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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, Secretary & Director

ANALYSTS

Thomas Allen Moll
Stephens Inc., Research Division

Presentation

Operator

Thank you for standing by. My name is Novi, and I will be your conference operator today. At this time, I would like to welcome everyone to the DXP Enterprises, Inc. Third Quarter 2024 Earnings Release and Conference Call. [Operator Instructions].

I would now like to turn the call over to Kent Yee, Chief Financial Officer. Please go ahead.

Kent Yee
Senior VP of Corporate Development, CFO, Secretary & Director

Thank you, Novi, and thank you, everyone. This is Kent Yee, and welcome to DXP's Q3 2024 Conference Call to discuss our results for the third quarter ending September 30, 2024. 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 third quarter performance and financial results. David?

David R. Little
Chairman of the Board, President & CEO

Thanks, Kent, and thanks to everyone on our 2024 third quarter conference call. Kent will take you through the key financial details after my remarks. And after our prepared comments, we will open for Q&A.

It is my privilege to share DXP's third quarter results with you on behalf of over 2,989 DXPeople. Congratulations to all our stakeholders and a special thank to you and our DXPeople you can trust.

We are pleased to see end market demand and DXP's performance continue through Q3. We remain at record levels as we move into the last quarter of 2024. This allows us to achieve another quarter of both solid sales growth and 10% plus EBITDA margins. We are pleased to announce strong third quarter results with sales, operating income and earnings per share all up over the prior year. This is a great way to start the second half of fiscal 2024.

We remain focused on serving our customers and providing products and services that help them save money, consolidate their MRO spend, manage inventory and provide solutions to solve their revolving needs.

Being customer-driven and growing sales profitably is our goal. We continue to focus on driving organic and acquisition growth, increasing gross profit margins and increasing productivity. Our execution has resulted in fiscal 2023 and 2024 top line and bottom line growth, both organically and through acquisitions. That said, our growth strategies are working, and our acquisition pipeline should add to our results as we close out fiscal 2024 and going into fiscal 2025.

We continue to be excited about the future and delivering a differentiated customer experience, creating an engaging winning culture for DXP, and investing in our business to strengthen our core capabilities and drive long-term growth. Year-to-date through September 30, total sales were up 4.7% and adjusted

EBITDA is up 6.5%. Last 12 month sales and adjusted EBITDA were $1.74 billion and $183 million, respectively, with adjusted EBITDA margins of 10.5%.

Moving to our third quarter, total DXP revenue of $47.9 million for the third quarter of 2024 was a 12.8% increase year-over-year with adjusted EBITDA of $52.4 million for the third quarter.

In terms of Q3 financial results, Innovative Pumping Solutions led the way, growing sales 52.3% year-over-year to $89.8 million, following by service centers growing sales 7.6% year-over-year to $316.8 million and Supply Chain Services flat or growing 0.7% year-over-year to $66.2 million.

In terms of IPS, our Innovative Pumping Solutions, we have 2 broad markets tied to capital budgets and/or project work. DXP's heritage energy-related project work and DXP Water. Year-to-date, DXP's Water is 45% of IPS sales versus last year at this time, it was 31%. As we have grown our DXP Water platform, we have increased both gross margins and operating income margins for the segment and for DXP.

Our energy-related bookings and backlog continues to show resilience and perform above our long-term averages, albeit not at all-time highs. Additionally, our year-to-date average remains above our long-term average energy IPS backlog going back to 2015, which we mentioned first occurred in Q1 of this year. What this indicates is that we are continuing to get bookings, and we feel good at this point in the cycle on the energy and water and wastewater-related project work. We look forward to seeing how this impacts our results and project revenue in both energy and water and wastewater as we move through 2024 and into 2025.

We have booked a few large projects in both energy and water that should start recognizing revenue starting in Q1 or Q2 of next year. That said, as we maintain growth, DXP's focus within IPS will be to continue to manage the demand levels we have, finding opportunities in all markets such as energy, biofuels, food and beverage and water and wastewater and manage pricing and delivery while improving and maintaining margins.

In terms of Service Centers, the diversity of end markets, multiple product division approach and our MRO nature within service centers allows us to continue to remain resilient and continue to experience consistent top line year-over-year growth.

