



# NOW Inc., First Quarter 2019

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KEY TAKEAWAYS

Energy Delivered.™  
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# Disclosure Statement

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- 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 excluding other costs and (iii) diluted earnings 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: First Quarter Key Takeaways

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- Delivered 3% year-over-year (YOY) revenue growth
- EBITDA excluding other costs was solid at \$31M
- Gross margins improved 70 bps YOY, but declined 40 bps sequentially as expected
- U.S. Process Solutions improved YOY revenue by 24% by leveraging our Energy Centers and Supply Chain Services access to customers
- Continued focus on supporting growth and operational efficiency initiatives

# First Quarter Results

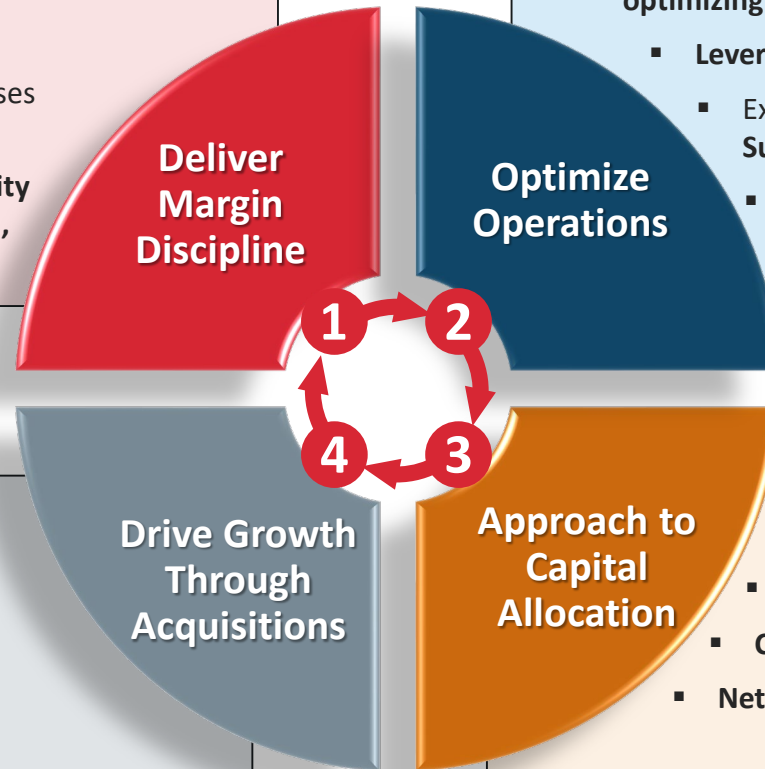
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- Quarterly revenue of \$785M improved by 3% YOY, in line with rig count growth
  - U.S. up 7% YOY versus rig count growth of 8%
  - Canada down 16% YOY, despite a 32% decline in rig count
  - International down 1% YOY, on 6% rig count growth
  - U.S. revenue channels: 52% U.S. Energy Centers, 31% U.S. Supply Chain Services, 17% U.S. Process Solutions
- GAAP net income of \$18M; net income excluding other costs (a non-GAAP measure) of \$13M, a \$12M improvement YOY
- Warehousing, selling & administrative expense of \$135M, a \$6M improvement YOY aided by \$4M lower bad debt charges
- Operating profit of \$23M, an improvement of \$16M YOY
- EBITDA excluding other costs was \$31M in 1Q19, nearly doubling from \$16M in 1Q18
- GAAP diluted earnings per share improved to \$0.16, with non-GAAP diluted earnings per share excluding other costs at \$0.12 per share versus \$0.01 in 1Q18

Top and bottom line YOY growth while exhibiting solid expense control

# DNOW Strategy to Unlock Value

- Leveraging **improved quoting process**, increasing efficiency, response time and improving pricing discipline
- **Managing supply chain disruptions and well positioned** from impacts of Section 232, Section 301 and dumping cases on steel products
- **Deploying technology to drive efficiencies and productivity** e.g. e-commerce system evolving, customer order process, expedited order processing



- **Scaling and right-sizing locations** to capitalize on market demand and **optimizing distribution facilities**
  - Leveraging suppliers for market opportunities
  - Expand **value offerings from U.S. Process Solutions and U.S. Supply Chain Services**
  - Human capital and recruiting efforts continue to **strengthen our position in key active areas**

