



## THE INDUSTRIAL DISTRIBUTION EXPERTS

*Presented by:*

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**Investor Update**

COVID Discussions: September 11, 2020

(Quarter Ending June 30, 2020)

# FORWARD LOOKING STATEMENTS

This presentation contains forward-looking statements within the meaning of the U.S. federal securities laws that involve risks and uncertainties. Certain statements contained in this report are not purely historical, including statements regarding our expectations, beliefs, intentions or strategies regarding the future that are forward-looking. These statements include statements concerning projected revenues, expenses, gross profit, income, gross margins or other financial items.

All forward-looking statements speak only as of the date of this presentation. You should not place undue reliance on these forward-looking statements. Although we believe our plans, intentions and expectations reflected in or suggested by the forward-looking statements we make in this presentation are reasonable, we may be unable to achieve these plans, intentions or expectations. These cautionary statements qualify all forward-looking statements attributable to us or persons acting on our behalf. Risks and uncertainties that could cause actual results to differ from those in the forward-looking statements are described in “Risk Factors” and “Forward-Looking Statements” in our Quarterly Reports on Form 10-Q and in our Annual Report on Form 10-K as filed with the Securities and Exchange Commission.

## **Statement Regarding use of Non-GAAP Measures:**

The Non-GAAP financial measures contained in this presentation (including, without limitation, EBITDA, Adjusted EBITDA, Free Cash Flow, Return on Invested Capital (ROIC) and variations thereof) are not measures of financial performance calculated in accordance with GAAP and should not be considered as alternatives to net income (loss) or any other performance measure derived in accordance with GAAP or as alternatives to cash flows from operating activities as a measure of our liquidity. They should be viewed in addition to, and not as a substitute for, analysis of our results reported in accordance with GAAP, or as alternative measures of liquidity. Management believes that certain non-GAAP financial measures provide a view to measures similar to those used in evaluating our compliance with certain financial covenants under our credit facilities and provide financial statement users meaningful comparisons between current and prior year period results. They are also used as a metric to determine certain components of performance-based compensation. The adjustments and Adjusted EBITDA are based on currently available information and certain adjustments that we believe are reasonable and are presented as an aid in understanding our operating results. They are not necessarily indicative of future results of operations that may be obtained by the Company.



# MANAGING THE PRESENT, KEEPING OUR EYES ON THE FUTURE - - OPERATING IN A DYNAMIC ENVIRONMENT

*Thoughtfully staying nimble in a tough environment*

## Our Perspective

### Stabilize

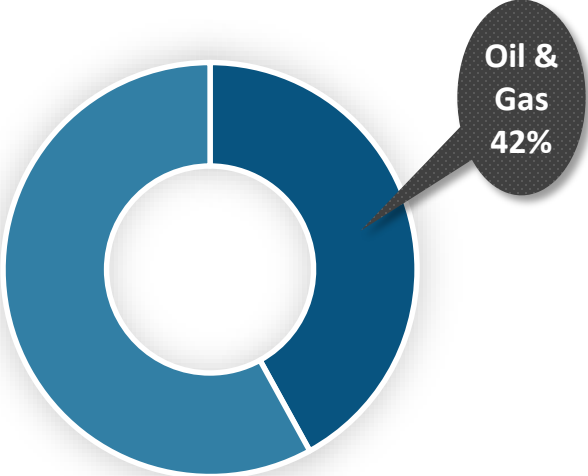
- Stabilize organization
- Liquidity
- Point of view on different scenarios - - weeks, quarter, year and 2 years

### Resilience & Return

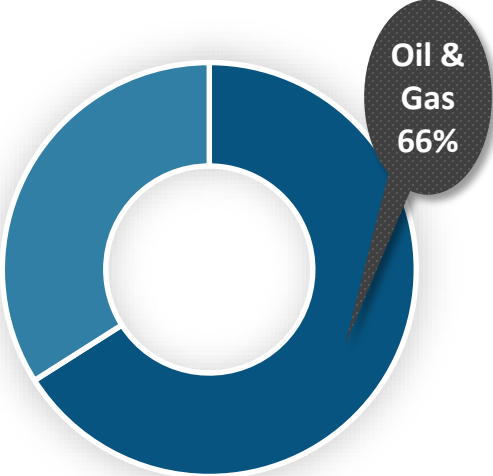
- Immediate action to cut operating costs - - protect growth and sales capacity
- Through cycle review - - reimagine and plan ahead (how has COVID changed the world going forward?)
- Reevaluate capex / investment (priorities / needs in light of COVID) portfolio
- Acquisitions