From a regional perspective, regions that experienced year-over-year growth included North Central, North Texas, South Rockies, Southwest and our Canadian rotating equipment business. We continue to expect our end markets will remain constructive over the near future. We have all seen strength -- we have also seeing strength in our U.S. Safety Services division and Metalworking Products division, which is great to see.

Supply Chain Services sales have continued to align with performance trends observed in the second half of 2023. Historically, the later half of the year is impacted by holiday season and there being fewer billing days. However, Supply Chain Services is anticipating an increase in new accounts implemented in Q4 of 2024 and Q1 of 2025. SCS has also invested in a customer care model, allowing customers to utilize DXP's remote technology within the need for full -- without the need of full-time on-site presence. This model enables DXP to extend Supply Chain Services technology to accounts with smaller sites and expand the business relationship.

SCS remains committed to expanding our industrial customer base through enhanced marketing and lead generation tools. As we go into fiscal 2025, we will focus on extending DXP's service and repair offering for rotating equipment and safety services to our existing customers, leveraging the broader DXP capability. We anticipate this could happen in early 2025.

Demand for Supply Chain Services, services is increasing because of proven technology and efficiency they perform for all of their industrial customers.

DXP's overall gross profit margins for the third quarter were 30.9%, a 94 basis point improvement over 2023. Overall, I'm pleased with our gross margins and our steady improvement over the last 7 quarters. SG&A for the third quarter increased $16.8 million versus Q3 of 2023. SG&A, as a percent of sales increased going from 21.4% in Q3 of '23 to 22.5% in Q3 of '24. SG&A continues to reflect our investment in our people and our growth strategies, along with improvements in technology and processes to gain future efficiencies.

As always, it is my privilege to share DXP's financial results on behalf of our DXPeople. DXP's overall operating income margin was 8.4% or $39.6 million, which includes corporate expense and amortization. This reflects an 18 basis point decline in margin versus Q3 of 2023. We still feel there is opportunity in our operations to be more efficient, and we have chosen to invest in the business via people and our operations as we have been focused on growth.

Service Centers operating income margins were 14.6%. IPS' operating income margins were 20.3%. And Supply Chain Services operating income margins were 8.4%. Overall, DXP produced adjusted EBITDA of $52.4 million in the third quarter of 2024 versus $44 million in the same period of 2023. This turned into a year-over-year increase of $8.4 million or 19.1%. Adjusted EBITDA as a percent of sales was 11.1%, up 59 basis points versus Q3 of '23 and up 27 basis points versus Q2 of 2024.

I am pleased by our performance in the third quarter. DXP continues to make great efforts and adapt as we grow and evolve DXP in a more diversified and less cyclical business, the next chapter. We still have substantial work to do to achieve our goals, but I am confident that the team will continue to execute and drive sales and profitability. We are growing sales more than the market and expect that into the near future.

We continue to make progress on our growth strategies and our commitment to our customers is strong. We are driving growth and improvements at DXP. We look forward to navigating and working through the remainder of fiscal 2024 and launch into fiscal 2025, further developing the next chapter. We continue to build our capabilities to provide a technical set of products and services in all our markets. We make DXP very unique in our industry and gives us more ways to help our customers win.

Finally, I would like to thank our DXPeople for continuing to main 10% plus EBITDA margins and hitting a new quarter sales high in Q3. Let's do it again in Q4. Q3 was another great quarter as we continue to have success in 2024 and prepare to launch ourselves into 2025. We remain excited for what is next. With that, I will now turn it back to Kent to review our financials in more detail.

Kent Yee
Senior VP of Corporate Development, CFO, Secretary & Director

Thank you, David, and thank you to everyone for joining us for our review of the third quarter 2024 financial results. Q3 financial performance reflects DXP's ability to continue to successfully navigate through the market and execute and create value for all our stakeholders. Our third quarter results also reflect another record sales watermark along with a new all-time high in adjusted EBITDA margins.

As it pertains specifically to our third quarter, DXP's third quarter financial results reflect solid sales growth within IPS and continued strength within the energy and water bookings and backlog, along with an accelerating contribution from DXP Water. Year-to-date in-line service center performance, marked by gross margin strength and stability and a pickup in sales performance from Q2 to Q3, continued contribution from acquisitions, along with closing an additional acquisition during the third quarter and closing 2 subsequent to the quarter or bringing the total completed year-to-date to 7 acquisitions and consistent operating leverage leading to sustained adjusted EBITDA margins.

