



DXP Enterprises, Inc.

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Earnings Call

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Call Participants

EXECUTIVES

David R. Little

*Chairman of the Board, President
& CEO*

Kent Yee

*Senior VP of Corporate
Development, CFO, Principal
Accounting Officer, Secretary &
Director*

ANALYSTS

Thomas Allen Moll

Stephens Inc., Research Division

Presentation

Operator

Ladies and gentlemen, welcome to the DXP Enterprise First Quarter Earnings Results Conference Call. My name is [Glenn] and I will be the operator for today's call.

[Operator Instructions] I will now hand you over to your host, Kent Yee, CFO of DXP Enterprise to begin. Ken, please go ahead.

Kent Yee

Senior VP of Corporate Development, CFO, Principal Accounting Officer, Secretary & Director

Thank you, Glenn, and thank you to everyone joining us this morning.

This is Kent Yee and welcome to DXP's Q1 2023 Conference Call to discuss our results for the first quarter ending March 31, 2023. 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.dxe.com.

With that, I will now turn the call over to David Little, our Chairman and CEO, to provide his thoughts and a summary of our First Quarter performance and financial results. David?

David R. Little

Chairman of the Board, President & CEO

Good morning, and thank you, Kent, and thanks to everyone for joining us today on our Fiscal 2023 First Quarter Conference Call.

We are off to a great start in 2023. Our first quarter of 2023 is the highest quarter in the company's history, and I am pleased to report such strong results, which provided us with a strong start to the year and a foundation to build on from here.

That said, we started 2023 focused on what matters most, providing our customers with the products and services they need through exceptional service. We remain highly focused on providing the expertise that our customers have come to expect from DXP and finding ways to find them, help them manage their inventory reduce costs, achieve their ESG objectives and successfully run their operations.

Many customers, especially those in the industrial, energy and utility space continue to see solid end market demand for their products. However, we do see that those that are close to the consumer-facing industry heading into a slower demand cycle as the world attempts to understand the ripple effects of the increased risks associated with the banking sector. Regardless of uncertainty, around economic environment, DXP remains committed to our overall focus of helping customer-driven experts to keep their operations running and their people safe. This consistent approach has fueled our financial results.

First quarter adjusted EBITDA of \$43.1 million and diluted earnings per share of \$0.95 was supported by year-over-year sales growth of 32.8% thanks to the efforts of all our DXPeople across the company. We continue to build on the positive momentum we experienced in fiscal 2022. Driving further operational improvements while performing for our customers. I personally want to thank all our DXP stakeholders, and particularly all our DXPeople for their determination, hard work and grid as we continue to grow and

improve the business and achieve new sales highs for our business. We are encouraged by our results and remain focused on growing our business organically and inorganically in the fiscal year 2023.

I will begin today with some perspective on our first quarter and thoughts on the remainder of 2023. Kent will then take you through the key financial details after my remarks. And after his prepared comments, we will open for Q&A.

Overall, we had a great first quarter. The highlights good execution and the numbers, continue positive trends towards DXP, including growth organic growth, in most of our markets, plus growth in new markets such as biofuels, carbon capture, air and water and wastewater. As we experienced inorganic growth by continued execution of our acquisition strategy to accelerate our end market diversification efforts. We are seeing gradual increases in oil and gas, CAPEX budgets. That said, we are building a more resilient, diversified business that can generate solid performance in uncertain markets. And as we discussed last year, we believe you are seeing and continue to see evidence of these efforts in Q1.

The DXP's broad-based industrial end markets, which is 70% of our business today appears to show some deceleration in growth but remains above economic contraction, primarily due to price increases and in DXP's case, continued growth and demand or market share gains. The ISM PMI manufacturing index, which gives us an indication of how DXP's broad industrial markets will perform, move from a 47.4% reading in January 2; 46.3% reading in March. This trend is technically in contraction territory, falling below the 50% reading. However, we believe in today's inflationary environment, this slight contraction is currently being offset by price increases still moving through the supply chain and in DXP's case, continued growth in demand in line with expected historical industry growth.

