



## DXP Enterprises Announces 2015 Fourth Quarter and Fiscal Year 2015 Results

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- *Fiscal year 2015 sales of \$1.2 billion*
- *Earnings Before Impairments, Interest, Taxes, Depreciation, and Amortization ("Adjusted EBITDA") of \$74.0 million, or 5.9 percent of sales. Excluding unusual and special charges, Adjusted EBITDA was \$81.3 million, or 6.5 percent*
- *Recorded \$77.0 million in impairment and charges related to B27 and the ITT Goulds' separation*
- *Free cash flow of \$84.0 million, excluding unusual cash outflows, free cash flow for fiscal 2015 was \$96.3 million*
- *Completed two acquisitions in fiscal 2015 including Tool Supply and Cortech Engineering*

HOUSTON--(BUSINESS WIRE)-- **DXP Enterprises, Inc. (NASDAQ:DXPE)** today announced financial results for the fourth quarter and fiscal year ending December 31, 2015. A reconciliation of the non-GAAP financial measures is in the back of this press release.

### Fourth Quarter 2015 Financial Highlights:

- Sales were \$278.7 million for the fourth quarter of 2015, a decrease of 8.1 percent from the third quarter and a decrease of 27.1 percent compared to \$382.5 million for the fourth quarter of 2014.
- Adjusted EBITDA was \$13.6 million for the current quarter versus \$11.3 million in the third quarter and \$34.2 million for the fourth quarter of 2014. Adjusted EBITDA as a percentage of sales was 4.9 percent versus 3.7 percent for the third quarter of 2015 and 9.0 percent in the fourth quarter of 2014.
- Loss per diluted share for the fourth quarter was \$0.20. Excluding non-cash impairment charges of \$9.8 million, earnings per diluted share were a positive \$0.36 per share, based upon 15.4 million diluted shares.
- Free cash flow (cash flow from operating activities less capital expenditures) for the fourth quarter of 2015 was \$20.9 million, or 153 percent of Adjusted EBITDA compared to \$32.8 million, or 96 percent of Adjusted EBITDA for the fourth quarter of 2014 and compared to \$15.8 million for the third quarter of 2015.

### Fiscal Year 2015 Financial Highlights:

- Sales were \$1.2 billion for fiscal year 2015, compared to \$1.5 billion for the fiscal year 2014, a decrease of 16.9 percent. Organic sales decreased 18.4 percent, acquisitions positively impacted sales by \$23.6 million for 2015.
- Gross profit was \$352.0 million, or 28.2 percent of sales for the fiscal year 2015, compared to \$432.8 million, or 28.9 percent of sales for the fiscal year 2014.
- Selling, general & administrative (SG&A) expenses were \$303.8 million, or 24.4 percent of sales for fiscal 2015, compared to \$327.9 million, or 21.9 percent of sales for fiscal 2014.
- Adjusted EBITDA was \$74.0 million for the year, compared to \$139.9 million for 2014. This includes a \$7.3 million working capital dispute payment in the third quarter associated with the B27 transaction. Excluding this \$7.3 million payment, Adjusted EBITDA would have been \$81.3 million or 6.5 percent of sales for the year. Adjusted EBITDA as a percentage of sales was 5.9 percent and 9.3 percent in 2015 and 2014, respectively.
- Earnings per diluted share for the fiscal year 2015 was a loss of \$2.68, excluding non-cash impairment charge of \$68.7 million and the \$7.3 million working capital settlement for B27, earnings per diluted share was \$1.80 per diluted share, based on 15.3 million diluted shares. This compares to a loss of \$3.10 per diluted share in fiscal 2014 or an earnings per diluted share of \$3.67, adjusted for a non-cash impairment charge of \$117.6 million based on 15.5 million diluted shares.
- Free cash flow (cash flow from operating activities less capital expenditures) for 2015 was \$84.0 million compared to

\$87.6 million for the fiscal year 2014. Excluding \$11.3 million paid in connection with the working capital dispute with the sellers of B27, \$1.0 million of legal fees related to disputes with ITT Goulds and the sellers of B27 incurred in the third quarter, free cash flow would have been \$96.3 million for the year.