Total sales for the third quarter increased 6% sequentially to a record $472.9 million, acquisitions that have been with DXP for less than a year contributed $28.5 million in sales during the quarter. Average daily sales for the third quarter were $7.39 million per day versus $6.96 million per day in Q2 and $6.66 million per day in Q3 2023. Adjusting for acquisitions, average daily organic sales were $6.94 million per day for the third quarter of 2024 versus $6.59 million per day during the third quarter of 2023. That said, the average daily sales trend during the quarter went from $6.62 million per day in July to $8.77 million per day in September, reflecting a quarter-end push and benefit from acquisitions as we closed out the third quarter.

In terms of our business segments, Innovative Pumping Solutions grew 22.42% sequentially and 52.34% year-over-year. This was followed by Service Centers growing 3.36% sequentially and sales increasing

7.6% year-over-year. Supply Chain Services grew 0.94% sequentially and increased 0.69% year-over-year. In terms of Innovative Pumping Solutions, we continue to experience increases in the energy-related bookings and backlog as well as the water and wastewater bookings and backlog.

Our Q3 energy-related average backlog grew 39.1% over our Q2 average backlog and continues to be ahead of all our averages. It is worth noting that our Q3 energy backlog includes a significant project win that is currently estimated to meaningfully impact our sales performance in Q1 or Q2 of next year. Adjusting for this project, our Q3 energy backlog grew 8.9% sequentially. The conclusion continues to remain that we are trending meaningfully above all notable sales levels and we're moving towards 2018 and 2019 levels based upon where our backlog stands today.

On a 9-month comparative basis, our native energy IPS business is up 31.1% year-over-year. We expect this to continue for the remainder of 2024. We also see strength in our IPS Water backlog as it continues to grow due to a combination of organic and acquisition additions.

In terms of our Service Centers, our Service Center performance reflects our internal growth initiatives, along with our diversified and evolving end market dynamics. On a comparative basis, our third quarter of 2024 is now our strongest quarter within Service Centers over the last 7 quarters and sets a new sales high watermark. Regions within our Service Center business segment, which experienced year-over-year sales growth include the South Rockies, Southeast, Southwest, Alaska and North Central. From a product perspective, we also experienced strength in our U.S. Safety Services and Metalworking Product divisions and Canadian rotating equipment, which is all great to see and points to strength in our energy markets and/or exposure.

As discussed in Q2, Supply Chain Services sales continue to perform in line with the performance we experienced in the second half of 2023. Supply Chain Services sales grew 0.94% sequentially and increased 0.69% year-over-year. Our results have been impacted by facility closures with existing customers as well as the streamlining efficiency we bring to our customers that we mentioned back in Q4 of last year.

As David mentioned in terms of our outlook, we are anticipating an increase in new accounts implemented in Q4 of this year and Q1 of next year. SCS has also created a customer care model that focuses on remote technologies without the need for a full-time on-site presence. Additionally, as we go into fiscal 2025, SCS will focus on extending DXP services and repair offerings for rotating equipment and safety services to our existing customers, leveraging the broader DXP capabilities. We anticipate this could happen in early 2025.

Turning to our gross margins. DXP's total gross margins were 30.89%, a 94 basis point improvement over Q3 of 2023. This improvement is attributed to strength in gross profit margins within Service Centers or a 99 basis point improvement from Q3 of last year. Additionally, the accretive contribution from acquisitions at a higher overall relative gross margin versus our base DXP business helped drive consistent IPS gross margins. Acquisitions continue to be accretive to both our gross and operating margins. That said, from a segment mix sales contribution, Service Centers contributed 66.99%, Innovative Pumping Solutions 18.99% and Supply Chain Services was 14.01%. IPS has notably contributed more to the overall mix of DXP going from 15% of sales in Q1 to 19% in Q3.

In terms of operating income, combined, all 3 business segments increased 64 basis points sequentially in business segment operating income margins were $6.9 million versus the second quarter of this year. This primarily was driven by improvements in operating income margins across Service Centers and IPS, but more notably within IPS. The improvement in Innovative Pumping Solution reflects the impact of our water and wastewater acquisitions at a higher relative operating income margin and a growing percentage of revenue or sales mix, along with improvements in this quarter within our pump manufacturing operations.

