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CORPORATE PARTICIPANTS

Amin J. Khoury *KLX Inc. - Chairman & CEO*

Michael F. Senft *KLX Inc. - CFO, VP & Treasurer*

CONFERENCE CALL PARTICIPANTS

Noah Poponak *Goldman Sachs Group Inc., Research Division - Equity Analyst*

PRESENTATION

Noah Poponak - *Goldman Sachs Group Inc., Research Division - Equity Analyst*

Good morning, everybody, and welcome to the Goldman Sachs Industrials Conference. I am Noah Poponak. I'm the aerospace defense analyst at Goldman Sachs. And we'll be starting here with our first presentation out of the aerospace and defense sector, which will be coming from KLX. And with us from the company is Amin Khoury, the CEO and Chairman; and Michael Senft, the CFO. So gentlemen, thanks so much for being with us.

Michael F. Senft - *KLX Inc. - CFO, VP & Treasurer*

Thanks for having us.

Noah Poponak - *Goldman Sachs Group Inc., Research Division - Equity Analyst*

Let me just start on footprint. You guys are changing footprint against growing footprint in a number of ways, building, moving, but overall growing footprint. I imagine it takes a fairly long-term view or long-term commitment to do that. It's a business with shorter-term visibility. Can you talk about what you see down the road that is giving you the confidence to expand?

Amin J. Khoury - *KLX Inc. - Chairman & CEO*

Well, we think about the business in terms of footprint in 2 ways: one is market channel and the other is product line. In terms market channel, basically we serve the original equipment manufacturers. It's the airliner OEMs as well as, the business jet OEMs and the military OEMs. Primarily, those companies (inaudible) systems for the newer aircraft of (inaudible) United Technologies, (inaudible) et cetera, et cetera. We also serve the aftermarkets. The aftermarkets in the airlines, the MROs and (inaudible) manufacturing or spares (inaudible) to support their customers. In terms of market channel, I think that we're kind of at an inflection point where the business jet industry [were at bottom] this year in 2017 and so we're (inaudible) the beginning of some growth after many years, I think, from 2008 to 2017, the last 9 years. Basically, there has been a decline in revenues every year in the business jet industry (inaudible). (inaudible) basically a number of newer business jet platforms in 2018/'19, and the combination of the introduction of a number of newer platforms together with the fact that, basically, the industry downturn has run its course and cycles are increasing (inaudible) decline and prices are starting to go up again. (inaudible) we've reached the bottom. Same is true of manufacturing of military hardware. Military manufacturing declined for the last half dozen years, especially during and (inaudible) and the new administration has a different attitude about the defense spending. Budgets are increasing, as you know. And so it looks like military manufacturing also will have bottomed some time in 2017. And actually, we're seeing encouraging signs of growth now on the military side of the business. And with respect to the [early] wins in [Airbus] and Boeing has plenty of backlog now and we're basically ramping up the production of (inaudible) body airplanes, 737s and (inaudible). And so I would say the outlook for all of the business channels that we're in is positive. So with respect to products themselves, we've expanded to the point now where we've got approximately (inaudible) [bearings and fields] and the fasteners, of course, (inaudible) products. So [tools] -- the product line has been expanding in combination of the (inaudible) [inflection] point in market channel demand together with the product line expansion is allowing the company to feel confident about a decent outlook for growth over the next several years, also helped by some rigorous competitors at the current time, which is also helping the company to have some more (inaudible). So we feel (inaudible) -- the company expects to report solid double-digit revenue growth and earnings growth for the quarter for the company as a whole with nice improvement in both businesses. [And with] very low cost to (inaudible) the various things we're doing from a footprint facility perspective [to lower costs] and how we think about the returns on that capital (inaudible)

Michael F. Senft - *KLX Inc. - CFO, VP & Treasurer*

payback [on that facility] (inaudible), it's a (inaudible) payback, so on a discrete basis it [kind of repays back] (inaudible) the smaller CapEx investments that we're making efforts (inaudible) basis. But it had such a [day] shift in terms of service quality to our customers and the day-to-day operating expenses that we can really start to leverage particularly as we grow more product [for that] distribution facility. So we've got [a discrete analysis for] make some payback quite comfortably in 2.5 to 4 years, and I think that's an extremely conservative with analysis. It doesn't take [into] effect either the addition of product we're going to continue to focus on [delivering] customers, nor does it focus on the importance of retaining and improving -- constantly improving -- the quality of the service that we're getting (inaudible) to our customers (inaudible). It's essential to maintain that (inaudible). So that's kind of the payback calculation based on just (inaudible) static analysis based on the (inaudible) we would expect plus all the (inaudible).

