



## Investor Presentation

1st Quarter, 2016  
NYSE: DNOW



# Disclosure Statement

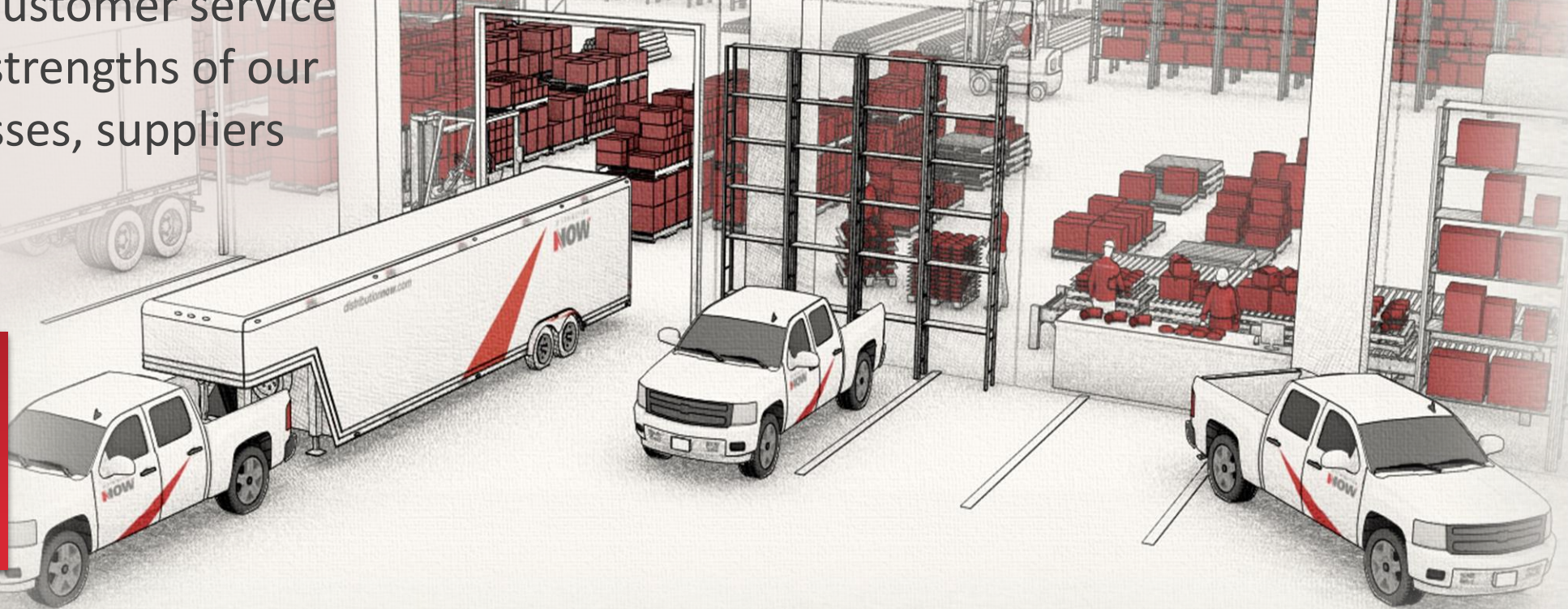
Statements made in the course of this presentation that state the Company's or management's intentions, hopes, beliefs, expectations or predictions of the future are forward-looking statements. It is important to note that the Company's actual results could differ materially from those projected in such forward-looking statements. Additional information concerning factors that could cause actual results to differ materially from those in the forward-looking statements is contained from time-to-time in the Company's filings with the U.S. Securities and Exchange Commission. Any decision regarding the Company or its securities should be made upon careful consideration of not only the information here presented, but also other available information, including the information filed by the Company with the SEC. Copies of these filings may be obtained by contacting the Company or the SEC.



# Vision

DistributionNOW will be recognized as the market **Leader in Supply Chain Management** through superior customer service by leveraging the strengths of our employees, processes, suppliers and information.

Countries	20+
Locations	300+
Employees	~4,500
ERP System	SAP™

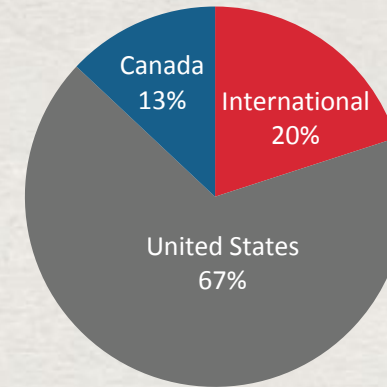




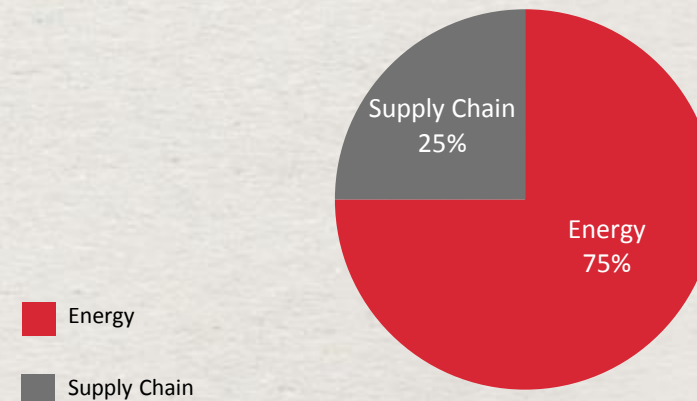
# Company Snapshot

- One of the largest distributors to the energy industry
- Legacy of over 150 years operating
- Support major land and offshore operations for all the key energy producing regions around the world
- Comprehensive network of energy branches and supply chain locations
- 2015 revenue of \$3.0 billion
- Operates under the DistributionNOW and Wilson Export brands
  - More than 300,000 stock keeping units (SKUs)
  - Thousands of vendors in approximately 40 countries
  - Presence in over 20 countries supporting customer operations in more than 90 countries
- Key markets include North America, Latin America, Europe, the Middle East, the Former Soviet Union and Southeast Asia

2015 Revenue by Segment



2015 Revenue by Channel



# Global Customer Reach

## Company Locations

- Branches
- Sales Offices
- Distribution Centers

## Distribution Centers:

### United States

Houston, TX  
Los Angeles, CA  
South Plainfield, NJ

### Canada

Edmonton, Alberta  
Estevan, Saskatchewan

### Europe

Aberdeen, Scotland

### MENA

Jebel Ali, U.A.E.

