cyber Incident, asserts a variety of common law and statutory claims seeking monetary damages, injunctive relief and other related relief related to the potential unauthorized access by third parties to personal identifiable information and protected health information.

DSG disagrees with and intends to vigorously defend against the Cyber Incident Suit. The Cyber Incident Suit could result in additional costs and losses to DSG, although, at this time, DSG is unable to reasonably estimate the amount or range of reasonably possible **loss, losses**, if any, that might result from adverse judgments, settlements, fines, penalties or other resolution of these proceedings based on the early stage of this proceeding, the absence of specific allegations as to alleged damages, the uncertainty as to the certification of a class or classes and the size of any certified class, if applicable, and the lack of resolution of significant factual and legal issues. Accordingly, no amounts have been recorded in the unaudited condensed consolidated financial statements for the Cyber Incident Suit. No assurance can be given that additional lawsuits will not be filed against DSG and/or its directors and officers and/or other persons or entities in connection with the Cyber Incident.

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Environmental Matter

In 2012, it was determined that a **Company owned Company-owned** site in Decatur, Alabama, contained hazardous substances in the soil and groundwater as a result of historical operations prior to the **Company's Company's** ownership. The Company retained an environmental consulting firm to further investigate the contamination, prepare a remediation plan, and enroll the site in the Alabama Department of Environmental Management ("ADEM") voluntary cleanup program.

A remediation plan was approved by ADEM in 2018. The plan consists of chemical injections throughout the affected area, as well as subsequent monitoring of the area. The injection process was completed in the first quarter of 2019 and the environmental consulting firm is monitoring the affected area. At **September 30, 2023** **March 31, 2024** the Company had approximately \$0.1 million accrued for potential monitoring costs included in Accrued expenses and other current liabilities in the Unaudited Condensed Consolidated Balance **Sheet Sheets**. The costs for future monitoring are not significant and have been fully accrued. The Company does not expect to capitalize any amounts related to the remediation plan.

Purchase commitments

The Company enters into inventory purchase commitments with third parties in the ordinary course of business, and as of September 30, 2023, had contractual commitments to purchase approximately \$200 million of products from our suppliers and contractors, which is expected to be paid in the next twelve months.

Note 15 – Related Party Transactions

Management Services Agreements

Prior to the Mergers, a subsidiary of TestEquity was party to a management agreement with Luther King Capital Management Corporation ("LKCM") for certain advisory and consulting services (the "TestEquity Management Agreement"), and a subsidiary of Gexpro Services was party to a management agreement with LKCM for certain advisory and consulting services (the "Gexpro Services Management Agreement"). In connection with the closing of the Mergers on April 1, 2022, (i) all of the TestEquity subsidiary's rights, liabilities and obligations under the TestEquity Management Agreement were novated to, transferred to and assumed by the TestEquity Equityholder, and LKCM released the TestEquity subsidiary from all obligations and claims under the TestEquity Management Agreement, and (ii) all of the Gexpro Services subsidiary's rights, liabilities and obligations under the Gexpro Services Management Agreement were novated to, transferred to and assumed by the Gexpro Services Stockholder, and LKCM released the Gexpro Services subsidiary from all obligations and claims under the Gexpro Services Management Agreement (collectively, the "Novations"). During the first three months of 2022, expense of \$0.5 million was recorded within Selling, general and administrative expenses within the Unaudited Condensed Consolidated Statements of Income and Comprehensive Income (Loss), reflecting expenses accrued under these management agreements from January 1, 2022 through the April 1, 2022 Merger Date. As of April 1, 2022, the prior obligation of \$5.3 million was effectively settled and considered to be a deemed equity contribution by LKCM recorded to additional paid in capital. As a result of the Novations, no additional expense under these management agreements has been incurred subsequent to the Mergers.

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Consulting Services

Subsequent to the Mergers, individuals **Individuals** employed by LKCM Headwater Operations, LLC, a related party of LKCM, have provided the Company with certain consulting services for interim executive management in **order addition to** **identify assisting in identifying** cost savings, revenue enhancements and operational synergies of the combined companies. **For Expense of \$0.4 million and \$0.1 million for the nine three months ended September 30, 2023, March 31, 2024 and expense of \$0.4 million 2023, respectively** was recorded within Selling, general and administrative expenses **within in** the Unaudited Condensed Consolidated Statements of **Income Operations** and Comprehensive Income (Loss), reflecting expenses accrued for these consulting services.

TestEquity and Gexpro Services Mergers Significant Shareholder

Immediately prior to the Mergers, LKCM, entities affiliated with LKCM and J. Bryan King (President and Chief Executive Officer of DSG and Chairman of the DSG Board of Directors), including private investment partnerships for which LKCM serves as investment manager, owned a majority of the ownership interests in the TestEquity Equityholder (which in turn owned all of the outstanding equity interests of TestEquity as of immediately prior to the completion of the TestEquity Merger). As of the Merger Date, Mr. King was a director of the TestEquity Equityholder. In addition, as of the Merger Date, Mark F. Moon (a member of the DSG Board of Directors) was a director of, and held a direct or indirect equity interest in, the TestEquity Equityholder.

Immediately prior to the Mergers, entities affiliated with LKCM and Mr. King, including private investment partnerships for which LKCM serves as investment manager, owned a majority of the ownership interests in the Gexpro Services Stockholder (which in turn owned all of the then outstanding stock of Gexpro Services).

Immediately prior to the Mergers, entities affiliated with LKCM and Mr. King beneficially owned approximately 48% of the then-outstanding shares of DSG common stock. As a result of the issuance of 20.6 million shares at the closing of the Mergers and the issuance of the additional 3.4 million shares in accordance with the earnout provisions of the TestEquity Merger Agreement and the Gexpro Services Merger Agreement on March 20, 2023, entities affiliated with LKCM and Mr. King beneficially owned in the aggregate approximately 32.6 million 36,357,588 shares of DSG common stock as of March 31, 2024 representing approximately 77.4% 77.7% of the outstanding shares of DSG common stock as of March 31, 2023 March 31, 2024.

Rights Offering Principal Executive Office Lease

Certain entities affiliated in connection with LKCM and J. Bryan King exercised their basic subscription rights and over-subscription rights the Company's headquarters move to Fort Worth, Texas in 2023, the Rights Offering and purchased approximately 3.6 million additional shares of DSG common stock at Company has been utilizing office space in a purchase price of \$22.50 per share. Following building that is leased by LKCM. The Company is not charged any rent or other amounts for the completion use of the Rights Offering on May 30, 2023, entities affiliated with LKCM and Mr. King beneficially owned in the aggregate approximately 36.4 million shares of DSG common stock as of June 1, 2023, representing approximately 77.6% of the outstanding shares of DSG common stock as of September 30, 2023 office space.

Board of Directors

M. Bradley Wallace, who became a director of the Company upon his election at the Company's Company's 2023 annual stockholders meeting on May 19, 2023, is a Founding Partner of LKCM Headwater Investments, the private capital investment group of LKCM.

Note 16 – Segment Information

Based on operational, reporting and management structures, the Company has identified three reportable segments based on the nature of the products and services and type of customer for those products and services. A description of our reportable segments is as follows:

Lawson is a distributor of specialty products and services to the industrial, commercial, institutional and government maintenance, repair governmental MRO marketplace. Lawson primarily distributes MRO products to its customers through a network of sales representatives and operations market an inside sales channel throughout the United States and Canada.

TestEquity is a distributor of test and measurement equipment and solutions, industrial and electronic production supplies, vendor managed inventory programs, and converting, fabrication and adhesive solutions from its leading manufacturer partners supporting the technology, aerospace and defense, automotive, wireless and communication, semiconductors, industrial electronics education, and automotive, and medical electronics manufacturing industries.

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Gexpro Services is a global supply chain solutions provider, specializing in developing the development of mission critical production line management, aftermarket and implementing vendor managed inventory and kitting programs to high-specification manufacturing customers. field installation programs.

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The Company also has an "All Other" category which includes unallocated DSG holding company costs that are not directly attributable to the ongoing operating activities of our reportable segments and includes the results of the Bolt Supply House ("Bolt" ("Bolt") non-reportable segment. Revenue within the All Other category represents the results of Bolt. Bolt generates revenue primarily from the sale of MRO products to its walk-up customers and service to its customers through its 14 branch locations. Bolt does not provide VMI services for its customers or provide services in addition to product sales to customers. Revenue is recognized at the time that control of the product has been transferred to the customer which is either upon delivery or shipment depending on the terms of the contract.

Financial information for the Company's reportable Company's segments and reconciliations of that information to the unaudited condensed consolidated financial statements is presented below. Asset information by operating segment is not presented below since the chief operating decision maker does not review this information by segment.

(in thousands)	Three Months Ended March 31,	
	2024	2023
Revenue		
Lawson	\$ 118,186	\$ 125,280
TestEquity	187,149	107,359
Gexpro Services	98,651	101,016
All Other	12,495	14,615
Intersegment revenue elimination	(395)	—
Total revenue	\$ 416,086	\$ 348,270
Operating income (loss)		
Lawson	\$ 4,107	\$ 8,245
TestEquity	(6,094)	26
Gexpro Services	5,462	7,374
All Other	(692)	1,076
Total operating income (loss)	\$ 2,783	\$ 16,721

(in thousands)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
Revenue				
Lawson ⁽¹⁾	\$ 114,477	\$ 109,418	\$ 358,903	\$ 216,752
TestEquity	207,657	116,709	451,082	286,984
Gexpro Services	103,232	103,749	312,523	285,224
All Other ⁽²⁾	13,543	17,275	42,655	33,612
Total revenue	\$ 438,909	\$ 347,151	\$ 1,165,163	\$ 822,572
Operating income (loss)				
Lawson ⁽¹⁾	\$ 10,643	\$ 5,352	\$ 27,358	\$ 2,792
TestEquity	(5,027)	7,576	(8,183)	7,443
Gexpro Services	7,332	7,992	23,484	16,972
All Other ⁽²⁾	(165)	1,107	621	1,921
Total operating income (loss)	\$ 12,783	\$ 22,027	\$ 43,280	\$ 29,128

Segment revenue includes revenue from sales to external customers and intersegment revenue from sales transactions between segments. The Company accounts for intersegment sales similar to third party transactions that are conducted on an arm's-length basis and reflect current market prices. Intersegment revenue is eliminated in consolidation. Segment revenue and the elimination of intersegment revenue was as follows:

(in thousands)	Lawson	TestEquity	Gexpro Services	All Other	Elimination	Total
Three Months Ended March 31, 2024						
Revenue from external customers	\$ 118,162	\$ 187,065	\$ 98,364	\$ 12,495	\$ —	\$ 416,086
Intersegment revenue	24	84	287	—	(395)	—
Revenue	\$ 118,186	\$ 187,149	\$ 98,651	\$ 12,495	\$ (395)	\$ 416,086
Three Months Ended March 31, 2023						
Revenue from external customers	\$ 125,280	\$ 107,359	\$ 101,016	\$ 14,615	\$ —	\$ 348,270
Intersegment revenue	—	—	—	—	—	—
Revenue	\$ 125,280	\$ 107,359	\$ 101,016	\$ 14,615	\$ —	\$ 348,270

Note 17 – Subsequent Event

(1) On May 1, 2024, DSG completed the acquisition of S&S Automotive Inc. ("S&S"), with a preliminary purchase price of approximately \$80.0 million. S&S is a distributor of Lawson only subsequent automotive, industrial, and safety supplies to the Merger Date automotive dealership market based near Chicago in Woodridge, Illinois that generates annual sales of April 1, 2022 approximately \$40.0 million. S&S was acquired to expand Lawson's automotive end market. The acquisition was funded using DSG's cash on hand and not Lawson operating results prior its revolving credit facility.

[Table of Contents](#)**Due to the Mergers.**

(2) Includes recent acquisition date, the operating results purchase accounting for S&S was not final at the time of All Other only subsequent this filing, and a preliminary allocation of consideration exchanged to the Merger Date estimated fair values of April 1, 2022 assets acquired and liabilities assumed was not All Other operating results prior to complete. The final valuation will be completed within the Mergers.

one-year measurement period following the acquisition date.

