We Distribute Products That Deliver Energy to the World®

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# NOW Inc., Second Quarter 2018 Review & Key Takeaways

# Forward Looking Statements

- 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 (SEC). 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.
- In an effort to provide investors with additional information regarding our results as determined by U.S. Generally Accepted Accounting Principles (GAAP), we disclose various non-GAAP financial measures in our quarterly earnings press releases and other public disclosures. We use these non-GAAP financial measures internally to evaluate and manage the Company’s operations because we believe it provides useful supplemental information regarding the Company’s ongoing economic performance. The non-GAAP financial measures include: (i) earnings before interest, taxes, depreciation and amortization (EBITDA) excluding other costs, (ii) net income (loss) excluding other costs and (iii) diluted earnings (loss) per share excluding other costs. Each of these financial measures excludes the impact of certain other costs and therefore has not been calculated in accordance with GAAP. A reconciliation of each non-GAAP financial measure to its most comparable GAAP financial measure can be found in our quarterly earnings press release.

# CEO Perspective: Second Quarter Key Takeaways

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- Delivered 19% year-over-year (YoY) revenue growth
- Sequential EBITDA excluding other costs incrementals were 100%
- Significant improvement in gross margins, up 80 bps sequentially
- Our strategy to leverage process and supply chain solutions is delivering expanded revenue opportunities
- Continued focus on supporting growth initiatives and operational efficiency initiatives to capture leverage

**DNOW is well positioned to capitalize on a continued market upcycle**

# Strong Second Quarter Results

- Quarterly revenue of $777M improved by 19% YoY, outpacing 8% YoY global rig count growth
  - U.S. up 25% YoY, International up 12% and Canada down 5%, all favorable to rig count movements
  - U.S. Revenue Mix: 57% U.S. Energy Centers, 29% U.S. Supply Chain Services, 14% U.S. Process Solutions
- GAAP net income of $14M. Net income excluding other costs (a non-GAAP measure) of $10M; a $21M improvement YoY
- Gross margin improvement to 120 bps YoY
- Warehousing, selling and administrative expense of $139M
- EBITDA excluding other costs was $29M in 2Q, a $31M YoY improvement
- GAAP diluted earnings per share improved to $0.12, with non-GAAP diluted earnings per share excluding other costs of $0.10 per share

**Top and bottom line YoY growth**

# Executing the DNOW Strategy to Unlock Value

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## 1 Deliver Margin Expansion

- Leveraging **improved quoting process**
- **Managing supply chain disruptions** from impacts of Section 232, Section 301 and dumping cases on steel products
- **Leveraging technology to drive efficiencies and productivity** e.g. e-commerce system evolving, customer order process, expedited order processing

## 2 Optimize Operations

- Ongoing evaluation and **right-sizing footprint**
- Expanding **value service offerings in midstream**
- Human capital efforts to **strengthen position in active areas**

## 3 Drive Growth Through Acquisitions

- Delivering **revenue synergies through cross-selling**
- Maximizing **collaborations between Energy Centers & Process Solutions**
- Expanding valve actuation and service offering
- **Selectively evaluating M&A** opportunities

## 4 Approach Capital Allocation with Discipline

- **Working capital**, excluding cash, was 23% of revenue in 2Q18
- **Improved inventory turns** to 4.1x
- **DPOs** of 46 for 2Q18
- **Cash on hand** at June 30, 2018 of $91M

**Ongoing execution against strategy positions DNOW to deliver long-term shareholder value**

# Key Market Indicators

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## WTI/Rig Counts

- WTI avg $68 per barrel for 2Q18
- U.S. avg rig count of 1,038, up 16% YoY
- Canada avg rig count decreased from 273 to 106 sequentially
- Int'l avg rig count settled lower from 970 avg to 968 sequentially

**DNOW revenue per rig grew to $1.5M sequentially; WTI range is positive**

## U.S. DUCs

- June ended with a DUC count of 7,943 wells
- 7,745 2Q18 avg, up 5% from 1Q18 avg
- Up 31% YoY avg