- **Selectively evaluating M&A opportunities**
- Deepening integrations of acquired companies and delivering **revenue synergies through cross-selling with acquired companies**

- **Working capital**, excluding cash, was 22% of revenue in 1Q19
- **Inventory turns** at 4.0x
- **Cash on hand** at March 31, 2019 of \$87M
- **Net debt** at \$37M

# 1Q19 Key Market Indicators

## WTI/Rig Counts

- WTI avg \$55 per barrel for 1Q19
- U.S. avg rig count of 1,046, down 2% sequentially, up 8% YOY
- Canada avg rig count 186, up 5% sequentially, down 32% YOY
- International avg rig count 1,030, up 2% sequentially, up 6% YOY

**DNOW annualized revenue per rig was \$1.4M for 1Q19**

## U.S. DUCs

- March ended with a DUC count of 8,500 wells in EIA DPR regions
- 8,471 1Q19 avg, up 6% sequentially
- Up 25% YOY avg

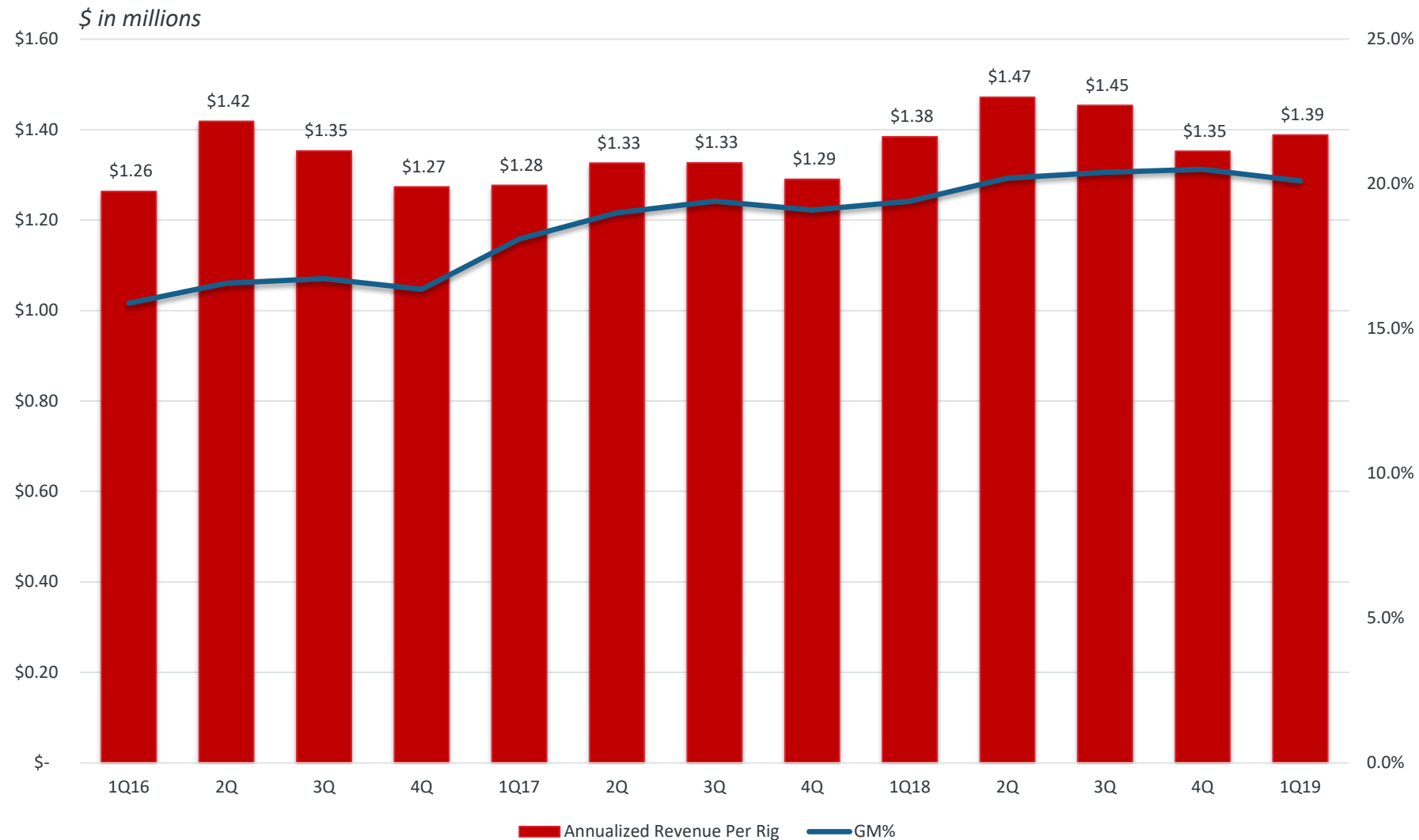
**DUCs are future revenue opportunities for DNOW**