For the last 12 months, the ISM still averaged 50.1%, which continues to make sense as we achieved another great quarter. We will continue to monitor as we move through 2023 and anticipate lower gains year-over-year as we move into the second half of 2023. These end markets, including food and beverage, chemicals, biofuels, transportation, municipals, manufacturing, general industry should serve us well. As April posted a reading of 47.1% or the first move upwards since falling below 50% in November. Oil and gas, which is the remaining 30% of DXP has shown consistent demand and strength through 2022 and in the early parts of 2023. In the geopolitical circumstances and the overall relative strength in price, a majority of our business that is oil and gas tends to lag increases in the rig count and is tied closer to actual production or increases in capital budgets.

That said, the overall rig count is showing a 6% increase from a year ago, and we will continue to participate in the late upstream and related production activity. We continue to experience a pickup in organic sales activity in Q1, which reflects the increase in backlog we continue to see. The pickup is consistent with commentary around U.S. majors and small exploration and production companies increasing their CapEx budgets.

Again, let me thank all our DXP stakeholders, in particular, all our DXPeople for their continued efforts and adaptability as we grow and evolve DXP into a more diversified and less cyclical business. With regard to the broader demand, underlying trends remaining consistent with the fourth quarter, trends were the strongest in March. As is typical with our sales per day going from \$5.7 million per day in January to \$7.9 million per day in March. We believe this continues to reflect impacts from price increases from our suppliers, although at a more moderate pace. Typically, inflation is good for distribution, assuming we can pass along price increases.

Total DXP sales for Q1 increased 4.4% sequentially and 33% year-over-year or were \$424.3 million or an average of \$6.6 million per business day for the first quarter. Thank you to the 2,694 DX people for your hard work and dedication. In terms of Q1's financial results, Supply Chain Services led the way growing 41% year-over-year, followed by service centers growing 35% and the innovative [Publig] Solutions growing 14% year-over-year in terms of sales growth. Supply Chain Services. SCS is having a great start to the year with increased organic growth, primarily due to the addition of a large diversified chemical customer that we began discussing Q2 of last year.

As we move into Q2, we will look for new customer additions as well as continued management procurement products and managing inflation. Demand for SCS services is increasing because of the

proven technology and efficiency they perform for all of their industrial customers. SC, our service centers keeps essential customers running with MROP, which is maintenance, repair and operating production products and services necessary for the customer to stay in business. SCS bookings Backlog revenue continues to grow at a steady pace and benefited in Q1 from the addition from all of our acquisitions going back to 2022 through the addition of Cisco in May of last year.

In terms of IPS, Innovative Pumping Solutions, our Q1 average IPS backlog continues to stay ahead of the fiscal 2022 average, which meaningful bookings month that -- meaningful bookings month at the end of the quarter. As we maintain growth, our main focus within IPS is managing the demand level we have today. Finding opportunities in other markets such as biofuels, fume beverage, water and wastewater and pricing appropriately given the supply chain dynamics and the ebbs and flows of inflation. DXP's overall gross profit margins for the quarter were 29.5% and a 209 basis point improvement over Q4, which in Q4 included some year-end noise associated with closing out the year and focused improvements on inventory management.

As special thanks to our DX people, you have stayed on top of supplier product increases and labor costs and overall efficiencies. Overall, DXP produced EBITDA of \$43.1 million, EBITDA as a percent of sales was 10.2%, which reflects the operating leverage we expect to get with significant sales growth. Regarding capital allocation, we continue to make strategic investments to fuel growth and diversify DXP through positions, while opportunistically repurchasing shares. The balance -- by balancing these 2 approaches are pursuing both, we are driving long-term value for our shareholders. We're continuing to return value to our shareholders through our \$85 million share repurchase program. And during the quarter, we purchased 339,000 shares amounting to \$9.1 million.

Let me conclude my remarks by saying that I am encouraged with our continued sequential improvement in sales and profitability. However, the ongoing complexity and the economic outlook is certainly something we will keep our eyes on. But whatever the future holds, I believe DXP is well positioned. We continue to make progress on our growth strategy our commitments to customers is stronger than ever. We are driving growth and improvements at DXP, and we look forward to navigating and working through fiscal 2023.

Finally, I would like to thank our DXPeople for achieving our goal of 10, 10 and 10, a great quarter and a positive start to the beginning of 2023. And with that, I will now turn it back over to Kent to review the financials in more detail.

