

KLX

Third Quarter 2016

Conference Call

December 8, 2016

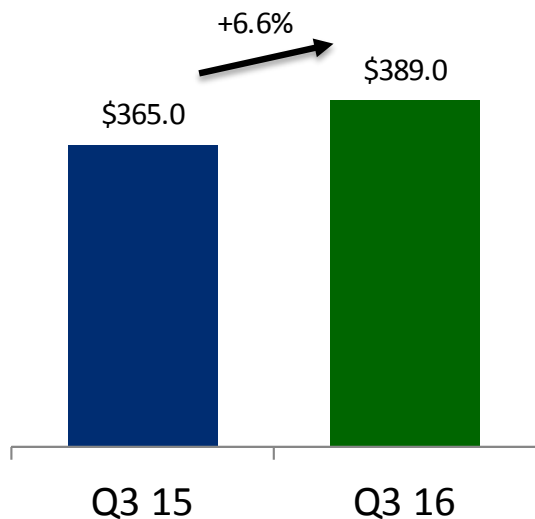


Third Quarter 2016 Results



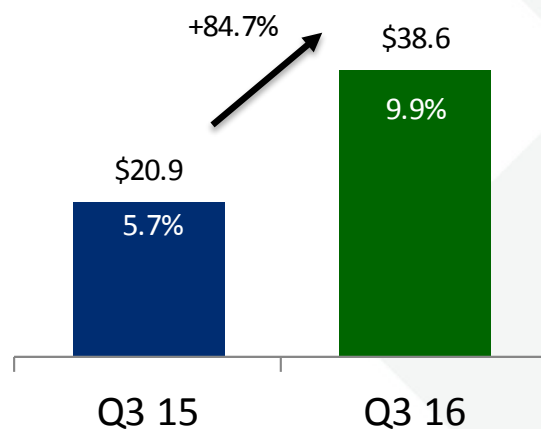
(\$ in millions except EPS amounts)

Revenues

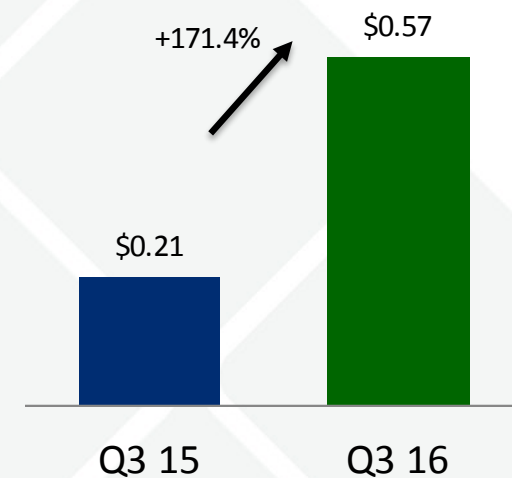


Operating Earnings

Operating Margin %



Adjusted EPS ¹

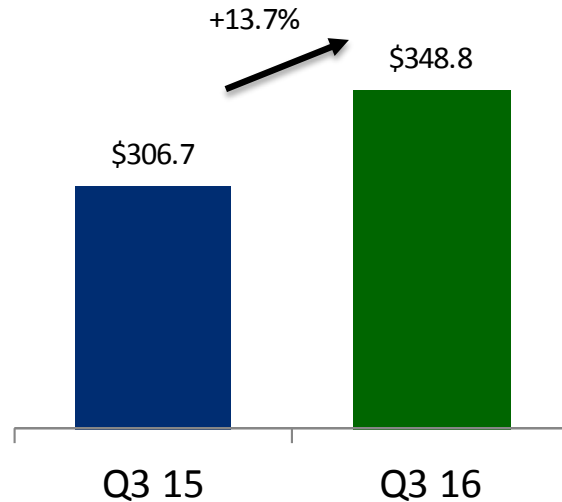


- Third quarter revenues increased 6.6%, reflecting a \$42.1 million or 13.7% increase in ASG revenues, partially offset by an \$18.1 million decrease in ESG revenues
- Third quarter operating earnings increased \$17.7 million or 84.7% to \$38.6 million
- Third quarter Adjusted EPS of \$0.57 per share increased 171.4%