# END MARKETS HAVE EVOLVED THROUGH THE CYCLES

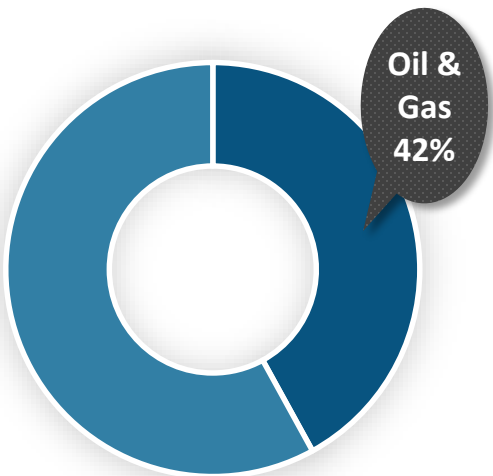
% of sales FY 2008



% of sales FY 2014



% of sales PF FY 2019



Diverse, growing end markets that drive growth in up cycles. . . . .

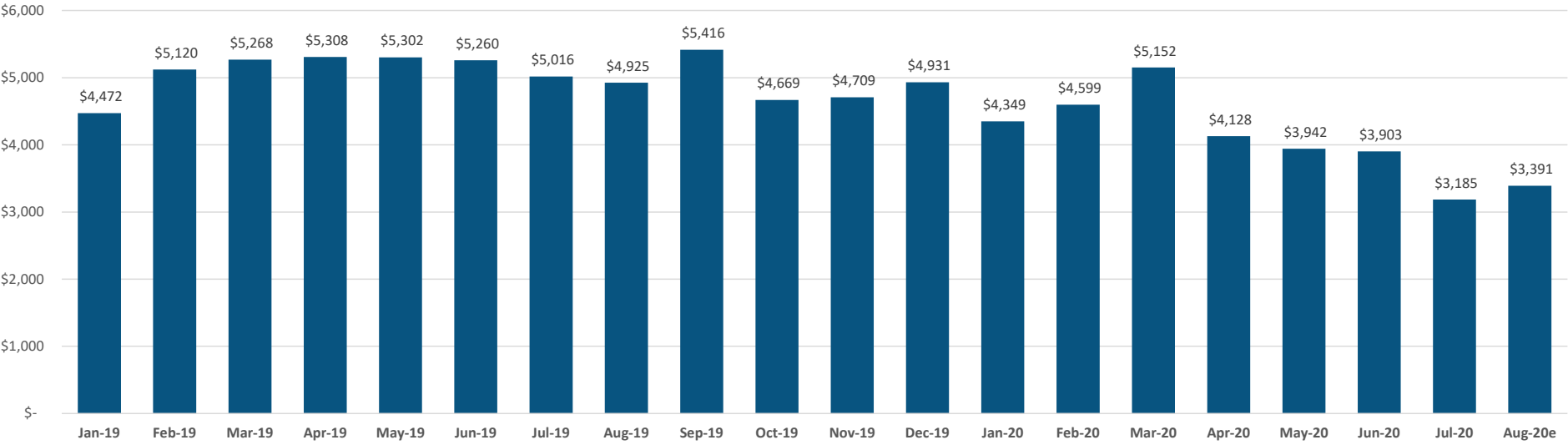
- ✓ *High quality customer base across dynamic industries*
- ✓ *Continued geographic expansion and targeted efforts to further diversification*
- ✓ *Core base in mega trend end markets such as energy, food & beverage and chemical*

Note: Management estimates. Industrial includes aggregates, agriculture, alternative energy, automotive, building products, military, municipal, pharmaceuticals, pulp & paper, sanitary, steel, telecommunications and wood products. 2019 PF for recent acquisitions including Pumping Systems, Inc. and Turbo Machinery

# SALES PER BUSINESS DAY

(\$ thousands)