## U.S. Completions

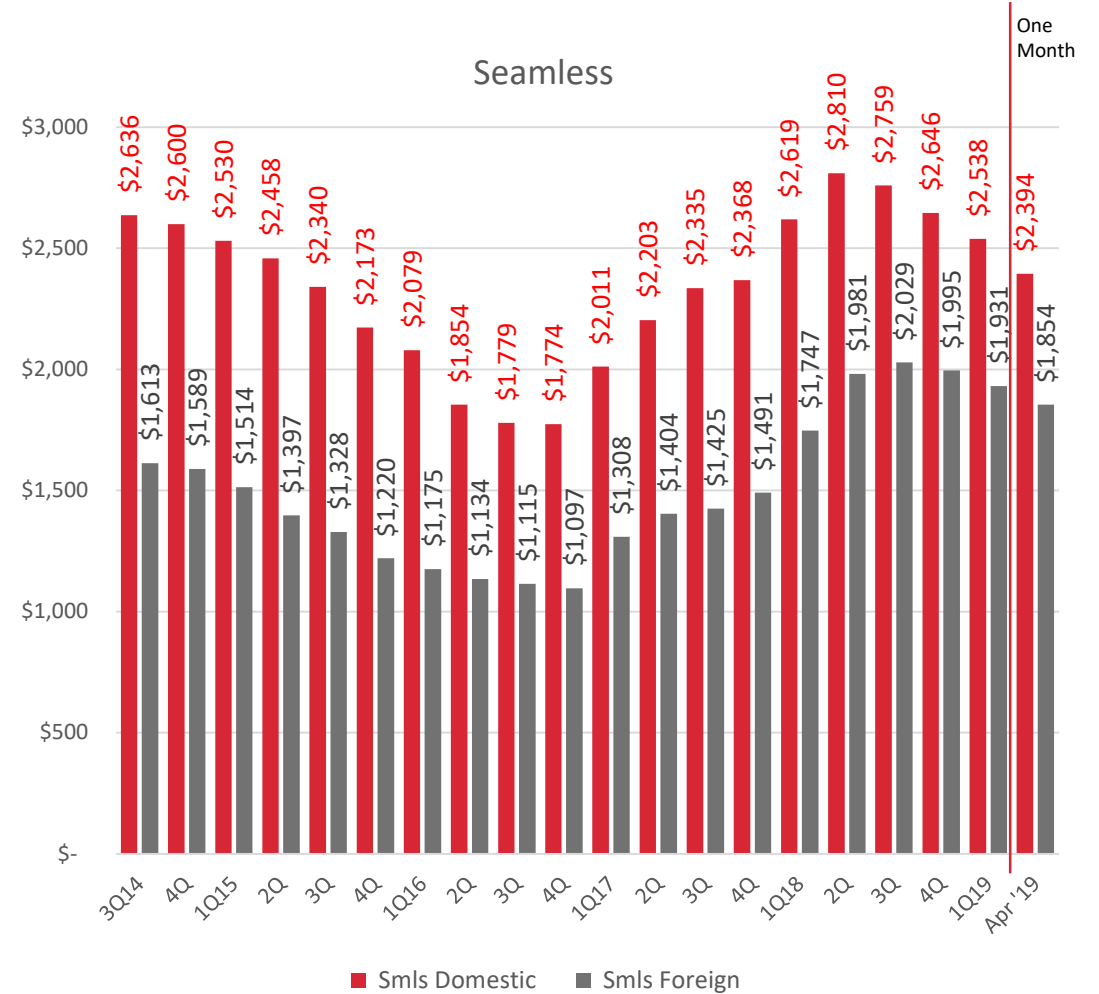