### Asia

Jurong, Singapore

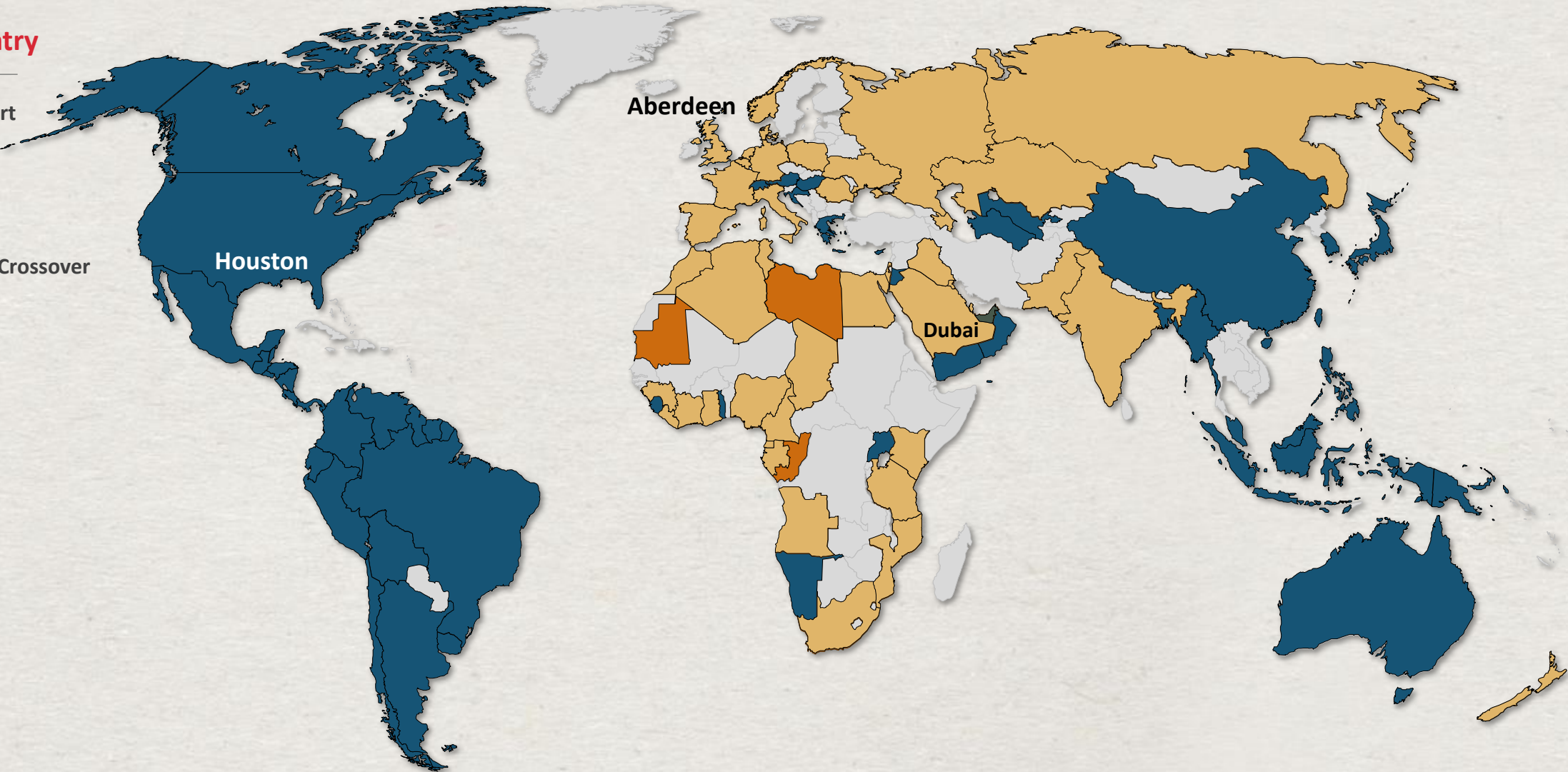




# Global Customer Reach

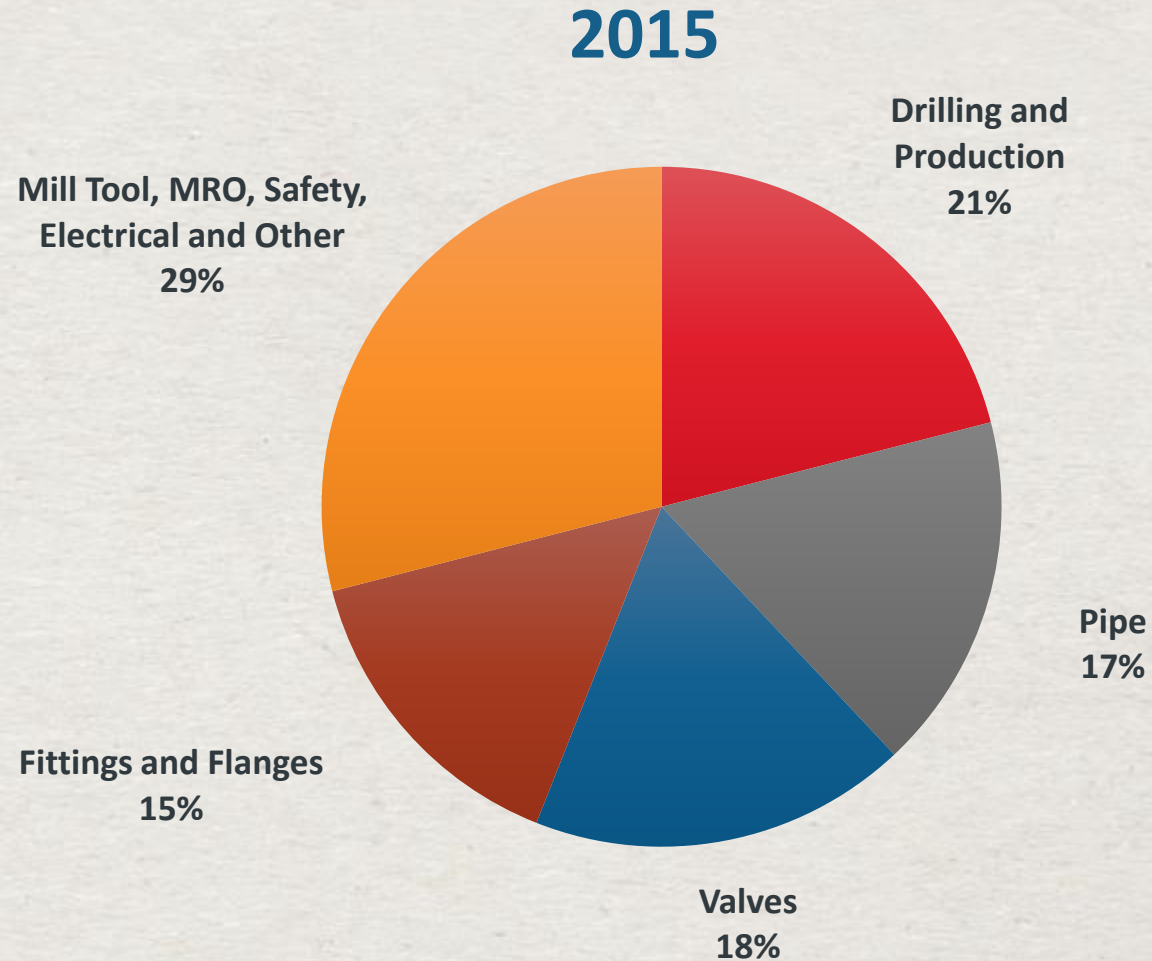
## Export by Country

- US Wilson Export
- UK Export
- Dubai Export
- Export Country Crossover



# Comprehensive Product Offering and Balanced Revenue Mix

DNOW carries a broad range of products to meet rapid and critical deliveries to customers in remote areas





# Value Proposition

## Product and Solution Offerings



Valves & Actuation



Electrical Products



Artificial Lift



Pumps



Pipe, Fittings & Flanges



Drilling Products



Mill, Tool and Safety Products



Supply Chain Solutions



Fabrication

## A Critical Link Through Leading Supply Chain Technology

- **Knowledgeable people**

- Customer
- Product
- Application
- Materials management

- **Proven processes**

- Quality management
- Supply chain expertise

- **Global footprint**

- United States
- Canada
- International

- **Leverage sourcing & procurement**

- Broad supplier base
- Single source provider
- Global sourcing

## Markets

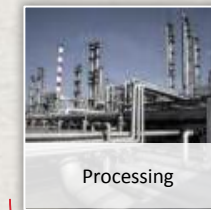


Drilling

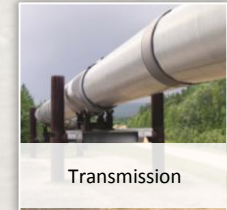


Exploration & Production

### UPSTREAM

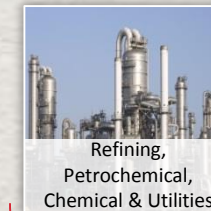


Processing



Transmission

### MIDSTREAM



Refining,  
Petrochemical,  
Chemical & Utilities



Manufacturing and  
Machine Tool

### DOWNSTREAM / INDUSTRIAL



# Blue-Chip Customers and Suppliers

## Suppliers



DISTRIBUTION  
**NOW**

## Customers

### Drilling Contractors



### Exploration & Production



### Midstream



### Downstream & Industrial



DISTRIBUTION  
**NOW**

# Flexible Operational Model



## ENERGY CENTERS

Branch network model supported by Distribution Centers to ensure inventory is maintained locally.

Right inventory in right place at the right time.