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[Table of Contents](#)**ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

The following discussion and analysis of DSG's financial condition and results of operations should be read in conjunction with the unaudited condensed consolidated financial statements and related notes included in this Quarterly Report on Form 10-Q and the audited consolidated financial statements, accompanying notes and other information included in our DSG's Annual Report on Form 10-K filed for the year ended December 31, 2022 and the Lawson Products, Inc. unaudited condensed consolidated financial statements and accompanying notes included in our Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2022 December 31, 2023.

References to "DSG", the "Company", "we" "we", "our" "our" or "us" "us" refer to Distribution Solutions Group, Inc. and all entities consolidated in the accompanying unaudited condensed consolidated financial statements.

Overview**Organization and Structure**

Distribution Solutions Group, Inc. ("DSG"), DSG, is a multi-platform specialty distribution company providing high touch, value-added distribution solutions to the maintenance, repair and operations ("MRO" ("MRO")), the original equipment manufacturer ("OEM" ("OEM")) and the industrial technologies markets. The Mergers that were consummated on April 1, 2022 resulted in the combination of Lawson, TestEquity and Gexpro Services. For a description of the Mergers, see Note 1 – Nature of Operations and Basis of Presentation within Item 1. Financial Statements.

We manage and report our operating results through three reportable segments: Lawson, TestEquity and Gexpro Services. A summary of our segments is presented below. For additional details about our segments, see Note 16 – Segment Information within Item 1. Financial Statements.

Lawson is a distributor of specialty products and services to the industrial, commercial, institutional and government governmental MRO market. Lawson primarily distributes MRO products to its customers through a network of sales representatives and an inside sales channel throughout the United States and Canada.

TestEquity is a distributor of test and measurement equipment and solutions, industrial and electronic production supplies, vendor managed inventory programs, and converting, fabrication and adhesive solutions from its leading manufacturer partners supporting the technology, aerospace and defense, automotive, wireless and communication, semiconductors, industrial electronics education, and automotive, and medical electronics manufacturing industries.

Gexpro Services is a global supply chain solutions provider, specializing in developing the development of mission critical production line management, aftermarket and implementing vendor managed inventory ("VMI") and kitting programs to high-specification manufacturing customers. field installation programs.

In addition to these three reportable segments, we have an "All Other" category which includes unallocated DSG holding company costs that are not directly attributable to the ongoing operating activities of our reportable segments and the results of a non-reportable segment.

Recent Events**HIS Company, Inc. Acquisition**

On June 8, 2023, DSG acquired all of the issued and outstanding capital stock of Hisco, a distributor of specialty products serving industrial technology applications, pursuant to the Purchase Agreement dated March 30, 2023. The total purchase consideration exchanged for the Hisco Transaction was \$268.5 million, net of cash acquired of \$12.2 million, with a potential additional earn-out payment subject to Hisco achieving certain performance targets. DSG will also pay \$37.5 million in cash or DSG common stock in retention bonuses to certain Hisco employees that remain employed with Hisco or its affiliates for at least twelve months after the closing of the Hisco Transaction.

In connection with the Hisco Transaction, DSG combined the operations of TestEquity and Hisco, creating one of the largest suppliers serving the electronics design, production, and repair industries. Accordingly, Hisco results are included in the TestEquity reportable segment after the date of acquisition.

DSG funded the Hisco Transaction with borrowings under its 2023 Credit Agreement and proceeds raised from the Rights Offering, both discussed below. Refer to Note 3 – Business Acquisitions for further details about the Hisco Transaction.

Debt Amendment

On June 8, 2023, the Company entered into the First Amendment to Amended and Restated Credit Agreement (the "First Amendment"), which amended the Amended and Restated Credit Agreement, dated as of April 1, 2022 (as amended by the First Amendment, the "2023 Credit Agreement"), by and among the Company, certain subsidiaries of the Company as borrowers or guarantors, the lenders party thereto and JPMorgan Chase Bank, N.A., as administrative agent. The First Amendment provides for a \$305 million incremental term loan. Refer to Note 9 – Debt for additional information about the 2023 Credit Agreement.

Rights Offering

On May 30, 2023, the Company raised approximately \$100 million pursuant to a Rights Offering of transferable subscription rights to holders of DSG common stock as of the close of business on May 1, 2023. Refer to Note 11 – Stockholders' Equity for additional information about the Rights Offering.

DSG Vision and Strategic Focus

The complementary distribution operations of Lawson, TestEquity and Gexpro Services were combined in 2022 for the purpose of creating a global specialty distribution company enabling each of Lawson, TestEquity and Gexpro Services to maintain their respective high-touch, value-added service delivery models and customer relationships in their specialty distribution businesses under the leadership of their separate business unit management teams. The DSG leadership team provides oversight to these separate leadership teams. This structure helps the combined company to leverage best practices, back-office resources and technologies across the three operating companies to help drive cost synergies and efficiencies. The combined company has the ability to utilize its combined financial resources to accelerate a strategy of expansion through both business acquisitions and organic growth.

Organic Growth Strategy

We intend to grow our businesses organically by exploring growth opportunities that provide different channels to reach customers, increase revenue and generate positive results. We plan to utilize our Company structure to grow organic revenue through collaborative selling across our customer bases and expanding the digital capabilities across our platform.

Acquisition Strategy

In addition to organic growth, we plan to actively pursue acquisition opportunities complementary to our businesses and that we believe will be financially accretive to our organization.

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Sales Drivers

DSG believes that the Purchasing Managers Index ("PMI" ("PMI")) published by the Institute for Supply Management is an indicative measure of the relative strength of the economic environment of the industry in which it operates. The PMI is a composite index of economic activity in the U.S. manufacturing sector. A measure of the PMI index above 50 is generally viewed as indicating an expansion of the manufacturing sector while a measure below 50 is generally viewed as representing a contraction. The average monthly PMI was 47.2^{49.1} in the ^{nine}_{three} months ended ^{September 30, 2023}_{March 31, 2024} compared to 54.9^{47.1} in the ^{nine}_{three} months ended ^{September 30, 2022}_{March 31, 2023}.

Lawson Sales Drivers

The North American MRO market is highly fragmented. Lawson competes for business with several national distributors as well as a large number of regional and local distributors. The MRO business is impacted by the overall strength of the manufacturing sector of the U.S. economy.

Lawson's Lawson's revenue is also influenced by the number of sales representatives and their productivity. Lawson plans to continue concentrating its efforts on increasing the productivity and size of its sales team. Additionally, Lawson drives revenue through the expansion of products sold to existing customers as well as attracting new customers and

additional ship-to locations. Lawson also **is expanding its utilizes an** inside sales team to help drive field sales representative productivity and also utilizes an e-commerce site to generate sales.

TestEquity Sales Drivers

Across the test and measurement, industrial and electronic production supplies businesses, the North American market is highly fragmented with competitors ranging from large global distributors to national and regional distributors.

Specifically in respect of its electronic production supplies business, the current semi-conductor chip shortage is negatively impacting TestEquity's business as such chips are key elements to the electronic production process. TestEquity anticipates that recovery of this important part of its customers' supply chain will occur in the first half of 2024.

Through the Hisco Transaction, TestEquity expanded its product offerings, including adhesives, chemicals and tapes as well as specialty materials such as electrostatic discharge, thermal management materials and static shielding bags. Hisco operates in 38 locations across North America, including its Precision Converting facilities that provide value-added fabrication and its Adhesive Materials Group that provides an array of custom repackaging solutions. Hisco also offers vendor-managed inventory and **RFID** **Radio Frequency Identification ("RFID")** programs with specialized warehousing for chemical management, logistics services and cold storage.

Gexpro Services Sales Drivers

The global supply chain solutions market is highly fragmented across Gexpro **Services' Services'** key vertical segments. Gexpro Services' competitors range from large global distributors and manufacturers to small regional domestic distributors and manufacturers. Gexpro **Services' Services'** revenue is influenced by our OEMs' production schedules, new product introduction launches, and service project needs.

Gexpro **Services drives Services' strategy is to increase** revenue through increasing wallet share with existing customers, customer-led geographic expansion, **and new** customer development in its six key vertical **markets**. Additionally, **Gexpro Services drives revenue through expansion of its installation markets and aftermarket services by** leveraging its portfolio of recent **acquisitions**, **acquisitions to expand its installation and aftermarket services**.

Supply Chain Disruptions

We continue to be affected by rising supplier costs caused by inflation and increased transportation and labor costs. We have instituted various price increases **during 2022** **during 2023** **2024** in **response** **response** to rising supplier costs, as well as increased transportation and labor costs in order to manage our gross profit margins.

Cyber Incident Litigation

On February 10, 2022, DSG disclosed that Lawson **Products' Products'** computer network was the subject of a cyber incident potentially involving unauthorized access to certain confidential information (the "Cyber Incident"). DSG engaged a cybersecurity forensics firm to assist in the investigation of the incident and to assist in securing its computer network.

Because of the nature of the information that may have been compromised, DSG was required to notify the parties whose information was potentially compromised of the incident as well as various governmental agencies and has taken other actions,

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such as offering credit monitoring services. At **September 30, 2023** **March 31, 2024**, DSG had not incurred material costs as a result of the Cyber **incident and, at this time, is unable to estimate the total cost of any remediation that may be required**. **Incident**. On April 4, 2023, a putative class action lawsuit **was filed against DSG related to the Cyber Incident** (the "Cyber Incident Suit") **was filed against DSG**. For more information about the Cyber Incident Suit, refer to Note 14 – Commitments and Contingencies within Item 1. Financial Statements.

Critical Accounting Policies and Use of Estimates

The unaudited condensed consolidated financial statements were prepared in accordance with GAAP. A discussion of our critical accounting policies and estimates is contained within Item 7. **Management's Management's** Discussion and Analysis of Financial Condition and Results of Operations in **DSG's DSG's** Annual Report on Form 10-K for the year ended **December 31, 2022** **December 31, 2023**. There have been no significant changes to our previously disclosed critical accounting policies and use of estimates. The following provides information on the accounts requiring more significant estimates.

Inventory Reserves - Inventories principally consist of finished products stated at the lower of cost or net realizable value using the first-in-first-out method for the Lawson segment and primarily the weighted average method for the TestEquity and Gexpro Services segments. Most of our products are not exposed to the risk of obsolescence due to technology changes. However, some of our products do have a limited shelf life, and from time to time we add and remove items from our catalogs, brochures or website for marketing and other purposes.

To reduce the cost basis of inventory to a lower of cost or net realizable value, a reserve is recorded for slow-moving and obsolete inventory based on historical experience and monitoring of current inventory activity. Estimates are used to determine the necessity of recording these reserves based on periodic detailed analysis using both qualitative and quantitative factors. As part of this analysis, the Company considers several factors including the inventories length of time on hand, historical sales, product shelf life, product life cycle, product category and product obsolescence. In general, depending on the product category, we reserve inventory with low turnover at higher rates than inventory with higher turnover.

At September 30, 2023, our inventory reserve was \$15.9 million, equal to approximately 4.8% of our gross inventory. A hypothetical change of one hundred basis points to our reserve as a percentage of total inventory would have affected our cost of goods sold by \$3.2 million.

Income Taxes - Deferred tax assets or liabilities reflect temporary differences between amounts of assets and liabilities for financial and tax reporting. Such amounts are adjusted, as appropriate, to reflect changes in enacted tax rates expected to be in effect when the temporary differences reverse. Significant judgment is required in determining income tax provisions as well as deferred tax asset and liability balances, including the estimation of valuation allowances and the evaluation of uncertain tax positions.

Goodwill Impairment - Goodwill represents the cost of business acquisitions in excess of the fair value of identifiable net tangible and intangible assets acquired. The Company reviews goodwill for potential impairment annually on October 1st, or when an event or other circumstances change that would more likely than not reduce the fair value of the asset below its carrying value.

The first step in the multi-step process to determine if goodwill has been impaired and to what degree is to review the relevant qualitative factors that could cause the fair value of the reporting unit to decrease below the carrying value of the reporting unit. The Company considers factors such as macroeconomic, industry and market conditions, cost factors, overall financial performance and other relevant factors that would affect the individual reporting units. If the Company determines that it is more likely than not that the fair value of the reporting unit is greater than the carrying value of the reporting unit, then no further impairment testing is needed. If the Company determines that it is more likely than not that the carrying value of the reporting unit is greater than the fair value of the reporting unit, the Company will move to the next step in the process. The Company will estimate the fair value of the reporting unit and compare it to the reporting unit's carrying value. If the carrying value of the reporting unit exceeds its fair value, the Company will record an impairment of goodwill equal to the amount the carrying value of the reporting unit exceeds its fair value, up to the total amount of goodwill previously recognized.