Noah Poponak - *Goldman Sachs Group Inc., Research Division - Equity Analyst*

Okay. That's interesting. So the question, I think, on a lot of people's mind is the aerospace aftermarket. I know you guys have obviously been asked a lot about it. We provide a perspective that's sort of a long-term recurring revenues, secular growth market and kind of has to come eventually. But maybe talk about trends you're seeing there. I know you guys have talked about the [leader] engine checks being more important for your -- heavier for your business than earlier engine checks. If you could walk through that for anyone in the audience that's unfamiliar. But I guess, also, have you come across anything else or thought of any other reasons for why the aftermarket hasn't quite picked up like one might have thought recently?

Amin J. Khoury - *KLX Inc. - Chairman & CEO*

Actually, we expect to report solid growth in aftermarket revenues this quarter. The fact of the matter is it's not so much engines for us as it is the rest of the aircraft. So it's really all about C-checks and particularly D-checks. And where we are now is that, if we've got a fleet -- airliner fleet of 25,000 airplanes, 11,000 of those airplanes are relatively new, which have only just begun to enter the period where they will need some heavy maintenance, and given the rate of production of [secure] aircraft, like both Airbus and Boeing are stepping up production, and you get the C-series that is just beginning to be delivered and Embraer is doing its thing. They're very rapidly turning over the -- getting rid of the older aircraft. We see announcements every day from United and American and so forth that these airplanes are being retired even during this year. The rest of the 747s are going, classics are all gone in the '80s and '90s and so forth. So I think we're entering a period here where, although we have a very new fleet, the size of the fleet is expanding pretty rapidly driven by traffic. And we haven't had -- for decades, we haven't had year-over-year increases of 6% to 7% in traffic the way we're having right now. And I feel very confident that as the size of the installed base increases, and it should more or less double over the next 16 or 17 years from 25,000 aircraft to 50,000 aircraft, the size of our aftermarket business to support those airplanes is going to more than double. I mean, I don't think there's any question about that, because the airplanes are new at the present time. As the airplanes age and as the fleet grows, we feel pretty confident that our aftermarket business will become a larger share of our total business than the OEM business; it's just a matter of time. With respect to our ability to predict it on a quarterly basis, almost impossible. I mean, the orders come in and they go right out. I mean, we're booking 10,000 orders a day and shipping 60% of those the same day we get the order. And any order that gets in by 4:00 in the afternoon gets shipped that day, and gets basically delivered directly to the airport at 10:00. FedEx holds an airplane for us and then everything goes. So we did have solid growth in the aftermarket during this quarter. We'll report the numbers a couple of weeks from now when we report our results for the third quarter. And the last quarter, I think, was relatively flat, and it's kind of the way it's going to be for a while.

Noah Poponak - *Goldman Sachs Group Inc., Research Division - Equity Analyst*

Understanding that the just-in-time business has business has (inaudible) on those -- with regard to those scheduled checks, I said engine checks, I meant total maintenance checks. Do you have -- does that give you visibility where the customer is planning those in advance? How far in advance are those planned? Or does that not -- is that a small piece of the business compared to just-in-time that the total visibility is still...

Amin J. Khoury - *KLX Inc. - Chairman & CEO*

No, that's a very important part of the business, where the airlines are doing the overhauls and sales and maintenance and overhauls or whether the MRO shops are doing it. It's an important part of our business, the airlines and the MROs, and we don't really have any visibility. It's little, if any, visibility. We talk to our MRO.

Noah Poponak - *Goldman Sachs Group Inc., Research Division - Equity Analyst*

Even into the checks.

Amin J. Khoury - *KLX Inc. - Chairman & CEO*

That's right. We have little visibility into the checks.

Noah Poponak - *Goldman Sachs Group Inc., Research Division - Equity Analyst*

Okay. So I guess, the question then is do you feel like we are kind of finally on the cusp. Production started going up in 2010, we're now moving into 2018. So we're talking kind of 6 to 8 years...