David R. Little, Chairman and CEO remarked, "DXP managed well in 2015, especially in light of the continued cycle down in oil & gas prices and spending by our customers. We would like to thank all our 'DXPeople' for their efforts this year. DXP collectively confronted a challenging macroeconomic environment as we faced an increasingly hard year for our oil and gas end markets, headwinds in foreign exchange and meager financial performance from DXP's industrial markets. We undertook transformative actions to position DXP for the future, including the separation from ITT Gould's. That being said, we remain focused on executing our strategy, efficient working capital management and strong cash flow generation as we navigate the prolonged down cycle in oil & gas.

"As we look at our financial performance, the fourth quarter continued to reflect the challenges we saw all year as we witnessed a further step down in oil prices from the third quarter. The continuing decline of oil prices and volatility impacted our customers' operating and capital spending decisions. DXP's fiscal 2015 sales were \$1.2 billion, or a 16.9 percent decline over fiscal 2014. This outperformed the 61.3 percent decline year-over-year for the North American rig count and performance of similar peers with like exposure. Supply Chain Services sales grew 1.0 percent while Service Centers declined 16.3 percent and Innovative Pumping Solutions® declined 26.8 percent. During the year, we were able to hold gross profit margins within Service Centers and experienced a 17 basis point improvement in Supply Chain Services operating income margin. Overall, excluding the \$7.3 million working capital dispute payment, DXP produced an Adjusted EBITDA of \$81.3 million and free cash flow of over \$96.3 million, excluding certain items. We remain pleased with our ability to generate cash and manage our resources effectively.

"Additionally, we completed two acquisitions in 2015. Tool Supply and Cortech Engineering helped grow our Metal Working and Rotating Equipment product divisions while providing us with new geography on the Western United States. Total employees for the fiscal year were approximately 3,234.

"Looking at 2016, we do not anticipate any meaningful recovery in our key end markets. Notwithstanding the challenging economic environment, we will be driving a higher level of accountability and a greater sense of urgency throughout the organization to improve our competitive position and operational execution. I am grateful for the hard work and dedication of our employees and am confident in their ability to navigate the tough road ahead. We remain resolute in our focus on reducing costs, improving execution and doing more with less. We firmly believe we will create significant value over the next 12 to 24 months by growing our bottom line and producing strong cash flows."

Mac McConnell, CFO added, "DXP 2015 financial performance reflects the dynamics within our end markets and the challenge to match cost reductions with declines in revenue. That said, DXP generated \$20.9 million in free cash flow in the fourth quarter and \$84.0 million for fiscal 2015. During the fourth quarter, DXP also paid down debt by \$27.0 million and for the full year reduced debt by \$65.6 million. We continue to produce strong free cash flow even after investing for growth and managing unusual costs incurred during 2015. Our bank leverage ratio was 4.02:1 at the end of 2015."

We will host a conference call regarding 2015 fourth quarter fiscal 2015 financial results on the Company's website ([www.dxpe.com](http://www.dxpe.com)) Friday, February 26, 2016 at 10am EST. Web participants are encouraged to go to the Company's website at least 15 minutes prior to the start of the call to register, download and install any necessary audio software. The online archived replay will be available immediately after the conference call at [www.dxpe.com](http://www.dxpe.com) and at [www.viavid.net](http://www.viavid.net).

### **Working Capital Dispute Resolution**

During 2015, DXP incurred a total of \$12.3 million of payments associated with the final working capital resolution associated with the B27 transaction and legal fees associated with ITT Goulds and the sellers of B27. The \$11.3 million final working capital dispute payment was the result of an accounting arbitration process whereby an accounting expert reviewed DXP's and the sellers claim based upon a disagreement surrounding the closing working capital target. This payment will have no impact on DXP's bank credit agreement covenants. The \$1.0 million in legal fees associated with the final working capital dispute and ITT Goulds represent costs above normal recurring legal costs.

