

DXP Enterprises, Inc.

Second Quarter 2022 Earnings Conference Call

**August 8, 2022
10:00 AM EDT**

Operator: Good morning. My name is Shantel, and I will be your conference operator today. At this time, I would like to welcome everyone to the DXP Enterprises, Inc. 2022 Second Quarter Earnings Conference Call. As a reminder, today's conference call is being recorded. [Operator Instructions]

Kent Yee, Chief Financial Officer, you may begin your conference.

Kent Yee: Thank you, Shantel. This is Kent Yee, and welcome to DXP's Q2 2022 Conference Call to discuss our results for the second quarter ending June 30, 2022. Joining me today is our Chairman and CEO, David Little.

Before we get started, I want to remind you that today's call is being webcast and recorded and includes forward-looking statements. Actual results may differ materially from those contemplated by these forward-looking statements. A detailed discussion of the many factors that we believe may have a material effect on our business on an ongoing basis are contained in our SEC filings. However, DXP assumes no obligation to update that information as a result of new information or future events.

During this call, we may present both GAAP and non-GAAP financial measures. A reconciliation of GAAP to non-GAAP measures is included in our earnings press release. The press release and an accompanying investor presentation are now available on our website at ir.DXPe.com.

I will now turn the call over to David Little, our Chairman and CEO, to provide his thoughts and a summary of our second quarter performance and financial results.

David Little: Good morning, and thank you, Kent. Thanks to everyone for joining us today on our fiscal 2022 second quarter conference call. I will begin today with some perspective on our second quarter and our performance through the first half of 2022, and finish with some thoughts on the remainder of the year. Kent will then take you through the key financial details for -- after my remarks, and after his prepared statements, we will open for Q&A.

Overall, we had a great second quarter, a strong first half of 2022. We are close to reaching new highs DXP and look forward to pushing through the second half of 2022. Thank you to all our DX people for their hard work, dedication and resilience. The first half of 2022 highlights good execution, positive demand trends, supported by our ability to navigate the inflationary and challenging supply chain environment. We continue to execute of our acquisition strategy to accelerate our end market diversification efforts, adding Cisco Air Systems during the quarter. We were excited on our goals to diversify the business while maintaining our commitment to foundational end markets, like energy, that have always been a part of DXP.

We are beginning to see good progress, and we are confident that we are near the early beginnings of exceeding pre-pandemic organic sales levels. This is DXP's second quarter of meaningful organic growth in a total sales and EBITDA, which is great to see. This is a testament to the relentless drive we have made to center our strategy around our customers and to remain customer-driven experts. Overall, our balanced end market mix, broad product portfolio and good geographic coverage offered us multiple avenues to grow and more ways to create value for our customers and suppliers, while providing important resilience in softer markets.

Our second quarter represents the highest revenue in our history, except for 3 quarters in 2014, which was the peak of oil and gas. DXP's first half of the year and a strong second quarter highlights good execution and several positive trends across DXP, including organic growth in most of our industrial markets, plus growth in new markets such as biofuels, carbon capture, hydrogen, compressed air and water and wastewater.

In terms of DXP's industrial markets, which year-to-date through Q2 is 72% of our sales, it continues to have legs and show signs of positive upward movement. The ISM and PMI manufacturing indexes, which give us an indication of how DXP's broad industrial market will perform, had an average reading of 56% through June and a July reading of 52.8%. These end markets, including food and beverage, chemicals, water and wastewater, manufacturing and general industry should serve us well, along with the continued execution of our acquisition strategy. That said, inflation is good for DXP and for most distributors. The slower -- if we have a slower economy, or even a declining economy, this is all manageable. But as of to date, we have not seen any decline in activity in the markets DXP serves.

In terms of energy, we continue to see growth in oil, gas and renewables. We experienced a significant pickup in organic sales activity through Q2, which reflects the increase in backlog we have began to see build during Q3 of last year. The pickup is consistent with commentary around U.S. major and smaller exploration and production companies increasing capital budgets in 2022. That said, we were seeing delivery impacts related to supply chain issues that is slowing the recovery.

Given we are halfway through the year, we see an uptick in activity during the second half, primarily with some of the supply chain constraints lessening. But the overall backlog and bookings level indicate that we have sufficient activity to grow before we reach our 2018 levels in oil and gas.