## REGIONAL DISTRIBUTION CENTER

Distribution centers ensure replenishment of branches and direct shipment to customer facility



## EXPORT

Broad sourcing capability to consolidate customer requirements on multiple lower value or non-core items



## CAPITAL PROJECTS & VALVE ACTUATION

Global sourcing and expediting capability to ensure correct product is delivered to the job site in accordance with project requirements



## SUPPLY CHAIN SERVICES

Vast offering of supply chain solutions to increase efficiency and lower cost within the supply chain



# Quality Triple-Impact Supplier Program

## SUPPLIER AUDITS

- Assessment and qualification of new suppliers
- Reassessment of existing suppliers
- Follow up on supplier quality issues
- Rotational on-site physical audits
- Foundry evaluation on key valve manufacturers

## SAMPLING STANDARD

- Monitoring and measuring
- Daily audit of incoming products
- QA/QC inspection (MTR review, PMI on SS and alloys, threading, dim. and visual)
- Full traceability (marking check)
- Acceptable Quality Limit (AQL) 1.5



## QUALITY CHECKPOINTS

- Supplier performance reporting (KPIs)
- Trial order lab testing
- Quarterly enhanced lab testing
- Manufacturer pre-ship inspection
- Overstock return inspections
- Verification of supplier corrective action

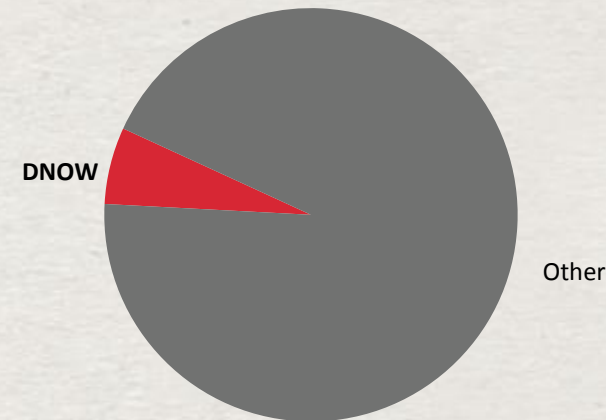
# Key Investment Highlights

- 1 Large and highly fragmented market
- 2 Focused growth strategy through capital allocation
- 3 Robust IT capabilities underpin efficient operations and differentiated value proposition
- 4 Operational initiatives and scalability drive efficiencies
- 5 Macro industry trends favor players with extensive scale
- 6 Successful acquisition and integration track record
- 7 Attractive cash generation and returns through the cycles
- 8 Experienced management team

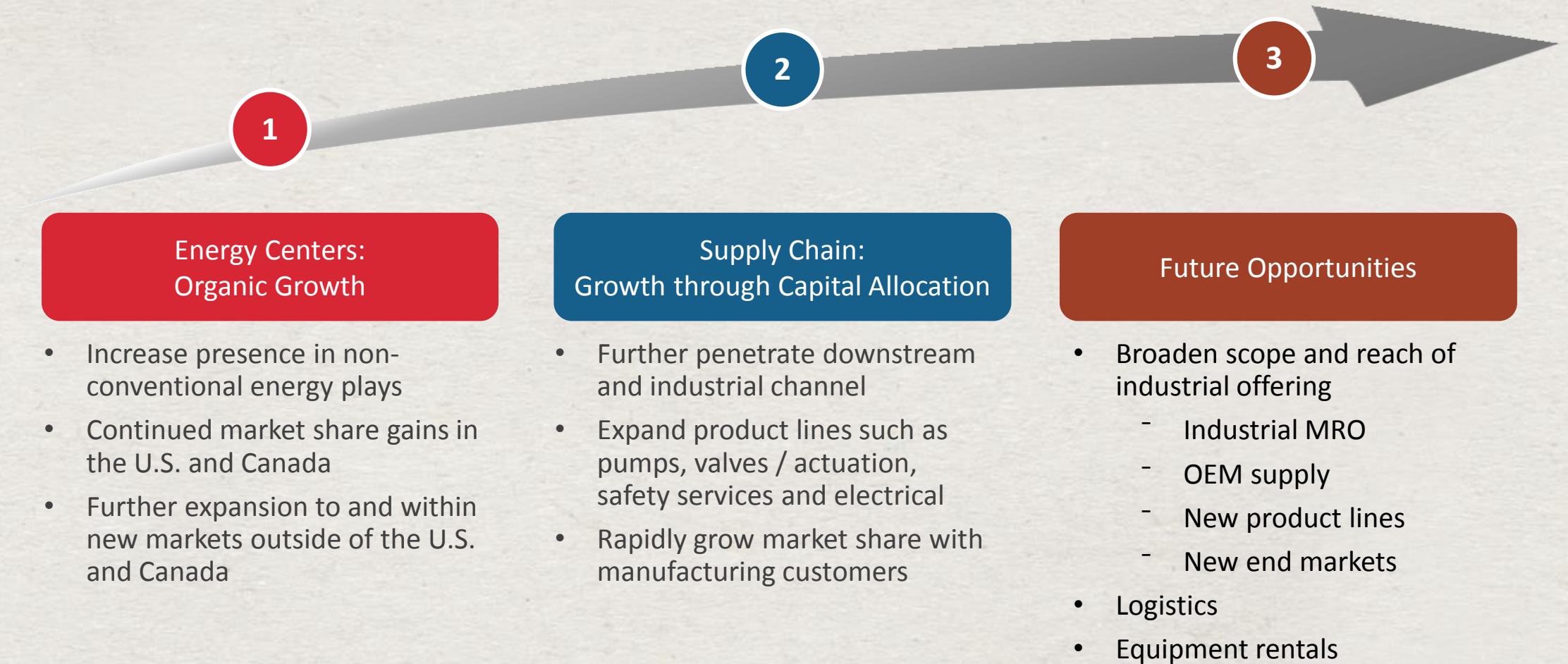


# Large and Highly Fragmented Market

- DistributionNOW is one of the largest distributors to the energy industry worldwide
- \$633 million in inventory to support customers in Q1, 2016
  - More than 300,000 SKUs
  - Thousands of vendors in approximately 40 countries
  - Quality offering ensured through AML
- Network of more than 300 locations worldwide
  - Presence in 20+ countries, with approximately:
    - 200 locations in the U.S.
    - 60 locations in Canada
    - 40 international locations
  - Supported by 8 distribution centers
- \$50bn+ addressable upstream, midstream, downstream and industrial market in U.S. and Canada<sup>1</sup>
- Highly fragmented market
  - DistributionNOW differentiated by scale and global reach
  - Majority of competitors are small, local/regional players



# Growth Strategy through Capital Allocation





## Robust IT Capabilities Underpin Efficient Operations and Differentiated Value Proposition

- DNOW has implemented an integrated ERP system linking global centers, customers and suppliers
  - Greatly enhances operational efficiency
  - Enables immediacy of decision-making
  - Reduces total procurement costs for DNOW and customers
- Supports planning and optimization of supply chain processes

### System Highlights

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- Integrated with customer ERP
- Approximately 9 million electronic transactions processed in 2015
- In-house support allows DNOW to tailor its system to better meet customers' needs and increase operational efficiency

### Sample Applications

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- Demand management, statistical forecasting and lifecycle planning expedite decision making and allow flexible assortment planning
- An integrated warehouse management system; voice and wireless barcode scanners increase warehouse efficiencies
- MetalTrace (MT) allows for the storage and retrieval of manufacturer documentation such as Safety Data Sheets (SDS) and Mill Test Reports (MTR's) in a consolidated, indexed environment. MT is integrated with DNOW's ERP system for enhanced traceability of material and faster order processing

# Operational Initiatives and Scalability Drive Efficiencies

## Operational Excellence

- Highly flexible model
- Global ERP system
- Centralized pricing discipline
- Leveraged international sourcing
- Distribution center supported inventory replenishment

## Highly Scalable Business Model

- Low fixed costs
- Incremental margins well in excess of total margins
- Limited capital needs to support expansion
- Integration of acquisitions
- Incentives tied to profitability and balance sheet efficiencies



# Macro Industry Trends Favor Players With Extensive Scale

- DNOW has sophistication, scale and geographic reach to serve an increasingly consolidated and global customer base

## Trend

Partnering with supplier to eliminate waste, drive efficiencies and improve productivity through the use of innovative solutions and point of use technology

## DNOW Capability

Integrated supply model and comprehensive supply solutions to reduce costs and increase productivity

## Trend

Industry consolidation of customer base through acquisitions and international expansion

## DNOW Capability

Size and geographic reach to serve global customer need in existing and new geographies

## Case Study

### Major manufacturer of aerospace components

#### Improvements to manufacturing supply chain yields major gains

- Tool crib downsized by 60% due to implementation of vending systems
- Reduced inventories by 40% by repackaging in economic use quantities
- Reduce stock outs, 99.98% inventory accuracy and availability

#### Improvements in manufacturing productivity

- Increased productivity 30% with advanced cutter technology
- Improved tool life 20% by implementing improved cutting fluid
- Increased productivity 25% by reducing part changeover time

## Case Study

### Large public independent oil and gas company

- DNOW is preferred material management partner within Customer's Regional Distribution Concept (RDC)
- Provide full cycle material management solutions across Customer's assets in U.S. and Canada

#### Customer recently made acquisition in South Texas (Eagle Ford)

- DNOW implementing of the RDC model at new Eagle Ford assets
  - Displaces current suppliers