Business Combinations - We allocate the purchase price paid for assets acquired and liabilities assumed in connection with our acquisitions based on their estimated fair values at the time of acquisition. This allocation involves a number of assumptions, estimates, and judgments in determining the fair value, as of the acquisition date, of the following:

- intangible assets, including the valuation methodology (the relief of royalty method for trade names and multi-period excess earnings method for customer relationships), estimations of future cash flows, discount rates, royalty rates, recurring revenue attributed to customer relationships, and our assumed market segment share, as well as the estimated useful life of intangible assets;
- deferred tax assets and liabilities, uncertain tax positions, and tax-related valuation allowances;
- inventory;
- property, plant and equipment;
- pre-existing liabilities or legal claims;
- contingent consideration, including estimating the likelihood and timing of achieving the relevant thresholds; and
- goodwill as measured as the excess of consideration transferred over the net of the acquisition date fair values of the assets acquired and the liabilities assumed.

Our assumptions and estimates are based upon comparable market data and information obtained from our management and the management of the acquired companies. We allocate goodwill to the reporting units of the business that are expected to benefit from the business combination.

Factors Affecting Comparability to Prior Periods

Our results of operations for the nine months ended September 30, 2023 are not directly comparable to prior results for the nine months ended September 30, 2022 due to the Mergers that were completed on April 1, 2022. The Mergers were accounted for as a reverse merger under the acquisition method of accounting in accordance with the accounting guidance for reverse acquisitions as provided in Accounting Standards Codification 805, Business Combinations ("ASC 805"). Under this guidance, TestEquity and Gexpro Services were treated as a combined entity as the accounting acquirer for financial reporting purposes.

and DSG was identified as the accounting acquiree. This determination was primarily made as TestEquity and Gexpro Services were under the common control of an entity that owned a majority of the voting rights of the combined entity, and therefore, only DSG experienced a change in control. Accordingly, the unaudited condensed consolidated financial statements for the nine months ended September 30, 2022 reflect the results of operations of TestEquity and Gexpro Services on a consolidated basis, and the results of operations of DSG's legacy Lawson business are only included subsequent to the April 1, 2022 Merger Date. The combined operations of all three entities are included in the unaudited condensed consolidated financial statements for the three and nine months ended September 30, 2023 and the three months ended September 30, 2022.

Non-GAAP Financial Measures

The **Company's** management believes that certain non-GAAP financial measures may provide users of this financial information with additional meaningful comparisons between current results and results in prior operating periods.

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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 infrequently occurring, seasonal or non-operational items that impact the overall comparability. These 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.

Non-GAAP Adjusted EBITDA

Management believes Adjusted EBITDA is an important measure of the **Company's** operating **performance** and may provide investors with additional meaningful comparisons between current results and results in prior operating periods because Adjusted EBITDA excludes certain non-operational or non-cash items whose fluctuations from period to period do not necessarily correspond to changes in the operating performance of our business and consequently may impact the overall comparability from period to period. We define Adjusted EBITDA as operating income plus depreciation and amortization, stock-based compensation, severance and acquisition related retention costs, costs related to the execution and integration of **the Mergers and other acquisitions, inventory net realizable value adjustments, amortization of fair value step-up resulting from the Mergers and other** acquisitions and other non-recurring items. Management uses operating income and Adjusted EBITDA to evaluate the performance of its reportable segments.

The following table provides our calculation a reconciliation of Net income (loss) to Adjusted EBITDA on a consolidated basis and Operating income (loss) to Adjusted EBITDA by segment for the three **and nine** months ended **September 30, 2023** March 31, 2024 and **2022**: 2023. A reconciliation of Net income (loss) to Adjusted EBITDA by segment is not provided because management does not determine or review net income at the segment level and does not allocate non-operating costs and expenses to its segments, such as income taxes, interest expense, and various other non-operating income and expense. See Note 16 – Segment Information within Item 1. Financial Statements for additional information about our reportable segments.

Reconciliation of Operating Net Income (Loss) to Non-GAAP Adjusted EBITDA (Unaudited)

Three Months Ended March 31, 2024	Three Months Ended March 31, 2024	Three Months Ended March 31, 2024
(in thousands)		
Net income (loss)		
Net income (loss)		
Net income (loss)		
Income tax expense (benefit)		
Income tax expense (benefit)		
Income tax expense (benefit)		
Other income (expense), net		
Other income (expense), net		
Other income (expense), net		

Change in fair value of earnout liabilities				
Change in fair value of earnout liabilities				
Change in fair value of earnout liabilities				
Interest expense				
Interest expense				
Interest expense				
Operating income (loss)				
Operating income (loss)				
Operating income (loss)				
Depreciation and amortization				
Depreciation and amortization				
Depreciation and amortization				
Stock-based compensation ⁽¹⁾				
Stock-based compensation ⁽¹⁾				
Stock-based compensation ⁽¹⁾				
Severance and acquisition related retention expenses ⁽²⁾				
Severance and acquisition related retention expenses ⁽²⁾				
Severance and acquisition related retention expenses ⁽²⁾				
Acquisition related costs ⁽³⁾				
Acquisition related costs ⁽³⁾				
Acquisition related costs ⁽³⁾				
	Three Months Ended September 30,	Nine Months Ended September 30,		
(in thousands)	2023	2022 ⁽⁷⁾	2023	2022 ⁽⁷⁾
Operating income (loss)	\$12,783	\$22,027	\$ 43,280	\$29,128
Depreciation and amortization	17,010	8,979	47,316	31,314

Other non-recurring ⁽⁴⁾				
Stock-based compensation ⁽¹⁾	1,049	(3,568)	5,441	445
Severance and acquisition related retention expenses ⁽²⁾	10,478	944	13,266	2,353
Merger and acquisition related costs ⁽³⁾	(94)	2,402	9,063	10,809
Inventory net realizable value adjustment ⁽⁴⁾	—	1,737	—	1,737
Inventory step-up ⁽⁵⁾	2,150	1,082	2,866	2,867
Other non-recurring ⁽⁶⁾	327	1,097	1,924	1,202
Other non-recurring ⁽⁴⁾				
Other non-recurring ⁽⁴⁾				
Adjusted EBITDA	<u>Adjusted EBITDA</u>	<u>\$43,703</u>	<u>\$34,700</u>	<u>\$123,156</u>
Adjusted EBITDA				
Adjusted EBITDA				

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(in thousands)	Three Months Ended March 31, 2023				
	Lawson	TestEquity	Gexpro Services	All Other	Consolidated
Net income (loss)					\$ 5,907
Income tax expense (benefit)					2,112
Other income (expense), net					975
Change in fair value of earnout liabilities					57
Interest expense					7,670
Operating income (loss)	\$ 8,245	\$ 26	\$ 7,374	\$ 1,076	\$ 16,721
Depreciation and amortization	6,558	4,805	3,865	494	15,722
Stock-based compensation ⁽¹⁾	2,204	—	—	—	2,204
Severance and acquisition related retention expenses ⁽²⁾	238	113	—	—	351
Acquisition related costs ⁽³⁾	1,009	2,715	375	—	4,099
Other non-recurring ⁽⁴⁾	196	—	60	—	256
Adjusted EBITDA	<u>\$ 18,450</u>	<u>\$ 7,659</u>	<u>\$ 11,674</u>	<u>\$ 1,570</u>	<u>\$ 39,353</u>

⁽¹⁾ Expense (benefit) primarily for stock-based compensation, of which a portion varies with the Company's stock price.

⁽²⁾ Includes severance expense from actions taken in **2023** **2024** and **2022** **2023** not related to a formal restructuring plan and acquisition related retention expenses for the Hisco Transaction.

⁽³⁾ Transaction and integration costs related to the **Mergers** and other acquisitions.

⁽⁴⁾ 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 our records.

⁽⁵⁾ Inventory fair value step-up adjustment for Lawson resulting from the reverse merger acquisition accounting and acquisition accounting for additional acquisitions completed by Gexpro Services or TestEquity.

⁽⁶⁾ Other non-recurring costs consist of non-capitalized deferred financing costs incurred in conjunction with the 2023 Credit Agreement, certain non-recurring strategic projects and other non-recurring items.

Intersegment Transactions

⁽⁷⁾ Includes Segment revenue and Operating income (loss) by reportable segment includes sales to external customers and sales transactions between our segments, referred to as intersegment revenue, and the impact of those intersegment revenue transactions on operating activities. Reconciliations of segment revenue and Operating income (loss) to our consolidated results of Lawson subsequent, but not prior, to operations in the April 1, 2022 Merger Date unaudited condensed consolidated financial statements are provided in accordance with GAAP accounting guidance for reverse acquisitions.

Management uses operating income and Adjusted EBITDA to evaluate the performance of its reportable segments. See Note 16 – Segment Information within Item 1. Financial Statements for additional information about our reportable segments. The following table provides Adjusted EBITDA by reportable segment:

(in thousands)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
Adjusted EBITDA				
Lawson ⁽¹⁾	\$ 16,721	\$ 9,670	\$ 51,241	\$ 19,077
TestEquity	14,298	10,122	31,450	24,260
Gexpro Services	11,552	12,485	36,368	32,409
All Other ⁽²⁾	1,132	2,423	4,097	4,109
Consolidated Adjusted EBITDA	\$ 43,703	\$ 34,700	\$ 123,156	\$ 79,855

⁽¹⁾ Includes the operating results of Lawson subsequent, but not prior, to the April 1, 2022 Merger Date in accordance with GAAP accounting guidance for reverse acquisitions.

⁽²⁾ Includes the operating results of All Other subsequent, but not prior, to the April 1, 2022 Merger Date in accordance with GAAP accounting guidance for reverse acquisitions.

Supplemental Information - Lawson Non-GAAP Adjusted Operating Income and Non-GAAP Adjusted EBITDA

For management to discuss Lawson's operating results on a comparable basis, Lawson's historical, pre-merger components of operating income have been provided separately in the table below. In addition, Lawson's GAAP results of operations were adjusted to include the results prior to the April 1, 2022 Merger Date in order to reflect the total operating activities attributable to Lawson for each period presented. Management believes this historical information provides the most meaningful basis of comparison for Lawson's operations, is more useful in identifying current business trends, and is important for the user of our financial statements in understanding Lawson's business. Refer to Note 1 – Nature of Operations and Basis of Presentation and Note 3 – Business Acquisitions within Item 1. Financial Statements for information about the Mergers.

These non-GAAP amounts are not considered to be prepared in accordance with GAAP, have not been prepared as pro forma results under applicable regulations, may not reflect the actual results we would have achieved had the Mergers occurred at the beginning of 2022, and should not be viewed as a substitute for the results of operations presented in accordance with GAAP. Lawson's historical operating results prior to the Mergers were obtained from the unaudited condensed consolidated financial statements included in DSG's Quarterly Report on Form 10-Q filed for the quarterly period ended March 31, 2022.

Lawson Non-GAAP Adjusted Results - Calculation of Supplemental Information (Unaudited)

(in thousands)	Nine Months Ended September 30, 2023			Nine Months Ended September 30, 2022		
	GAAP Results ⁽¹⁾	Pre-Merger Results	Adjusted Results ⁽²⁾	GAAP Results ⁽¹⁾	Pre-Merger Results ⁽³⁾	Adjusted Results ⁽²⁾
Lawson Operating Income						
Revenue	\$ 358,903	\$ —	\$ 358,903	\$ 216,752	\$ 104,902	\$ 321,654
Cost of goods sold	155,533	—	155,533	103,733	49,371	153,104
Gross profit	203,370	—	203,370	113,019	55,531	168,550
Selling, general and administrative expenses	176,012	—	176,012	110,227	44,435	154,662
Operating income (loss)	\$ 27,358	\$ —	\$ 27,358	\$ 2,792	\$ 11,096	\$ 13,888
Lawson Adjusted EBITDA⁽⁴⁾	\$ 51,241	\$ —	\$ 51,241	\$ 19,077	\$ 8,042	\$ 27,119

⁽¹⁾ Operating income prepared in accordance with GAAP, which includes Lawson's results of operations subsequent, but not prior, to the April 1, 2022 Merger Date. See Note 1 – Nature of Operations and Basis of Presentation and Note 3 – Business Acquisitions within Item 1. Financial Statements.