DXP's technical expertise within energy has positioned us on the forefront of engineering, design and fabrication of many environmental solutions and projects. Specific to renewables, DXP has engineered, designed and fabricated many biofuel and hydrogen projects. As to the environmental side, DXP's efforts to help our customer with carbon capture and sequestration projects continue to gain momentum. DXP is excited to be participating in the engineering on many projects with our legacy customers.

Hydrogen is also emerging technology, and DXP is leveraging our packaging capabilities to participate in projects around green, blue and gray and other hydrogen-based solutions. DXP is excited and well positioned to capitalize on energy transition efforts for the years to come.

We are seeing increase in energy CapEx budgets, which has been gradual, and should accelerate as we move through the second half of 2022. That said, we are building a more resilient, diversified business that can generate solid performance in more uncertain markets, and we believe we're seeing the evidence of these efforts.

Regarding acquisitions during the quarter, we closed on Cisco Air Systems acquisition. As we mentioned earlier, we're excited to have them as a part of our DXP family. And given this is the first quarter for Cisco Air in our financials, I wanted to let everyone know, they will be reporting under the Service Center business segment.

We are continuing to see inflation across our product groups, but as we have discussed over the years, inflation is good for our business and is based -- and is passed through -- and the prices are passed through to our customers. We have received multiple price increase notices from our vendors and expect this to continue through the year, albeit at a slower pace.

Turning to our financial results. Our second quarter reflects sequential growth and improvements in our end markets. Total DXP sales for the Q2 increased 15.2% sequentially, or were thirties -- \$367.8 million, or \$5.8 million per business day. As always, thank you to the 3,050 DX people for your hard work and dedication. Again, this includes our recent acquisition of Cisco Air Systems. We're excited to have Cisco Air with us and look forward to growing our air compressor business, be it Cisco had a strong 2 months of contribution during Q2, and we look forward to having their results for a full quarter starting in Q3. Keep up the great work, and we are excited to have you as part of our DXP family.

It is always my pleasure to share our performance and financial results on everyone's behalf. For the quarter, we had diluted earnings per share of \$0.74, or an increase of \$0.08 per share compared to Q1, and a \$0.33 per share increase over 2021. We continue to build our capabilities to provide technical set of products and services in all our markets, which makes DXP unique in our industry, gives us more ways to help our customers.

In terms of our segment financial results, Service Centers led the way, followed by Supply Chain Services and then Innovative Pumping Solutions. The diversity of end markets and MRO nature within Service Centers allowed us to continue to remain resilient and is experiencing the greatest amount of recovery. Supply Chain Services experienced significant sales improvement in the quarter, driven by the addition of a large, diversified chemical customer as well as overall growth in the existing customer base, and expect activities to increase as we move through the year.

With disruptions in the global supply chain, DXP's SCS is uniquely qualified to help customers with their maintenance, repair, operating and production supplies. We are excited about the supply chain business moving forward because our customers are looking for companies that can digitize their supply chain, resulting in reliable supply of MROP goods and services. Customers are needing demand planning and forecasting and someone to monitor transportation, logistics and inventory levels, detecting issues and taking corrective action well in advance of a problem. DXP's SCS is well qualified to manage the complete supply chain by increasing efficiencies, eliminating downtime, all

while keeping the customer's facility up and running, resulting in increased production and ultimately saving the customer money while improving their bottom line.

Our IPS segment is growing backlog and continues to increase bookings as our energy business continues to grow, but it is slowed by supply chain constraints. Water and wastewater, included in IPS because of the capital nature of this business, is growing and should have a positive runway for several years looking forward.

DXP's overall gross profit margins for the quarter were 28.4%. This reflects positive contributions from our acquisition and continued improvement within IPS, but an overall decrease associated with a mix shift due to the increased contribution from SCS. As a reminder, while SCS is overall a lower margin profile business, it drives high returns on capital. And with the recent uptick, or 170 basis point additional contribution, we did have a slight drift downward in gross profit margins.

Overall, DXP produced EBITDA of \$32.6 million, and EBITDA as a percent of sales was 8.9%, or 100 basis point improvement over Q2 of 2021. This is a continued sign of DXP getting operating leverage, which we saw in Q1 as well, and which we expect as we grow organically from profit levels.

