

# KLX

Second Quarter 2017

Conference Call

August 23, 2017

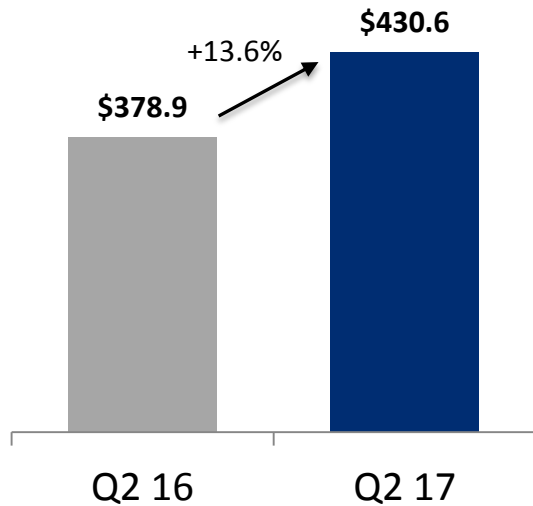


# Second Quarter 2017 Results

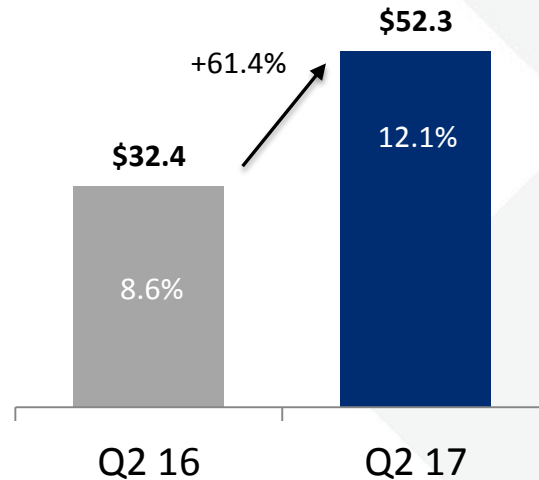


(\$ in millions except EPS amounts)

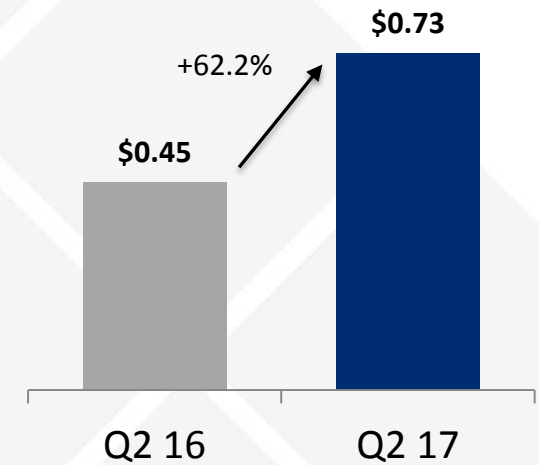
## Revenues



## Operating Earnings



## Adjusted EPS<sup>1</sup>

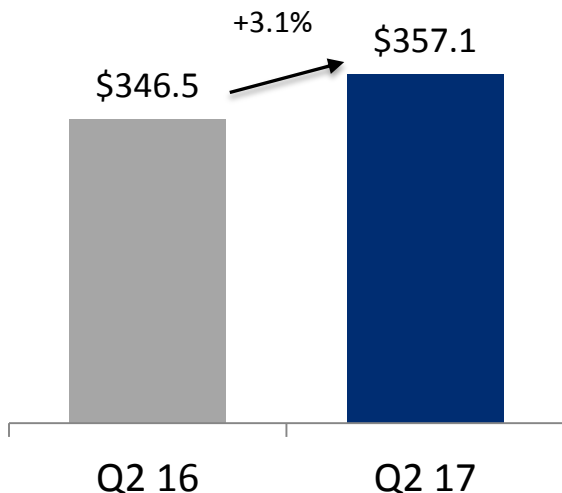


- Second quarter revenues increased 13.6%, reflecting a 3.1% increase in ASG revenues, and a 126.9% increase in ESG revenues
- Second quarter operating earnings of \$52.3 million were driven by a 7.5% increase in operating earnings at ASG and a 66.8% reduction in operating loss at ESG
- Second quarter Adjusted EPS of \$0.73 per diluted share increased 62.2%