DXP Water has gone from 28% of sales in Q1 of 2023 to over 43% of sales of IPS in the third quarter of 2024. Total DXP operating income was $39.6 million in the third quarter or 8.4% of sales versus $35.9 million or 8.6% of sales in the third quarter of 2023.

Our SG&A for the quarter increased $16.8 million from Q3 of 2023 and $6.1 million from Q2 of this year to $106.5 million. The increase reflects the growth in the business and associated incentive compensation and DXP investing in its people through merit and pay raises. Additionally, this also reflects some unique onetime cost and expense associated with our horizontal pump offering. SG&A as a percentage of sales increased to 112 basis points year-over-year to 22.52% of sales and was essentially flat sequentially from Q2 of this year.

Turning to EBITDA. Q3 2024 adjusted EBITDA was $52.4 million. Adjusted EBITDA margins were 11.1%. As discussed in Q1, we expect this to pick up and margins have improved as we've moved through the first half and into the second half of 2024. We continue to benefit from the fixed cost SG&A leverage we experienced as we grow sales as well as the margin accretion and growing scale of the DXP Water acquisitions.

In terms of EPS, our net income for Q3 was $21.1 million. Our earnings per diluted share for Q3 was $1.27 per share versus $0.93 per share last year. Conservatively adjusting for onetime items, adjusted earnings per diluted share for Q3 2024 was $1.43 per share.

Turning to the balance sheet and cash flow. In terms of working capital, our working capital increased to $11.6 million from June and $26.5 million from December to $298.6 million. As a percentage of the last 12-month sales, this amounted to 17.2%. This is an uptick from where we have been and reflects the impact of acquisitions and an increase in DXP's capital project work. As we move into fiscal 2025, we will grow into the working capital as percent of sales and particularly the impact from recent acquisitions.

In terms of cash, we had $35 million in cash on the balance sheet as of September 30. This is a decrease of $104.7 million compared to the end of Q1 and reflects our acquisition activity as well as an additional $5 million in share repurchases in Q3.

In terms of CapEx, CapEx in the third quarter was $4 million or a decrease of $4.9 million compared to Q2 and a $2.5 million increase versus Q3 of 2023. We continue to expect CapEx to pick up in 2024 versus 2023. We are continuing to make investments in our business, software, our facilities and operations for our employees. As we move forward, we will continue to invest in the business as we focus on growth and the next evolution of phase of DXP.

Turning to free cash flow. Free cash flow for the third quarter was $24.4 million versus $38.3 million in Q3 of 2023. This primarily reflects the impacts from our project work, which we have highlighted in the past as requiring investments in inventory, product and cost and accessibilities. That said, we continue to focus on tightly managing this aspect of our business from a cash flow perspective and look to align billings with the investments, which slid backwards on us during the third quarter are increasing or impacting us by $13.1 million during Q3.

Return on invested capital or ROIC at the end of the third quarter was 36% and reflects the improvements in EBITDA and the operating leverage inherent within the business. Additionally, it also points to our recent acquisitions performance and their positive contribution and accretive impact to both gross profit and EBITDA.

As of September 30, our fixed charge coverage ratio was 1.7:1, and our secured leverage ratio was 2.5: 1 with a covenant EBITDA for the last 12 months of $200.7 million. Total debt outstanding on September 30 was $544.5 million. In terms of liquidity, as of the third quarter, we were undrawn on our ABL with $3.4 million in letters of credit with $131.6 million of availability and liquidity of $166.6 million, including $35 million in cash. Subsequent to the quarter end, we successfully reduced borrowing cost by 100 basis points and raised an incremental of $105 million.

DXP is positioning itself to continue to execute on our acquisition strategy. In terms of acquisitions, we have closed 7 acquisitions year-to-date, including 2 subsequent to the quarter end, and we will look to close at minimum another 2 before the end of the first quarter. DXP's acquisition pipeline continues to remain active and the market continues to present compelling opportunities. That said, we remain comfortable with our ability to execute on our pipeline and valuations continue to remain reasonable. Regarding capital allocation, we repurchased or returned $5 million to shareholders via share repurchases in Q3. We finished our previous program, and we have put in place a new $85 million or 2.5 million shares, share repurchase program. As previously mentioned, we will continue to be opportunistic and support our shareholders as we move through the cycles.