In summary, DXP's financial performance was great to see as a sequential increase accelerated. We look to continue to drive improvement in our organic sales and marketing strategies and inorganic growth through acquisitions in certain geographies and industries. While we are encouraged by our performance in the second quarter, we are continuing to plan thoughtfully for the second half of the year, given supplier price increases, supply chain constraints and concerns of when a recession might be coming.

We continue to see the industry and customers we serve continue to grow as our backlog and bookings continued to grow. DX people are working hard to give our customers the service they deserve and expect, which is not easy given the headwinds we are all facing. I am pleased with our performance for the first half of 2022. As we continue to move forward to achieve our goals, our strategies and digital tools are helping us grow sales, and we expect to drive productivity, manage working capital and create free cash flow.

With that, I will now turn it back to Kent to review the financials in more detail.

Kent Yee:

Thank you, David, and thank you to everyone for joining us for our review of our second quarter 2022 financial results.

Q2 financial performance reflects our seventh quarter of sequential sales increases during this COVID cycle and the subsequent and interrelating challenges, including inflation, supply chain constraints and a war with global ramifications. Despite these challenges, DXP continues to successfully navigate through the market and has been able to execute and create value for all stakeholders. I am personally excited for our performance, given our Q2 2022 financial performance is the highest performing sales quarter since I have been CFO and the fourth highest sales performance in DXP's history. We look forward to pushing through our current levels and establishing new highs as we move to the second half of the year.

DXP's second quarter financial results were great to see and reflect a combination of business actions we have undertaken. More specifically, Q2 takeaways are as follows: continued strong organic sales growth and contribution from acquisitions, fueled by inflation and DXP's ability to manage price; consistent and strong Service Centers performance marked by gross margin stability; meaningful sales increase within SCS,

along with another quarter increase in the IPS backlog; and significant operating leverage, leading to sustained adjusted EBITDA margins.

That said, while we are encouraged with the progress, we are far from satisfied. On the growth front, we are seeing historically high contribution from realized price in light of the inflationary environment. And so we will expect more growth in the second half of 2022, and we are focused on capturing it. On the profitability front, operating margins are improving, but we strive for consistent margin expansion before we declare victory.

Total sales for the second quarter increased 15.2% sequentially to \$367.8 million. Acquisitions that have been with DXP for less than a year contributed \$17.8 million in sales during the quarter. We are excited to have our most recent acquisition, Cisco Air Systems, as a part of the DXP family. Cisco Air Systems contributed \$8.2 million in sales during the quarter and financially provides margin enhancement and product and end market diversification. Welcome, Cisco Air, and we are excited to have you as part of DXP.

Average daily sales for the second quarter were \$5.84 million per day versus \$4.99 million per day in Q1 2022. Adjusting for acquisitions, average daily sales were \$5.6 million per day for the second quarter. That said, the average daily sales trend during the quarter went from \$5.5 million per day in April to \$6.5 million per day in June, reflecting a typical June push as we closed out the second quarter.

In terms of our business segments, Supply Chain Services grew 49.8% year-over-year, followed by Innovative Pumping Solutions growing 57.4% year-over-year. Excluding acquisitions, IPS, however, grew 33.3%, or sales increased \$12.2 million. This was followed by Service Centers growing 19.8% year-over-year. Excluding acquisition sales within Service Centers, sales grew 13.8%, or sales increased \$29 million.

In terms of our service centers, regions within our Service Centers business segment, which experienced sales growth year-over-year, include the South Atlantic, California, South Central, Texas Gulf Coast and North Texas. Key products and end markets driving the sales performance include air compressors, rotating equipment and water/wastewater, food and beverage, mining, municipal, air, transportation and specialty chemicals.

Supply Chain Services performance reflects an increase in existing contracts and the addition of a large, diversified chemical customer that began to ramp in Q1. This customer contributed \$9.8 million in sales during the quarter and should continue to impact the top line as we move through the second half of 2022.

In terms of Innovative Pumping Solutions, we continue to experience increases in the backlog. Q2 average backlog grew 10% over our Q1 average backlog and is ahead of our 2017 average backlog and down 11% from the 2015 backlog. But the point here is that we are now trending meaningfully above 2016 and 2017 sales levels, and we are moving towards 2015 levels based upon where you backlog stands today. We are transitioning to strong organic growth within IPS and look to find opportunities in other markets, including biofuels, hydrogen and carbon capture versus our tradition oil and gas, but expect energy to continue to contribute meaningfully.