**DUCs present future revenue opportunity for DNOW**

## U.S. Completions

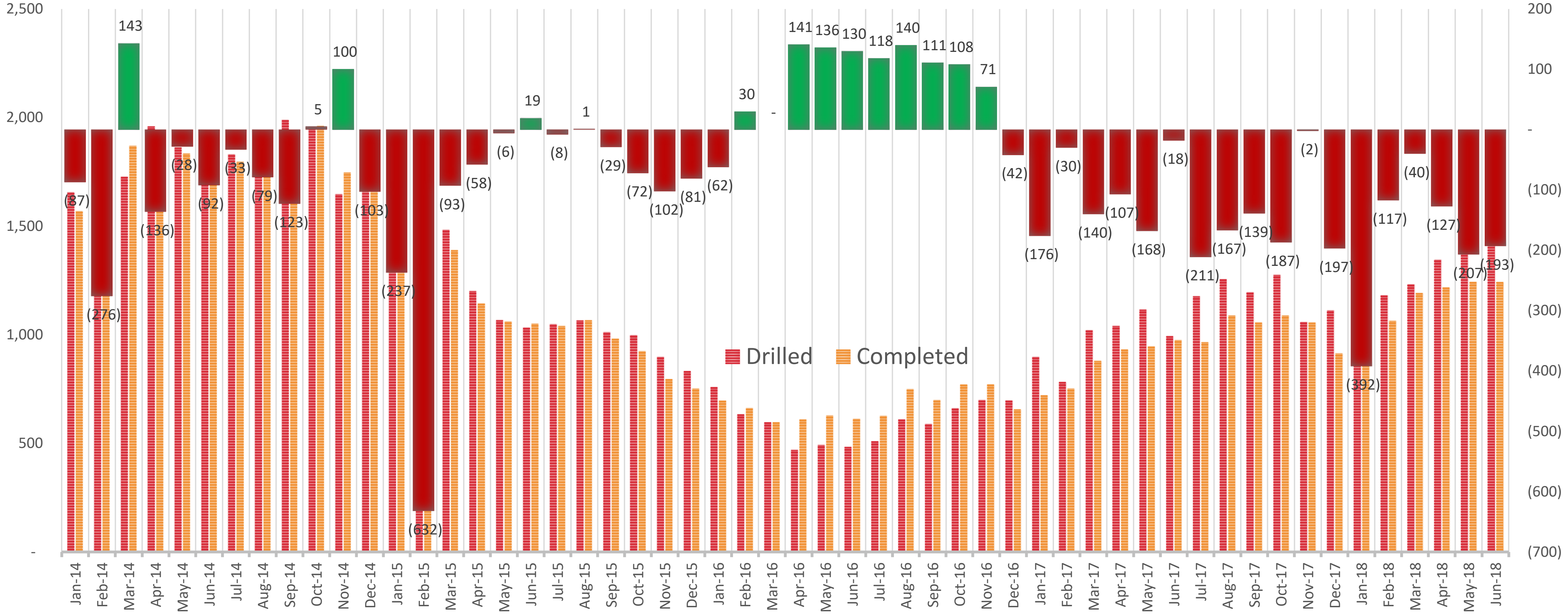
- 1,235 avg for 2Q18
- Up 17% from 1Q18 avg
- Up 30% YoY avg

**Presents an immediate opportunity for DNOW U.S. sales as tank batteries are constructed after completions**

# Drilled and Completed Well Trends

## U.S. COMPLETIONS *DEFICIT* OR *SURPLUS*

SOURCE DATA: WWW.EIA.GOV




**DUCs grow as completions struggle to keep pace with wells drilled**

# 2Q Highlights and Future Dynamics – United States

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## U.S. Energy Centers

### 2Q Highlights

- Revenue up 23% YoY
- Strong midstream sales growth
- Permian continues to be most active, as the Bakken, Rockies, Eagle Ford and DJ Basin gain steam

### Future Drivers

- Capitalize on completion activity in oil plays
- Trend of more customers using domestic versus import pipe due to availability and tariffs on imports

## U.S. Supply Chain Services

### 2Q Highlights

- Revenue up 23% YoY
- Expanded offering to key customers including measurement, electrical and fabricated production equipment
- Continued revenue strength

### Future Drivers

- Fundamentals good for SCS value proposition
- Focused on investing in Permian and New Mexico growth areas

## U.S. Process Solutions

### 2Q Highlights

- Revenue up 37% YoY
- Permian remains most active region
- Capturing produced water and crude gathering opportunities for pumps

### Future Drivers

- Well completions and midstream activity represent positive indicator for Process Solutions
- Sizable RFQs from EPCs and E&P Operators

**Overall U.S. revenues grew 25% YoY; exceeding 16% U.S. rig count growth**

# 2Q Highlights and Future Dynamics – Canada and Int'l

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## Canada

### 2Q Highlights

- Revenue decreased 5% YoY
- Revenue decreased 26% sequentially due to spring breakup while some customer investment uncertainty remains related to access to oil and gas exports, pipeline constraints