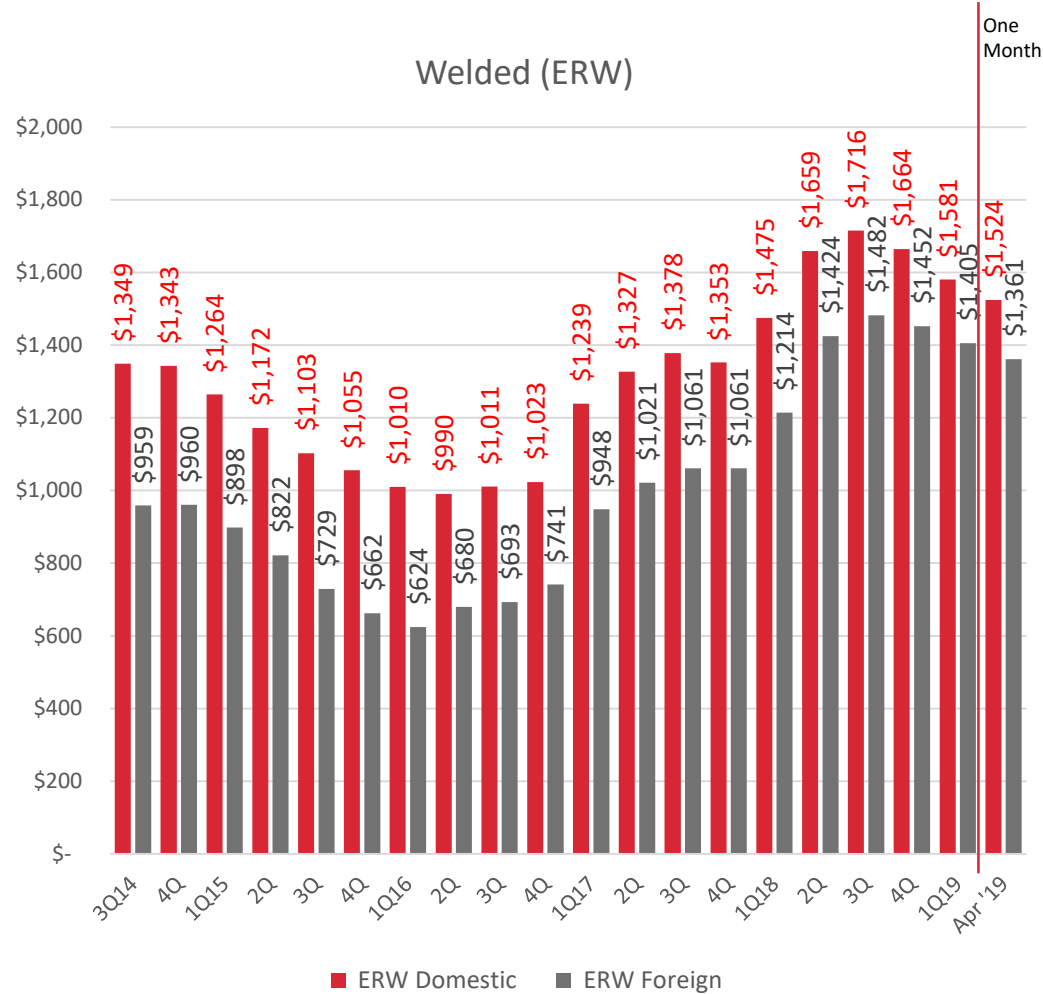
- 1,310 avg for 1Q19
- Up 3% from 4Q18 avg
- Up 17% YOY avg