Turning to our gross margins. DXP's total gross margins were 28.4%, 150 basis point decline over 2021. This decline is contributed to SCS contributing more to the overall DXP quarterly results, or segment mix contribution, that historically has been offset by IPS's contribution or higher mix. For the second quarter, SCS was 16% of total sales, IPS was 15.7% and Service Centers was 68.3%. Historically, SCS has been closer to 14% or

less of contribution to DXP.

In terms of operating income combined, all three business segments increased 41 basis points in year-over-year business segment operating income margins, or \$11.5 million versus 2021. This was driven by improvement in organic operating income margins across all three business segments, given the pickup in sales dollars.

Total DXP operating income increased 185 basis points versus 2021 to \$25.9 million. Service Centers improved operating income margins 34 basis points to \$32.4 million. Supply Chain Services operating income margins decreased 46 basis points to \$5 million. Innovative Pumping Solutions operating income margins increased 202 basis points to \$8.7 million.

Our SG&A for the quarter increased \$7.9 million from 2021. The increase reflects the growth in business and associated incentive compensation while DXP investing in its people through merit and pay raises. That said, during a period of normally high seasonal SG&A costs, DXP was able to manage more efficiently and maintain margins. SG&A as a percentage of sales decreased 335 basis points year-over-year to 21.3% of sales, reflecting the leverage inherent in the business, despite increased operating dollars supporting our growth, cost inflation and the impacts of acquisitions.

Turning to EBITDA, Q2 2022 adjusted EBITDA was \$32.6 million. Adjusted EBITDA margins were 8.9%. Year-over-year EBITDA margins increased 93 basis points, or \$9.9 million. This reflects the fixed costs SG&A leverage we experience as we grow sales. This translated into 1.5x operating leverage.

In terms of our EPS, our net income for Q2 was \$14.4 million. Our earnings per diluted share for Q2 2022 was \$0.74 per share versus \$0.40 per share last year.

Turning to the balance sheet and cash flow. In terms of working capital, our working capital increased to \$28.6 million -- increased, excuse me, \$28.6 million from March 31 to \$247 million. As a percentage of sales, this amounted to 19.5%. This primarily reflects a \$45 million increase in accounts receivable of which \$12.7 million was attributed to Cisco Air and other recent acquisitions. We are still at a point where we are in line with our historical averages or ranges in terms of investing and working capital, but we would expect this to plateau or level off as a percentage of last 12-month sales.

In terms of cash, we had \$20.7 million in cash on the balance sheet as of June 30. This is a decrease of \$15.9 million compared to the end of Q1. The reduction was a result of the purchase of Cisco Air and working capital uses. More specifically, project work activity has increased within IPS, and we experienced a \$5.2 million increase in cost and estimated profits in excess of billings over Q1 and have increased \$8.9 million since Q2 of last year.

In terms of CapEx, CapEx in the second quarter was \$1.1 million, or an increase of \$368,000 compared to Q1 2022. While we do expect CapEx to pick up in 2022, our first half of the year levels were very minimal at \$1.8 million. Moving to the second half of 2022, we will continue to invest in the business as we continue to grow.

Turning to free cash flow. Free cash flow for the quarter was \$1.9 million. As a reminder, we typically have negative cash flow from operations in the first quarter and positive cash flow from operations in the second through the fourth quarter. Year to date through Q2, we have produced \$3.8 million in free cash flow, or 6% of adjusted EBITDA. We do expect a free cash flow conversion to increase in the second half. That said, as we

increase project activities in our IPS business, we historically have experienced high uses of cash during the first half of the year versus the second half, which we are seeing, but this could drag some as we are experiencing supply chain delays.

Return on invested capital, or ROIC, at the end of the first quarter was 24% and should continue to improve as we drive margins and operating leverage and improve our run rate EBITDA.

As of June 30, our fixed charge coverage ratio was 4.1:1.0, and our secured leverage ratio was 3.1:1.0 with a covenant EBITDA for the last 12 months of \$106.7 million. Total debt outstanding on June 30 was \$354.2 million.