# Successful Acquisition and Integration Track Record

## Selected Acquisitions

Date	Acquisition	Country
December 1998	Dominion Oilfield Supply (DOSCO/TS&M)	Canada
June 1999	Continental Emsco Company (via Wilson)	United States / Canada
July 1999	Dupre Supply	United States
January 2000	Texas Mill Supply (via Wilson)	United States
January 2000	Republic Supply Company	United States
January 2001	Van Leeuwen Pipe & Tube (via Wilson)	United States
March 2001	DEMIJ-Rotterdam	The Netherlands
January 2003	LSI Specialty Electrical Products	United States
August 2003	Neven Handelsonderneming	The Netherlands
October 2004	Roma General Welding Services	Australia
December 2008	Sakhalin Outfitters	Russia
August 2010	Group KZ	Kazakhstan
February 2011	Capital Valves	United Kingdom
May 2012	Wilson Distribution	U.S., Canada, International
July 2012	CE Franklin	Canada
November 2014	Progressive Supply	United States
January 2015	Machine Tools Supply	United States
February 2015	OAASIS Group	United Kingdom
March 2015	MacLean Electrical	United Kingdom
May 2015	North Sea Cables Norge AS	Norway
July 2015	Odessa Pump & Equipment	United States
November 2015	Challenger Industries, Inc.	United States
December 2015	Udike Supply Company	United States

## M&A Strategy

- Use healthy balance sheet to allocate capital towards strengthening market positions
- Enhance high value add product offering and geographic reach in key global markets
- Accelerate expansion in supply chain services & industrial segments
- Expand eCommerce technologies



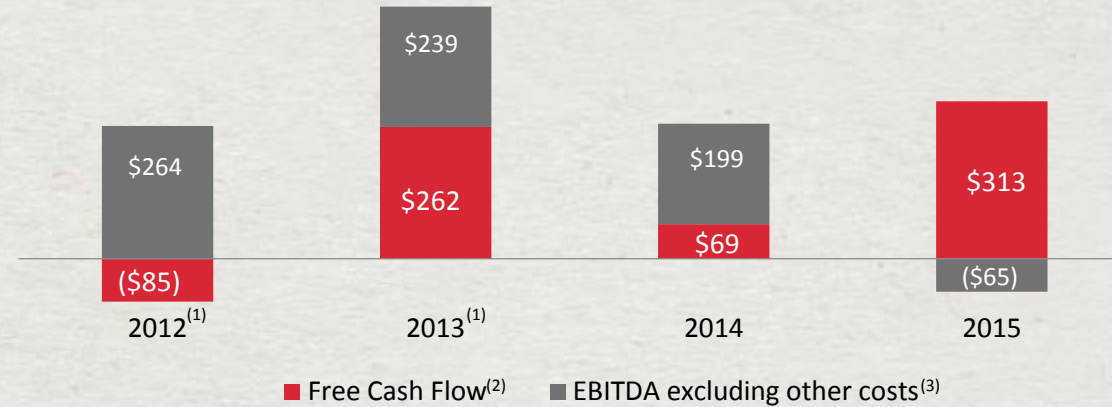
# Attractive Cash Generation and Returns Through the Cycle

## 2015 Financial Snapshot

- Revenue: \$3.0 billion
- Gross margin: 16.7%
- EBITDA excluding other costs: \$(65) million  
— (2.2)% margin
- Free cash flow: \$313 million

### Free Cash Flow and EBITDA excluding other costs

(\$ in millions)



- Robust free cash flow despite headwinds in 2015 from a down year in the broader energy sector
- Continued to reinvest in the business to improve operations and support future growth
- Flexible cost structure and disciplined working capital management underpin cash flow generation through the cycle

(1) Estimated, Pro Forma

(2) Free Cash Flow ("FCF") is defined as Cash Flow from Operations less Capital Expenditures

(3) EBITDA excluding other costs is defined as Earnings before Interest, Taxes, Depreciation and Amortization and other costs

# Experienced Leadership

- 26 year average tenure of Leadership team
- Extensive industry experience
- Focus on results, process and relationships



**Merrill A. "Pete" Miller, Jr.**  
Executive Chairman

*20 years*



**David A. Cherechinsky**  
Chief Accounting Officer

*27 years*



**Daniel L. Molinaro**  
Chief Financial Officer

*47 years*



**Robert R. Workman**  
President and Chief Executive Officer

*25 years*



**Burk L. Ellison**  
President, Supply Chain Services

*35 years*



**Jim N. Owsley**  
Vice President, Supply Chain

*38 years*



**Craig N. Ballinger**  
Chief Admin & Information Officer

*35 years*



**Scott W. Hauck**  
President, Energy Centers

*34 years*



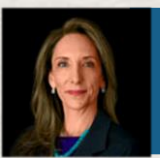
**Troy B. "Brad" Wise**  
Vice President, Marketing

*6 years*



**Raymond W. Chang**  
General Counsel

*15 years*



**Michelle A. Lewis**  
Chief Strategy Officer

*6 years*

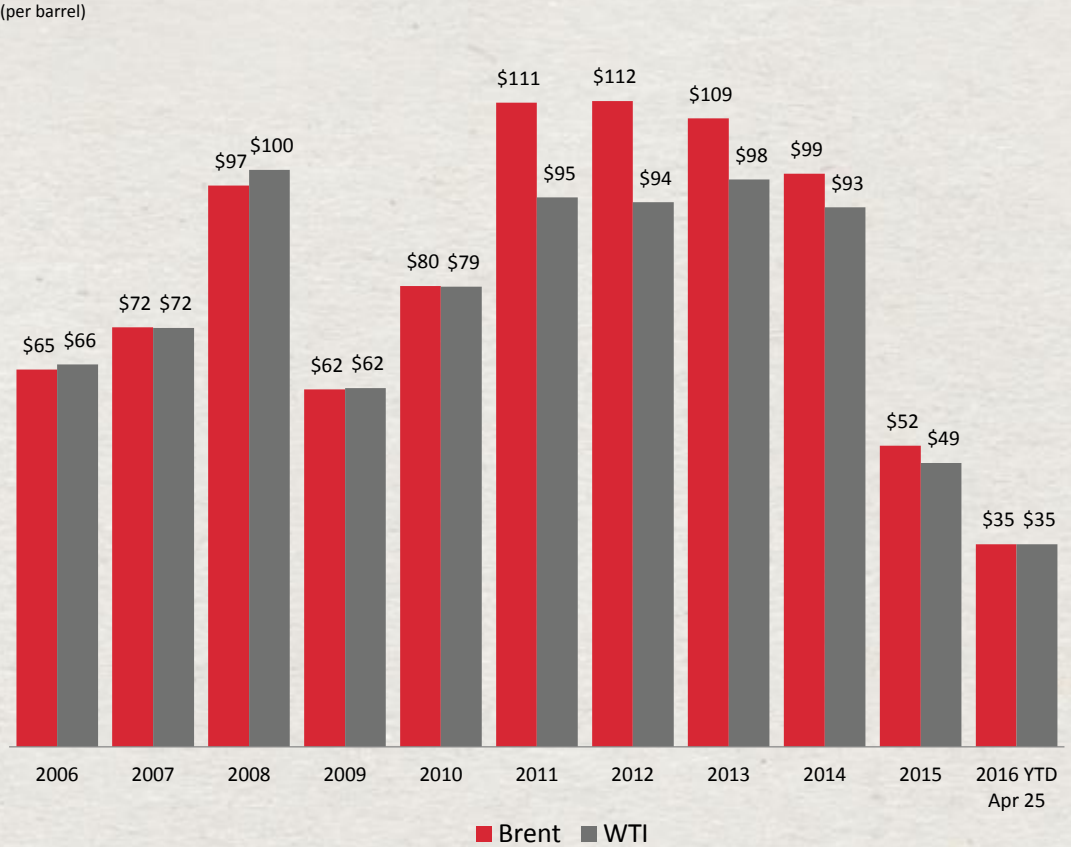
Note: Tenure includes DNOW and predecessor entities