### Future Drivers

- Optimism as a result of Canadian Government backed midstream projects, additional rail capacity coming on line, favorable exchange rate for producers selling in USD and narrowing of Heavy Oil differential spread
- Growing confidence in gas futures with the announcement of LNG Canada's Kitimat based LNG project

## International

### 2Q Highlights

- Revenue up 12% YoY and 2% sequentially
- Gains by projects in China, Indonesia, and CIS
- Some signs of increasing activity in Norway and offshore drilling contractors

### Future Drivers

- Seeing new builds in Singapore take hold
- Awarded electrical contracts from European based E&P Company and Norway based drilling contractor
- Offshore activity levels

**Optimistic about DNOW's prospects and future outlook**

# CFO Highlights: Selected Quarterly Results (Unaudited)

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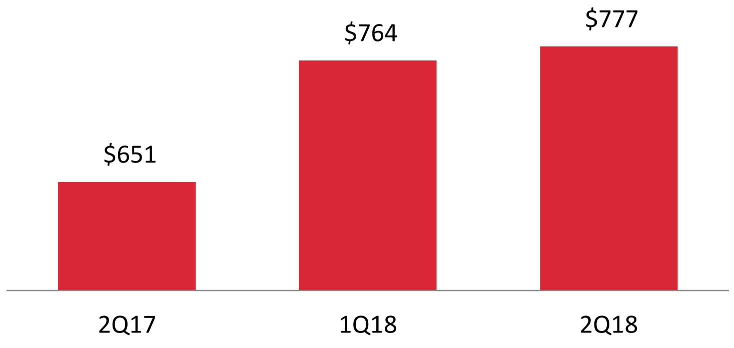
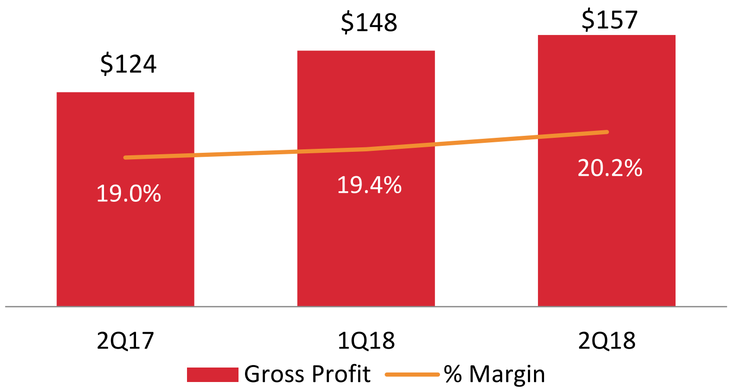
## Revenue

($ in millions)



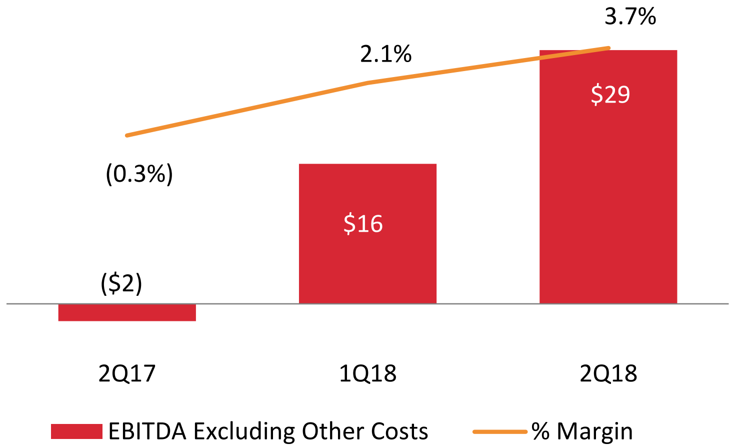

## Gross Profit and Margin

($ in millions)