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

# Revenue per Global Rigs and Gross Margins, Trended



# Pipe price trends, U.S. dollar per ton



Source: Pipe Logix



# 1Q19 Highlights and Future Drivers – U.S. Channels

## U.S. Energy Centers

### 1Q Highlights

- Revenue up 6% YOY, up 2% sequentially
- E&P activity led by gains in the Permian and uptick in Eagle Ford activity
- Midstream project activity in Permian, Eagle Ford and Northeast
- Line Pipe market challenged with decreasing pipe replacement cost and pipe margins, lower Hot Rolled Coil (HRC) pricing affecting welded pipe
- Mid Continent softens due to declining drilling activity

### Future Drivers

- HRC pricing remains challenging and a weaker market for OCTG leaving more capacity in the market

## U.S. Supply Chain Services

### 1Q Highlights

- Revenue up 1% YOY, up 2% sequentially
- E&P activity from Permian Delaware Basin, Scoop Stack, Eagle Ford and Bakken
- Northern plays impacted by less working days due to record breaking cold in February

### Future Drivers

- Fundamentals good for SCS value proposition
- Expand product portfolio to energy customers for increased value proposition
- Kitted solutions yielding efficiencies and customer savings

## U.S. Process Solutions

### 1Q Highlights

- Revenue up 24% YOY, up 13% sequentially
- Activity led by Permian, Bakken, Rockies, and Eagle Ford
- Strong deliveries of produced water packages for E&P and water management companies, pipeline booster packages for crude, NGL and light end fluids for midstream gathering lines

### Future Drivers

- Strong order levels
- Target Salt Water Disposal (SWD) and pipeline booster pumps for midstream gathering market

# 1Q19 Highlights & Future Drivers – Canada & International

## Canada

### 1Q Highlights

- Revenue decreased 16% YOY, approx. one-third of the decline due to FX, sequentially down 2%
- Alberta Government production curtailment used to narrow price gap between WCS and WTI and lower crude inventory levels impacting demand for products
- Takeaway constraints, reduced capex and Alberta production curtailment challenge top line growth

### Future Drivers

- Uncertainty on pipeline takeaway projects, political and economic challenges
- Canadian seasonal break up period can restrict access to drilling sites and negatively impact 2Q19 Canadian revenue

## International

### 1Q Highlights

- Revenue up 2% sequentially, and down 1% YOY
- Increased activity in Asia, UK and Export to West Africa
- Continued jack-up rig load outs in Asia
- UK project activity to Middle East
- Middle East land activity remains steady

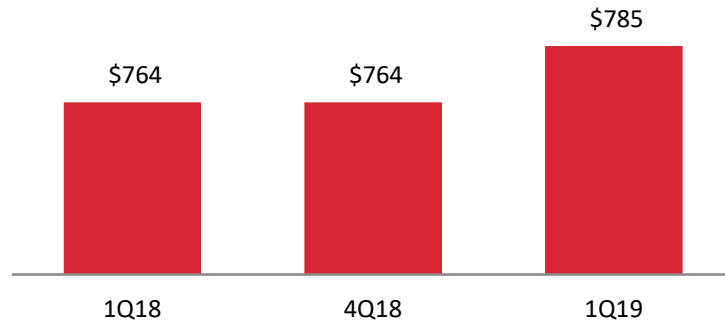
### Future Drivers

- Jack-up and floater tender awards
- Electrical activity uptick in UK
- Increasing activity for onshore rigs in Australia
- Offshore opportunities in Brazil and Mexico

# CFO Highlights: Selected Quarterly Results (Unaudited)

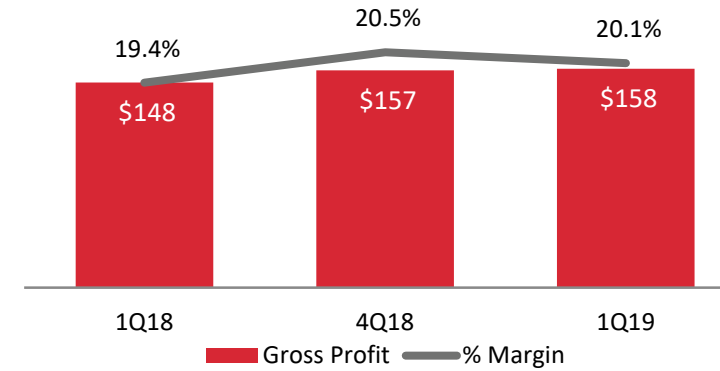
## Revenue

(\$ in millions)