# Industry Indicators and Trends

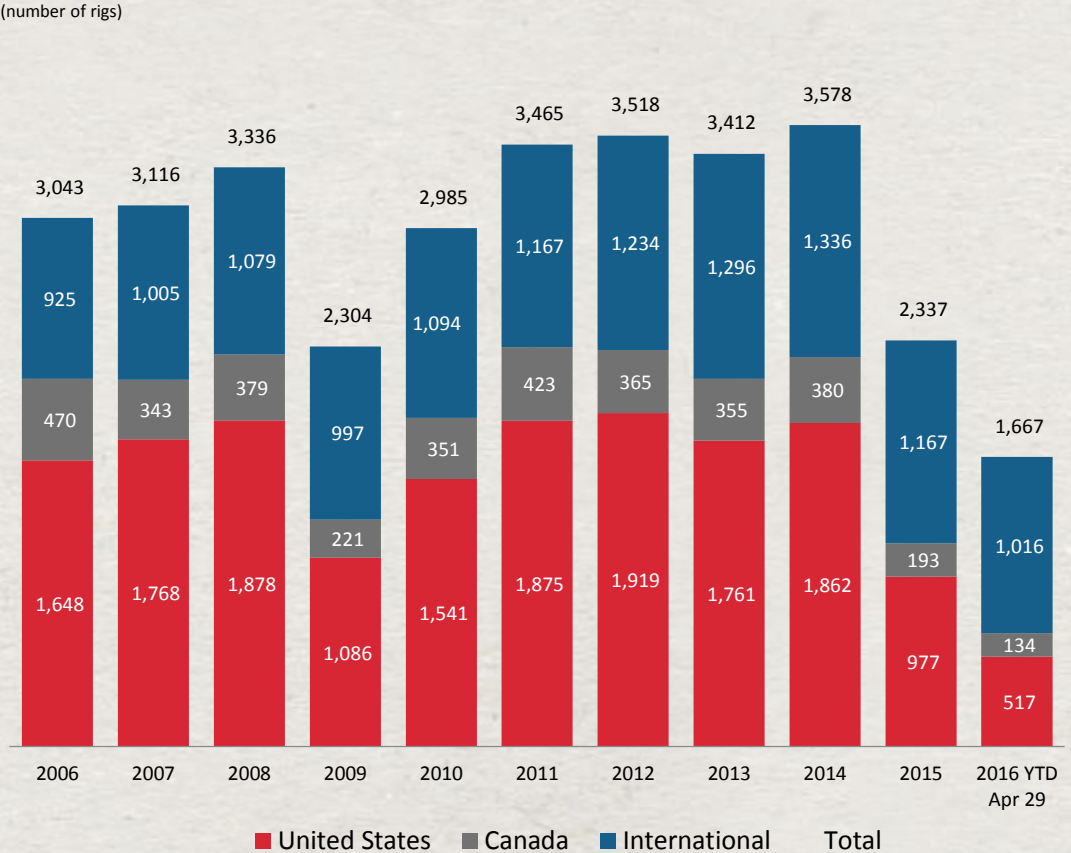
# Key Industry Indicators

## Average Oil Prices



Source: EIA, Europe Brent and Cushing, OK WTI Spot Price FOB

## Average Annual Rig Count

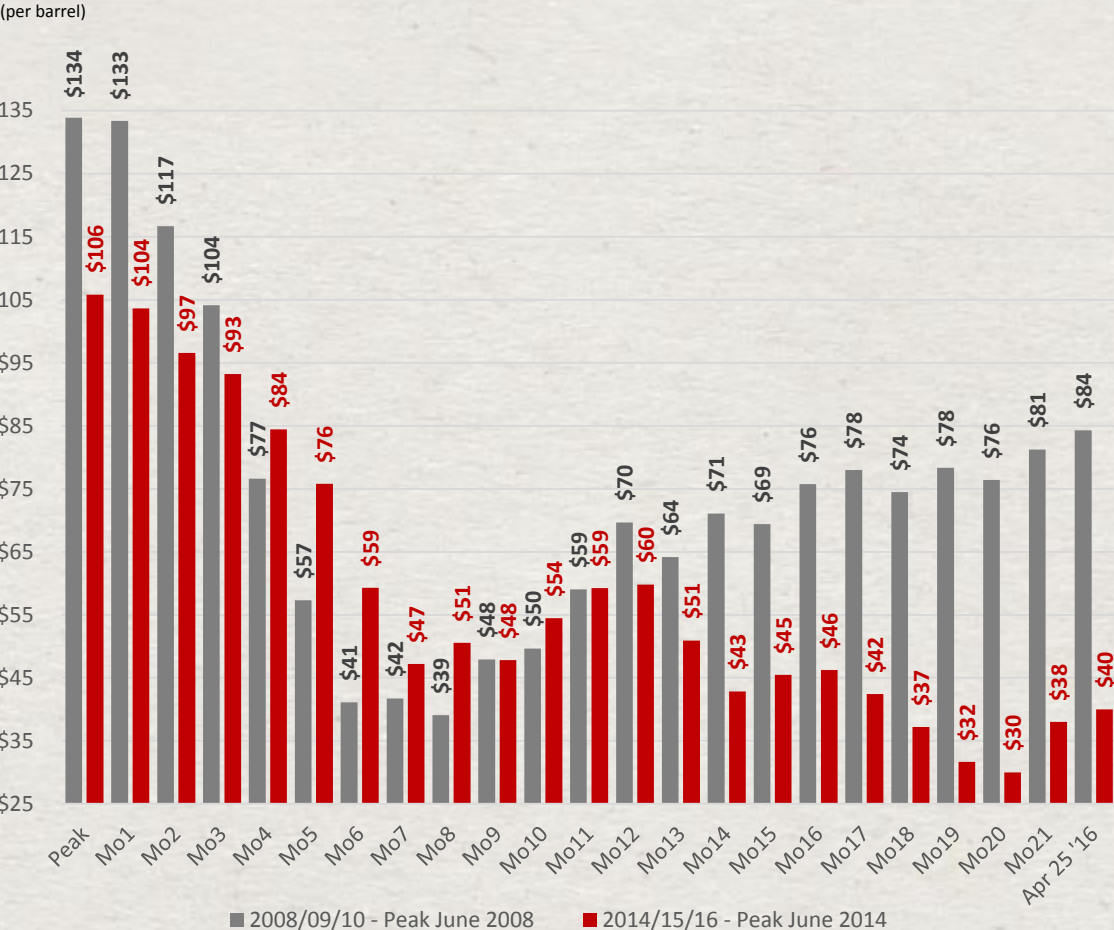


Source: Baker Hughes, Inc.