In terms of liquidity, as of the quarter, we were drawn on our ABL at \$29.1 million with \$103 million of availability. Subsequent to the quarter, we announced that we amended and extended our ABL, which now has a maturity of July 2027. The new facility will continue to support our growth and working capital uses.

Regarding capital allocation, we want to briefly revisit the share repurchase program concept and reiterate that last May when we put in the \$85 million share repurchase program in place, it was part of our toolkit that signifies our strong belief that the market has been clearly undervaluing DXP's shares. To that end, we look forward to continuing to use this tool as a part of our capital allocation framework, repurchasing shares opportunistically when it makes prudent economic sense. To date, we have purchased \$35 million, and our ongoing commitment to a stringent approach to balance sheet management remains unchanged by this strategy. We expect to apply similar diligent approach to repurchase decisions as we do to balance sheet management and our ongoing capital allocation decisions.

In terms of acquisitions, we closed on the acquisition of Cisco Air Systems during the quarter, and we are excited to have the Cisco team with DXP, and we look forward to them reporting with us for the full quarter of Q3. As we discussed during Q1, Cisco provides DXP with a leading platform with compressed air, while continuing to diversify DXP's end markets with a primary focus on food and beverage and transportation end markets. For the second quarter, they contributed \$8.2 million in sales with \$1.6 million in operating income. Keep up the great work, Cisco. We appreciate your hard work and contribution to DXP.

DXP's acquisition pipeline continues to grow, and we anticipate closing one to two more acquisitions as we move through 2022. Our acquisition strategy continues to create value for DXP, enhancing end markets, margins and DXP's cash flow profile. More importantly, the talent at the companies joining DXP is very high and brings expertise and valuable experience to our growing company.

At this point in the cycle, as David mentioned, customers are plagued with rapid inflation, labor shortage and extended lead times. The need for product availability and for tangible productivity gains are apparent. DXP is delivering on all fronts. In terms of external landscape, on one hand, there are several yellow or red macro indicators, such as high inflation, rising interest rates and ongoing supply chain shortages and challenges. On the other hand, we are experiencing a more encouraging picture. Order levels, backlogs and overall activity remains strong.

Most segments of the industrial economy are still seeing strong demand patterns. That said, as time goes on, many of our customers are feeling the effects of extreme inflation and long lines on their income statement, along with the ongoing labor and supply

shortages. And while this continues to put pressure, we are not seeing evidence of an imminent recession. As a result, we remain in growth mode.

If we do see a change in the external environment, we are prepared to adjust quickly and have the capital structure to support any actions, growth or retraction. Through the pandemic, we have been more agile, and we have improved our ability to course correct. Our balance sheet remains strong. Our cash generation will continue to improve, positioning DXP to capitalize on any opportunities that emerge.

I will now turn the call over for questions.

- Operator: [Operator Instructions] Our first question comes from Tommy Moll with Stephens.
- Tommy Moll: I wanted to start on the daily sales trends. And Kent, maybe first just to level set, I think you said June was at \$6.5 million a day, and that that reflected an improvement in activity through the month of 2Q. Just to clarify, that number is inclusive of acquisitions. And then to the extent you can give us any insight on your July trends, that would be appreciated as well.
- Kent Yee: Yes. Absolutely, Tommy. And just to paint a little fuller picture, we're accustomed to seeing a quarter end push, whether it's the first quarter, meaning in the month of March or in June. So really, my comments were reflecting that we saw the typical quarter end push in June that we're accustomed to seeing.
- In terms of the trends through the quarter, like I said, really I'll step back to March. March we were at \$5.8 million per day and then April we were at \$5.5 million per day. In May, we were at \$5.4 million per day. And then in June, we were at \$6.5 million per day. And as you said, that's inclusive of all acquisitions. And then in July, we were at \$5.5 million per day.
- Tommy Moll: Yes, that's helpful. Thank you. Let's just walk down the P&L here. On gross margins, you both anticipated my question, which was just to walk through the stepdown sequentially from first quarter to second quarter. And it sounds like a lot or maybe all of that was on a larger contribution from SCS. Maybe on a like-for-like basis, so I know you don't give gross margin by segment, but maybe you can even talk qualitatively. Were there any other factors, tailwinds or headwinds to gross margin in the quarter? Or was it really just that mix? And then as we think about Q2 to Q3, anyway you could frame that continued mix impact/headwind or any other driver you'd call out would be helpful.
- Kent Yee: Yes, Tommy. The quick answer -- and I'm sure David will have some comments, but the quick answer is it does just reflect primarily mix. There was -- we mentioned there was a significant customer in IPS. Once again, the net profitability is in line with what we're accustomed to, but from a gross margin perspective, that contributed as well. But that all flows under Supply Chain Services. So it really was a little bit of the mix shift. And so that's kind of what impacted the gross margin line in Q2. That said, that will probably continue to influence us in Q3 and likely in Q4 because the customer is still ramping, and we expect future good performance from Supply Chain Services.
- David Little: To drill down into minutia, really, but IPS, their orders are long term. So we were in a buyer's market a year ago, and so we still have some lower margin jobs going through IPS. That's kind of filtering its way out as we speak. So you could have a little bit of improvement there. And then SCS, again, has some fixed contract pricing, which is pretty minor. We really try really hard not to get into those, and we do a pretty good job, but there is a little bit of that. But I'm going to agree with Kent that we're really not