⁽²⁾ Lawson's results of operations adjusted for comparability on a period-over-period basis. These non-GAAP results represent Lawson's total operating activities for the nine months ended September 30, 2023 and 2022, regardless of the Merger date (that is, they reflect both pre- and post-Merger results of Lawson).

⁽³⁾ Lawson's results of operations for the three months ended March 31, 2022, which occurred prior to the April 1, 2022 Merger Date, were not included in the Company's GAAP operating results under reverse merger acquisition accounting.

⁽⁴⁾ Refer to the Non-GAAP Adjusted EBITDA section above for a reconciliation of Adjusted EBITDA to operating income.

Composition of Results of Operations

The following results of operations for the three and nine months ended September 30, 2023 and the three months ended September 30, 2022 include the combined operations of DSG. The following results of operations for the nine months ended September 30, 2022 include the accounts of the TestEquity and Gexpro Services combined entity, as the accounting acquirer, and the results of DSG's legacy Lawson business have only been included for activity subsequent, and not prior, to the April 1, 2022 Merger Date.

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RESULTS OF OPERATIONS

Three Months Ended **September 30, 2023** **March 31, 2024** Compared to Three Months Ended **September 30, 2022** **March 31, 2023**

Consolidated Results of Operations

		Three Months Ended September 30,				Three Months Ended March 31,				Three Months Ended			
		2023		2022		2024		2023		2022		2024	
(Dollars in thousands)	(Dollars in thousands)	Amount	% of Revenue	Amount	% of Revenue	Amount	(Dollars in thousands)	Amount	% of Revenue	Amount	% of Revenue	Amount	% of Revenue
Revenue	Revenue												
Lawson	Lawson												
Lawson	Lawson	\$114,477	26.1%	\$109,418	31.5%	\$118,186	\$118,186	28.4%	28.4%	\$125,280	36.0%		
TestEquity	TestEquity	207,657	47.3%	116,709	33.6%	TestEquity	187,149	45.0%	45.0%	107,359	30.8%		
Gexpro	Gexpro					Gexpro	98,651	23.7%	23.7%	101,016	29.0%		
Services	Services	103,232	23.5%	103,749	29.9%	Services							
All Other	All Other	13,543	3.1%	17,275	5.0%	All Other	12,495	3.0%	3.0%	14,615	4.2%		
Intersegment revenue elimination	Intersegment revenue elimination					Intersegment revenue elimination	(395)	(0.1)%	—	—	—	—	—
Total Revenue	Total Revenue	438,909	100.0%	347,151	100.0%	Total Revenue	416,086	100.0%	100.0%	348,270	100.0%		
Cost of goods sold	Cost of goods sold												
Lawson	Lawson												
Lawson	Lawson	48,395	11.0%	53,183	15.3%	53,124	53,124	12.8%	12.8%	54,370	15.6%		
TestEquity	TestEquity	164,589	37.5%	89,704	25.8%	TestEquity	144,948	34.8%	34.8%	82,002	23.5%		
Gexpro	Gexpro					Gexpro	67,895	16.3%	16.3%	70,511	20.2%		
Services	Services	72,990	16.6%	73,794	21.3%	Services							
All Other	All Other	7,638	1.7%	11,303	3.3%	All Other	7,105	1.7%	1.7%	8,516	2.4%		

Intersegment cost of goods sold elimination						Intersegment cost of goods sold elimination					
Total Cost of goods sold	Total Cost of goods sold	293,612	66.9%	227,984	65.7%	(395)	(0.1)%	—	—	—	—%
Gross profit	Gross profit	145,297	33.1%	119,167	34.3%	272,677	65.5%	65.5%	215,399	61.8%	—
Selling, general and administrative expenses	Selling, general and administrative expenses	143,409	34.5%	34.5%	132,871	38.2%	—	—	—	—	—
Selling, general and administrative expenses	Selling, general and administrative expenses	—	—	—	—	—	—	—	—	—	—
Lawson	Lawson	55,439	12.6%	50,883	14.7%	60,955	14.6%	14.6%	62,665	18.0%	—
TestEquity	TestEquity	48,095	11.0%	19,429	5.6%	TestEquity	48,295	11.6%	11.6%	25,331	7.3%
Gexpro Services	Gexpro Services	22,910	5.2%	21,963	6.3%	Gexpro Services	25,294	6.1%	6.1%	23,131	6.6%
All Other	All Other	6,070	1.4%	4,865	1.4%	All Other	6,082	1.5%	1.5%	5,023	1.4%
Total Selling, general and administrative expenses	Total Selling, general and administrative expenses	132,514	30.2%	97,140	28.0%	Total Selling, general and administrative expenses	140,626	33.8%	33.8%	116,150	33.4%
Operating income (loss)	Operating income (loss)	12,783	2.9%	22,027	6.3%	Operating income (loss)	2,783	0.7%	0.7%	16,721	4.8%
Interest expense	Interest expense	(12,895)	(2.9)%	(6,097)	(1.8)%	—	—	—	—	—	—
Loss on extinguishment of debt	—	—%	—	—%	—	—	—	—	—	—	—
Interest expense	Interest expense	—	—	—	—	(11,827)	(2.8)%	(7,670)	(2.2)%	—	—
Change in fair value of earnout liabilities	Change in fair value of earnout liabilities	—	—	—	—	—	—	—	—	—	—
Change in fair value of earnout liabilities	Change in fair value of earnout liabilities	667	0.2%	9,641	2.8%	5	—%	—%	(57)	—%	—
Other income (expense), net	Other income (expense), net	(1,133)	(0.3)%	(550)	(0.2)%	Other income (expense), net	(262)	(0.1)%	(0.1)%	(975)	(0.3)%
Income (loss) before income taxes	Income (loss) before income taxes	(578)	(0.1)%	25,021	7.2%	—	—	—	—	—	—
Income (loss) before income taxes	Income (loss) before income taxes	—	—	—	—	(9,301)	(2.2)%	8,019	—	2.3%	—
Income tax expense (benefit)	Income tax expense (benefit)	—	—	—	—	—	—	—	—	—	—
Income tax expense (benefit)	Income tax expense (benefit)	—	—	—	—	—	—	—	—	—	—
Income tax expense (benefit)	Income tax expense (benefit)	990	0.3%	8,480	2.4%	(4,077)	(0.9)%	(0.9)%	2,112	0.6%	—
Net income (loss)	Net income (loss)	\$ (1,568)	(0.4)%	\$ 16,541	4.8%	—	—	—	—	—	—
Net income (loss)	Net income (loss)	\$ (5,224)	(1.3)%	\$ 5,907	1.7%	—	—	—	—	—	—

Overview of Consolidated Results of Operations

Our consolidated revenue increased \$91.8 million in the third first quarter of 2023 compared to the third first quarter of 2022 primarily driven by \$106.3 million from acquisitions completed in 2023 and 2022 and 2024 partially offset by a decline in organic sales growth. Consolidated gross profit and Selling, general and administrative expenses also increased over the prior year primarily driven by the inclusion of the Hisco and ESS acquisitions completed in 2023 and 2022, respectively.

Refer to Results by Reportable Segment below for a complete discussion of our results of operations.

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Results by Reportable Segment

Lawson Segment

		Three Months Ended September 30,			Change		Three Months Ended March 31,			Change			
(Dollars in thousands)	(Dollars in thousands)	2023	2022	Amount	%		2024	2023	Amount		%		
Revenue from external customers						Revenue from external customers	\$118,162	\$125,280	(\$7,118)	(5.7)	%		
Intersegment revenue						Intersegment revenue	24	—	24	—	%		
Revenue	Revenue	\$114,477	\$109,418	\$ 5,059	4.6 %	Revenue	118,186	125,280	125,280	(7,094)	(7,094)	(5.7)	(5.7)%
Cost of goods sold	Cost of goods sold	48,395	53,183	(4,788)	(9.0)%	Cost of goods sold	53,124	54,370	54,370	(1,246)	(1,246)	(2.3)	(2.3)%
Gross profit	Gross profit	66,082	56,235	9,847	17.5 %	Gross profit	65,062	70,910	70,910	(5,848)	(5,848)	(8.2)	(8.2)%
Selling, general and administrative expenses	Selling, general and administrative expenses	55,439	50,883	4,556	9.0 %	Selling, general and administrative expenses	60,955	62,665	62,665	(1,710)	(1,710)	(2.7)	(2.7)%
Operating income (loss)	Operating income (loss)	\$ 10,643	\$ 5,352	\$ 5,291	98.9 %	Operating income (loss)	\$ 4,107	\$ 8,245	\$ 8,245	\$ (4,138)	\$ (4,138)	(50.2)	(50.2)%
Gross profit margin	Gross profit margin	57.7 %	51.4 %										
Adjusted EBITDA ⁽¹⁾	Adjusted EBITDA ⁽¹⁾	\$ 16,721	\$ 9,670	\$ 7,051	72.9 %								
Adjusted EBITDA ⁽¹⁾													
Adjusted EBITDA ⁽¹⁾							\$ 13,426	\$ 18,450	\$ (5,024)	(27.2)	%		

⁽¹⁾ Refer to the Non-GAAP Adjusted EBITDA section in Overview for a reconciliation of Adjusted EBITDA to operating income.

Revenue and Gross Profit

Revenue increased \$5.1 million decreased \$7.1 million, or 4.6%5.7%, to \$114.5 million \$118.2 million in the third first quarter of 2024 compared to \$125.3 million in the first quarter of 2023 compared to \$109.4 million in the third quarter of 2022. The increase/decrease was primarily driven by a decline in sales to Lawson's core and governmental customers of \$11.1 million, partially offset by revenue generated from the realization of price increases enacted throughout 2022 and 2023 to offset rising supplier costs \$2.3 million and strengthening sales to Lawson's strategic and governmental customers and automotive end market market of \$2.5 million.

Gross profit increased \$9.8 million decreased \$5.8 million to \$66.1 million \$65.1 million in the third first quarter of 2023 2024 compared to gross profit of \$56.2 million \$70.9 million in the prior year quarter primarily as a result of increased/decreased sales price increases, and lower net freight higher expense for write-offs of obsolete and excess inventory of \$0.6 million, partially offset by gross profit and spreading fixed expenses for certain warehouse activities over a higher sales level generated from the acquisition completed in 2024

of \$0.7 million. Lawson gross profit as a percent of revenue was 57.7% 55.1% in the third first quarter of 2023 2024 compared to 51.4% 56.6% in the prior year quarter. The gross profit margin percentage increase for the third quarter of 2023 decrease was primarily the result of price increaseshigher expense for write-offs of obsolete and leveraging operating costs over a higher sales base. The prior year quarter was negatively impacted by increased supplier costs from inflation and supply chain disruptions, excess inventory and a shift in sales shift toward lower margin customers. mix.

Selling, General and Administrative Expenses

Selling, general and administrative expenses consist of compensation and support for Lawson sales representatives and expenses to operate Lawson's distribution network and overhead expenses.

Selling, general and administrative expenses increased \$4.6 million decreased \$1.7 million to \$55.4 million \$61.0 million in the third first quarter of 2023 2024 compared to \$50.9 million \$62.7 million in the prior year quarter. The increase decrease was primarily driven by higher stock-based a decrease in variable compensation as a benefit was realized in 2022, higher compensation expense incurred to support increased on lower sales and health insurance costs a decrease in 2023 depreciation and amortization of \$1.4 million, partially offset by lower an increase in severance expense and acquisition related costs of \$0.6 million and non-recurring consulting costs costs \$0.3 million, respectively.

Adjusted EBITDA

During the three months ended September 30, 2023 March 31, 2024, Lawson generated Adjusted EBITDA of \$16.7 million, an increase of \$7.1 million, or 72.9% from the same period a year ago primarily driven by increased revenue and margins and leveraging of costs, its fixed cost structure.

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TestEquity Segment

N/M Not meaningful

(1) Refer to the Non-GAAP Adjusted EBITDA section in Overview for a reconciliation of Adjusted EBITDA to operating income.

Revenue and Gross Profit

Revenue increased \$90.9 79.8 million, or 77.9% 74.3%, to \$207.7 187.1 million in the third first quarter of 2023 2024 compared to \$116.7 107.4 million in the third first quarter of 2022 2023. The increase was primarily driven by \$106.3 96.9 million of revenue generated from acquisitions an acquisition completed in 2023 and 2022 offset by a \$15.4 \$17.1 million decline in legacy TestEquity revenue primarily due to a slowdown in the test and measurement market, primarily caused by tightening of capital budgets in TestEquity's TestEquity's customer base, base and softening in the electronic production supplies end markets.