In summary, we are excited about the future and building the next chapter. We will keep our eyes focused on those things we can control and what is ahead of us. We are excited because there is substantial value embedded in DXP, and we continue to believe that what is next is greater than what we have already achieved. Lastly, it is worth mentioning that as of Q3 2024, we have remediated and cured all our existing material weaknesses noted in our controls opinion under Item 4, Controls and Procedures as of September 30, 2024.

Thank you to our DXP team for all their effort and commitment to remediate and enhance the financial controls and procedures at DXP. We look forward with great confidence to a future of sustained growth and market outperformance. We will now turn the call over for questions.

Question and Answer

Operator

[Operator Instructions] Your first question comes from the line of Tommy Moll with Stephens.

Thomas Allen Moll
Stephens Inc., Research Division

On the acquisition front, I want to make sure I heard you correctly, Kent. So there were 5 year-to-date through when you closed the books third quarter, then I guess there were 2 more for a total of 7 in October? And then I think I heard you say another 2 more either by year-end or by first quarter end?

Kent Yee
Senior VP of Corporate Development, CFO, Secretary & Director

Yes, Tommy, I'll walk you through that, and thank you for joining us today. We closed 5 as of the end of Q3. And then subsequent to the quarter end, just this past Friday, meaning November 1, we closed an additional 2 acquisitions. So that brings us to 7 year-to-date. And we'll be putting out a press release in the next 24 to 36 hours regarding those.

And then my comments in the script also pointed to that, obviously, we still got a strong pipeline, and we anticipate closing another 2, if you will, before the end of Q1 of next year.

Thomas Allen Moll
Stephens Inc., Research Division

Got it. And anything you can share at this point on the 2 that you closed, first the month, even just in terms of end markets or any other contours that you can share now?

Kent Yee
Senior VP of Corporate Development, CFO, Secretary & Director

Yes. What I would share today on the call is -- they were both more typical in the smaller size of our acquisition program. One was another water, wastewater acquisition in the Nebraska market. So we're excited to get a little bit of a foothold in Nebraska. And then the other one was a vacuum pump acquisition in California, so continuing to grow our California region, but it's on the vacuum pump side, which means there's more end market diversification. So everything from semiconductors, food and beverage, pharmaceuticals, et cetera.

Thomas Allen Moll
Stephens Inc., Research Division

So if we roll it all together, I'm going to pivot just to the fourth quarter here, which is always tricky from a revenue standpoint to try to have a view on. But if you just -- if you include some of the benefits of the acquisitions that you announced and you look at the $473 million you did in the third quarter, does it feel like maybe flat, up or down quarter-over-quarter into Q4, inclusive of the acquisitions that you've announced, that obviously, we haven't seen how big they are yet, but just trying to roll all that together to set an expectation?

Kent Yee
Senior VP of Corporate Development, CFO, Secretary & Director

Yes, yes. No, no, and I get it. We don't formally provide guidance, but we have our KPIs, including sales per business day. I think, Tommy, the way to think about it as we go is, yes, there's fewer days as we head into [indiscernible] so I think everybody's got to factor that in.

That said, let me walk you through the sales per business day trend. And then if you have a follow-up, we can go from there. But I always think that as a broad KPI kind of directionally kind of -- can point people in a certain direction. And then David may have some comments. But -- if you start off and just let's just go back to May and then I'll pull it forward. May, we were at $6.43 million per day; June, $7.63 million per day; July, $6.62 million per day; August, $6.89 million per day; September, $8.77 million per day; and in October, we've got $6.99 million per day. So that's kind of the sales per business day trend. But once again, we will have fewer days and you get step between the days after those holidays as well, practically.

David R. Little
Chairman of the Board, President & CEO

And then I would just add that historically, the fourth quarter is a little softer. And I'm not sure that, I guess from our perspective, bookings are still really strong. Our backlog is strong, but I'm not necessarily thinking what we'll ship or recognize as revenue in the fourth quarter -- we'll -- I think it will be a little soft.

Thomas Allen Moll
Stephens Inc., Research Division

And Kent, I appreciate the monthly cadence progression you provided there. Just to confirm, those are all on an as-reported basis, so that would be inclusive of whatever acquisitions had closed during those months?