anticipating getting 100 basis points back tomorrow. So that is what it is.

Tommy Moll: Appreciate the insight there, David. On SG&A, you did show significant leverage first quarter into second quarter. So any additional commentary you could give there would be helpful. And then kind of the same series of questions here. As you think about Q2 to Q3, do you expect you'll get another good round of SG&A leverage there, or how do you think about that trend?

David Little: So again, details. SCS, this new contract that they have has a lower gross profit profile, which Kent mentioned. But it also has a lower SG&A profile. And so that's where that's showing up, I think, mostly. And if you notice that Supply Chain Services operating margins were pretty much the same. So we have a little dip in GP, and we have a corresponding dip in SG&A, and so they make -- profit margins are about the same.

Kent Yee: Yes, Tommy, the only other macro comment I would add is DXP's no different than I think what everybody's experiencing in this environment. We're all experiencing some people inflation. And we saw some of that -- and we've seen some of that in Q1 and Q2, but I think we'll start to get the full bore of that as we move into the second half of the year. And so I think that could obviously feed through a little bit of the SG&A line. But as long as we get the sales growth that we've been getting, we'll get that operating leverage that we're accustomed to getting. But as time goes on, that eventually catches up with you. All things being the same and assuming you get that sales growth, you're fine. But we're all experiencing those people pressures.

Tommy Moll: So let's pivot to a higher level strategic conversation here on capital allocation. I heard a couple things mentioned. One on M&A. It sounds like pipeline is robust, and you're soft circling one or two deals through the end of this year. You also mentioned the repurchase, that you'd continue to deploy that authorization opportunistically. If we think about the most likely path forward in this macro environment, is it really that? So opportunistic repo, but really more focused on as many accretive tuck-in deals as you can find? Or could you pivot another direction, maybe go with a larger repurchase cadence and/or potential for larger -- maybe transformative, maybe not transformative, but larger, let's say chunkier deals? I'm just trying to understand the most likely path forward and if we should discern any potential shift in strategy coming from today's comments.

Kent Yee: Yes, Tommy. I don't necessarily -- I'll just piggyback on your last comment there. I don't know if there's necessarily a shift. I think at least since I've been CFO, I've always tried to posture us in having all the tools available to the CFO office, if you will. And so whether that's raising equity, I'll go the other extreme to repurchasing shares. And so I think the messaging is intended to signal that, hey, if we're trading depressed at 7x to 8x, and we can only get deals at 10x, well, there starts to become a decision where maybe we just go ahead and buy ourselves, because we know, if you will, where we're at in terms of rebound and recovery, and we feel good about that.

That said, acquisitions have been key to our diversification efforts and key to balancing off, I'll call it, the suppressed earnings, a comment I used a couple quarters back. And so I think we just continually iterate on that, and we wanted to communicate that, and particularly in this market, where you've got a lot of sentiment out there that could be otherwise. And so I think that was the intent of the messaging.

Tommy Moll: That's helpful.