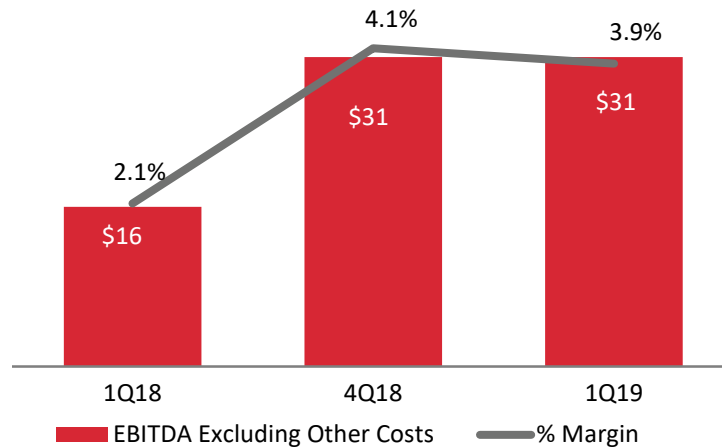
## Gross Profit and Margin

(\$ in millions)



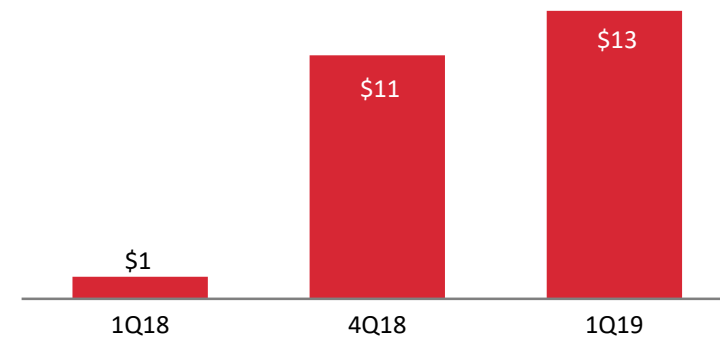
## EBITDA Excl. Other Costs (Non-GAAP) and Margin

(\$ in millions)



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

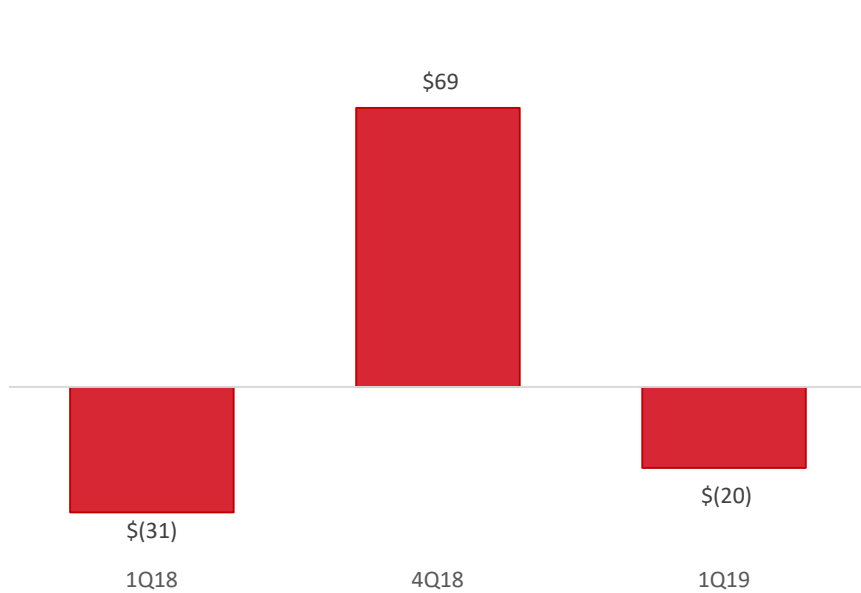
(\$ in millions)



# Cash Generation & Working Capital Management

## Free Cash Flow

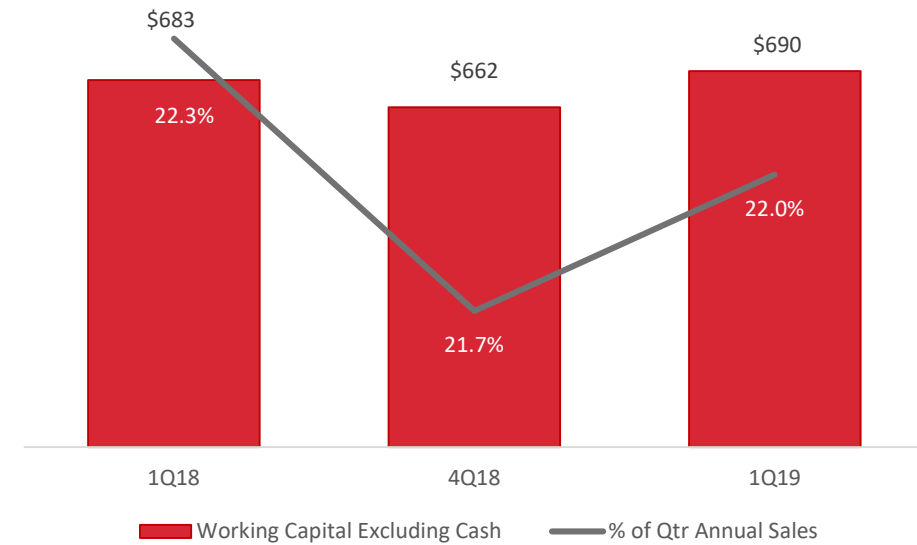
(\$ in millions)



