

KLX

Second Quarter 2016

Conference Call

August 24, 2016

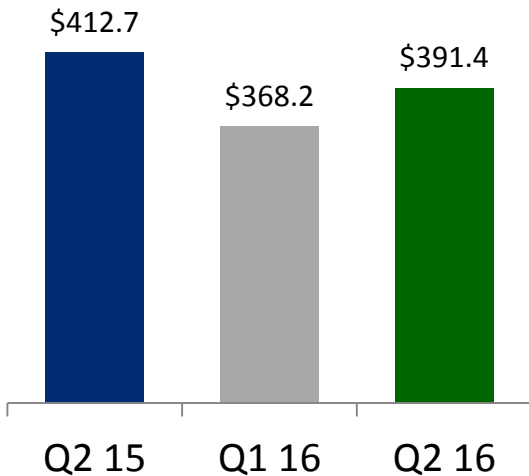


Second Quarter 2016 Results



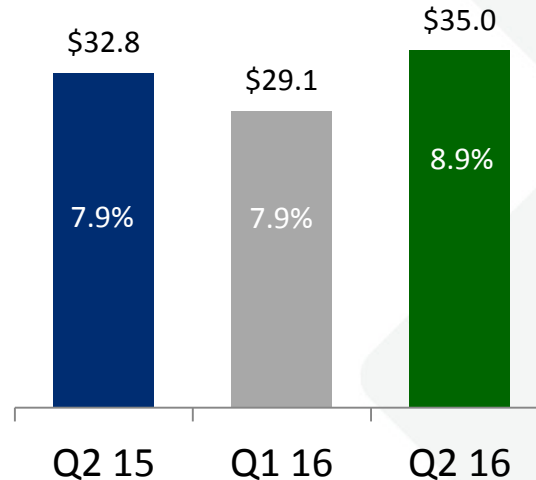
(\$ in millions except EPS amounts)

Revenues

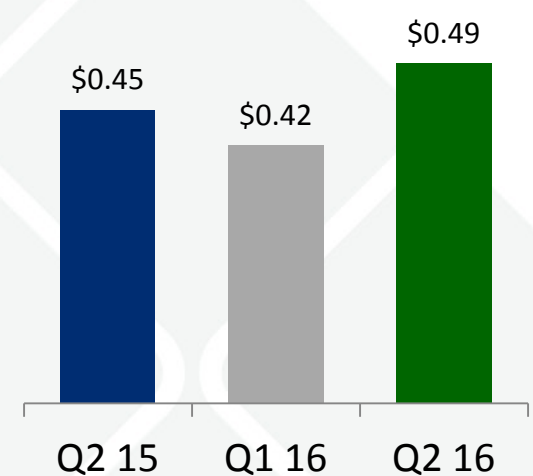


Operating Earnings

Operating Margin %



Adjusted EPS ¹

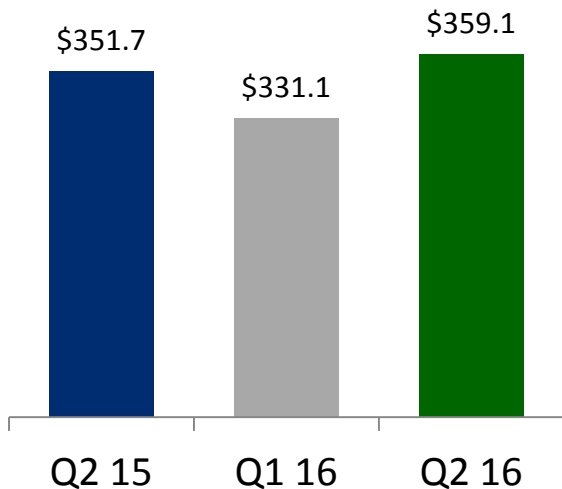


- Second quarter revenues decreased 5.2%, reflecting a \$7.4 million increase in ASG revenues, and a \$28.7 million decrease in ESG revenues
- Second quarter operating earnings reflect a 10.6% decrease in ESG's operating loss, as well as ongoing business realignment and cost reduction initiatives
- Second quarter Adjusted EPS was \$0.49 per share and increased 9% despite a 5.2% decline in revenues
- Second quarter GAAP net earnings and earnings per diluted share were \$9.6 million and \$0.18 per share, respectively

¹ Adjusted EPS excludes amortization, non-cash compensation, and includes the tax benefit from amortization of goodwill (See Reconciliation of Non-GAAP Measures).