Kent Yee

Senior VP of Corporate Development, CFO, Principal Accounting Officer, Secretary & Director

Thank you, David, and thank you to everyone for joining us for our review of our First Quarter 2023 Financial Results.

Q1 financial performance reflects our tenth quarter of sequential sales increases and a record high sales watermark for DXP. DXP continues to successfully navigate through the market and has been able to execute and create value for all our stakeholders. I'm excited to report that our Q1 2023 financial performance is the highest performing sales and EBITDA quarter in the company's history. While a notable milestone, we look forward to continuing to strive to meet new sales and profitability goals and build DXP organically and through acquisitions while increasing margins, cash flow and returns.

We have been successful in transforming and diversifying DXP, but we still have progress to make. We have been successful in navigating COVID in the subsequent related supply chain and inflation pressures. We have been successful in building DXP into becoming the best solution for the industrial customer needs, and we will be successful in continuing to grow sales and earnings and becoming a distributor dedicated to the highest quality of customer service through product and service expertise. As it pertains to our first quarter, DXP's first quarter financial results reflect a combination of business actions we have undertaken. More specifically, Q1 takeaways are as follows: continued strong organic sales growth and contribution from acquisitions, continued impacts from inflation and price increases compared to a year ago, record service center performance marked by gross margin strength and stability, strong sales increases within Supply Chain Services, driven by the addition of a large diversified chemical customer

compared to a year ago, continued strength within IPS with a positive outlook in terms of our backlog and consistent operating leverage leading to sustained adjusted EBITDA margins.

Total sales for the first quarter increased 32.8% year-over-year and 4.4% sequentially to a record \$424.3 million. Acquisitions that have been with DXP for less than a year contributed \$9.3 million sales during the quarter. Average daily sales for the first quarter were \$6.6 million per day versus \$6.5 million per day in Q4 2022 and \$5 million per day in Q1 2022. Adjusting for acquisitions, average daily sales were \$6.5 million per day for the first quarter. That said, the average daily sales trends during the quarter went from \$5.7 million per day in January to \$7.9 million per day in March, reflecting a typical quarter end push as we closed out the first quarter.

In terms of our business segments, Supply Chain Services grew 41% year-over-year. This was followed by service centers growing 34.9% year-over-year. Excluding acquisitions, Service Centers grew 32.2% or sales increased \$76.4 million. This was followed by Innovative Pumping Solutions growing sales 16.8% year-over-year. Excluding acquisitions, sales within Innovative Pumping Solutions, sales increased 10.6% or sales increased \$5.6 million. In terms of our service centers, Regions within our Service Center business segment, which experienced notable sales growth year-over-year, they include the South Central, California, North Texas, Texas Gulf Coast and the Ohio River Valley region.

Key products and end markets driving the sales performance include air compressors, rotating equipment, and water and wastewater, food and beverage, mining, municipal, air, transportation and specialty chemicals. Supply Chain Services performance primarily reflects the impact of the addition of a large diversified chemical customer that we added in Q2 of last year and has been ramping through Q1 of this year. This customer contributed \$16.5 million in sales during the quarter. Other notable gains from an end market perspective within Supply Chain Services includes growth within our energy and food and beverage customers compared to a year ago. In terms of Innovative Pumping Solutions, we continue to experience increases in the energy-related backlog.

Our Q1 energy-related average backlog grew 1.5% over our Q4 average backlog and continues to be ahead of our 2016 and 2017 average backlog on but is still down 7.5% from the 2015 average backlog. The conclusion continues to remain that we are trending meaningfully above 2016 and 2017 levels and we are moving towards 2015 levels based upon where our backlog stands today. We have been experiencing strong organic sales within Innovative Pumping Solutions, and we expect that to continue throughout 2023. We are also continuing to find opportunities in other markets, including biofuels, hydrogen, carbon capture and sequestration, versus our traditional oil and gas but expect energy to continue to contribute meaningfully.