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

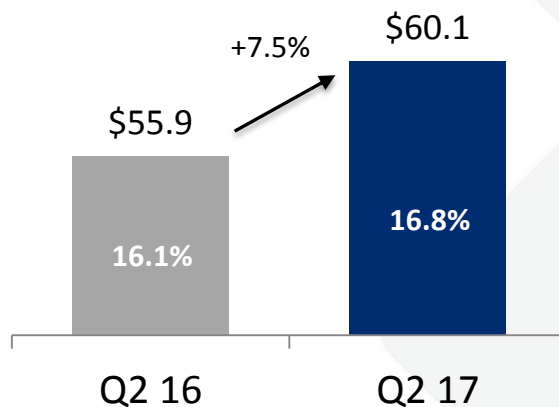
(\$ in millions)

## Revenues



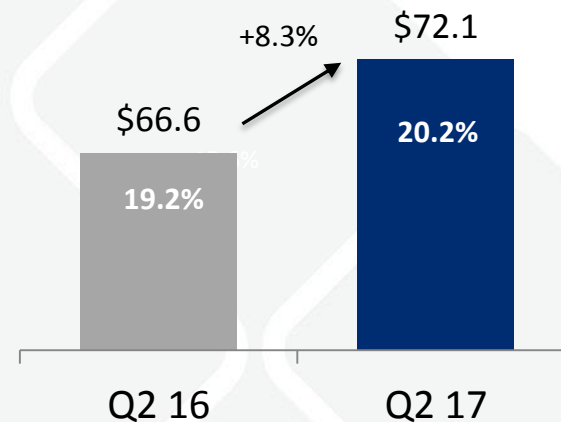
## Operating Earnings

Operating Margin %



## EBITDA<sup>1</sup>

EBITDA Margin %



- Second quarter revenues increased 3.1%, driven by an approximate mid-single digit percentage increase in commercial aerospace manufacturing revenues, partially offset by a decrease in business jet and military manufacturing demand. Aftermarket demand was essentially flat
- Operating earnings of \$60.1 million were up 7.5%
- Operating margin of 16.8% expanded 70 basis points
- EBITDA<sup>1</sup> of \$72.1 million was 20.2% of revenues and increased 8.3%

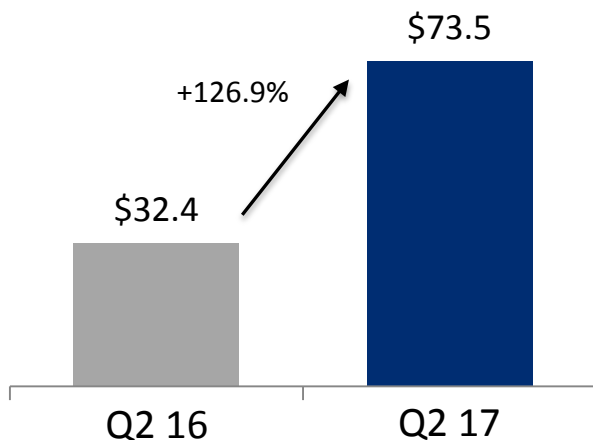
<sup>1</sup> EBITDA, adjusted to exclude non-cash compensation expense (See Reconciliation of Non-GAAP Measures)