Amin J. Khoury - *KLX Inc. - Chairman & CEO*

Yes, exactly. That's exactly the period, 6 to 8 years, when the aircraft begin to require heavy maintenance.

Michael F. Senft - *KLX Inc. - CFO, VP & Treasurer*

We hate to sound [plaintive] about it, but we're the guy you're going to come to when you need the C- and D-check parts. With a 1 million SKUs and a 1.4 billion of inventory, there is no one else in the industry that has the breadth of what's needed because, as we often talk, when the plane comes out of the sky, there is no schedule for exactly what's going to get replaced. So it may be 3 of these, 5 of these, 20 of these. It's not a question of going through the plane and pulling every rivet and every screw. And so, again, the supplier who is that nimble, flexible and deep is the one that inevitably gets the order when they actually see in the aircraft what they need. There's no one else in the industry that provides our level of depth of response to them.

Noah Poponak - *Goldman Sachs Group Inc., Research Division - Equity Analyst*

So it sounds like you would argue, it has to come, and it has to come to you.

Amin J. Khoury - *KLX Inc. - Chairman & CEO*

Yes. The industry has reached a point where pretty much the entire industry knows that we have the parts that are required, and they also know that if they call us, and we're now 500 people in our sales organization and customer service organization, a call comes in, they know they're going to have their parts the next day. And they've got a really high-priced, valuable asset being serviced, they want to get it out of there as quickly as they can, and they know that we've got the parts. If they call us, we'll get the parts to them the next day. The order is relatively a small order, $250 to $400 orders usually with many different parts in a package. We are really set well to support the industry, and the industry knows that.

Noah Poponak - *Goldman Sachs Group Inc., Research Division - Equity Analyst*

What's pricing been like recently in the aftermarket piece of the industry?

Amin J. Khoury - *KLX Inc. - Chairman & CEO*

Because the orders are relatively small and the need is great and time is of the essence, there isn't a whole lot of negotiating that goes on with respect to those parts, and that is why our aftermarket business is the most profitable part of the business that we have.

Noah Poponak - *Goldman Sachs Group Inc., Research Division - Equity Analyst*

I think another big question on investors' minds is what it means for you and the OEMs, talk about growing their services, business and, obviously, Boeing and Airbus both have large distributors in the industry. I know you guys have said that it's early, and it's hard to really tell exactly what they mean and exactly what they're doing. Any new insights into that? And maybe if you can actually just specifically describe the relationship you have with their distribution businesses and, therefore, how that hypothetically could change if it were to change.

Amin J. Khoury - *KLX Inc. - Chairman & CEO*

Well, we support their distribution businesses. I mean, ABL is a pretty good customer of ours, and that is also true of Airbus. So I mean, there isn't any other entity in the industry that has the breadth of product line, that has the size of the inventory, the appropriate parts. I mean, we've been at this now for 17 years, and I think we've become pretty good at it, and the entire industry is dependent on us. I don't think that, that is an objective of growing [our] Airbus to put themselves in a place that we are in. I think long before they're going to be worried about fasteners and disposables and chemicals and so on and so forth, I think their focus is in different places, for example, Avionics, which is what they announced. I'm not sure about this strategy or exactly what's going on. We're not part of their strategic thinking. But no one has the capability that we have in terms of our IT assets, our inventory management systems, our warehouse management systems. We've been building this for 17 years. Our IT assets are oriented towards supplying the aftermarket, we're just really good at this. I would tend to doubt very much that Boeing or Airbus would take a run at this piece of the business.

Noah Poponak - *Goldman Sachs Group Inc., Research Division - Equity Analyst*

So it sounds like you would say in the next 5 years, you don't think that strategy impacts your business.

Amin J. Khoury - *KLX Inc. - Chairman & CEO*

I don't know how they (inaudible) $25 billion or $50 billion of revenues by going after a company that's doing a couple of billion in revenues. I don't get it. But I (inaudible). I don't think so. I mean, Basin has been at it for how many years now? They've been at it for 7 or 8 years, and they have had an impact on other competitors who have grown up alongside Boeing and Airbus, and they are Tier 1 manufacturers. That's really not our story. I mean, we have -- we started as an aftermarket business. Our original OEM businesses were with the business shed manufacturers and then to some extent the military manufacturers. So we're just in a different place than Boeing and Basin or some of our competitors are. And that's the reason why we haven't been impacted, and our business has continued to perform so well over all these years.