Gross profit increased \$16.1 16.8 million to \$43.1 million \$42.2 million in the third first quarter of 2023 2024 compared to gross profit of \$27.0 million \$25.4 million in the prior year quarter primarily as a result of the inclusion of the acquisitions acquisition completed in 2023, and 2022, which generated \$20.5 \$22.4 million of additional gross profit in the third first quarter of 2023 2024 offset by a decline in legacy TestEquity revenue. TestEquity gross profit as a percent of revenue was 20.7% decreased to 22.5% in the third first quarter of 2023 2024 compared to 23.1% 23.6% in the prior year quarter. The gross profit margin percentage decline for the third quarter of 2023 was primarily due to the amortization of the fair value step-up of inventory of \$2.2 million related to the Hisco Transaction and a shift of customer in sales mix, and the lower gross margin rate from the 2023 acquisition.

Selling, General and Administrative Expenses

Selling, general and administrative expenses consist of compensation and support for TestEquity's TestEquity's sales representatives and expenses to operate TestEquity's TestEquity's distribution network and overhead expenses.

Selling, general and administrative expenses increased \$28.7 23.0 million to \$48.1 48.3 million in the third first quarter of 2023 2024 compared to \$19.4 million \$25.3 million in the prior year quarter. This increase was due to a Approximately \$27.2 \$25.0 million of additional increased expenses, including depreciation and amortization, primarily was driven by the acquisitions acquisition completed in 2023 and 2022, of which \$9.6 million was related to the Hisco employee retention bonuses, partially offset by lower merger and acquisition expenses of \$2.3 million in the third first quarter of 2023 2024 compared to the prior year quarter.

Adjusted EBITDA

During the three months ended September 30, 2023 March 31, 2024, TestEquity generated Adjusted EBITDA of \$14.3 million \$11.6 million, an increase of \$4.2 million \$4.0 million, or 41.3% 51.6% from the same period a year ago with approximately \$8.3 \$8.6 million driven by the acquisitions acquisition completed in 2023, and 2022, offset by a reduction of \$4.1 \$4.6 million in legacy TestEquity due to the decline in revenue.

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Gexpro Services Segment

		Three Months Ended September 30,				Change					
		Three Months Ended March 31,				Three Months Ended March 31,					
(Dollars in thousands)	(Dollars in thousands)	2023	2022	Amount	%	(Dollars in thousands)	2024	2023	Amount	%	
Revenue from external customers				Revenue from external customers		\$98,364	\$101,016	\$ (2,652)	(2.6)	%	
Intersegment revenue				Intersegment revenue		287	—	287	—	%	
Revenue	Revenue	\$103,232	\$103,749	\$ (517)	(0.5)%	Revenue	98,651	101,016	(2,365)	(2.3)	(2.3)%
Cost of goods sold	Cost of goods sold	72,990	73,794	(804)	(1.1)%	Cost of goods sold	67,895	70,511	(2,616)	(2.616)	(3.7)%
Gross profit	Gross profit	30,242	29,955	287	1.0 %	Gross profit	30,756	30,505	251	251	0.8 %
Selling, general and administrative expenses	Selling, general and administrative expenses	22,910	21,963	947	4.3 %	Selling, general and administrative expenses	25,294	23,131	2,163	2,163	9.4 %

⁽¹⁾ Refer to the Non-GAAP Adjusted EBITDA section in Overview for a reconciliation of Adjusted EBITDA to operating income.

Revenue and Gross Profit

Revenue decreased \$0.524 million, or 0.5% 2.3%, to \$103.298.7 million in the third first quarter of 2023 2024 compared to \$103.7 million \$101.0 million in the third first quarter of 2022 2023. The decrease was primarily driven by the timing of project work in Gxpro Services' customer base as well as the renewable energy vertical market of \$3.1 million, softness in the technology vertical market of \$1.6 million, partially offset by strengthening sales within the aerospace and defense vertical market of \$1.9 million.

Gross profit increased \$0.3 million to \$30.2 million in the third quarter of 2023 compared to gross profit of \$30.0 million in the prior year quarter. Gxpro Services gross profit as a percent of revenue was 29.3% in the third quarter of 2023 compared to 28.9% in the prior year quarter primarily driven by an improvement in the global enhanced strategic sourcing, supply chain improvements and enhanced margin management on Gxpro Services' product offerings, end market sales mix.

Selling, General and Administrative Expenses

Selling, general and administrative expenses consist of sales and marketing expenses primarily relating to compensation, costs associated with supporting Gexpro Services' service facilities, overhead expenses within finance, legal, human resources and information technology, and other costs required to operate Gexpro Services' business and service customers.

Selling, general, and administrative expenses increased \$0.9 million to \$22.9 million \$25.3 million in the third first quarter of 2023 2024 compared to \$22.0 million \$23.1 million in the prior year quarter. The increase was primarily driven by higher compensation additional consulting costs of \$1.3 million to support non-recurring strategic projects and product fulfillment costs, investments to support future growth.

Adjusted EBITDA

During the three months ended September 30, 2023 March 31, 2024, Gexpro Services generated Adjusted EBITDA of \$11.6 million \$10.8 million, a decrease of \$0.9 million or 7.5%, from the same period a year ago primarily driven by flat the revenue decline and an increase in Selling, general, and administrative expenses.

Consolidated Non-operating Income and Expense

Other income (expense), net											
\$ (1,133)	\$ (550)	\$ (583)	\$ 106.0 %	\$ (262)	\$ (975)	\$	\$	\$	\$ 713	\$ (73.1)	\$ (73.1) %
Income tax expense (benefit)											
\$ 990	\$ 8,480	\$ (7,490)	(88.3) %	\$ (4,077)	\$ 2,112	\$	\$	\$	\$ (6,189)	N/M	N/M

N/M Not meaningful

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Interest Expense

Interest expense increased \$6.8 million in the third quarter of 2023 compared to the prior year quarter. The increase was primarily driven by higher interest rates and outstanding borrowings partially driven by the Hisco Transaction.

Change in Fair Value of Earnout Liabilities

The benefit in the third quarter of 2023 related to the change in fair value of the earnout liabilities associated with the Frontier acquisition and the Hisco Transaction. The \$9.6 million benefit in the third quarter of 2022 primarily related to the change in fair value of the earnout derivative liability associated with the earnout provisions of the Merger Agreements.

Income Tax Expense (Benefit)

Income tax expense was \$1.0 million, a (171.3)% effective tax rate for the three months ended September 30, 2023 compared to income tax expense of \$8.5 million and a 33.9% effective tax rate for the three months ended September 30, 2022. The change in the year-over-year effective tax rate was primarily due to adjustments to uncertain tax positions, a book loss for the current quarter, and other permanent items.

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Nine Months Ended September 30, 2023 Compared to Nine Months Ended September 30, 2022

Consolidated Results of Operations

(Dollars in thousands)	Nine Months Ended September 30,			
	2023		2022	
	Amount	% of Net Sales	Amount	% of Net Sales
Revenue				
Lawson ⁽¹⁾	\$ 358,903	30.8 %	\$ 216,752	26.4 %
TestEquity	451,082	38.7 %	286,984	34.9 %
Gexpro Services	312,523	26.8 %	285,224	34.7 %
All Other	42,655	3.7 %	33,612	4.1 %
Total Revenue	1,165,163	100.0 %	822,572	100.0 %
Cost of goods sold				
Lawson ⁽¹⁾	155,533	13.3 %	103,733	12.6 %
TestEquity	351,417	30.2 %	220,247	26.8 %
Gexpro Services	219,430	18.8 %	202,133	24.6 %
All Other	24,592	2.1 %	21,853	2.7 %
Total Cost of goods sold	750,972	64.5 %	547,966	66.6 %

Gross profit	414,191	35.5 %	274,606	33.4 %
Selling, general and administrative expenses				
Lawson ⁽¹⁾	176,012	15.1 %	110,227	13.4 %
TestEquity	107,848	9.3 %	59,294	7.2 %
Gexpro Services	69,609	6.0 %	66,119	8.0 %
All Other	17,442	1.5 %	9,838	1.2 %
Total Selling, general and administrative expenses	370,911	31.8 %	245,478	29.8 %
Operating income (loss)	43,280	3.7 %	29,128	3.5 %
Interest expense	(30,057)	(2.6)%	(16,704)	(2.0)%
Loss on extinguishment of debt	—	— %	(3,395)	(0.4)%
Change in fair value of earnout liabilities	646	0.1 %	3,948	0.5 %
Other income (expense), net	(2,869)	(0.2)%	224	— %
Income (loss) before income taxes	11,000	0.9 %	13,201	1.6 %
Income tax expense (benefit)	3,637	0.3 %	3,912	0.5 %
Net income (loss)	\$ 7,363	0.6 %	\$ 9,289	1.1 %

⁽¹⁾ Includes the operating results of Lawson subsequent, but not prior, to the Merger Date of April 1, 2022.

Overview of Consolidated Results of Operations

Our consolidated results of operations include the financial impact of the Mergers that were completed on April 1, 2022 and the other acquisitions completed in 2023 and 2022. The increase in gross profit for the first nine months of 2023 compared to the first nine months of 2022 was primarily due to the inclusion of Lawson operations only subsequent, and not prior, to the Merger Date and the other acquisitions completed in 2023 and 2022. Expenses for the first nine months of 2023 compared to the first nine months of 2022 were impacted by the inclusion of Lawson and the other acquisitions completed in 2023 and 2022.

Refer to Results by Reportable Segment below for a complete discussion of our results of operations.

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Results by Reportable Segment

Lawson Segment

(Dollars in thousands)	Nine Months Ended September 30,		Change	
	2023	2022	Amount	%
Revenue	\$ 358,903	\$ 216,752	\$ 142,151	— %
Cost of goods sold	155,533	103,733	51,800	— %
Gross profit	203,370	113,019	90,351	— %
Selling, general and administrative expenses	176,012	110,227	65,785	— %
Operating income (loss)	\$ 27,358	\$ 2,792	\$ 24,566	— %
Gross profit margin	56.7 %	52.1 %		
Adjusted EBITDA ⁽¹⁾	\$ 51,241	\$ 19,077	\$ 32,164	168.6 %

⁽¹⁾ Refer to the Non-GAAP Adjusted EBITDA section in Overview for a reconciliation of Adjusted EBITDA to operating income.

The increase in revenue, gross profit and operating income for the first nine months of 2023 compared to the first nine months of 2022 was primarily due to the inclusion of Lawson operations beginning on the Merger Date and not including any Lawson operations prior to the Merger Date.

Supplemental Information

For management to discuss Lawson's operating results on a comparable basis, Lawson's GAAP results of operations for the nine months ended September 30, 2022 were adjusted to include its results prior to the April 1, 2022 Merger Date in order to reflect the total operating activities attributable to Lawson for each period presented. These non-

GAAP Adjusted Results for the nine months ended September 30, 2022 presented in the table below are referred to within this supplemental results of operations discussion as "Adjusted".

(Dollars in thousands)	Nine Months Ended September 30,		Adjusted Change	
	2023	Adjusted 2022 ⁽¹⁾	Amount	%
Revenue	\$ 358,903	\$ 321,654	\$ 37,249	11.6%
Cost of goods sold	155,533	153,104	2,429	1.6%
Gross profit	203,370	168,550	34,820	20.7%
Selling, general and administrative expenses	176,012	154,662	21,350	13.8%
Operating income (loss)	\$ 27,358	\$ 13,888	\$ 13,470	97.0%
Gross profit margin	56.7 %	52.4 %		
Adjusted EBITDA ⁽²⁾	\$ 51,241	\$ 27,119	\$ 24,122	88.9%

⁽¹⁾ For comparability purposes, Lawson's GAAP results of operations were adjusted to include the historical unaudited results of Lawson prior to the Merger Date. Refer to the section *Factors Affecting Comparability to Prior Periods* and the non-GAAP measures section *Supplemental Information - Lawson Non-GAAP Adjusted Operating Income and Non-GAAP EBITDA* for more information related to the calculation of adjusted amounts.

⁽²⁾ Refer to the Non-GAAP Adjusted EBITDA section in Overview for a reconciliation of Adjusted EBITDA to operating income.