# Energy Services Group (ESG)

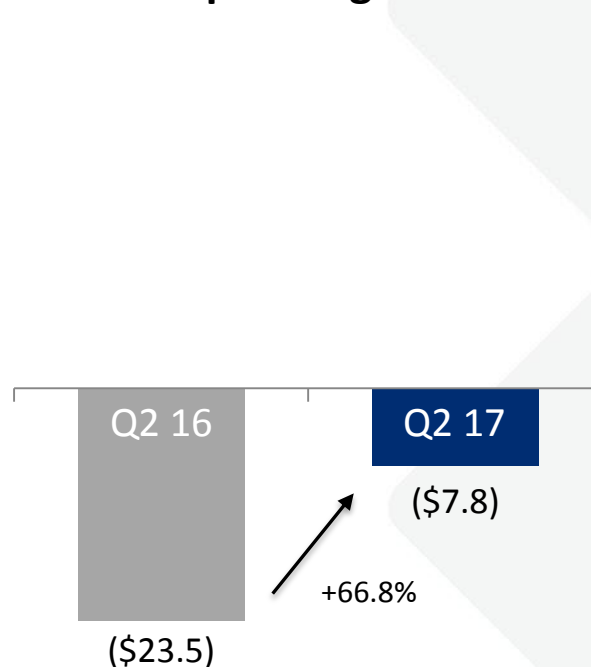


(\$ in millions)

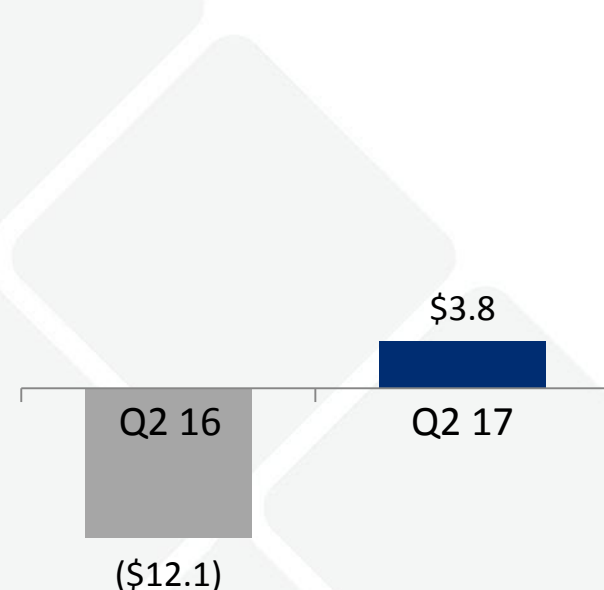
## Revenues



## Operating Loss



## EBITDA<sup>1</sup>



- Second quarter revenues increased 126.9% as compared to the same period in the prior year, and increased 15.2% as compared to the first quarter of 2017
- Operating loss decreased by \$15.7 million or 66.8% to \$(7.8) million as compared to same period in the prior year, and increased 22.8% as compared to the first quarter of 2017
- EBITDA<sup>1</sup> improved by \$15.9 million to \$3.8 million as compared to the same period in the prior year, and increased 192.3% as compared to the first quarter of 2017

<sup>1</sup> EBITDA, adjusted to exclude non-cash compensation expense (See Reconciliation of Non-GAAP Measures)

	<b>July 31, 2017</b>
	<u>(\$ in millions)</u>
<b>Cash</b>	<b>\$ 276</b>
<b>Long-term debt, net of cash</b>	<b>\$ 924</b>
<b>Stockholders' equity</b>	<b>\$ 2,281</b>
<b>Net-debt-to-net-capital ratio</b>	<b>29%</b>

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

- 2017 revenues are expected to increase approximately 17% to approximately \$1.75 billion
- Operating earnings are expected to increase approximately 72% to approximately \$222 million
- Adjusted Net Earnings are expected to increase approximately 68% to approximately \$157 million
- Adjusted Net Earnings per share is expected to increase approximately 68% to approximately \$3.00 per diluted share
- ASG revenues are expected to increase by a high-single digit percentage, reflecting an acceleration in growth in the second half of the year, as new programs won during 2016 begin to contribute to the growth rate
- ESG revenues are expected to increase by more than 70%
- ESG operating earnings are expected to reach breakeven on a quarterly basis in the third or fourth quarter of 2017