Turning to our gross margins. DXP's total gross margins were 29.5%, a 24 basis point decline over 2022. This decline is attributed to lower margins within Supply Chain Services on a year-over-year comparative basis. That said, from a segment mix sales contribution, service centers contributed 69.6%, Supply Chain Services 15.8% and Innovative Pumping Solutions was 14.6%, closer to our long-term averages. In terms of operating income, combined, all 3 business segments increased 164 basis points year-over-year business segment operating income margins were \$19.6 million versus 2022. This was primarily driven by improvements in operating income margins within Service Centers and IPS, the improvement in service centers reflects the impact of acquisitions at a higher relative operating income margin.

Total DXP operating income increased 159 basis points versus 2022 to \$35.4 million. Our SG&A for the quarter increased \$16.3 million from 2022 to \$89.6 million. The increase reflects the growth in the business and associated incentive compensation as well as DXP investing in its people through merit and pay raises that we discussed in Q3 and our related Q4 commentary. Additionally, it reflects seasonal items that typically happen during the first quarter. SG&A as a percentage of sales decreased 183 basis points year-over-year to 21.3% of sales, reflecting the leverage inherent in the business that we mentioned earlier, despite increased operating dollars supporting our growth cost inflation and impact of acquisitions.

Turning to EBITDA. Q1 2023 adjusted EBITDA was a record \$43.1 million. Adjusted EBITDA margins were 10.2%. Year-over-year EBITDA margins increased 131 basis points or \$14.9 million. This reflects the fixed cost SG&A leverage we experienced as we grow sales. This translated into 1.6x operating leverage. In terms of our EPS, our net income for Q1 was \$17.5 million. Our earnings per diluted share for Q1 '23

was \$0.95 per share versus \$0.65 per share last year. Of note, we returned \$9.1 million to shareholders through share repurchases during Q1. We have continued to take advantage of our valuation lagging our financials performance and will continue in this fashion should the market continue to undervalue DXP.

Turning to the balance sheet and cash flow. In terms of our working capital, our working capital increased \$6.5 million, excuse me, from December to \$283.6 million. As a percentage of sales, this amounted 18.1%. As discussed during the last year, we are still at a point where we are in line with our historical averages or range in terms of investing in working capital. But as discussed in Q3, this has begun to move off our Q3 2022 high of 19.9% of LTM sales as we have onboarded some of our recent acquisitions for a full 12 months.

In terms of cash, we have \$58.3 million in cash on the balance sheet as of March 31. This is an increase of \$12.3 million compared to the end of Q4 and reflects free cash flow production along with raising the incremental \$105 million in term loan B borrowings in November. In terms of CapEx, CapEx in the first quarter was \$3.8 million or an increase of \$2.3 million compared to Q4 2022 and 77% of our total CapEx in fiscal 2022. Last year, we communicated that we would expect CapEx to pick up in 2023, and this has begun as we make investments in our facilities and operations for our employees. As we move forward, we will continue to invest in the business as we focus on growth.

Turning to free cash flow. Free cash flow for the first quarter was \$22.6 million. This primarily reflects improvements in profitability along with the reduction in receivable days. That said, while we continue to make improvements in our free cash flow when we are growing, DXP makes significant investments in inventory and project work throughout the year. Return on invested capital, or ROIC, at the end of the first quarter was 29.7%, and should continue to improve as we drive margins and operating leverage and improve our run rate EBITDA. As of March 31, our fixed charge coverage ratio was 3.2:1, and our secured leverage ratio was 2.5:1, with a covenant EBITDA for the last 12 months of \$146.4 million.

Total debt outstanding on March 31 was \$427 million. In terms of liquidity, as of the quarter, we were undrawn our ABL with \$2.6 million in letters of credit with \$132.4 million of availability and liquidity of \$191 million, including \$58.3 million in cash. In terms of acquisitions, we closed on 2 acquisitions subsequent to the quarter close, [Reden] Materials Corporation and Florida Valve and equipment. We look forward to them reporting with us for the second quarter of 2023. Both provide DXP with leading platforms within the municipal industrial water and wastewater industries. Welcome to DXP Redin Florida Valve and equipment. DXP's acquisition pipeline continues to grow and the market continues to present compelling opportunities. While the backdrop may seem challenging, we are finding that there are no shortage of opportunities and sellers are reasonable when it comes to valuation.