Noah Poponak - *Goldman Sachs Group Inc., Research Division - Equity Analyst*

Got it. In the original equipment piece of ASG, you guys have had some market share OEMs. Can you elaborate on how you do that? And how much more opportunities are in the future?

Amin J. Khoury - *KLX Inc. - Chairman & CEO*

We -- I think we've booked something in the neighborhood of $0.5 billion in new business in 2016. About $300 million of that is, I remember, was within the last quarter of 2016. That business is beginning -- we're just beginning to see the impact of that business now. It takes a while for the business -- new business when it comes on to work its way through the existing inventories that the customer has had. And basically, we get our organization in place to be able to service the customers. And so it takes a little while. But our expectation is that we see some impact from that in the second half of this year, having booked the business at the end of last year, and the ramp really begins in 2018 and 2019. Other opportunities, I mean, we're out there pitching and selling every day. Fortunately for us, I mean, our service is superior to everyone else in the industry. And the gap right now is so substantial because our largest competitor is having so much difficulty on the service side in terms of quality and on-time delivery as well as having issues with respect to liquidity and so forth. So we are doing really well. We've got a strong balance sheet. We are known by the entire industry for the quality and superiority of our service. And with the bringing on-stream of the new facility and eliminating the multiple major warehouses that we have in the Miami area right now, I mean, we've grown to the point where we've got 3 facilities, which will be consolidated into 1. And with the new warehouse management system and inventory management system, we're expecting to have a nice impact on profitability. I will be very surprised if we don't have a return on investment, which is much more rapid than Mike was talking about on an actual dynamic basis as a result of the improvement in margins from the new facility.

Noah Poponak - *Goldman Sachs Group Inc., Research Division - Equity Analyst*

Conservatism from the CFO.

Amin J. Khoury - *KLX Inc. - Chairman & CEO*

Okay. It's okay.

Michael F. Senft - *KLX Inc. - CFO, VP & Treasurer*

You know, I would also say that when you think about our competitive advantage, it's both operational and financial and in an industry where it's a 30- to 50-week lead time for many of the products that we provide to our customers, the supplier desperately needs the distributor to provide that intermediation between what he's doing and his efficiency of production runs and when the customer needs the product. And at the front-end of that, there's the clear make it, ship it. That's a small part of (inaudible) business. So we intermediate on a real-time basis very little product. We take product on and when our customers need it, we fill bins on the OE side. If you don't have both the operational resources to completely integrate with and stay up with your customers as their build rates fluctuate up and down and the financial resources to [go long] the inventory to wait until the customer needs it, you're not going to provide the service that the customer requires. It's "sound simple." It's very complex to have this in place, have it be dynamic and still drive in your own business EBIT margins of 17% or better. So I think it's a -- it is a great (inaudible) statement to our competitive advantage both in terms of the financial performance we deliver and in terms of incrementally the customers that are coming to us in what is by nature a sticky business. When you're embedded with a supplier, it's a hard decision to give up that supplier and go off into the dark new world with somebody else. I think we're...

Noah Poponak - *Goldman Sachs Group Inc., Research Division - Equity Analyst*

Given all the changes that...

Michael F. Senft - *KLX Inc. - CFO, VP & Treasurer*

Absolutely. And our value proposition, I think, is just becoming more and more compelling to (inaudible).

Noah Poponak - *Goldman Sachs Group Inc., Research Division - Equity Analyst*

Is the remaining share gain opportunity in this piece of the business equal to or larger than what you have already won in the last couple of years?

Amin J. Khoury - *KLX Inc. - Chairman & CEO*

$64,000 question. We don't know. I mean, we're out there working hard at it every day. But as Mike mentioned, the business is very sticky. It has been many years before we could actually have won the amount of business that we won last year. It was a really, really big deal. And we are talking with a lot of customers now. I think it will depend upon not only our performance, but much more the performance of the competitors. And I think as that performance deteriorates, our opportunity becomes greater.

Noah Poponak - *Goldman Sachs Group Inc., Research Division - Equity Analyst*

Okay. I want to dig into some of the other end markets, but why don't I take a moment here to see if there are any questions from anyone in the audience? Yes, up here in the front.