Kent Yee
Senior VP of Corporate Development, CFO, Secretary & Director

Yes. Yes. Yes. And 2 more recent ones are up, once again on the smaller end, we'll have more detail when we put the press releases out. But call it, combined together less than $10 million in sales for those 2 on an annual basis, so...

Thomas Allen Moll
Stephens Inc., Research Division

Okay. That's very helpful. And just in terms of the days for Q4, do you know what you're dialing in this year? Or should it be fairly similar number of selling days as in the past?

Kent Yee
Senior VP of Corporate Development, CFO, Secretary & Director

Yes. I think we're coming in at around -- once again, just 61 to 62, just practically, I think I have 62, but how the holidays fall, [indiscernible].

Thomas Allen Moll
Stephens Inc., Research Division

Oh, yes. Okay. Thank you for unpacking that. That's helpful. David, you commented on the margins, which were again in the double-digit range in Q3, and I think you -- I heard you say let's do it again here in Q4. So I just want to make sure I heard that correctly that there isn't any kind of reason that should not be the case again in Q4 and also just get your latest and greatest on that performance. You've been solidly in the double digits for a number of quarters now. There are some acquisition benefits in there, but if there's any kind of operating tailwinds otherwise, you want to call out, please do?

David R. Little
Chairman of the Board, President & CEO

Sure. And I assume you're talking about EBITDA margins.

Thomas Allen Moll
Stephens Inc., Research Division

Yes, adjusted EBITDA.

David R. Little
Chairman of the Board, President & CEO

Yes, adjusted EBITDA. Yes, I -- we're not -- if you noticed, SG&A was probably as a percent of sales was a little high. And so we're -- I think it's important to note that we're not trying to manage the business to maximize profits at the expense of sales and that -- in quite the opposite, we have a lot of bets on the table to grow sales and some of those are working out really nicely, as you can see, and then some of them are a little slower and taking bigger investments.

So I think that that's good news. The good news is that we're managing the business for growth and not trying to cut every little nickel and dime of expense out. So I don't think there's any real headwind that will make expenses go down. And I don't think there's any reason to think that EBITDA margins are going to go down either. Some of the EBITDA margin growth has been in the water and wastewater area, which is a real focal point of what we're trying to do and our traditional pump business. So we continue to want to grow those 2 things. So the acquisitions we're doing are very accretive on EBITDA margins. And so we're excited about that. And -- and so I'm like, okay, guys, let's keep up the good work and let's do it again.

Thomas Allen Moll
Stephens Inc., Research Division

This one is probably for Kent. Just to unpack some of the refinancing you did there in October, Kent. Your gross debt will be up or is up, I guess, now but then the cost of that debt was reduced, I think, by 100 basis points. So are you able to help us dial in what you're thinking just for interest expense here in the fourth quarter? And then to the extent there's a lot of noise in that number with onetime fees that are going to fall away, can you just calibrate us on what run rate would look like in the current SOFR environment?

Kent Yee
Senior VP of Corporate Development, CFO, Secretary & Director

Yes. No, absolutely, Tommy. I think the absolute run rate interest expense you're seeing even with the incremental, the punch line will be roughly the same. We're running around, I'll call it, $15.5 million to $16 million a quarter. And I don't think that will change. The benefit we got obviously was the 100 basis points reduction as well as the dry powder ride, and that's really to fuel our acquisition activity. And so I think that's the way to think about it if you're thinking about just in terms of how it impacts the P&L.

Yes, there will be the one time. We have to go through the analysis. We haven't completed it yet, where you look at the existing issuance cost and some of it you're right through. And obviously, we'll be clear about that in Q4, but we haven't necessarily gone through that 100%. But I think the point you're getting at is you want to know kind of the run rate interest costs. And I think the $15. 5 million to $16 million is fair. Keep in mind, the facility still amortizes 1% per year. So as time goes on, we'll be paying down the facility at 1% per year. And so -- if that answers your question, Tommy, that's I think how we think about it. It was favorable market conditions and with our pipeline and then kind of with one of the acquisitions we did earlier this year, being pretty significant and a contributor in this quarter, it felt right to just reprime if you will, the balance sheet and go into 2025, putting us a position to do something similar, so.

Thomas Allen Moll
Stephens Inc., Research Division

Sure. And on that front, Kent, with regard to capital deployment. Did I hear you correctly say that seller expectations currently appear reasonable? I realize that's not specific to any particular deal. But just in general, did I hear you provide that characterization?