Revenue and Gross Profit

Revenue increased \$37.2 million, or 11.6%, to \$358.9 million in the first nine months of 2023 compared to adjusted revenue of \$321.7 million in the same period of 2022. The increase was primarily driven by the realization of price increases enacted throughout 2022 and 2023 to offset rising supplier costs and strengthening sales to Lawson's strategic and governmental customers and automotive end market.

Gross profit increased \$34.8 million to \$203.4 million in the first nine months ended September 30, 2023 compared to adjusted gross profit of \$168.6 million in the same period of 2022 primarily as a result of increased sales, price increases, lower net freight expense and spreading operating expenses over a higher sales level. Lawson gross profit as a percent of revenue was

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56.7% in the first nine months of 2023 compared to adjusted gross profit as a percent of adjusted revenue of 52.4% in the prior year period. The gross profit margin percentage improvement for the first nine months of 2023 was primarily the result of price increases, lower net freight costs and leveraging costs over a higher sales base. The adjusted gross profit margin percentage for the same period of 2022 was impacted by increased supplier costs from inflation and supply chain disruptions and a sales shift toward lower margin customers. Adjusted gross profit margin for 2022 was also impacted by the amortization of the fair value step-up of inventory of \$1.9 million related to the Merger.

Selling, General and Administrative Expenses

Selling, general and administrative expenses consist of compensation and support for Lawson sales representatives as well as expenses to operate Lawson's distribution network and overhead expenses.

Selling, general and administrative expenses increased \$21.4 million to \$176.0 million in the first nine months of 2023 compared to adjusted Selling, general and administrative expenses of \$154.7 million in the same period of 2022. The increase was primarily driven by higher compensation expense incurred to support increased sales, additional depreciation and amortization as a result of the fair value step-up adjustments related to the reverse merger acquisition accounting and higher stock-based compensation in 2023 due to a benefit realized in 2022, partially offset by lower acquisition related costs in 2023.

Adjusted EBITDA

During the nine months ended September 30, 2023, Lawson generated Adjusted EBITDA of \$51.2 million, an increase of \$24.1 million, or 88.9% from the same period a year ago primarily driven by increased revenue and gross profit margin.

TestEquity Segment

(Dollars in thousands)	Nine Months Ended September 30,		Change	
	2023	2022	Amount	%
Revenue	\$ 451,082	\$ 286,984	\$ 164,098	57.2 %
Cost of goods sold	351,417	220,247	131,170	59.6 %
Gross profit	99,665	66,737	32,928	49.3 %

Selling, general and administrative expenses	107,848	59,294	48,554	81.9 %
Operating income (loss)	\$ (8,183)	\$ 7,443	\$ (15,626)	N/M
Gross profit margin	22.1 %	23.3 %		
Adjusted EBITDA ⁽¹⁾	\$ 31,450	\$ 24,260	\$ 7,190	29.6 %

N/M Not meaningful

⁽¹⁾ Refer to the Non-GAAP Adjusted EBITDA section in Overview for a reconciliation of Adjusted EBITDA to operating income.

Revenue and Gross Profit

Revenue increased \$164.1 million, or 57.2%, to \$451.1 million in the first nine months of 2023 compared to \$287.0 million in the same period in 2022. The increase was primarily driven by \$180.9 million of revenue generated from acquisitions completed in 2023 and 2022 offset by a \$16.8 million decline in legacy TestEquity due to a slowdown in the test and measurement market, primarily caused by tightening of capital budgets in TestEquity's customer base.

Gross profit increased \$32.9 million to \$99.7 million in the first nine months of 2023 compared to \$66.7 million in the same period of 2022 primarily as a result of the inclusion of the acquisitions completed in 2023 and 2022, which generated \$38.3 million of additional gross profit during the first nine months of 2023. TestEquity gross profit as a percent of revenue decreased to 22.1% in the first nine months of 2023 compared to 23.3% in the prior year primarily due to the amortization of the fair value step-up of inventory of \$2.9 million related to the Hisco Transaction and a shift in sales mix from the lower gross margin rates from the 2022 and 2023 acquisitions.

Selling, General and Administrative Expenses

Selling, general and administrative expenses consist of compensation and support for TestEquity's sales representatives and expenses to operate TestEquity's distribution network and overhead expenses.

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Selling, general and administrative expenses increased \$48.6 million to \$107.8 million in the first nine months of 2023 compared to \$59.3 million in the same period of 2022. Approximately \$42.3 million of the increased expenses, including depreciation and amortization, was primarily driven by the acquisitions completed in 2023 and 2022 and higher merger and acquisition expenses in the first nine months of 2023 compared to the same period a year ago.

Adjusted EBITDA

During the nine months ended September 30, 2023, TestEquity generated Adjusted EBITDA of \$31.5 million, an increase of \$7.2 million, or 29.6% from the same period a year ago with approximately \$13.4 million driven by the acquisitions completed in 2023 and 2022, offset by a reduction of \$6.2 million in legacy TestEquity due to the decline in revenue.

Gexpro Services Segment

(Dollars in thousands)	Nine Months Ended September 30,		Change	
	2023	2022	Amount	%
Revenue	\$ 312,523	\$ 285,224	\$ 27,299	9.6 %
Cost of goods sold	219,430	202,133	17,297	8.6 %
Gross profit	93,093	83,091	10,002	12.0 %
Selling, general and administrative expenses	69,609	66,119	3,490	5.3 %
Operating income (loss)	\$ 23,484	\$ 16,972	\$ 6,512	38.4 %
Gross profit margin	29.8 %	29.1 %		
Adjusted EBITDA ⁽¹⁾	\$ 36,368	\$ 32,409	\$ 3,959	12.2 %

⁽¹⁾ Refer to the Non-GAAP Adjusted EBITDA section in Overview for a reconciliation of Adjusted EBITDA to operating income.

Revenue and Gross Profit

Revenue increased \$27.3 million, or 9.6%, to \$312.5 million in the first nine months of 2023 compared to \$285.2 million in the same period of 2022. The increase was primarily driven by growth in the base business through an expansion of products and services to existing customers as well as the addition of new customers.

Gross profit increased \$10.0 million to \$93.1 million in the first nine months of 2023 compared to \$83.1 million in the same period of 2022. Gexpro Services gross profit as a percent of revenue was 29.8% in the first nine months of 2023 compared to 29.1% in the prior year period driven by an improvement in the global supply chain and margin management on its product offering.

Selling, General and Administrative Expenses

Selling, general and administrative expenses consist of sales and marketing expenses primarily relating to compensation, costs associated with supporting Gexpro Services' service facilities, overhead expenses within finance, legal, human resources and information technology, and other costs required to operate Gexpro Services' business and service customers.

Selling, general, and administrative expenses increased \$3.5 million to \$69.6 million in the first nine months ended September 30, 2023 compared to \$66.1 million in the same period of 2022. The increase was primarily driven by \$1.7 million of additional expenses from the Frontier acquisition completed at the end of the first quarter of 2022 and additional compensation and product fulfillment costs to support the organic growth.

Adjusted EBITDA

During the nine months ended September 30, 2023, Gexpro Services generated Adjusted EBITDA of \$36.4 million, an increase of \$4.0 million, or 12.2% from the same period a year ago primarily driven by increased revenue and gross profit margin.

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Consolidated Non-operating Income and Expense

(Dollars in thousands)	Nine Months Ended September 30,		Change	
	2023	2022	Amount	%
Interest expense	\$ (30,057)	\$ (16,704)	\$ (13,353)	79.9 %
Loss on extinguishment of debt	\$ —	\$ (3,395)	\$ 3,395	N/M
Change in fair value of earnout liabilities	\$ 646	\$ 3,948	\$ (3,302)	N/M
Other income (expense), net	\$ (2,869)	\$ 224	\$ (3,093)	N/M
Income tax expense (benefit)	\$ 3,637	\$ 3,912	\$ (275)	(7.0)%

N/M Not meaningful

Interest Expense

Interest expense increased \$13.4 million in the first nine months of 2023 compared to the same period of 2022 primarily due to an increase in interest rates and higher outstanding borrowings related to the Mergers and the other 2022 and 2023 acquisitions.

Loss on Extinguishment of Debt

The Hisco Transaction \$3.4 million loss on extinguishment of debt in the nine months ended September 30, 2022 was primarily due to the write-off of previously capitalized financing costs as a result of the debt refinancing related to the Mergers.

Change in Fair Value of Earnout Liabilities

The benefit in the first nine months of 2023 related to the change in fair value of the earnout liabilities associated with the Frontier acquisition and the Hisco Transaction. The \$3.9 million benefit in the first nine months of 2022 primarily related to the change in fair value of the earnout derivative liability associated with the earnout provisions of the Merger Agreements.

Other Income (Expense), Net

Other income (expense), net consists of effects of changes in foreign currency exchange rates, interest income, net and other non-operating income and expenditures. The \$3.1 million \$0.7 million change in the first quarter of 2024 first nine months of 2023 compared to the same period of 2022 2023 was partly primarily due to unfavorable changes in foreign currency exchange rates and other insignificant changes partially offset by favorable increases in other non-operating income and expenditures, interest income.

Income Tax Expense (Benefit)

Income tax expense benefit was **\$3.6 million** **\$4.1 million**, a **33.1% 43.8%** effective tax rate for the **first nine three** months of **2023** ended **March 31, 2024** compared to an income tax expense of **\$3.9 million** **\$2.1 million** and a **29.6% 26.3%** effective tax rate for the **first nine three** months of **2022**, ended **March 31, 2023**. The change in the year-over-year effective tax rate was primarily due to a change in valuation allowances related to interest expense limitation deferred tax assets, state taxes, foreign income and other permanent items. The 2022 income tax was also impacted by the creation of a consolidated group for federal income tax purposes as a result of the completion of the Mergers.

LIQUIDITY AND CAPITAL RESOURCES

Cash and cash equivalents were **\$80.5 million** **\$73.1 million** on **September 30, 2023** **March 31, 2024** compared to **\$24.6 million** **\$83.9 million** on **December 31, 2022** **December 31, 2023**.

The Company believes its current balances of cash and cash equivalents, availability under its 2023 Amended Credit Agreement and cash flows from operations will be sufficient to meet its liquidity needs for the next twelve months. As of September 30, 2023, March 31, 2024, the Company had **\$80.5 million** **\$73.1 million** of cash and cash equivalents and \$198.3 million of borrowing availability remaining, net of outstanding letters of credit, under the 2023 Amended Credit Agreement.

On June 2, 2023, the Company raised approximately \$100 million from the Rights Offering, in which 4,444,444 shares of DSG common stock were sold at a purchase price of \$22.50 per share. On June 8, 2023, the Company borrowed \$305.0 million under the incremental term loan of the 2023 Credit Agreement. The Company used these combined proceeds primarily to fund the Hisco Transaction and to pay down its revolving credit facility.

Our primary short-term and long-term liquidity and capital resource needs are to finance operating expenses, working capital, capital expenditures, potential business acquisitions, strategic initiatives and general corporate purposes. Our current

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debt obligations under the 2023 Amended Credit Agreement mature in April 2027. Required principal payments on the 2023 Amended Credit Agreement for the next twelve months are \$30.3 million. Refer to Note 9 – Debt within Item 1. Financial Statements for additional information related to our debt obligations. Access to debt capital markets has historically provided the Company with sources of liquidity, beyond normal operating cash flows. We do not anticipate having difficulty in obtaining financing from those markets in the future, however, we cannot provide assurance that unforeseen events or events beyond our control (such as a potential tightening of debt capital markets) will not have a material adverse impact on our liquidity.

Sources and Uses of Cash

The following table presents a summary of our cash flows:

Nine Months Ended September 30,			2024			2023	Change
(in thousands)	(in thousands)	(in thousands)	2023	2022	Change		
Net cash provided by (used in) operating activities	Net cash provided by (used in) operating activities	Net cash provided by (used in) operating activities	\$ 74,053	\$ (19,280)	\$ 93,333		
Net cash provided by (used in) investing activities	Net cash provided by (used in) investing activities	Net cash provided by (used in) investing activities	\$(266,720)	\$(120,550)	\$(146,170)		
Net cash provided by (used in) financing activities	Net cash provided by (used in) financing activities	Net cash provided by (used in) financing activities	\$ 269,295	\$ 151,820	\$ 117,475		

Cash Provided by (Used in) Operating Activities

Net cash provided by operations operating activities for the nine three months ended September 30, 2023 March 31, 2024 was \$74.1 million \$6.6 million primarily due to non-cash items, partially offset by a net loss and investments in trade working capital to support higher sales and other net cash flow items.