Unidentified Analyst

I kind of wanted to hear a little more about the facility, move and, particularly, the software changes can sometimes be disruptive...

Noah Poponak - *Goldman Sachs Group Inc., Research Division - Equity Analyst*

If you could actually use that mic there for the transcription.

Unidentified Analyst

I wanted to ask a little more about the consolidation of the facilities and maybe a little bit about the software upgrade that you're talking about, where you are status-wise because, I mean, they can be disruptive. Are you using the new software and the separate facility?

Michael F. Senft - *KLX Inc. - CFO, VP & Treasurer*

We've already (inaudible).

Amin J. Khoury - *KLX Inc. - Chairman & CEO*

We've already done that, right. It's a good question. We will begin the move next month. So we are -- and the move will be phased in over time. We have -- we actually were several months ahead of schedule now. We actually have begun the investment a lot earlier than we expected. We expected the investment to happen more over 2018, we've pulled it forward. The facility is -- as I said, we'll begin the move in January, we'll phase it in over a period of time. We're shutting down 1 warehouse at a time of the major facilities that we now have. And we [can] do that by customer as well. So we think through which customers we're going to handle out of the new facility, what that means in terms of the movement of product from 1 warehouse into the new facility, which is about 0.5 million square feet of space. And I don't -- we don't anticipate any major issues. In fact, if we see any issues, we'll just slow down the move. But I tend to doubt that. With respect to quantitatively what do we expect the impact to be, I don't think we're prepared to give a number [yet], but I'm very sure it will be a nice improvement in operating earnings -- operating margin as a result of the consolidation into 1 location with everything dependent on the new warehouse management system and the inventory management system.

Michael F. Senft - *KLX Inc. - CFO, VP & Treasurer*

It's going to take us most of 2018 to get this done. So you should not misinterpret the amount of time as being (inaudible) glitches. To Amin's point, we're just going to be extremely deliberate about it.

Noah Poponak - *Goldman Sachs Group Inc., Research Division - Equity Analyst*

Other questions? Yes, you.

Unidentified Analyst

You all see a lot in airframe, but engines also require a lot of consumable parts both on the OEM and aftermarket side. Is that, speaking to product on expansion, something you want to focus on in the future why or why not...

Amin J. Khoury - *KLX Inc. - Chairman & CEO*

The question is related to engines -- to aircraft engines and the support of aircraft engines. That has never been a strong suit of ours. We don't actually have the breadth of inventory required to support the engine manufacturing business. That's actually a different group of suppliers that do that. And a lot of that supply is done by the manufacturers of the engines, so [GE] and Pratt. And we do now support the Honeywell engines, both APUs and also the propulsion engines. We are looking at expanding into that business, but haven't actually done it yet. We do not yet support Pratt or GE engines.

Noah Poponak - *Goldman Sachs Group Inc., Research Division - Equity Analyst*

And other questions?

Amin J. Khoury - *KLX Inc. - Chairman & CEO*

It's going through a pretty big change now. I mean, the turbofan engine is going to replace, I think, in terms of future deliveries, a lot of what's being delivered currently and that's going to be a new range of parts and pieces to support those engines. And I think it's going to accelerate once it does. I think there are, what -- there are [30 or 40] aircraft waiting for those engines as we speak. And I think it's going to be an important new change in the engine business, and it's one that we are thinking about, but don't yet have a reasonably solid position in.

Noah Poponak - *Goldman Sachs Group Inc., Research Division - Equity Analyst*

Anyone else? Amin, you mentioned earlier some encouraging signs in the military side of the business. Can you elaborate on what you meant by that?

Amin J. Khoury - *KLX Inc. - Chairman & CEO*

I think it's no secret that the current administration is more supportive of the -- of spending on the military. And there've been some -- there've been a number of reports about accidents at [sea] and helicopters down and all sorts of operational readiness issues. There've been some reports about the fact that, of a fleet of aircraft, 50% of the aircraft are down, the other 50% are flying, and they're cannibalizing parts from aircraft to support the fleet that is flying. That is not a sustainable position. And our expectation is that there will be a very substantial increase in spending on not only new military hardware, but on bringing up to readiness the hardware that's currently sitting. I think that, that is a really important opportunity. It's not a big part of our business. I mean, the biz jet and military business in the aggregate is only 10% to 15% of our business. But at the margin, our expectation is that, that business is going to grow pretty substantially over the next few years.