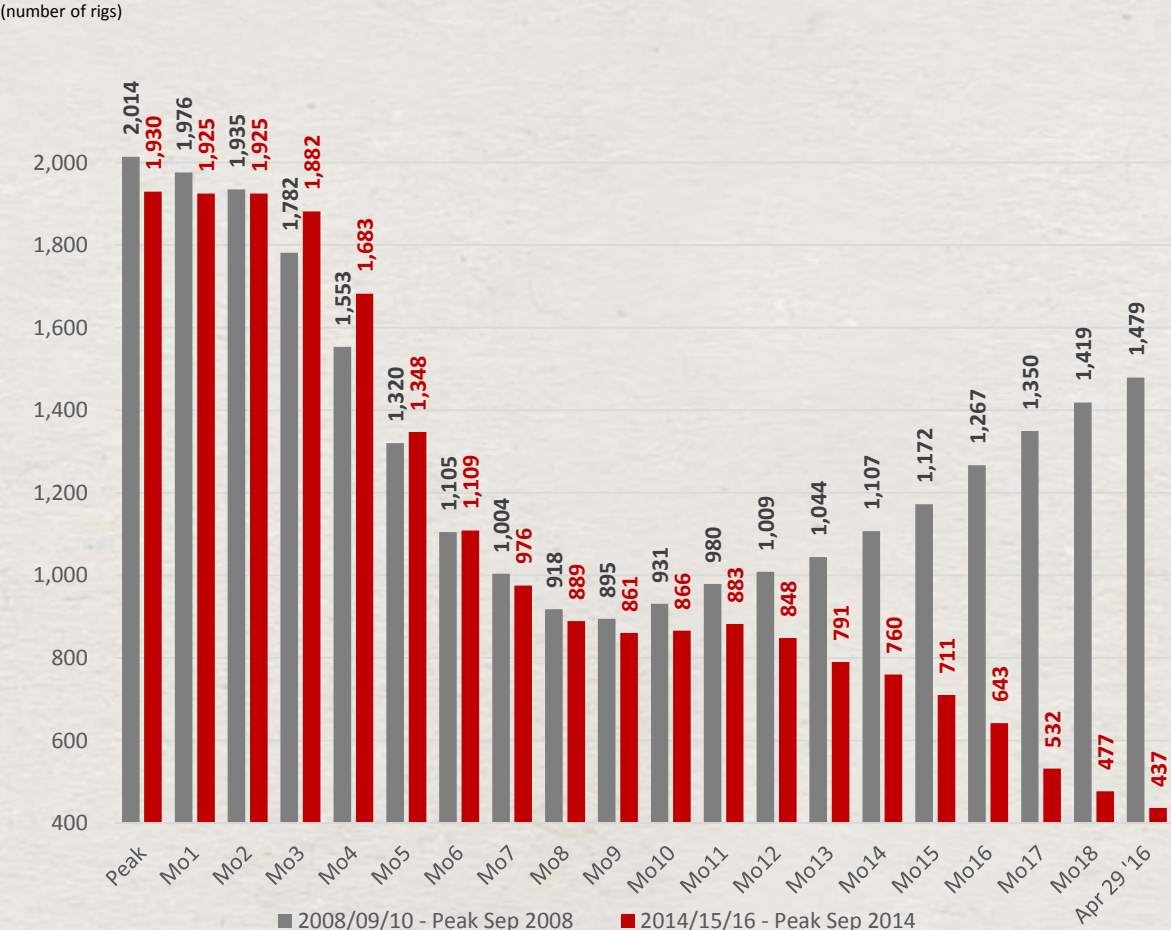


# Comparing Downturns – 2014/5/6 and 2008/9/10

Average Oil Prices - From Peak Month of Last Two Downturns



US Rig Count Trends – From Peak Month of Last Two Downturns



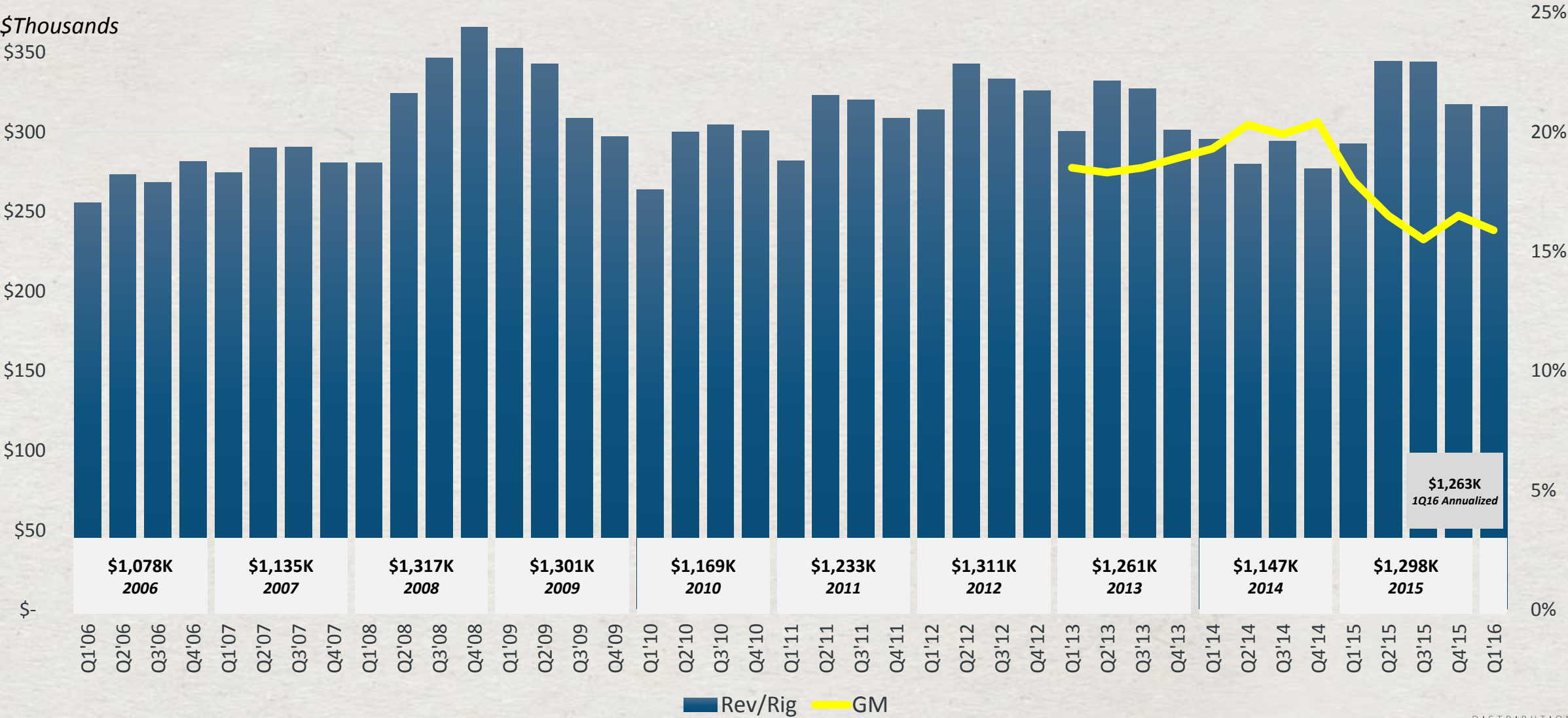
# Financial Overview



# Financial Highlights

- Solid market share growth through the cycles
- Attractive cash flow generation in this market
- Substantial operating leverage drives margin improvement
- Low capital intensity business model requires limited investment
- Capital structure provides significant financial flexibility
  - \$750 million revolving credit facility, plus \$250 million accordion provision of our five-year credit facility
  - \$131 million of cash on hand
- Conservative financial profile and highly disciplined management team

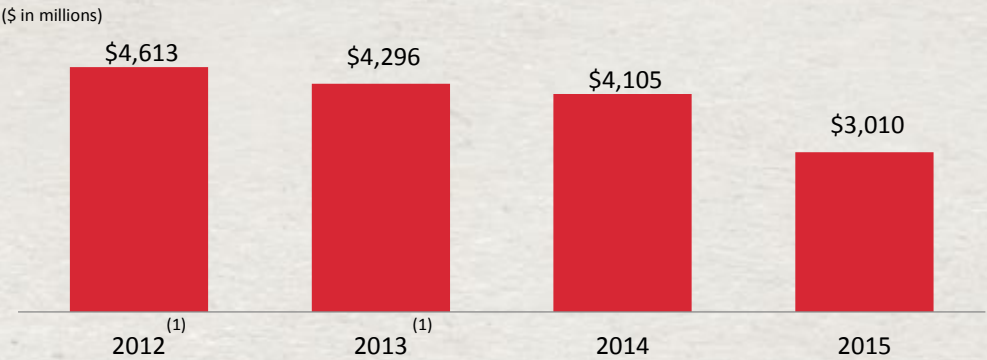
# Quarterly Revenues Per Worldwide Rig Count