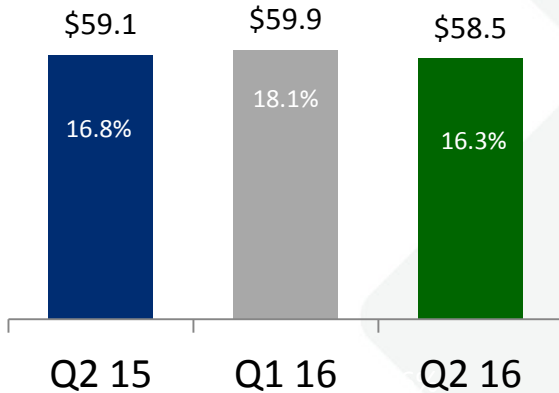
(\$ in millions)

Revenues



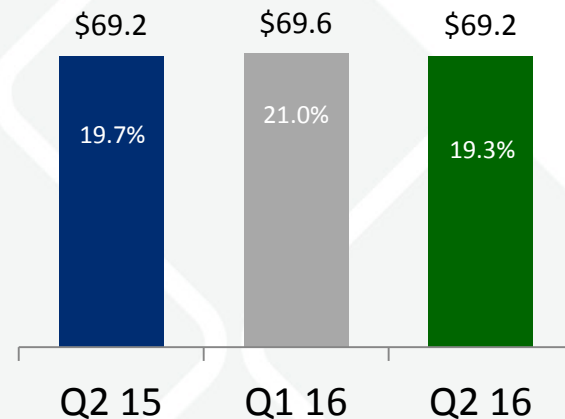
Operating Earnings

Operating Margin %



EBITDA¹

EBITDA Margin %



- Second quarter 2016 ASG revenues increased 8.5%, as compared with the first quarter of 2016, and were essentially flat on an organic basis
- Year-over-year revenues increased 2.1% reflecting headwinds from military manufacturing customers and lower production activities at a number of aerospace manufacturing customers, which were more than offset by the addition of revenues from Herndon of ~\$28 million
- Operating earnings were \$58.5 million, and reflect ~\$2.6 million of Herndon integration costs and the cost of maintaining duplicative IT systems as the Company transitions to a stand-alone IT platform
- EBITDA was \$69.2 million or 19.3% of revenues ¹

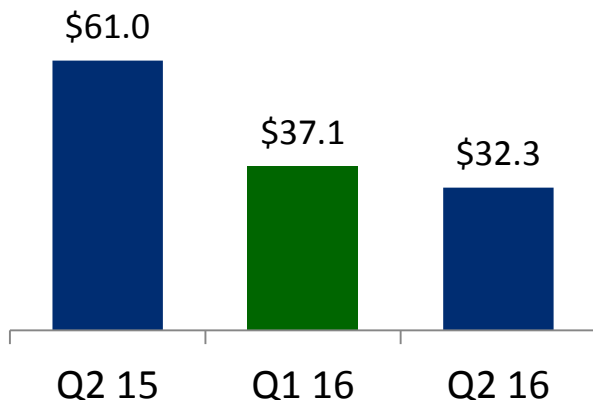
¹ EBITDA excludes non-cash compensation expense (See Reconciliation of Non-GAAP Measures).

Energy Services Group (ESG)

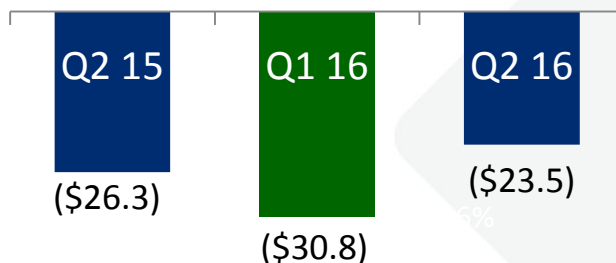


(\$ in millions)

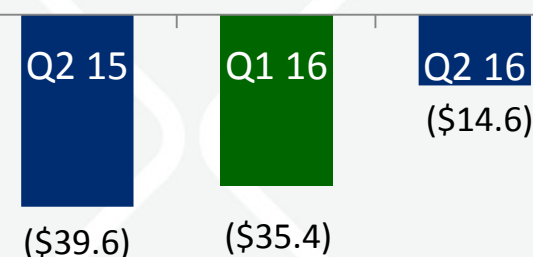
Revenues



Operating Loss



Cash Burn Rate ¹



- Revenues decreased 12.9% as compared to the first quarter of 2016 and decreased 47.0% as compared to the same period in the prior year, reflecting depressed demand and pricing from oil and gas exploration companies
- Operating loss improved by \$7.3 million or 23.7% as compared to the first quarter of 2016 and \$2.8 million or 10.6% to \$(23.5) million, as compared to the same period in the prior year, reflecting cost alignment and reduction initiatives
- Cash burn rate improved by \$20.8 million or 59% as compared to the first quarter of 2016 and \$25.0 million, or 63%, as compared to the same period in the prior year

¹ Cash burn rate defined as EBITDA, adjusted to exclude non-cash compensation expense, less capital expenditures

	July 31, 2016
	<u>(\$ in millions)</u>
Cash	\$ 250
Long-term debt, net of cash	\$ 950
Stockholders' equity	\$ 2,228
Net-debt-to-net-capital ratio	30%

No debt maturities until 2022;
\$750 million undrawn revolver

KLX INC.
RECONCILIATION OF NET EARNINGS PER DILUTED SHARE
TO ADJUSTED NET EARNINGS PER DILUTED SHARE
(In Millions, Except Per Share Data)