### **Impairments**

DXP recorded impairment charges of approximately \$67.6 million related to the goodwill associated with the acquisition of B27 during 2015, which closed in 2014. The primary causes for the goodwill impairment are the deterioration in the oil and gas economy and the third and fourth quarter continued declines in oil prices. The non-cash write-down of goodwill will have no impact on DXP's bank credit agreement covenants. DXP also recorded a \$1.1 million impairment charge to write-off intangible assets related to the Goulds' vendor relationship.

### **DXP Enterprises 2015 Fourth Quarter and Fiscal 2015 Business Segment Results:**

- Service Centers' revenue for the fiscal year was \$826.6 million, a decline of 16.3 percent year-over-year with a 9.5 percent operating income margin. Organic revenue declined 18.7 percent year-over-year.
  - For the fourth quarter, revenue declined 6.0 percent sequentially with an 8.7 percent operating income margin.

- *Innovative Pumping Solutions*' revenue for the fiscal year was \$254.8 million, a decline of 26.8 percent year-over-year with an 8.5 percent operating income margin.
  - For the fourth quarter, revenue declined 15.1 percent sequentially with a 1.7 percent operating income margin.
- *Supply Chain Services*' revenue for the fiscal year was \$165.6 million, up 1.0 percent year-over-year with an 8.6 percent operating margin or 17 basis points improvement over 2014.
  - For the fourth quarter, revenue declined 7.6 percent sequentially with an 8.6 percent operating income margin

## Non-GAAP Financial Measures

DXP supplements reporting of net income (loss) with non-GAAP measurements, including Adjusted EBITDA and free cash flow. This supplemental information should not be considered in isolation or as a substitute for the GAAP measurements. Additional information regarding Adjusted EBITDA referred to in this press release is included below under "--Reconciliation of Non-GAAP Measures."

## About DXP Enterprises, Inc.

DXP Enterprises, Inc. is a leading products and service distributor that adds value and total cost savings solutions to industrial customers throughout the United States, Canada, Mexico and Dubai. DXP provides innovative pumping solutions, supply chain services and maintenance, repair, operating and production ("MROP") services that emphasize and utilize DXP's vast product knowledge and technical expertise in rotating equipment, bearings, power transmission, metal working, industrial supplies and safety products and services. DXP's breadth of MROP products and service solutions allows DXP to be flexible and customer-driven, creating competitive advantages for our customers. DXP's business segments include Service Centers, Innovative Pumping Solutions and Supply Chain Services. For more information, go to [www.dxpe.com](http://www.dxpe.com).

*The Private Securities Litigation Reform Act of 1995 provides a "safe-harbor" for forward-looking statements. Certain information included in this press release (as well as information included in oral statements or other written statements made by or to be made by the Company) contains statements that are forward-looking. Such forward-looking information involves important risks and uncertainties that could significantly affect anticipated results in the future; and accordingly, such results may differ from those expressed in any forward-looking statement made by or on behalf of the Company. These risks and uncertainties include, but are not limited to; ability to obtain needed capital, dependence on existing management, leverage and debt service, domestic or global economic conditions, and changes in customer preferences and attitudes. For more information, review the Company's filings with the Securities and Exchange Commission.*

### DXP ENTERPRISES, INC. AND SUBSIDIARIES CONSOLIDATED STATEMENTS OF OPERATIONS (\$ thousands, except per share amounts)