Net cash provided by operating activities for the three months ended March 31, 2023 was \$13.9 million, primarily due to net income including non-cash items, partially offset by investments in trade working capital to support higher sales and other net cash flow items.

Net cash used in operations for the nine months ended September 30, 2022 was \$19.3 million, excluding non-cash items, primarily due to increased accounts receivables driven by higher sales and increased inventories due to increased supplier costs driven by inflation and global supply chain disruptions.

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Cash Provided by (Used in) Investing Activities

Net cash used in investing activities for the nine three months ended September 30, 2023 March 31, 2024 was \$266.7 million \$16.0 million, primarily due to the Hisco ESS Transaction, as well as purchases of property, plant and equipment and rental equipment which was partially offset by the sale of rental equipment.

Net cash used in investing activities for the nine three months ended September 30, 2022 March 31, 2023 was \$120.6 million \$5.1 million, primarily due to acquisitions completed by TestEquity and Gexpro Services, as well as purchases of property, plant and equipment and rental equipment which was partially offset by the sale of rental equipment.

Cash Provided by (Used in) Financing Activities

Net cash provided by used in financing activities for the nine three months ended September 30, 2023 March 31, 2024 was \$269.3 million \$4.0 million primarily due to proceeds from the 2023 Credit Agreement and the Rights Offering partially offset by repayment of previous indebtedness and principal payments on the term loans. In conjunction with loans and net payments on the Hisco Transaction, the Company borrowed \$305.0 million under the incremental term loan facility on June 8, 2023 and raised approximately \$100 million through the Rights Offering closed during the second quarter of 2023. During the first nine months of 2023, deferred financing costs of \$3.4 million were incurred related to the 2023 Credit Agreement and offering costs of \$1.5 million were incurred related to the Rights Offering. revolving credit facility.

Net cash provided by used in financing activities for the nine three months ended September 30, 2022 March 31, 2023 was \$151.8 million \$2.4 million, primarily due to proceeds from principal payments on the term loans and partially offset by net proceeds on the revolving credit facilities to finance the Mergers and other acquisitions, partly offset by repayment of previous indebtedness. Deferred financing costs of \$12.0 million were incurred during the first nine months of 2022 related to these financing activities. facility.

Financing and Capital Requirements

Credit Facility

On June 8, 2023, in connection with the Hisco Transaction, DSG entered into the First Amendment, which amended and replaced the Amended and Restated Credit Agreement dated April 1, 2022 its previous credit agreement with the 2023 Amended Credit Agreement, and provided for a \$305.0 million incremental term loan facility. The 2023 Credit Agreement also provides for the Company to increase the

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commitments from time to time by up to \$200 million in the aggregate, subject to, among other things, receipt of additional commitments from existing and/or new lenders and pro forma compliance with certain financial covenants.

The 2023 Credit Agreement which includes a \$200 million senior secured revolving credit facility, a \$250 million senior secured initial term loan facility, a \$305 million incremental term loan, and a \$50 million senior secured delayed draw term loan facility. The 2023 Amended Credit Agreement also provides for the Company to increase the commitments from time to time by up to \$200 million in the aggregate, subject to, among other things, receipt of additional commitments from existing and/or new lenders and pro forma compliance with certain financial covenants. Refer to Note 9 – Debt within Item 1. Financial Statements for a description of the 2023 Amended Credit Agreement.

On September 30, 2023 March 31, 2024, we had \$589.6 million \$571.8 million in outstanding borrowings under the 2023 Amended Credit Agreement and \$198.3 million of borrowing availability remaining, net of outstanding letters of credit, under the senior secured revolving credit facility component.

As of September 30, 2023 March 31, 2024, we were in compliance with all financial covenants under our 2023 Amended Credit Agreement. While we were in compliance with our financial covenants as of September 30, 2023 March 31, 2024, failure to meet the covenant requirements of the 2023 Amended Credit Agreement in future quarters could lead to higher financing costs and increased restrictions, reduce or eliminate our ability to borrow funds, or accelerate the payment of our indebtedness and could have a material adverse effect on our business, financial condition and results of operations.

Purchase Commitments

As of **September 30, 2023** **March 31, 2024**, we had contractual commitments to purchase approximately **\$200** **\$152** million of products from our suppliers and contractors over the next twelve months.

Capital Expenditures

During the **nine** **three** months ended **September 30, 2023**, **March 31, 2024**, total capital expenditures for property, plant and equipment and rental equipment were **\$18.9** **million** **\$3.7 million** excluding proceeds from the sale of rental equipment. The Company expects to spend approximately **\$3 million** **\$12 million** to **\$4 \$16** million for capital expenditures during the remainder of **2023** **2024** to support ongoing operations.

Stock Repurchase Program

The **Company's** **Company's** Board of Directors previously authorized a stock repurchase program that permits the Company to repurchase its common stock. The timing and the amount of any repurchases will be determined by management under parameters established by the Board of Directors and depend on various factors including an evaluation of our stock price, corporate and regulatory requirements, capital availability and other market conditions.

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[During the third quarterTable of 2022, the Company repurchased 108,178 shares of Company common stock under the repurchase plan at an average cost of \\$17.93 per share for a total cost of \\$1.9 million.](#) [Contents](#)

No shares were repurchased during **2023**. The Company had **\$7.6 million** of the three months ended **March 31, 2024** or **2023** under the Company's stock repurchase program. The remaining availability for stock repurchases under the program **as was** **\$29.0 million** as of **September 30, 2023** **March 31, 2024**. See Note 11 – **Stockholders' Stockholders'** Equity within Item 1. Financial Statements for further information.

Retention Bonuses

As part of the Purchase Agreement, DSG will also pay \$37.5 million in cash or DSG common stock in retention bonuses to certain Hisco employees that remain employed with Hisco or its affiliates for at least twelve months after the closing of the Hisco Transaction. Pursuant to the Purchase Agreement, the Company paid \$1.8 million of the retention bonuses in 2023 and \$2.3 million of the retention bonuses in the first quarter of 2024 and will pay \$32.3 million of the retention bonuses during the next nine months of 2024, with the remaining balance of \$1.1 million to be paid in 2025.

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ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

ITEM 3 Interest Rate Risk

Our exposure to market risk for changes in interest rates relate primarily to our floating rate long-term debt obligations. Interest rate risk is the exposure to loss resulting from changes in the level of **Part I has been omitted** interest rates and the spread between different interest rates. These risks are highly sensitive to many factors, including U.S. monetary and tax policies, U.S. and international economic factors and other factors beyond our control.

The loans under the 2023 Amended Credit Agreement bear interest, at the Company's option, at a rate equal to (i) the Alternate Base Rate or the Canadian Prime Rate (each as defined in the 2023 Amended Credit Agreement), plus, in each case, an additional margin ranging from **this report** 0.0% to 1.75% per annum, depending on the total net leverage ratio of the Company and its restricted subsidiaries as of the most recent determination date under the 2023 Amended Credit Agreement or (ii) the Adjusted Term SOFR Rate or the CDOR Rate (each as defined in the 2023 Amended Credit Agreement), plus, in each case, an additional margin ranging from 1.0% to 2.75% per annum, depending on the total net leverage ratio of the Company and its restricted subsidiaries as of the most recent determination date under the 2023 Amended Credit Agreement. Refer to Note 9 – Debt within Item 1. Financial Statements for information about the 2023 Amended Credit Agreement.

As of March 31, 2024, approximately 100% of our debt was floating rate debt. A hypothetical increase/decrease in interest rates of 100 basis points would increase/decrease our annual interest expense by approximately \$5.7 million. We have not entered into, and currently do not intend to enter into, interest rate swaps or other derivative financial instruments to mitigate the impact of fluctuations in interest rates.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

Under the supervision and with the participation of our senior management, including our Chief Executive Officer and Chief Financial Officer, we conducted an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), as of the end of the period covered by this report (the "Evaluation Date"). **These disclosure controls and procedures are designed to ensure that**

information relating to DSG, including DSG's consolidated subsidiaries, required to be disclosed in our SEC reports (i) is recorded, processed, summarized and reported within the time periods specified in SEC rules and forms, and (ii) includes, without limitation, controls and procedures designed to ensure that information required to be disclosed is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure. Based on this evaluation, our Chief Executive Officer and Chief Financial Officer concluded as of the Evaluation Date that our disclosure controls and procedures were not effective as of September 30, 2023 because of the previously reported material weakness in internal control over financial reporting, as described below.

Ongoing Remediation of Material Weaknesses in Internal Control over Financial Reporting

As previously disclosed under Item 9A. Controls and Procedures in our Annual Report on Form 10-K for the year ended December 31, 2022, the Company's management concluded that its internal control over financial reporting was not effective based on the material weakness identified. As a result of our expanding business operations, primarily related to the April 1, 2022 Mergers, we have experienced an increase in complex and non-routine accounting transactions and control activities necessary to properly present consolidated results. Specifically, in our TestEquity operating segment, we did not have sufficient technical accounting resources and personnel (i) to help ensure proper application of U.S. generally accepted accounting principles ("U.S. GAAP") in the accounting for certain areas primarily related to accounting for business acquisitions and the disposal of rental equipment, or (ii) to effectively design and execute our process level controls around (a) revenue recognition, (b) account reconciliations, (c) accounting policies and (d) proper segregation of duties.

The remediation efforts summarized below, which have been or will be implemented, are intended both to address the identified material weakness and to enhance the Company's overall internal control environment.

Accounting Expertise and Personnel

- Management is assessing the accounting function and is planning to hire additional accounting personnel to improve the accounting capabilities and capacity, and to ensure internal control activities are maintained and performed.

Accounting Policies and Controls

- Management has expanded our training related to internal controls to include workshops designed to improve control awareness and educate all applicable personnel at the business unit level on internal control topics.
- Management has designed and implemented controls over the review of the accuracy and completeness of inputs provided to and outputs provided by third-party specialists, including the memorialization of accounting treatment conclusions for acquisitions.
- Management will strengthen accounting policies, specifically within complex, non-routine transactions, revenue recognition and accounting for business acquisitions, and verify procedures against U.S. GAAP.
- Management will design and implement entity level monitoring controls to support the review and preparation of complete and accurate financial information.

Segregation of Duties

- Management has evaluated logical access and eliminated known segregation of duties conflicts.
- Management has designed and is in the process of implementing periodic logical access review controls to monitor user access and proper segregation of duties.

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We have designed our remediation plan to address the material weakness mentioned above and strengthen our overall internal control over financial reporting. However, we will not be able to determine if the material weakness has been remediated until our efforts are completed and we have reassessed the procedures and controls put in place. We will continue to review our financial reporting controls and procedures. As we finalize and implement the remediation plan outlined above, we may also identify additional measures to address the material weakness or modify certain of the remediation procedures described above. We also may implement additional changes to our internal control over financial reporting as may be appropriate in the course of remediating the material weakness. Management will continue to take steps to remedy the material weakness to reinforce the overall design and capability of our control environment. Evaluation Date.

Changes in Internal Control over Financial Reporting

Given the significance and timing of the Hisco ESS Transaction and the complexity of systems and business processes, we intend to exclude the Hisco operating company ESS from our assessment and report on internal control over financial reporting for the year ending December 31, 2023 December 31, 2024. Other than the Hisco ESS Transaction, and our ongoing remediation efforts discussed above, there were no changes in our internal control over financial reporting, as defined in Rules 13a-15(f) and 15d-15(f) of the Exchange Act, during our most recently completed fiscal the quarter ended March 31, 2024 that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II OTHER INFORMATION

ITEMS 3 **4** and **5** of Part II are not applicable and have been omitted from this report.

ITEM 1. LEGAL PROCEEDINGS

See Note 14 – Commitments and Contingencies to our unaudited condensed consolidated financial statements, included within Item 1. Financial Statements, which is incorporated herein by reference, for a description of certain of our pending legal proceedings, which are incorporated herein by reference. In addition, the Company is involved in legal actions that arise in the ordinary course of business.

ITEM 1A. RISK FACTORS

Other than the risk factors discussed below, there **There** have been no material changes from the risk factors disclosed in the "Risk Factors" section in our Annual Report on Form 10-K for the year ended **December 31, 2022** December 31, 2023.