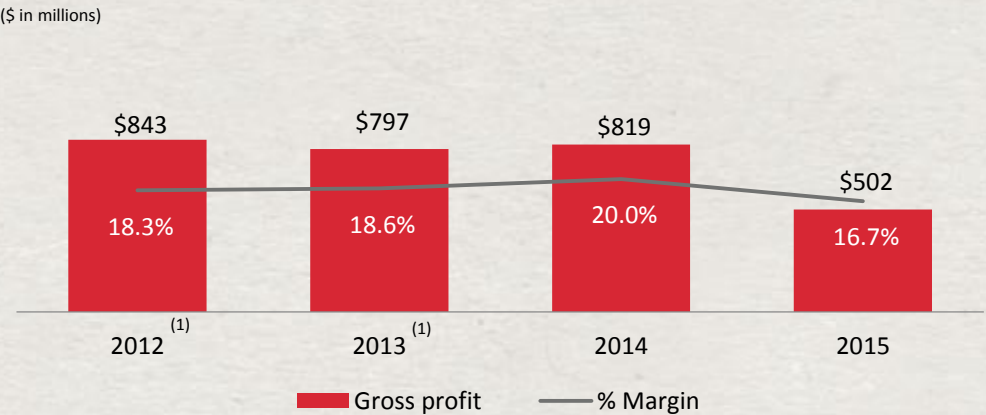


# Historical Financial Summary (Pro Forma)

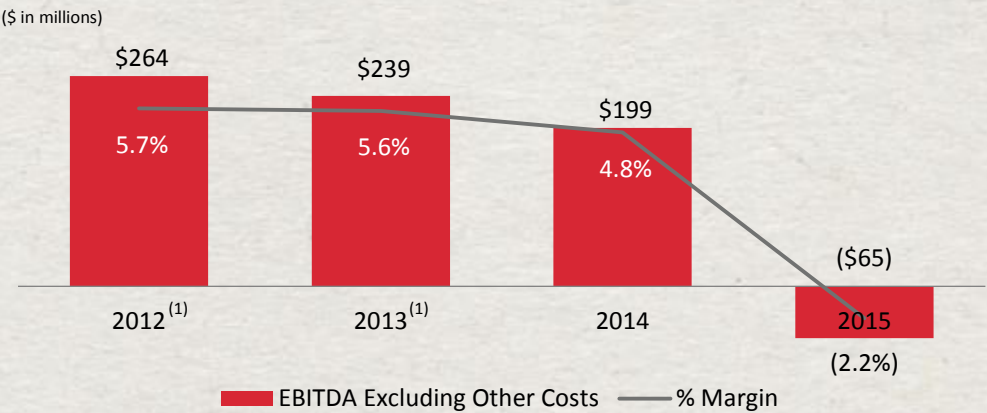
## Revenue



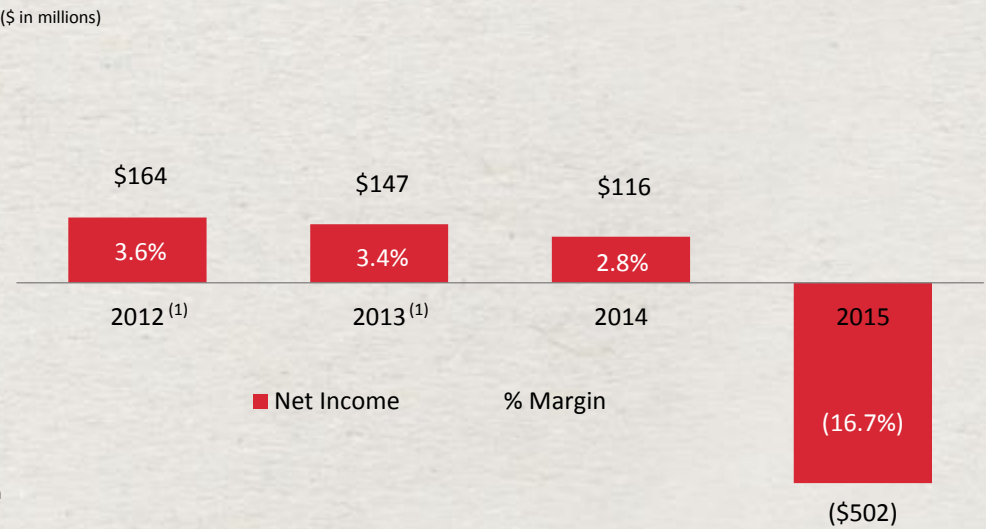
## Gross Profit and Margin



## EBITDA Excluding Other Costs and Margin



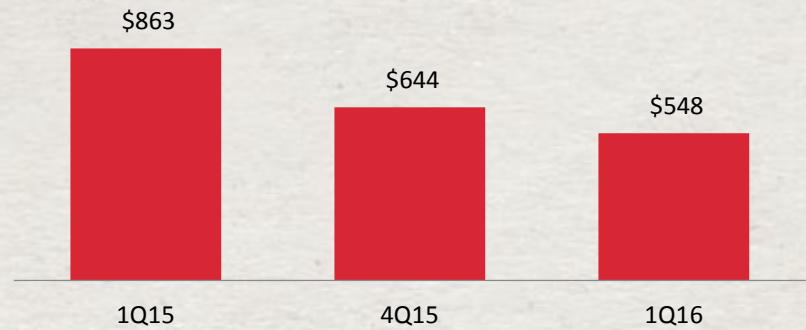
## Net Income and Margin



# Selected Quarterly Results (Unaudited)

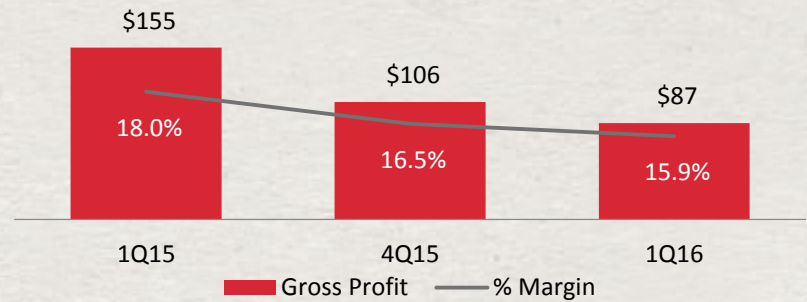
## Revenue

(\$ in millions)



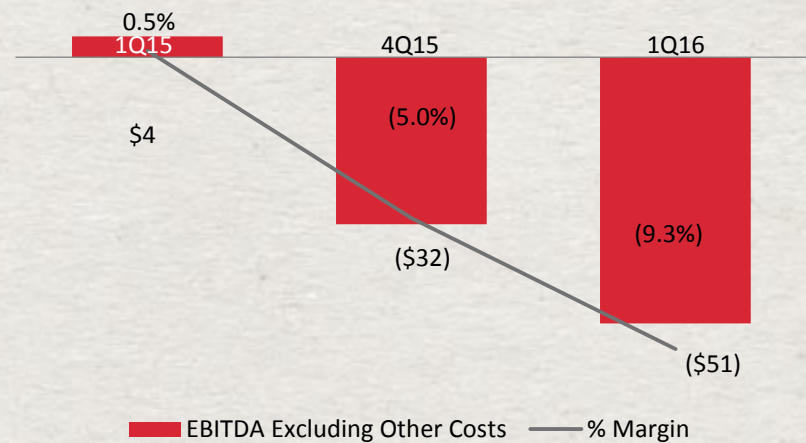
## Gross Profit and Margin

(\$ in millions)



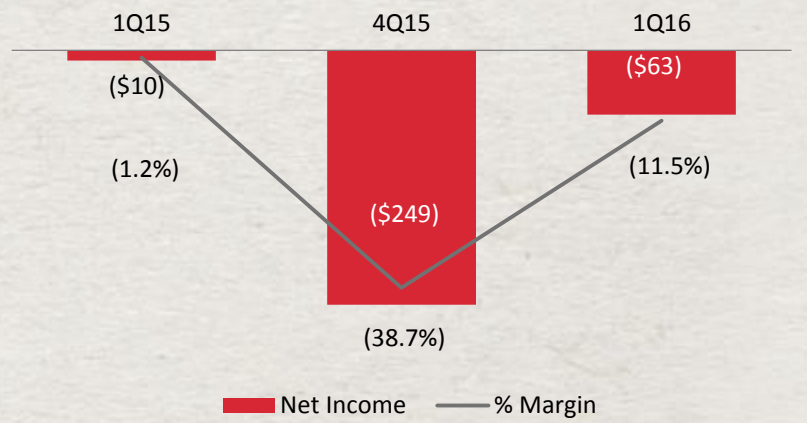
## EBITDA Excluding Other Costs<sup>(1)</sup> and Margin

(\$ in millions)



## Net Income and Margin

(\$ in millions)

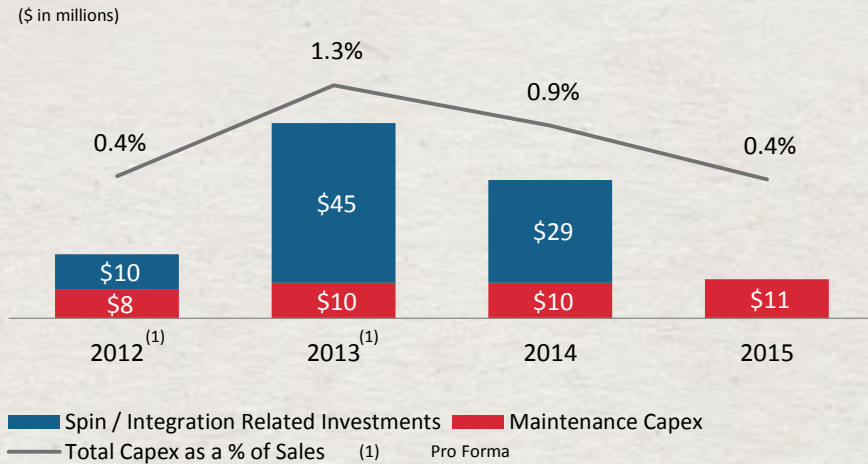


(1) Other Costs primarily includes transaction costs associated with acquisitions including the cost of inventory that was stepped up to fair value during purchase accounting related to acquisitions, severance expenses and impairment of the fair value of goodwill.