David Little: Tommy, if I could borrow your time and yell a small lecture, I'd appreciate it. Back in 2014, from a supply infrastructure basis, all of the oil and gas companies that were in that

market -- MRC, DNOW, people like that were all peaked in 2014. From that time, 2015 was declined. Then we had a small recovery back in 2018 and half of 2019. And then oil and gas really started declining before COVID ever hit. Then COVID hit and that made it even worse.

During that time, DXP has shift resource capital. You're talking about capital. I feel responsible and I deal with capital. That's what I do. And during that time, we have -- we didn't shut down operations in Odessa or Houston or [Lila Berra] or Pennsylvania. We didn't shut down locations that were in the oil and gas business, but those businesses didn't grow.

And so we want to be a growth company. We want to be \$10 billion, okay? And I seem to have been locked somewhere between \$1.5 billion and \$1 billion, and I'm determined to get out of it. So we shifted gears into other markets and used resources that we might have used in oil and gas, and we didn't buy any more oil and gas companies. We didn't stop trying to sell into those markets, but those markets just were not good markets. Again, when you look at MRC and DNOW, which I hate being compared to, but they're oil and gas companies. And back in 2014, DNOW was a \$3 billion company, and today it's fought back and maybe it's getting close to \$2 billion. MRC was a \$4 billion company, and it's fought back to get close to \$3 billion.

We were almost \$1.5 billion, and we're knocking on the door of \$1.5 billion again. And so the question is, how did we do that? Well, we did that by diversifying our markets and going after water and wastewater, air compressor and even into oil and gas because we're engineering-oriented people. We're in the forefront of biofuels, and we're in the forefront of hydrogen and et cetera. So we're looking at these new markets, and we've done an outstanding job of growing the business back to where it is today with oil and gas only being 28% of our business versus it used to be 66% or something like that. It was way up there. And so when it comes to capital, I think that's what we've done.

Now you've asked the specific question, and I'm not sure I know the answer. If the market, to exaggerate the point, says, well, DXP, you're only worth 5x EBITDA, and I have to pay 7x or 8x to buy people, well, that doesn't work. That just doesn't work. And so I want to buy myself. Instead of buying other people, I've already done a good job of diversifying the market, so I'm good to go. And so I don't really have to do anything besides continue the consolidation play and continue to play in these new markets, which would be fun. And I really prefer that. But again, I don't know the answer to your question because I don't know what the market determines what I'm worth. But if I'm worth less than it costs me to buy somebody, then I don't know. What do you think? I've got a lot of institutional shareholders that are all sitting there saying, well, hey, why are you doing that?

Tommy Moll:

Well, David, I guess -- I appreciate the comments, and I'll limit myself to just one follow-up, pulling some themes together. On the pathway, I think you threw out a \$10 billion number. Whatever the pathway is toward -- and forgetting for the moment the relative multiples, which can present an issue, as you just discussed. But does the law of large numbers eventually catch up to you where you can have strong organic growth and tuck-in deals, but the pace at which you grow that top line to the end goal isn't quick enough, so the net is your average deal size would tick up significantly? Is that something that --

David Little:

Yes, I think that's a good point. Yes. No, we're always -- well, first of all, you've not been around as long as I have. I'm not sure anybody has. But anyway, we have stated goals and strategies around specifically, in a perfect world, we would grow 10% organically, 10% inorganically and do 10% EBITDA. That's what we subscribe -- try to do every year. And

that model worked without me having to go get equity or do anything. I can fund that amount of equity and capital. So our capital structure is --.

Now, given within a year, if we were going to error, I wish it was always be organic. It didn't do 10%; we did 20%. That's always the most profitable business we do. But if it's only 5% and maybe we do 15% inorganic, well then we're okay with that, too. So I think that we have -- and then we have discipline around -- we don't just buy anything. We're buying things that fit with what we're trying to do, and that is to have technical products and services. And so -- and there's a big movement around growing the technical service side of our business a little more than we've done in the past, too.

So I guess -- and by the way, and then I think what you were asking was that to get to \$10 billion, we're not going to do that by buying our own stock back, okay? We're not -- that's not going to happen. But maybe we give up on the \$10 billion goal and buy our stock back if the marketplace isn't going to let me get there.

Tommy Moll:

Thanks, David, for the insight. I appreciate it. I'll turn it back. That's all for me.

Operator:

[Operator Instructions] We have reached the end of the question-and-answer session. This concludes today's conference call. You may now disconnect.