Business Risks

Cyber-attacks or other information security incidents could have a material adverse effect on our business, operating results and financial condition, subject us to additional legal costs and damage our reputation in the marketplace.

We are increasingly dependent on digital technology to process and record financial and operating data and communicate with our employees and business partners. During the normal course of business we receive, retain and transmit certain confidential information that our customers provide to purchase products or services or to otherwise communicate with us, as well as certain information about our employees and other persons and entities.

Our technologies, systems, networks and data and information processes (and those of our business partners) have been, and may in the future be, the target of cyber-attacks and/or information security incidents that may have resulted in, or may in the future result in, the unauthorized release, misuse, loss or destruction of proprietary, personal and other information, or other disruption of our business operations, including compromise of our email systems. For example, in February 2022, DSG became aware that its computer network was the subject of a cyber incident potentially involving unlawful access (the "Cyber Incident"). Because of the nature of the information that may have been compromised, we were required to notify the parties whose information was potentially compromised of the incident as well as various governmental agencies and have taken other actions, such as offering credit monitoring services. In addition, from time to time our email systems (and those of our business partners communicating with us) have been subjected to malicious attacks, including phishing attacks.

Such attacks or incidents could have a material adverse effect on our operating results and financial condition, subject us to additional legal costs and damage our reputation in the marketplace. For example, a putative class action lawsuit was filed

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against DSG in April 2023 asserting a variety of claims seeking monetary damages, injunctive relief and other related relief in connection with the Cyber Incident, which could result in additional legal and other costs.

The techniques used by criminals to obtain unauthorized access to sensitive data change frequently and often are not recognizable until launched against a target or until a breach has already occurred. Accordingly, we may be unable to anticipate these techniques or implement adequate preventative measures. As cyber threats continue to evolve, we may be required to expend additional resources to continue to modify or enhance our protective measures or to investigate and fix any information security vulnerabilities.

We maintain and have access to data and information that is subject to privacy and security laws, data protection laws and applicable regulations. The interpretation and application of such laws, including federal, state and international laws, relating to the collection, use, retention, disclosure, security and transfer of personally identifiable data in the United States (including but not limited to the California Consumer Privacy Act and the California Privacy Rights Act), Europe (including but not limited to the European Union's General Data Protection Regulation) and elsewhere, are uncertain and evolving. Despite our efforts to protect such information, cyber incidents or misplaced or lost data could have a materially adverse impact on our business, and may divert management and employee attention from other business and growth initiatives. Further, an information privacy or security incident could result in legal or reputational risks and could have a materially adverse impact on our business, financial condition and results of operations.

Any pursuit or completion by DSG of additional acquisition opportunities would involve risks that could adversely affect our business, financial condition and results of operations.

One of our growth strategies is to actively pursue additional acquisition opportunities which complement our business model. However, there are risks associated with pursuing acquisitions, which include the incurrence of significant transaction costs without the guarantee that such transactions will be completed and the risk that we may not realize the anticipated benefits of the acquisition once it is completed. We may fail to successfully identify the right opportunities and/or to successfully integrate the acquired businesses, operations, technologies, systems and/or personnel with those of DSG, which could adversely affect our business, financial condition and results of operations.

Common Stock Risks

Entities affiliated with LKCM and J. Bryan King beneficially own a significant majority of the outstanding DSG common stock and, therefore, have significant influence over our Company, which could delay or deter a change in control or other business combination or otherwise cause us to take actions with which you may disagree.

Based on a Schedule 13D filed with the SEC by LKCM and various other persons and entities (as amended through September 8, 2023), entities affiliated with LKCM beneficially owned in the aggregate approximately 36.4 million shares of DSG common stock as of September 1, 2023, representing approximately 77.6% of the outstanding shares of DSG common stock as of September 30, 2023. J. Bryan King, Chairman and Chief Executive Officer of the Company, is a Principal of LKCM. In addition, M. Bradley Wallace, who became a director of the Company upon his election at the Company's 2023 annual stockholders meeting on May 19, 2023, is a Founding Partner of LKCM Headwater Investments, the private capital investment group of LKCM. As a result, LKCM has significant influence over the outcome of matters requiring a stockholder vote, including the election of directors and the approval of other significant matters, and LKCM's interests may not align with the interests of other stockholders. This concentration of ownership could also have the effect of delaying or preventing a change of control or other business combination that might be beneficial to our stockholders.

In addition, as a result of this concentrated ownership interest of DSG common stock, DSG believes that it qualifies as a "controlled company." Under Nasdaq Listing Rules, a listed company of which more than 50% of the voting power is held by an individual, group or another company is a "controlled company" and, accordingly, DSG believes that, if it so desired, it would be generally exempt from the requirements of Rule 5605(b), (d) and (e) of the Nasdaq Listing Rules that among other things would otherwise require DSG to have:

- a majority of the DSG Board of Directors comprised of independent directors;
- a compensation committee comprised solely of independent directors; and
- director nominees be selected, or recommended to the DSG Board of Directors for selection, either by (1) DSG's independent directors constituting a majority of the DSG Board of Directors' independent directors in a vote in which only independent directors participate or (2) a nominating committee comprised solely of independent directors.

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Entities affiliated with LKCM beneficially own a significant number [Table of shares of DSG common stock, and any sales of any such shares or the possibility of any such sales could have a negative effect on the price of DSG common stock.](#)

Entities affiliated with LKCM beneficially own a significant number of shares of DSG common stock. In accordance with the Merger Agreements, DSG granted to certain entities affiliated with LKCM certain registration rights with respect to the shares of DSG common stock that DSG issued to those entities in connection with the Mergers. Any sales of any of the shares of DSG common stock held by any entities affiliated with LKCM (whether those shares were acquired by those entities in connection with the Mergers or in other transactions), or the anticipation of the possibility of any such sales, could create downward pressure on the market price of DSG common stock. [Contents](#)

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS AND ISSUER PURCHASES OF EQUITY SECURITIES

Recent Unregistered Sales of Unregistered Equity Securities

The Purchase Agreement for [There were no unregistered sales of equity securities during the Hisco Transaction allowed certain eligible Hisco employees to invest all or a portion of their respective closing payment in DSG common stock at \\$22.50 per share, up to an aggregate value of DSG common stock issued to such eligible Hisco employees of \\$25.0 million. On September 6, 2023, the Company issued to 19 eligible Hisco employees a total of 144,608 shares of DSG common stock in exchange for a total of approximately \\$3.25 million in cash. The issuance of these shares of DSG common stock was exempt from registration under the Securities Act of 1933, as amended, in reliance on Section 4\(a\) \(2\) of the Act and Rule 506\(b\) of Regulation D promulgated under the Act. Such shares are restricted securities, subject to restrictions on their transfer. See Note 3 – Business Acquisitions to our unaudited condensed consolidated financial statements, included within Item 1. Financial Statements, which is incorporated herein by reference, for a description of the Hisco Transaction, which is incorporated herein by reference: three months ended March 31, 2024.](#)

Issuer Purchases of Equity Securities

There were no repurchases of any shares of DSG common stock during the three months ended [September 30, 2023](#) [March 31, 2024](#).

57 ITEM 5. OTHER INFORMATION

During the quarter ended March 31, 2024, none of our directors or officers (as defined in Rule 16a-1(f) under the Exchange Act) adopted or terminated a "Rule 10b5-1 trading arrangement" or a "non-Rule 10b5-1 trading arrangement" (as such terms are defined under Item 408 of Regulation S-K).

ITEM 6. EXHIBITS

Exhibit #	Description of Exhibit
3.1	Third Amended and Restated Certificate of Incorporation of the Company, as amended by the Certificate of Amendment to the Amended and Restated Certificate of Incorporation of the Company effective as of August 31, 2023 August 31, 2023, incorporated by reference to Exhibit 3.1 to the Company's Quarterly Current Report on Form 10-Q8-K (File No. 000-10546) for the quarter ended September 30, 2023.
3.2	Amended and Restated By-Laws of the Company effective as of May 5, 2022, incorporated by reference to Exhibit 3.2 to the Company's Current Report on Form 8-K (File No. 000-10546) filed May 5, 2022.
10.1	Subscription Agent Agreement, dated as of May 8, 2023, by and among Distribution Solutions Group, Inc., Computershare Inc. and Computershare Trust Company, N.A., incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K (File No. 000-10546) filed May 9, 2023.
10.2†	Amended and Restated Credit Agreement, dated as of June 8, 2023, by and among Distribution Solutions Group, Inc., the subsidiaries of Distribution Solutions Group, Inc. party thereto, the Lenders party thereto and JPMorgan Chase Bank, N.A., as Administrative Agent, incorporated by reference to the Company's Current Report on Form 8-K (File No. 000-10546) filed June 9, 2023.
31.1*	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2*	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32**	Certification of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101	The following financial statements from the Quarterly Report on Form 10-Q for the quarter ended September 30, 2023 March 31, 2024 , formatted in Inline XBRL: (i) Condensed Consolidated Balance Sheets, (ii) Condensed Consolidated Statement of Operations and Comprehensive Income (Loss), (iii) Condensed Consolidated Statements of Stockholders' Equity, (iv) Condensed Consolidated Statements of Cash Flows, and (v) Notes to Condensed Consolidated Financial Statements.
101.INS	Inline XBRL Instance Document – the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document
101.SCH*	Inline XBRL Taxonomy Extension Schema Document
101.CAL*	Inline XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF*	Inline XBRL Taxonomy Extension Definition Linkbase Document
101.LAB*	Inline XBRL Taxonomy Extension Label Linkbase Document
101.PRE*	Inline XBRL Taxonomy Extension Presentation Linkbase Document
104	The cover page from the Quarterly Report on Form 10-Q for the quarter ended September 30, 2023 March 31, 2024 , formatted in Inline XBRL and contained in Exhibit 101

[†] Certain schedules and/or similar attachments omitted pursuant to Item 601(a)(5) of Regulation S-K promulgated by the U.S. Securities and Exchange Commission. The Company agrees to furnish supplementally a copy of any omitted schedule or similar attachment to the U.S. Securities and Exchange Commission upon request.

* Filed herewith.

** Furnished herewith.

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Dated: November 2, 2023

/s/ J. Bryan King

J. Bryan King
Chairman, President and Chief Executive Officer
(principal executive officer)

Dated: November 2, 2023

/s/ Ronald J. Knutson

Ronald J. Knutson
Executive Vice President, Chief Financial Officer and Treasurer
(principal financial officer)

Dated: November 2, 2023

/s/ David S. Lambert

David S. Lambert
Vice President, Controller and Chief Accounting Officer
(principal accounting officer)

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EXHIBIT 31.1

**CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER
PURSUANT TO SECTION 302
OF THE SARBANES-OXLEY ACT OF 2002**

I, J. Bryan King, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Distribution Solutions Group, Inc. (the "registrant");
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

- (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
- (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 2, 2023

Date: May 2, 2024 /s/ J. Bryan King

J. Bryan King
Chairman, President and Chief Executive Officer
(principal executive officer)

EXHIBIT 31.2

**CERTIFICATION OF PRINCIPAL FINANCIAL OFFICER
PURSUANT TO SECTION 302
OF THE SARBANES-OXLEY ACT OF 2002**

I, Ronald J. Knutson, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Distribution Solutions Group, Inc. (the "registrant");
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal three months (the registrant's fourth fiscal three months in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: **November 2, 2023**

May 2, 2024 /s/ Ronald J. Knutson

Ronald J. Knutson
Executive Vice President, Chief Financial Officer
and Treasurer
(principal financial officer)

**CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350 AS ADOPTED
PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report of Distribution Solutions Group, Inc. (the "Company") on Form 10-Q for the period ending **September 30, 2023** **March 31, 2024** as filed with the Securities and Exchange Commission on the date hereof (the "Report"), the undersigned Chief Executive Officer and Chief Financial Officer of the Company hereby certify, pursuant to 18 U.S.C. §1350, as adopted pursuant to §906 of the Sarbanes-Oxley Act of 2002 that based on their knowledge:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company as of and for the periods covered in the Report.

November **May 2, 2023** **2024**

/s/ J. Bryan King
J. Bryan King
Distribution Solutions Group, Inc.
Chairman, President and Chief Executive Officer
(principal executive officer)

/s/ Ronald J. Knutson
Ronald J. Knutson
Distribution Solutions Group, Inc.
Executive Vice President, Chief Financial Officer and Treasurer
(principal financial officer)

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