Noah Poponak - *Goldman Sachs Group Inc., Research Division - Equity Analyst*

Are you seeing that now, the readiness impact into the aftermarket piece of your military business?

Amin J. Khoury - *KLX Inc. - Chairman & CEO*

Yes, we no longer are seeing a decline in the manufacturing or support of military hardware, whereas that business has been declining for several years. That decline has stopped. Actually, in this quarter, we saw some increase. I mean, we're not going to talk quantitatively about it, because we haven't reported yet. But where we are currently is, the biz jet business is continuing (inaudible) to decline, but I think that, that (inaudible) And I think the military decline has ended, and we're beginning to see signs of improvement. In fact, we don't have a decline to report this quarter.

Noah Poponak - *Goldman Sachs Group Inc., Research Division - Equity Analyst*

And I believe you, with your recent build out of that business, have won some depot work from the army, I believe. How much opportunity is there to continue to do that?

Amin J. Khoury - *KLX Inc. - Chairman & CEO*

Yes. It's not only the army, it's all of that. It's the army, the navy, the air force. So the DLA is (inaudible) buying for all of the military services. And we are now basically supporting a number of depots, including Corpus Christi. So Letterkenny, Corpus Christi and -- we're doing a really good job, I mean, which -- and earning an excellent reputation in the aftermarket -- military aftermarket business, which we've already had on the commercial side of the business. And that's resulting in some new wins and a pretty positive outlook. So I would say that we feel generally positive about military spending in general, and our military business, both OE related and aftermarket related, growing beginning now.

Michael F. Senft - *KLX Inc. - CFO, VP & Treasurer*

But we had -- it's interesting we had some small set-aside business that we acquired that we pro forma'ed out of our expectation for revenues that in fact we have held onto, because the DLA has decided that the quality of our service makes it too good for them to give up and reallocate. So we've been very pleased by that, and we think it's a strong incremental endorsement of what the upside is.

Noah Poponak - *Goldman Sachs Group Inc., Research Division - Equity Analyst*

You expected them to [take]...

Michael F. Senft - *KLX Inc. - CFO, VP & Treasurer*

Yes, absolutely.

Noah Poponak - *Goldman Sachs Group Inc., Research Division - Equity Analyst*

On the business jet market commentary, how much of that is actually being seen in your business or internal studies of your...

Amin J. Khoury - *KLX Inc. - Chairman & CEO*

Yes, we're not really seeing it yet. I mean, it's still...

Noah Poponak - *Goldman Sachs Group Inc., Research Division - Equity Analyst*

(inaudible)

Amin J. Khoury - *KLX Inc. - Chairman & CEO*

Still weak, right. The industry is still weak. But cycles have gone up. Inventories of used business jets are declining. They're down to [39%] of the total now. Prices have firmed. So all the signs are in place for a [churn], but we haven't seen a churn .

Noah Poponak - *Goldman Sachs Group Inc., Research Division - Equity Analyst*

Okay. In the energy...

Amin J. Khoury - *KLX Inc. - Chairman & CEO*

In fact, on the contrary, it's still declining somewhat. And I think that, that will end. I think it should be ending about now. But we don't know for sure on the military side if [it] really has ended.

Michael F. Senft - *KLX Inc. - CFO, VP & Treasurer*

Okay. It's a great upside option for us, because we have wonderful positioning with the major biz jet manufacturing companies and suppliers. So we see that as a great upside if and when it turns.

Noah Poponak - *Goldman Sachs Group Inc., Research Division - Equity Analyst*

Have you won more business? You were referring to the number of new platforms coming into the market. Have you won more business on those new platforms compared to the [other] platforms? Or is it hard to tell?

Amin J. Khoury - *KLX Inc. - Chairman & CEO*

Well, we're doing all the business on a lot of these...

Noah Poponak - *Goldman Sachs Group Inc., Research Division - Equity Analyst*

[Prior to have upside?]