	THREE MONTHS ENDED		SIX MONTHS ENDED	
	<u>July 31, 2016</u>	<u>July 31, 2015</u>	<u>July 31, 2016</u>	<u>July 31, 2015</u>
Net earnings	\$ 9.6	\$ 7.4	\$ 15.8	\$ 25.3
Amortization expense	5.2	6.7	9.9	13.3
Non-cash compensation	5.0	3.5	9.8	7.4
Income taxes	6.3	4.8	10.3	15.8
Adjusted earnings before tax expense	<u>26.1</u>	<u>22.4</u>	<u>45.8</u>	<u>61.8</u>
Income taxes at normalized rate	10.3	8.8	18.1	24.4
Less: impact of goodwill deduction *	10.0	10.0	20.0	20.0
Adjusted income taxes	<u>0.3</u>	<u>(1.2)</u>	<u>(1.9)</u>	<u>4.4</u>
Adjusted net earnings	<u>\$ 25.8</u>	<u>\$ 23.6</u>	<u>\$ 47.7</u>	<u>\$ 57.4</u>
Adjusted net earnings per diluted share	<u>\$ 0.49</u>	<u>\$ 0.45</u>	<u>\$ 0.91</u>	<u>\$ 1.10</u>
Diluted weighted average shares	52.2	52.4	52.2	52.4

* Tax benefit of goodwill deduction calculated at an assumed benefit of approximately 39.5%

KLX INC.
RECONCILIATION OF CONSOLIDATED OPERATING EARNINGS
TO ADJUSTED EBITDA
(In Millions)

	THREE MONTHS ENDED		SIX MONTHS ENDED	
	July 31, 2016	July 31, 2015	July 31, 2016	July 31, 2015
Operating earnings	\$ 35.0	\$ 32.8	\$ 64.1	\$ 80.3
Depreciation and amortization	17.1	21.7	33.7	42.6
Non-cash compensation	5.0	3.5	9.8	7.4
Adjusted EBITDA	<u>\$ 57.1</u>	<u>\$ 58.0</u>	<u>\$ 107.6</u>	<u>\$ 130.3</u>

RECONCILIATION OF AEROSPACE SOLUTIONS GROUP OPERATING EARNINGS
TO ADJUSTED EBITDA
(In Millions)

	THREE MONTHS ENDED		SIX MONTHS ENDED	
	July 31, 2016	July 31, 2015	July 31, 2016	July 31, 2015
ASG operating earnings	\$ 58.5	\$ 59.1	\$ 118.4	\$ 119.9
Depreciation and amortization	7.9	7.1	14.9	14.2
Non-cash compensation	2.8	3.0	5.5	6.1
Adjusted EBITDA	<u>\$ 69.2</u>	<u>\$ 69.2</u>	<u>\$ 138.8</u>	<u>\$ 140.2</u>

RECONCILIATION OF ENERGY SERVICES GROUP OPERATING LOSS
TO ADJUSTED EBITDA LOSS
(In Millions)

	THREE MONTHS ENDED		SIX MONTHS ENDED	
	July 31, 2016	July 31, 2015	July 31, 2016	July 31, 2015
ESG operating loss	\$ (23.5)	\$ (26.3)	\$ (54.3)	\$ (39.6)
Depreciation and amortization	9.2	14.6	18.8	28.4
Non-cash compensation	2.2	0.5	4.3	1.3
Adjusted EBITDA loss	<u>\$ (12.1)</u>	<u>\$ (11.2)</u>	<u>\$ (31.2)</u>	<u>\$ (9.9)</u>

**RECONCILIATION OF NET CASH FLOW PROVIDED BY
OPERATING ACTIVITIES TO FREE CASH FLOW
(In Millions)**

	THREE MONTHS ENDED		SIX MONTHS ENDED	
	<u>July 31, 2016</u>	<u>July 31, 2015</u>	<u>July 31, 2016</u>	<u>July 31, 2015</u>
Net cash flow provided by operating activities	\$ 36.0	\$ 23.8	\$ 77.4	\$ 130.4
Capital expenditures	(6.1)	(34.5)	(25.3)	(70.1)
Free cash flow	<u>\$ 29.9</u>	<u>\$ (10.7)</u>	<u>\$ 52.1</u>	<u>\$ 60.3</u>

These materials contain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. Such forward-looking statements involve risks and uncertainties. KLX's actual experience and results may differ materially from the experience and results anticipated in such statements. Factors that might cause such a difference include those related to the realization of the expected benefits from completed, pending and future acquisitions, changes in market and industry conditions and those discussed in KLX's filings with the Securities and Exchange Commission, which include its Proxy Statement, Annual Report on Form 10-K, Quarterly Reports on Form 10-Q and Current Reports on Form 8-K. For more information, see the section entitled "Forward-Looking Statements" contained in KLX's Annual Report on Form 10-K and in other filings. The forward-looking statements included in these materials are made only as of today's date and, except as required by federal securities laws, we do not intend to publicly update or revise any forward-looking statements to reflect subsequent events or circumstances.

KLX

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