*DXP average daily sales – Jan. 2019 - present*



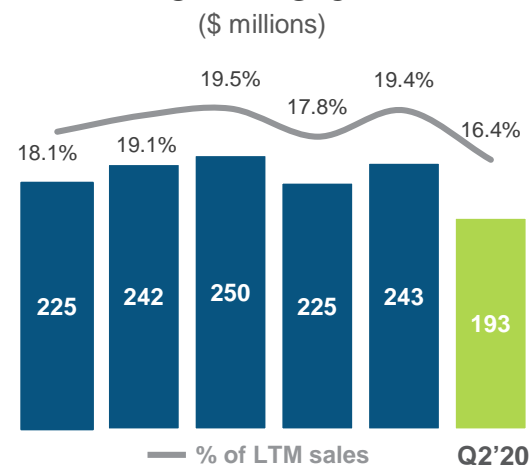
# CASH FLOW & WORKING CAPITAL

	Prior Qtr Mar 31, 2020	Current Qtr Jun 30, 2020
GAAP net income	\$ 5,648	\$ 2,082
Depreciation and amortization	6,025	5,965
Change in net working capital	(13,991)	57,363
Other operating cash flows, net	706	(2,035)
<b>Net Cash provided by operating activities</b>	<b>(1,612)</b>	<b>63,375</b>
Purchase of property & equipment, net	3,235	1,898
Proceeds from sale of assets	-	123
<b>Free Cash Flow</b>	<b>(4,847)</b>	<b>61,600</b>
Net Cash used in financing activities	(742)	(16,391)
<b>Cash at end of the period</b>	<b>32,854</b>	<b>78,769</b>

## Supplemental Information:

Purchase of businesses	14,153	-
Cash paid for income taxes	423	1,268
Cash paid for interest	3,909	3,461
Net Debt	211,020	149,447

## NET WORKING CAPITAL



Net working capital is calculated as accounts receivable plus inventory plus cost & est. profits in excess of billings, plus prepaid expenses less accounts payable less accrued wages less billings in excess of costs and profits less customer advances less other accrued liabilities

Free cash flow is calculated as cash from operations less net purchases of property & equipment

# STRATEGIC FRAMEWORK TO DELIVER SUPERIOR RETURNS TOMORROW . . .



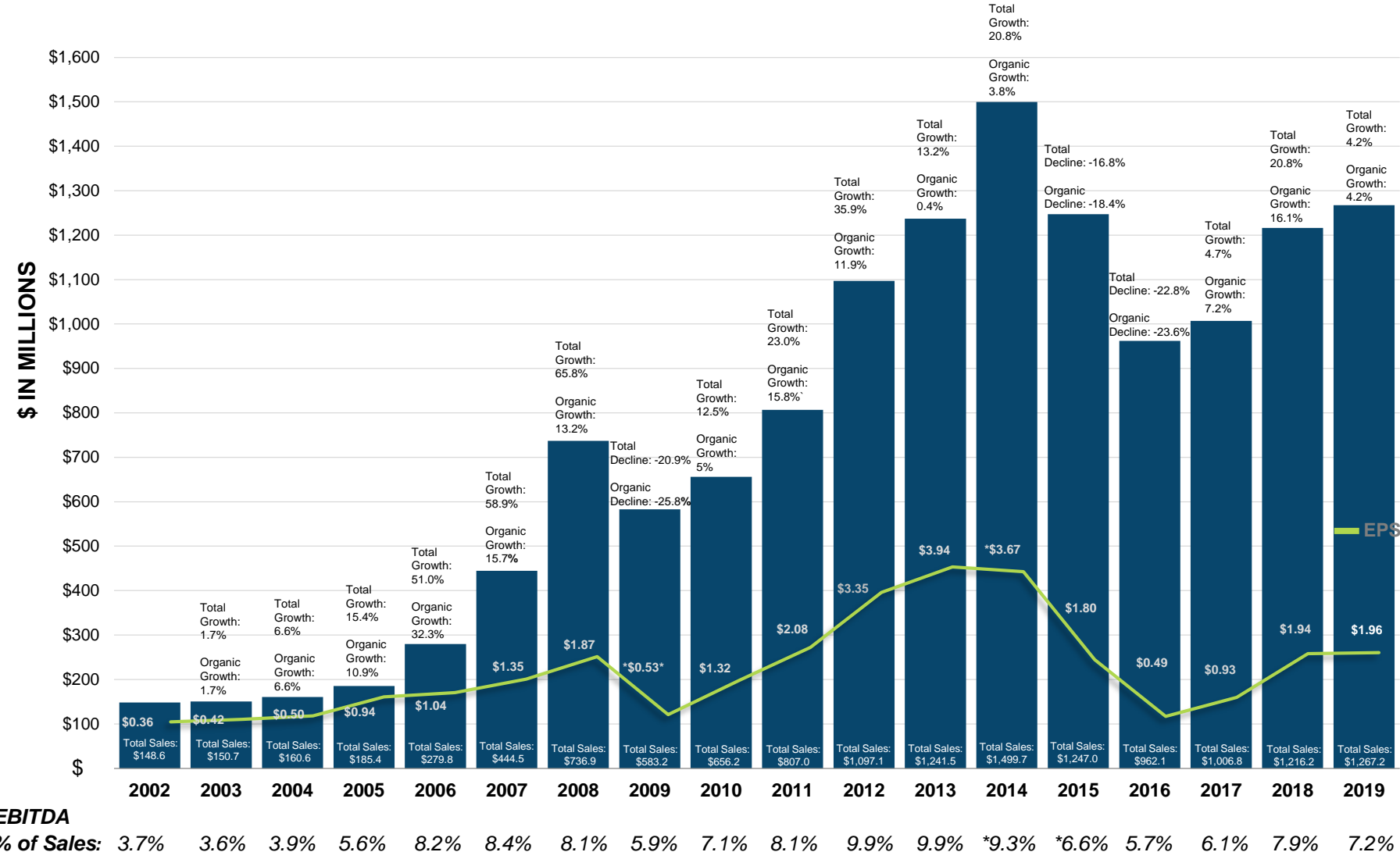
- Making deep and sustainable changes to our business
- Continue to shift mix to a more diversified high value portfolio
- Target markets where our differentiated capabilities create a win-win relationship
- Operational model and emphasis on business excellence to drive higher margins and consistent earnings
- Consistent and disciplined in our capital allocation plans
- Lead and deliver strong quartile financial performance