Kent Yee
Senior VP of Corporate Development, CFO, Secretary & Director

Yes, I think that's fair, right? I think sellers in general understood we were and still are relatively speaking in a higher interest rate environment. And so valuations, I think from what we see have been fair and reasonable and our pipeline continues to reflect that. And so, we don't feel like we're having to be too aggressive, obviously, but the businesses that are growing and are highly strategic in many ways, the DXP, we're willing to push the valuation pendulum a little bit more. But all in all, I think we're still buying on a blended average across all our deals, where we've always historically been and what we've communicated to the market, so.

Thomas Allen Moll
Stephens Inc., Research Division

Last one for me. David, if you look back over the last handful of years, you've been at this capital deployment program for some time where you're diversifying your end markets, finding pockets of faster growth, higher margin, et cetera, et cetera. Close a number of deals this year, more in the pipeline. One topic that doesn't often get discussed is whether there may ever be a point in the future where you'd be a seller of any part of your portfolio. So if you just play it forward and you keep shaping the portfolio as you have been now for some time, do you ever look up and there's a situation where a piece it would make sense to pry out of the portfolio or if the answer is too early to tell, that's fine, too. I just -- I was reflecting on the execution here over multiple years and the business today looks a lot different than it has in prior cycles, so I think it is worth an ask?

David R. Little
Chairman of the Board, President & CEO

Well, I appreciate you making that comment, and I appreciate you recognize the diversification that we've been doing and so I feel really good about that, and I feel really good about the fact that we're not going to have any big downturns or anything like that, that are hard on us. So I feel really strong about DXP and where it is today. That said, I think you asked a very good question, one that we consider at most Board meetings, and that is that are there some pieces that really don't fit the new direction or maybe they don't fit the right financial matrix either that we're trying to accomplish. And so the answer to your question is, yes. And again, I think where we land is that these -- everything we're doing makes pretty decent money. And so it's not like we're trying to sell something that's just a dog over here, and so we don't have any dogs. If we do, they're all really nice dogs.

But anyway, the point besides my joke is that it's a consideration. And then because they're all performing to what they feel like they could do, and it's going well. It's just a timing issue. It's when do we think is the appropriate time to maximize selling something. And I'll be the first to admit that selling something has not been in my portfolio. It's not what David Little is all about of -- I don't -- I can't remember selling something. So I'm going to acquire and then I try to make it as pretty as I can. But there's some -- as we've gotten much, much bigger, there are thoughts around that.

Kent Yee
Senior VP of Corporate Development, CFO, Secretary & Director

Yes. Tommy, the only thing I'd add there is, yes, obviously, from a fiduciary perspective, we look at it, but we're known in the marketplace as a buy-and-hold guy. And so we look at things from a fiduciary perspective, but we take it seriously because when sellers sell to us, that's part of the attraction of DXP, right? We're not like our competitors out there and we're not flipping every day. And so I'd just round out David's comments with that. It's -- we appreciate the question, but it's a delicate walk because one of the big differences for DXP in the marketplace is we're not private equity. We're not a lot of things. And so we take pride in that. So I'd just kind of add that ending touch there a little bit.

Thomas Allen Moll
Stephens Inc., Research Division

Noted, and I appreciate the insight from you both, and I'll turn it back.

Operator

I will now turn the call back over to David Little, Chairman and CEO, for closing remarks.

David R. Little
Chairman of the Board, President & CEO

And first, Tommy, I would just ask if there's anything else you would like to ask. We appreciate you and the things you do to cover us. If there's not, then thanks everybody for joining us today. Thanks to all our DXP people out there, thanks to all the acquisitions that we've done and those people that are joining our DXP team. I think they learn to appreciate DXP and how we operate. And we're all about growth. We're not about trying to whack expenses and take everybody -- just trying to maximize the last penny. That's not our style.

I do appreciate Kent making a point that we're not a portfolio company buying and selling things. Typically, I think I will say again on a longer-term answer to what I was asking -- answering and that was that as we get bigger and bigger and bigger and move forward in a direction that's very positive, then there are some things that may need to be looked at.

So with that said, again, thank you all the DXP people for all you do. And let's finish the year strong and off into 2025. Here we go. Thanks.

Operator
Ladies and gentlemen, that concludes today's call. Thank you all for joining. You may now disconnect.