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

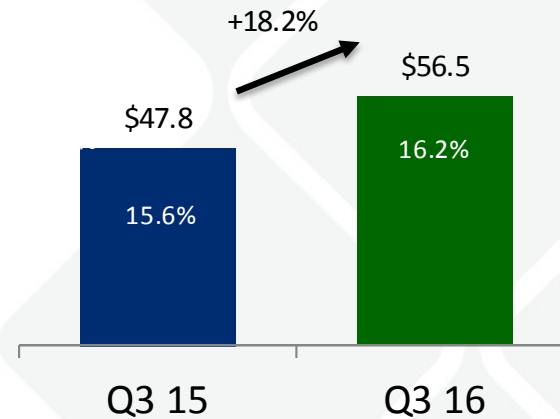
(\$ in millions)

Revenues



Operating Earnings

Operating Margin %



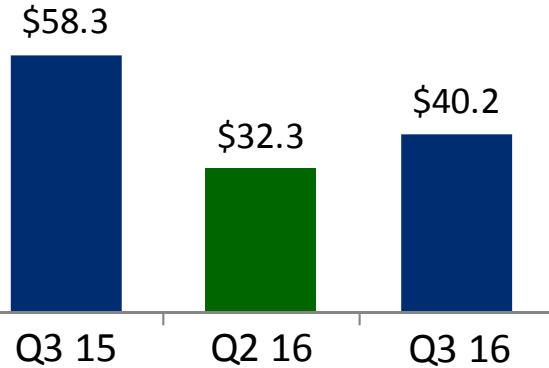
- Third quarter 2016 ASG revenues of \$348.8 million increased 13.7%, as compared to the prior year, and increased approximately 4.5% on an organic basis
- Commercial aerospace manufacturing and aftermarket revenues increased 5.8% and 4.2%, respectively, partially offset by a decline in sales to military manufacturing customers
- Operating earnings of \$56.5 million increased 18.2%, and were negatively impacted by approximately \$3.5 million of Herndon acquisition and integration costs

Energy Services Group (ESG)

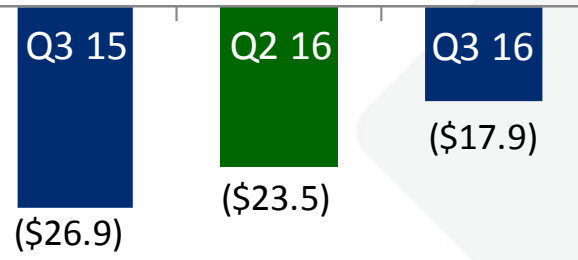


(\$ in millions)

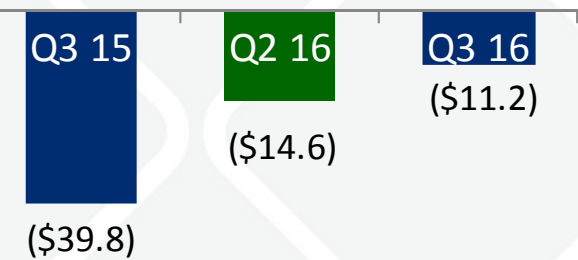
Revenues



Operating Loss



Cash Burn Rate ¹



- Revenues decreased 31.0% as compared to the third quarter of 2015, but increased 24.5% sequentially
- Operating loss improved by \$9.0 million or 33.5% as compared to the third quarter of 2015, and improved an additional 23.8% sequentially
- Cash burn rate improved by \$28.6 million or 71.9% as compared to the prior year, and improved an additional 23.3% sequentially

¹ Cash burn rate defined as EBITDA, adjusted to exclude non-cash compensation expense, less capital expenditures (See Reconciliation of Non-GAAP Measures)

	October 31, 2016
	<u>(\$ in millions)</u>
Cash	\$ 298
Long-term debt, net of cash	\$ 902
Stockholders' equity	\$ 2,238
Net-debt-to-net-capital ratio	29%

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

- Revenues expected to increase approximately 8% – 10%
- Operating earnings expected to increase approximately 40%
- Net earnings expected to increase approximately 60%
- Adjusted Net Earnings expected to increase approximately 33%
- Adjusted EPS expected to increase approximately 33%
- Free cash flow expected to come in at approximately 230% of net earnings and 125% of Adjusted Net Earnings
- ASG revenues expected to increase by a mid-single digit percent, driven by market share gains and increased aftermarket demand
- ESG revenues expected to increase approximately 30%
- ESG operating earnings expected to show continued improvement
- ESG EBITDA expected to reach breakeven by the third or fourth quarter