# Reconciliation of Non-GAAP Measures



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

	<b>THREE MONTHS ENDED</b>		<b>SIX MONTHS ENDED</b>	
	<b>July 31, 2017</b>	<b>July 31, 2016</b>	<b>July 31, 2017</b>	<b>July 31, 2016</b>
Net earnings	\$ 20.7	\$ 8.0	\$ 39.1	\$ 10.5
Amortization expense	4.8	5.2	9.6	9.9
Non-cash compensation	7.1	5.0	13.0	9.8
Income taxes	12.6	5.3	23.8	7.1
Adjusted earnings before tax expense	45.2	23.5	85.5	37.3
Income taxes at normalized rate	17.1	9.3	32.3	15.0
Less: impact of goodwill deduction *	9.7	9.3	19.4	15.0
Adjusted income taxes	7.4	-	12.9	-
Adjusted net earnings	<u>\$ 37.8</u>	<u>\$ 23.5</u>	<u>\$ 72.6</u>	<u>\$ 37.3</u>
Adjusted net earnings per diluted share	<u>\$ 0.73</u>	<u>\$ 0.45</u>	<u>\$ 1.40</u>	<u>\$ 0.71</u>
Diluted weighted average shares	51.7	52.2	51.7	52.2

\* For purposes of this calculation, tax benefit of goodwill deduction is limited to income taxes at the normalized rate

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

	<b>THREE MONTHS ENDED</b>		<b>SIX MONTHS ENDED</b>	
	<b>July 31, 2017</b>	<b>July 31, 2016</b>	<b>July 31, 2017</b>	<b>July 31, 2016</b>
Operating earnings	\$ 52.3	\$ 32.4	\$ 100.9	\$ 55.6
Depreciation and amortization	16.5	17.1	33.0	33.7
Non-cash compensation	7.1	5.0	13.0	9.8
Adjusted EBITDA	<u>\$ 75.9</u>	<u>\$ 54.5</u>	<u>\$ 146.9</u>	<u>\$ 99.1</u>

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

	<b>THREE MONTHS ENDED</b>		<b>SIX MONTHS ENDED</b>	
	<b>July 31, 2017</b>	<b>July 31, 2016</b>	<b>July 31, 2017</b>	<b>July 31, 2016</b>
ASG operating earnings	\$ 60.1	\$ 55.9	\$ 118.8	\$ 110.0
Depreciation and amortization	7.9	7.9	15.8	14.9
Non-cash compensation	4.1	2.8	7.2	5.5
Adjusted EBITDA	<u>\$ 72.1</u>	<u>\$ 66.6</u>	<u>\$ 141.8</u>	<u>\$ 130.4</u>

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

	<b>THREE MONTHS ENDED</b>		<b>SIX MONTHS ENDED</b>	
	<b>July 31, 2017</b>	<b>July 31, 2016</b>	<b>July 31, 2017</b>	<b>July 31, 2016</b>
ESG operating loss	\$ (7.8)	\$ (23.5)	\$ (17.9)	\$ (54.4)
Depreciation and amortization	8.6	9.2	17.2	18.8
Non-cash compensation	3.0	2.2	5.8	4.3
Adjusted EBITDA (loss)	<u>\$ 3.8</u>	<u>\$ (12.1)</u>	<u>\$ 5.1</u>	<u>\$ (31.3)</u>



**KLX INC.**  
**RECONCILIATION OF 2017 OUTLOOK; NET EARNINGS**  
**TO ADJUSTED NET EARNINGS AND ADJUSTED NET EARNINGS PER DILUTED SHARE**  
(In Millions, Except Per Share Data)

	<b>2017 Outlook</b> <b>(Approximate Amounts)</b>
Net earnings	\$ 86.0
Amortization expense	19.0
Non-cash compensation	26.0
Income taxes	59.0
Adjusted earnings before tax expense	190.0
Income taxes at normalized rate	71.8
Less: impact of goodwill deduction *	38.8
Adjusted income taxes	33.0
Adjusted net earnings	\$ 157.0
Adjusted net earnings per diluted share	\$ 3.00
Diluted weighted average shares	52.2

\* For purposes of this calculation, tax benefit of goodwill deduction is limited to income taxes at the normalized rate

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.

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