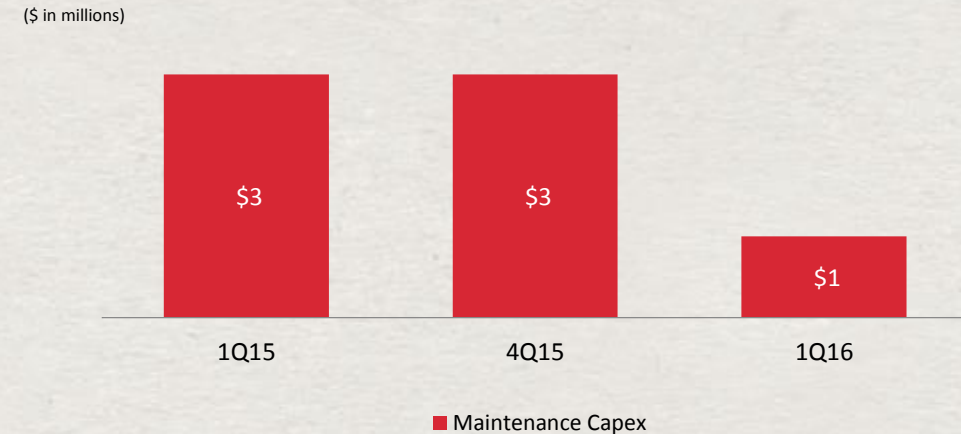


# Low Capital Intensity Business Model Requires Limited Investment

## Capital Expenditures



## Capital Expenditures – Quarterly Results



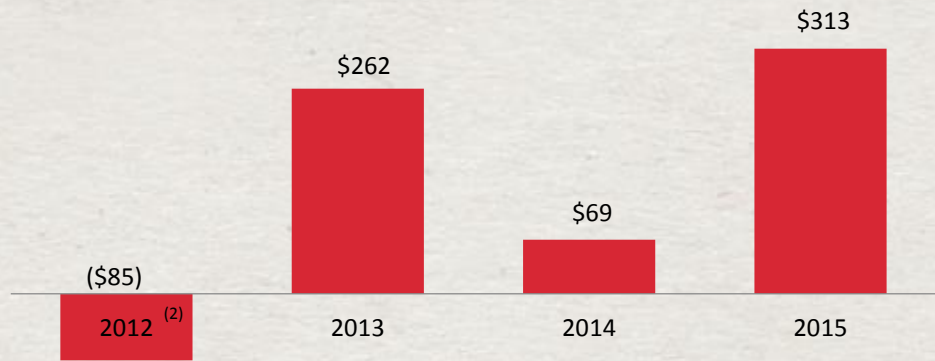
## Spin / Integration Related Investments

- Global SAP™ ERP system implementation
- New corporate headquarters and warehouse
- Distribution Centers in Edmonton, Estevan and Dubai
- Expansion of integrated warehouse management system
- Global rebranding to DistributionNOW
- Spin-related systems and software

# Cash Generation

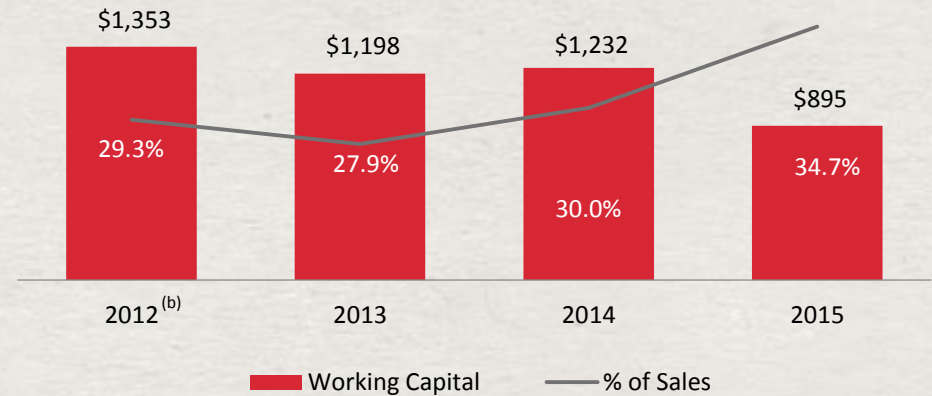
## Free Cash Flow <sup>(1)</sup>

(\$ in millions)



## Working Capital, excl. Cash Percent of Sales

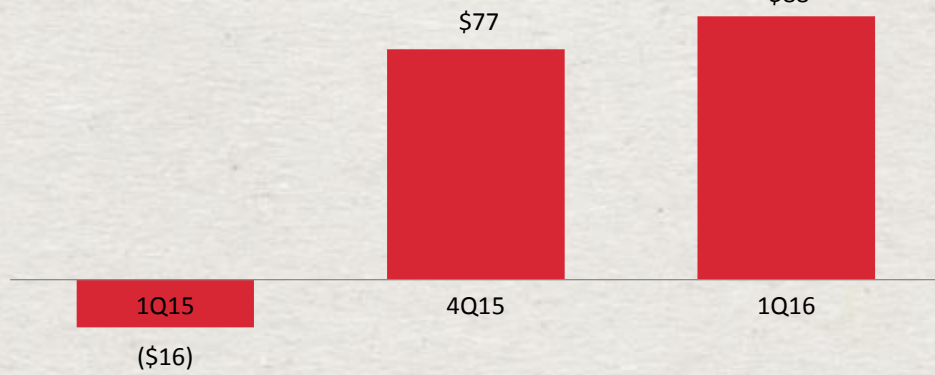
(\$ in millions)



12/31 Working Capital balance used in the calculation

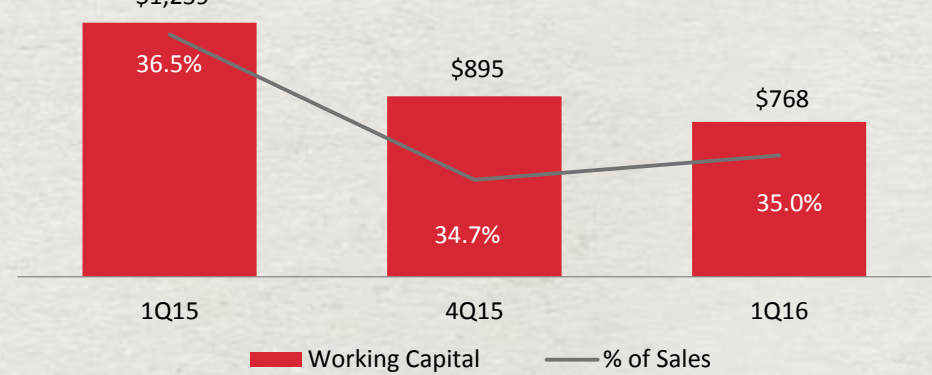
## Free Cash Flow – Quarterly Results <sup>(1)</sup>

(\$ in millions)



## Working Capital, excl. Cash Percent of Sales – Quarterly

(\$ in millions)



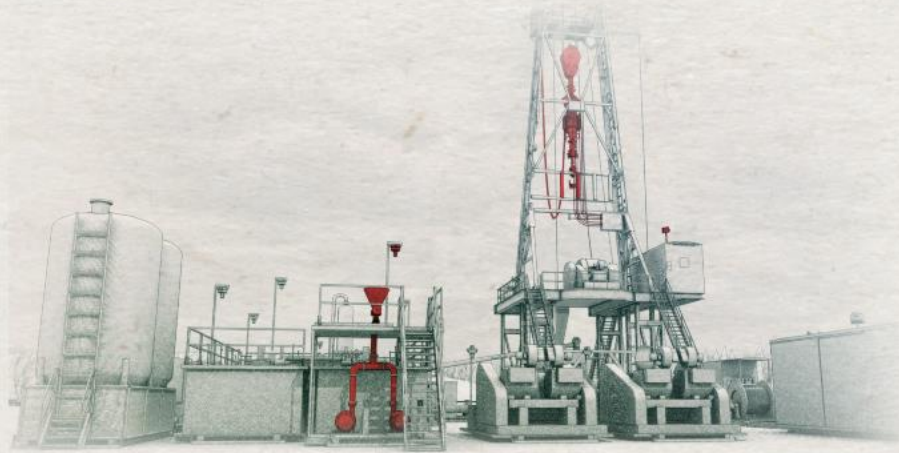
1) Free Cash Flow ("FCF") is defined as Cash Flow from Operations less Capital Expenditures  
2) Pro Forma



# Long Term Outlook

- 2016: Positioning DNOW for long term growth
  - Managing through a challenging market cycle
- Growth target: organic market share gains of low single digits each year
  - Energy Center revenues expected to track well completions and rig count
  - Supply Chain Services intended to be the largest beneficiary of capital allocations
- Margin target: return to previously achieved 8% EBITDA when market activity returns to 2014 levels
  - Incremental EBITDA margins exceed current profitability
    - Run-rate maintenance CapEx of approximately \$10 million annually
    - Generally, capital allocated to M&A will be consistent with cash flow





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