	Year Ended December 31,		Three Months Ended December 31,	
	2015	2014	2015	2014
Sales	\$1,247,043	\$1,499,662	\$278,681	\$382,502
Cost of sales	895,057	1,066,822	201,749	275,824
Gross profit	351,986	432,840	76,932	106,678
Selling, general and administrative expenses	303,819	327,899	71,483	81,081
Impairment expense	68,735	117,569	9,847	117,569
B27 settlement	7,348	-	-	-
Operating income (loss)	(27,916)	(12,628)	(4,398)	(91,972)
Other expense (income), net	72	131	139	130
Interest expense	10,932	12,797	3,027	2,929
Income (loss) before income taxes	(38,920)	(25,556)	(7,564)	(95,031)
Provision for income taxes	150	19,682	(4,360)	(6,957)
Net income (loss)	(39,070)	(45,238)	(3,204)	(88,074)
Less: Net income (loss) attributable to non-controlling interest	(534)	-	(285)	-
Net income (loss) attributable to DXP Enterprises, Inc.	(38,536)	(45,238)	(2,919)	(88,074)
Preferred stock dividend	90	90	22	22
Net income (loss) attributable to common shareholders	\$ (38,626)	\$ (45,328)	\$ (2,941)	\$ (88,096)
Diluted earnings (loss) per share attributable to DXP Enterprises, Inc.	\$ (2.68)	\$ (3.10)	\$ (0.20)	\$ (6.09)
Weighted average common shares and common equivalent shares				

outstanding

14,423      14,639      14,520      14,471

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**SEGMENT DATA**

(\$ thousands)

	Year ended December 31,			Three Months ended December 31,				
	Service Centers	IPS	SCS	Total	Service Centers	IPS	SCS	Total
<b>2015</b>								
Sales	\$826,588	\$254,829	\$165,626	\$1,247,043	\$187,376	\$52,202	\$39,103	\$278,681
Operating income for reportable segments	\$ 78,170	\$ 21,584	\$ 14,213	\$ 113,967	\$ 16,228	\$ 906	\$ 3,378	\$ 20,512
<b>2014</b>								
Sales	\$987,561	\$348,134	\$163,967	\$1,499,662	\$252,456	\$89,064	\$40,982	\$382,502
Operating income for reportable segments	\$107,699	\$ 51,162	\$ 13,794	\$ 172,655	\$ 28,344	\$10,833	\$ 3,370	\$ 42,547

**Reconciliation of Operating Income for Reportable Segments**

(\$ thousands)

	Year Ended December 31,		Three Months Ended December 31,	
	2015	2014	2015	2014
Operating income for reportable segments	\$113,967	\$172,655	\$20,512	\$ 42,547
<i>Adjustment for:</i>				
B27 Settlement	7,348	-	-	-
Impairment	68,735	117,569	9,847	117,569
Amortization of intangibles	20,621	22,480	4,714	5,585
Corporate expense	45,179	45,234	10,349	11,364
Total operating income (loss)	(27,916)	(12,628)	(4,398)	(91,971)
Interest expense	10,932	12,797	3,027	2,929
Other expense (income), net	72	131	139	130
Income (loss) before income taxes	<u>\$ (38,920)</u>	<u>\$ (25,556)</u>	<u>\$ (7,564)</u>	<u>\$ (95,030)</u>

**Unaudited Reconciliation of Non-GAAP Financial Information**

The following table is a reconciliation of Adjusted EBITDA\*\*, a non-GAAP financial measure, to income before income taxes, calculated and reported in accordance with U.S. GAAP (\$ thousands)

	Year Ended December 31,		Three Months Ended December 31,	
	2015	2014	2015	2014
Income (loss) before income taxes	\$ (38,920)	\$ (25,556)	\$ (7,564)	\$ (95,031)
Plus: impairment expense	68,735	117,569	9,847	117,569
Plus: interest expense	10,932	12,797	3,027	2,929
Plus: depreciation and amortization	33,243	35,078	8,328	8,764
Adjusted EBITDA	<u>\$ 73,990</u>	<u>\$ 139,888</u>	<u>\$ 13,638</u>	<u>\$ 34,231</u>

\*\*Adjusted EBITDA – earnings before impairments, interest, taxes, depreciation and amortization

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