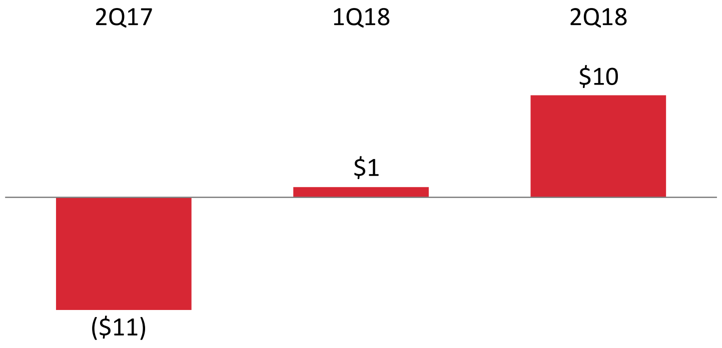

## EBITDA Excl. Other Costs (Non-GAAP) and Margin

($ in millions)




## Net Income (Loss) Excl. Other Costs (Non-GAAP)

($ in millions)




**Continued positive momentum on key metrics**

# YoY Improvement in Revenue and Operating Profit

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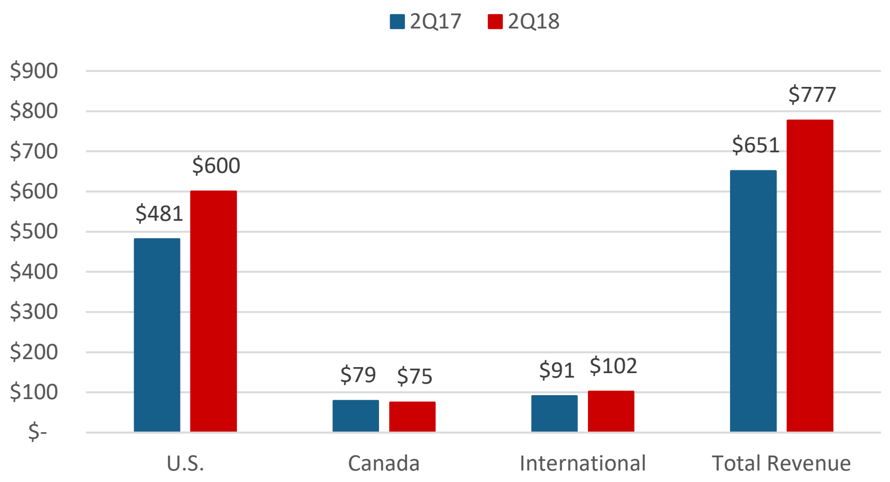
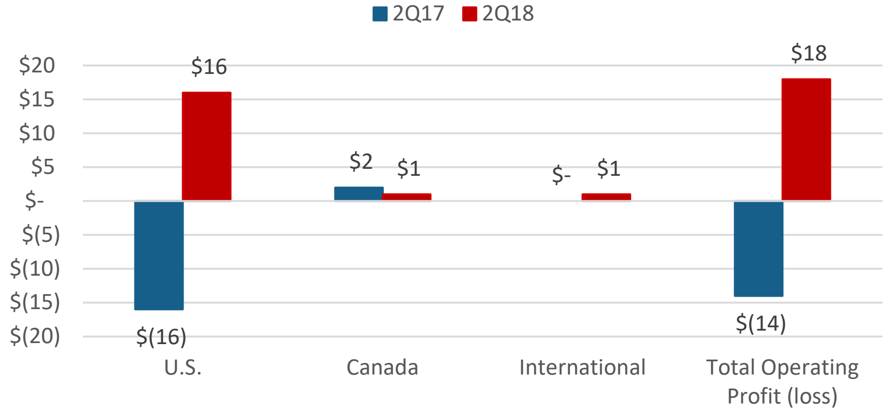
($ in millions)

| | Unaudited 2Q17 | Unaudited 2Q18 |
|---|---|---|
| **Revenue:** | | |
| **United States** | $ 481 | $ 600 |
| **Canada** | 79 | 75 |
| **International** | 91 | 102 |
| **Total revenue** | 651 | 777 |
| **Operating profit (loss):** | | |
| **United States** | $ (16) | $ 16 |
| **Canada** | 2 | 1 |
| **International** | - | 1 |
| **Total operating profit (loss)** | (14) | 18 |




**Strong YoY U.S. revenue performance, Int'l revenue strengthened**

# CEO Wrap Up: Key Takeaways


- Fundamentals positive in the U.S., improving post-break-up in Canada, with some International green-shoots
- 2018 revenue growth expected in the high-teens percentage range
- Our strategy to maximize operations, enhance margins, leverage acquisitions and take disciplined approach to capital allocation are driving positive earnings performance
- Looking ahead, well positioned to leverage our value proposition, strategy, and assets to capture market opportunity

**DNOW's organizational strength and committed employees are critical foundation for success**