Our acquisition strategy has created significant value for DXP, enhancing our end markets, margins and DXP's cash flow profile. Looking forward, we expect this to continue through 2023. Regarding capital allocation, our primary goal is to continue to invest in our business, including the execution of our acquisition strategy. We are also committed to maintaining a conservative balance sheet as demonstrated by a target leverage ratio of 3.5x or less. To the extent we have excess capital after achieving these objectives, the share repurchase program will provide us the mechanism to return capital to our shareholders. During the quarter, as previously mentioned, we repurchased \$9.1 million or 339,000 shares of DXP stock.

We continue to believe that we are undervalued and that our valuation is lagging our financial results and [dose] performance. As we continue to have sequential growth, we outperformed the market, delivering impressive sales growth and margin strength while achieving record sales and EBITDA results, all while deleveraging the balance sheet. Our resilient and critical MRO and supply chain solutions, combined with our project capabilities and exposure to the sustainable secular trends, including water and wastewater and various sustainable energy markets will drive our future sales and profitability. We are excited because there is still substantial value embedded in DXP. We look forward with great confidence to the future of sustained growth and market outperformance.

I will now turn the call over for questions.

Question and Answer

Operator

[Operator Instructions] We have our first question comes from Tommy Moll from Stephens.

Thomas Allen Moll

Stephens Inc., Research Division

I wanted to start off on revenue or daily sales really. You ended the quarter pretty strong at \$7.9 million, if I heard you correctly, in March. And I think some of that was seasonal. There may have been some pricing increase there, too. Any context you could give on that exit rate would be helpful. And then do you have any visibility yet into how April was pacing?

Kent Yee

Senior VP of Corporate Development, CFO, Principal Accounting Officer, Secretary & Director

Yes. And unfortunately, I don't have any visibility into April at this point, but I can give you the trend really from -- I'll bring it forward from September last year. And then David and I can provide just some macro comments, but the actual initial flash of April, I don't quite have at this point.

But September was \$6.8 million per day. October \$5.9 million; November, \$6.2 million; December \$7.3 million; January \$5.7 million; February \$6.2 million. And then March, \$7.9. So you can see the trend in the macro is continuing to grow month over month. That said, I guess the big picture comments that I would provide is as we move into the second quarter and really kind of get deeply in the second half of the second quarter and into the third quarter, just by definition, the comps will get a little bit tougher just because that's when we picked up last year.

That said, hey, the business is performing, Price increases are still coming through. As David said in his comments and my comments, they're much more moderated at this point than they were this time last year.

Thomas Allen Moll

Stephens Inc., Research Division

Is there any just general rules of thumb you could provide even directionally just the typical seasonality, March to April, April, May, May to June, even qualitatively, is there anything you could do to frame what a typical cadence might look like?

Kent Yee

Senior VP of Corporate Development, CFO, Principal Accounting Officer, Secretary & Director

Obviously, you're going into the summer months. So the real -- you have less holidays just in terms of actual business days between April, I'll call it, in June 30. But then as you go into Q3, you start having July 4 on the holidays, if that kind of helps directionally. So the second quarter tends to be a full set of business days, I guess, is my point.

And so we would expect our second quarter from a context standpoint, big picture tends to be always a pretty consistently strong quarter. But those have been my comments, David, I don't know if you have any.

David R. Little

Chairman of the Board, President & CEO

Well, as we know, Canada goes through a deep thawing every year. So that's happens normally at the first of the year here. And then it builds from there. Then I would say, in general, just the number of days in the month because both supply chain services is just a daily transactional type business. And then our service centers, which sell everything we do, but still a good portion of what they do is just maintenance repair and operating day-to-day transaction.

So really from there, it's just the number of days and minus the number of holidays and things like that. So I don't think there's much seasonality in general besides maybe Canada which is not a big portion of what we do.

Thomas Allen Moll

Stephens Inc., Research Division

I'm just looking at the history back to the last few years, and it does look like pretty consistently, if you just think about consolidated revenue in the second quarter pretty consistently trends above first quarter, and maybe some of that is, to your point, David, just the number of selling days, maybe seasonality, but is that a fair characterization would you say?

David R. Little

Chairman of the Board, President & CEO

Yes, I don't really think we have much seasonality besides Canada.