# APPENDIX

**DXP**



# CONSISTENT REVENUE AND EARNINGS GROWTH



\*EBITDA percentage for 2009 and 2014 excludes impairment charges. EBITDA percentage for 2015 is pre-impairment, pre-B27 working capital settlement and includes a \$1.0 million add-back for above-average legal fees. Diluted earnings per share for 2014 and 2015 excludes non-cash impairment charges and B27 working capital settlement.

# Q2 INCOME STATEMENT HIGHLIGHTS

(\$ thousands)

	Prior Yr June 30, 2019	Prior Qtr March 31, 2020	Current Qtr June 30, 2020
Sales	\$ 333,318	\$ 300,983	\$ 251,401
<i>% growth - yoy</i>	7.1%	-3.3%	-24.6%
<i>% growth - seq</i>	7.1%	1.9%	-16.5%
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Gross Profit	91,987	83,985	69,696
<i>% margin</i>	27.6%	27.9%	27.7%
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Operating Income	22,847	10,915	6,753
<i>% margin</i>	6.9%	3.6%	2.7%
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EBITDA as reported	28,727	17,774	12,585
<i>% margin</i>	8.6%	5.9%	5.0%
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Diluted EPS	\$ 0.73	\$ 0.31	\$ 0.12
Avg. Daily Sales:	\$ 5,291	\$ 4,707	\$ 3,990

# RECONCILIATION OF OPERATING INCOME

(\$ thousands)

	Three Months Ended June 30,	
	2020	2019
Operating income for reportable segments	\$25,635	\$39,042
<i>Adjustments for:</i>		
Amortization of intangibles	3,046	3,803
Corporate expenses	15,836	12,392
<b>Total operating income</b>	<b>6,753</b>	<b>22,847</b>
Interest expense	3,930	4,885
Other expense (income), net	(133)	(185)
<b>Income before income taxes</b>	<b>\$ 2,690</b>	<b>\$17,777</b>

# RECONCILIATION OF NON-GAAP MEASURES: INCOME BEFORE INCOME TAXES TO EBITDA and ADJUSTED EBITDA

(\$ thousands)

The following table is a reconciliation of EBITDA and adjusted EBITDA, non-GAAP financial measures, to income before income taxes, calculated and reported in accordance with U.S. GAAP.

	Three Months Ended June 30,	
	2020	2019
Income before income taxes	\$ 2,690	\$ 17,777
Plus: interest expense	3,930	4,885
Plus: depreciation and amortization	5,965	6,065
<b>EBITDA</b>	<b>\$12,585</b>	<b>\$28,727</b>
Plus: NCI loss (gain) before tax	221	(145)
Plus: Stock compensation expense	983	524
<b>Adjusted EBITDA</b>	<b>\$13,789</b>	<b>\$29,106</b>



**THE INDUSTRIAL DISTRIBUTION EXPERTS**

NASDAQ: DXPE  
SEPTEMBER 2020