Reconciliation of Non-GAAP Measures



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

	THREE MONTHS ENDED		NINE MONTHS ENDED	
	October 31, 2016	October 31, 2015	October 31, 2016	October 31, 2015
Net earnings (loss)	\$ 19.8	\$ (400.8)	\$ 35.6	\$ (375.5)
Amortization expense	4.8	5.8	14.7	19.1
Non-cash compensation	4.9	3.5	14.7	10.9
Income taxes	-	(237.5)	10.3	(221.7)
Asset impairment	-	640.2	-	640.2
Adjusted earnings before tax expense	<u>29.5</u>	<u>11.2</u>	<u>75.3</u>	<u>73.0</u>
Income taxes at normalized rate *	-	4.2	20.7	27.1
Less: impact of goodwill deduction *	-	4.2	20.7	27.1
Adjusted income taxes	-	-	-	-
Adjusted net earnings	<u>\$ 29.5</u>	<u>\$ 11.2</u>	<u>\$ 75.3</u>	<u>\$ 73.0</u>
Adjusted net earnings per diluted share	<u>\$ 0.57</u>	<u>\$ 0.21</u>	<u>\$ 1.44</u>	<u>\$ 1.40</u>
Diluted weighted average shares	52.2	52.2	52.2	52.2

* For purposes of this calculation, tax benefit of goodwill deduction is limited to income taxes at the normalized rate. Tax benefit of goodwill deduction has been excluded for the three months ended October 31, 2016 due to a one-time tax benefit which eliminated our current period tax expense, and our estimated rate for fiscal year 2016 of 27.5% was applied to adjusted earnings before tax expense for the nine months ended October 31, 2016 (37.1% in 2015).

Reconciliation of Non-GAAP Measures



RECONCILIATION OF CONSOLIDATED OPERATING EARNINGS (LOSS) TO ADJUSTED OPERATING EARNINGS (In Millions)

	THREE MONTHS ENDED		NINE MONTHS ENDED	
	October 31, 2016	October 31, 2015	October 31, 2016	October 31, 2015
Operating earnings (loss)	\$ 38.6	\$ (619.3)	\$ 102.7	\$ (539.0)
Asset impairment	-	640.2	-	640.2
Adjusted operating earnings	\$ 38.6	\$ 20.9	\$ 102.7	\$ 101.2

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

	THREE MONTHS ENDED		NINE MONTHS ENDED	
	October 31, 2016	October 31, 2015	October 31, 2016	October 31, 2015
ESG operating loss	\$ (17.9)	\$ (667.1)	\$ (72.2)	\$ (706.7)
Asset impairment	-	640.2	-	640.2
Adjusted ESG operating loss	\$ (17.9)	\$ (26.9)	\$ (72.2)	\$ (66.5)

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

	THREE MONTHS ENDED		NINE MONTHS ENDED	
	October 31, 2016	October 31, 2015	October 31, 2016	October 31, 2015
Net cash flow provided by operating activities	\$ 61.7	\$ 67.1	\$ 139.1	\$ 197.5
Capital expenditures	(8.6)	(36.3)	(33.9)	(106.4)
Free cash flow	\$ 53.1	\$ 30.8	\$ 105.2	\$ 91.1

**ENERGY SERVICES GROUP
RECONCILIATION OF OPERATING LOSS
TO CASH BURN RATE
(In Millions)**

	THREE MONTHS ENDED		NINE MONTHS ENDED	
	October 31, 2016	October 31, 2015	October 31, 2016	October 31, 2015
Operating loss	\$ (17.9)	\$ (667.1)	\$ (72.2)	\$ (706.7)
Asset impairment	-	640.2	-	640.2
Adjusted operating loss	(17.9)	(26.9)	(72.2)	(66.5)
Depreciation and amortization	9.0	10.3	27.8	38.7
Non-cash compensation	2.2	1.2	6.5	2.5
Adjusted EBITDA (loss)	(6.7)	(15.4)	(37.9)	(25.3)
Capital expenditures	(4.5)	(24.4)	(23.5)	(83.0)
Cash burn rate	<u>\$ (11.2)</u>	<u>\$ (39.8)</u>	<u>\$ (61.4)</u>	<u>\$ (108.3)</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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