Free Cash Flow ("FCF") is defined as net cash provided by (used in) operating activities, less purchases of property, plant and equipment

## Working Capital Excluding Cash

(\$ in millions)

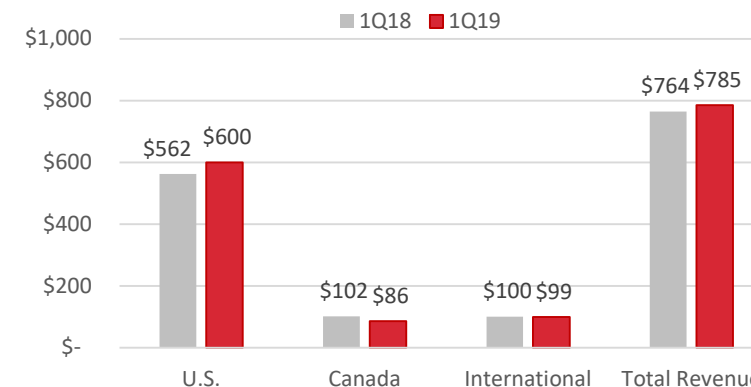


# YOY Improvement in Revenue and Operating Profit

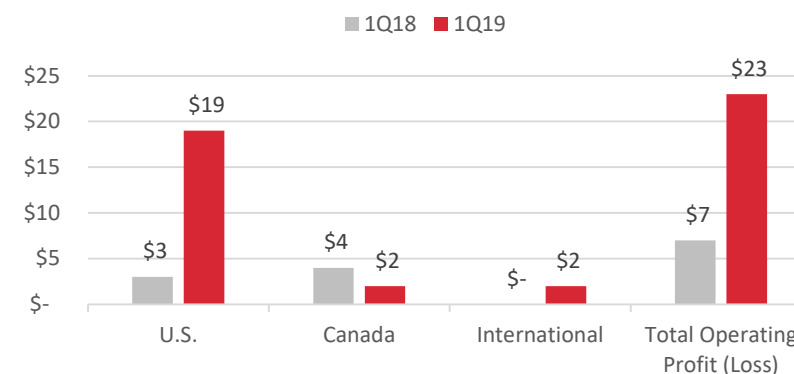
(\$ in millions)

|                               | Unaudited  |            |
|-------------------------------|------------|------------|
|                               | 1Q18       | 1Q19       |
| <b>Revenue:</b>               |            |            |
| <b>United States</b>          | \$ 562     | \$ 600     |
| <b>Canada</b>                 | 102        | 86         |
| <b>International</b>          | 100        | 99         |
| <b>Total revenue</b>          | <u>764</u> | <u>785</u> |
| <b>Operating profit:</b>      |            |            |
| <b>United States</b>          | \$ 3       | \$ 19      |
| <b>Canada</b>                 | 4          | 2          |
| <b>International</b>          | -          | 2          |
| <b>Total operating profit</b> | <u>7</u>   | <u>23</u>  |

YOY Revenue By Segment



YOY Operating Profit By Segment



Positive YOY U.S. revenue performance, profit from all three segments

# CEO Wrap Up: Key Takeaways

- Canadian seasonal downward trends into 2Q19, primarily, coupled with takeaway capacity and political concerns may offset expected U.S. revenue gains
- Guidance remains for full year 2019 revenue to be flat to a low single digit decline from 2018 based on our current outlook and market sentiment
- Focus continues on:
  - Maximizing gross margins in a choppy price environment,
  - while focusing on efficiencies in the business, and
  - improving working capital turns and generating positive free cash flow



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