Kent Yee

Senior VP of Corporate Development, CFO, Principal Accounting Officer, Secretary & Director

Tom, and just to give some more quantitative comments. April last year was \$5.5 million per day. May was \$5.4 million in 2022. So if you just look at our average daily sales of where we've been, obviously, for Q4 and Q1, where all things being equal, obviously, we're still running significantly ahead of that Q4. Once again, at \$6.5 for average Q4 and then obviously here, Q1 \$6.6 million, \$6.7 million. So....

Thomas Allen Moll

Stephens Inc., Research Division

And if my notes are correct, it looks like last March was 5.8%. Is that right, Kent? Or if you don't have it in for any, we can circle back.

Kent Yee

Senior VP of Corporate Development, CFO, Principal Accounting Officer, Secretary & Director

5.9%, if you round out.

Thomas Allen Moll

Stephens Inc., Research Division

You mentioned the large chemical customer, which has been in focus for some time now. I think it was \$16.5 million in the quarter, and you've scaled pretty quickly there. Is there any context you can give us just in terms of where you are in that ramp? Is it -- have you kind of achieved a run rate with that particular customer? Or would you say you're still in a scaling phase? Is this specific to a project or a series of projects that ultimately kind of roll off or just anything you can do to help us with the costs of that relationship would.

David R. Little

Chairman of the Board, President & CEO

Yes, sure. The customer has multiple locations and it's a big project. In terms of integrating our systems and putting our people in and running -- it has to do with supply chain services. So we're taking over their purchasing and inventory management and et cetera. So as what takes time is just to implement each location. So we may be able to do 2 or 3 at the same time, but we can't do [8] or however, many. So the implementation process takes time to -- so we're not really seeing full revenue generation until all the sites are implemented.

That said, I think by the end of the second quarter, we should be there. So we're starting to -- the increases are not as substantial going forward. And ultimately, we kind of get there. And then our job really is to reduce their spend, not to increase it. So we -- unfortunately do a good job of that. But -- so then it kind of trends down, I guess. So you got to find another big deal.

Thomas Allen Moll

Stephens Inc., Research Division

Moving to profitability, the double-digit EBITDA margin in the quarter. I'm not sure if that margin rate was a record, but probably close to it. As you move.

David R. Little

Chairman of the Board, President & CEO

I had 11, I had 11 11.

Thomas Allen Moll

Stephens Inc., Research Division

So we're headed there.

David R. Little

Chairman of the Board, President & CEO

Yes, . I guess you probably -- you haven't asked yet, but what -- do you remember what our 10,10 and 10 is I'll answer the question. I'm not trying to be unfair, but it's 10% organic growth, 10% EBITDA and 10% inorganic. And so we're really all over that. And so that's -- so we're happy with that. We're happy with 10%.

Thomas Allen Moll

Stephens Inc., Research Division

I'm just thinking as you move forward from here. Was there anything in particular of 1 quarter that was maybe a favorable or an unfavorable item worth calling out or if there's not, then is it a reasonable assumption that you can continue to step up from here provided the business continues to grow.

David R. Little

Chairman of the Board, President & CEO

Yes, I want to answer this because I think we go back to -- we've got new auditors, real professional auditors in terms of price, PwC. We have we had a little bit of cleanup to do in the fourth quarter of 2022. And so our margins were not reflective of what we typically do on a day-to-day basis because of a few years of cleanup. And so I think that's understated margins in the fourth quarter, so don't read too much into that.

And then the first quarter, our goal hit 10% EBITDA and to pay our people well, is go hand in hand and to get there, we've got to be pretty close to 30% gross profit margin. So 30% is kind of always our target. We hit 29.5%, and I feel really, really good about that. And I don't really see any reason for that not to be there. I mean what can swing that a little bit is our Innovative Pumping Solutions, those capital projects. If they are really, really big. And then we have some added costs, we didn't foresee or something like that. Some of those margins can bring down. So the mix can get us a bit, but not -- it should be all over.

Thomas Allen Moll

Stephens Inc., Research Division

In terms of the cash flow for the quarter, I'm just looking back historically, and there may be a 1Q somewhere there where you did more than 20 plus million of free cash flow, but it's been a while, certainly. So if you think about the working capital dynamics this year, is there anything squirrely where moving forward, there's maybe a notable investment -- incremental investment in working capital or release? Or just anything you could point to there would be helpful.

Kent Yee

Senior VP of Corporate Development, CFO, Principal Accounting Officer, Secretary & Director

Yes. So a couple of comments there, Tommy, just about free cash flow. Obviously, the increased earnings kind of contributed to some of that \$22 million of free cash flow. Additionally, we did during the quarter, have a notable reduction in our DSO days that worked to our favor in the magnitude of \$9 million or so.

The things that kind of -- not necessarily headwinds, but the things where we're investing in the business, where we're different than other distributors as we have the project or capital side of our business, right? And that's on the energy side. and even here more recently also on our water and wastewater side. So if we get a big capital project win point being is we're going to invest in that, right? And hopefully, from David and I's perspective, it's at the right margin in those things, and we're not putting ourselves into a position where we're a bank too much.

But because those capital projects have certain time gestation to them, right? Some of them are a project that could be going on for 6 months, 9 months, 12 months, et cetera. So -- those are the things we can't anticipate because we're always encouraging our sales guys and our folks to get those wins. But -- and those require working capital investments. But all things being equal, if we're growing at what I'll call a reasonable or sustainable growth rate, we're a distributor net at the end of the day. And so we're going to produce free cash flow, right?

I think last year, what people saw is we were ramping up on the project side, both the energy and the water, wastewater, and we are making those investments in some of that. And some of those projects are shipping and delivering and we're collecting on those. And so some of that's what you see here towards the back end of last year and here in the first quarter. And so that's really the swing in our free cash flow.

David R. Little

Chairman of the Board, President & CEO

So Tommy, I look at 4 things just from my own perspective. I look at working capital. So I look at what -- we grew the business 30%. And so what did receivables do and so do we have to make an investment in receivables. From year-end to the first quarter, we didn't. I mean, like Kent said, our collection days were really good. Then I look at inventory. And so that was up a little bit, but basically pretty flat.

And then that cost in excess of billings, that's the project stuff. That's the stuff where we've incurred cost but the customer is not paying for it. And we try to manage that we can. We try to get progress billings payments on that. And so we'll see that number jumped up. And of course, that's a good thing. And since we'll have these projects, et cetera, but they require some working capital. And then the last is just CapEx, just equipment type CapEx, which was really normally very, very small for us.

Thomas Allen Moll

Stephens Inc., Research Division

Last question for me on capital allocation. talked to a robust M&A pipeline and then also touched on the repurchase authorization. And the 2, not necessarily being mutually exclusive. I'm just curious for any additional context you can provide there on how hard you think you might lean in on M&A this year or if there's any chunky deals in the pipeline? And then also just on the repurchase side, just what's the current state of thinking on that front?

Kent Yee

Senior VP of Corporate Development, CFO, Principal Accounting Officer, Secretary & Director

And I'll jump in on the acquisitions and then David may add some comments on the broader share repurchase. But from an acquisition standpoint, we still have a full pipeline, as I suggested. Obviously, here more recently, everyone could pick up on that. We've done more water and wastewater and the average transaction size there has been a little bit smaller than our historical average of around \$25 million to \$35 million in revenue.

So we see that continuing, if you will, over the short to medium term here in 2023. There still continues to be opportunities. We like water, wastewater, obviously, and we're able to get them at reasonable valuations. And so -- we'll continue to do that. Obviously, and then I'll hand it over to David, we juxtapose

that. We don't tend to think of them as mutually exclusive as you said, Tommy. And so we are aware of our valuation out there in the public markets in conjunction with that acquisition program.

And so we firmly believe that the market continues to devalue DXP versus value it properly given our results and our performance and our efforts. And so both David and the Board feel it's more than appropriate to kind of take advantage of those opportunities.

David R. Little

Chairman of the Board, President & CEO

Yes, I think that our acquisition program and the valuations have come down in terms of what we're [indiscernible]. And so that makes that piece pretty attractive -- and so that's -- and we're trying to grow the business, and we're trying to create value. And then the other question, though, is if we can buy DXP back for the shareholders and that at an attractive value, then we're going to do that also.

Operator

[Operator Instructions]We have no further questions on the line. Ladies and gentlemen, this concludes today's call. Thank you for joining. You may now disconnect your lines.

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