Amin J. Khoury - *KLX Inc. - Chairman & CEO*

Right, (inaudible) 100% of the business. It's just that the new platforms are really not -- it just started. I mean, (inaudible) introduced a couple. And there, the demand to support those platforms is there, and we're getting all the business now as we did before. A lot of the other platforms really hasn't been introduced yet. So Dassault has a couple of new airplanes, Bombardier has a couple of new airplanes, Embraer has got a new airplane. There's a -- there are a number of business jet manufacturers that are in the process of introducing new airplanes, but they haven't really begun to ramp up production. And as they do, demand for our support, will grow with it.

Noah Poponak - *Goldman Sachs Group Inc., Research Division - Equity Analyst*

I see. In ESG, in the energy business, clearly, that has bottomed and turned. Can you kind of walk through maybe what the customer -- your customer there did as the energy price was still falling to [retrograde as they] go to a point of sort of turning everything off and literally [doing] nothing? And what are they doing today? And what's the plan as they move forward? In other words, trying to understand how much of the turn in revenue and margin you've seen? Is just kind of pure stabilization back to something normal if you're in the vicinity of $50 a barrel versus having customers that plan to grow again? If that makes sense.

Amin J. Khoury - *KLX Inc. - Chairman & CEO*

Well, I think that maybe a way to focus on the answer to that question is to think through the amount of capital spending by engineer -- by exploration and production companies prior to the collapse in oil and gas prices currently and in the future. So capital spending by E&P companies is probably up in the 30% range in 2017, at least 30%. The stabilization in prices of both oil and gas are encouraging them to continue spending at that pace. So as we think through 2018, some of our customers are talking about increasing their capital spending after having had a large increase this year. And others are talking about continuing to spend at the rate at which they're spending now. So I think it's more stabilization rather than the expectation for another major incremental leap in capital spending. So I think we're at a place right now where prices are sufficiently stable to encourage the E&P companies to continue to invest and basically that's what we're seeing. So we've had significant increase in demand for both -- for the volume of our services and that has also enabled us to get some additional price, and that's reflected in the dramatic improvement in our profitability or reduction in loss, I should say, in that business from last year to this year to the point where we have reported a positive EBITDA result on a quarterly basis beginning, I think, in the second quarter of this year. And our expectation continues to be that we'll report positive operating earnings before the end of this year. So the businesses is growing very rapidly. It has turned. The losses are behind us. It's generating real profit now, talking about EBITDA, right? And our expectation is for a strong year in 2018 primarily as a result of the reputation that we've developed over the last couple of years and what's happened to the competition. So the competitors, lots of moms and pops and independents have not had the balance sheet to be able to properly maintain their equipment or to replace older equipment. And they've lost a lot of quality people. And their assets are not a quality asset base. We, on the other hand, have taken advantage of a downturn to buy assets at depressed prices to attract high quality people. And we've developed a terrific reputation, and we're basically perceived as maybe the or a market share leader for the services which we provide, in essentially every basin in which we operate. So the business has made a nice turn. Clearly, it's bottomed. Expectation for 2018 is solid. When we report in a couple of weeks, we will give some guidance with respect to the company overall and also with respect to each of the segments. And so I think we're expecting continued solid improvement in that business on an ongoing basis.

Noah Poponak - *Goldman Sachs Group Inc., Research Division - Equity Analyst*

Great. We have just one minute left on the clock up here. If there are any more questions in the audience. Yes, one in the back here.

Unidentified Analyst

Amin, just following up on the energy business, you said you'd provide more outlook for '18. But if you assume that rig count is flat for the next 2 years, what does the ESG business look like, margins growth, overall profile?

Amin J. Khoury - *KLX Inc. - Chairman & CEO*

While the rig count is flat, those rigs are drilling a lot more wells. And the fact of the matter is that in the shale [place], the rate of decline of production is pretty rapid, and they need to continue to keep drilling in order to just maintain the level of production, let alone to increase the level of production. And the combination of bringing on-stream drilled, but uncompleted wells, of which there are thousands, and they are basically beginning production in those wells very rapidly together with the continued need to drill to be able to maintain production at the same level from the same site because of the rate of decline of the existing wells is such that combined with the increase in the rate of demand, which is happening on a global basis now, the outlook for 2018 is pretty good. So we don't expect rapid growth in a number of rigs. We do expect very substantial growth in the amount of drilling that's done and the number of drilled, but uncompleted wells that are brought on stream.

Noah Poponak - *Goldman Sachs Group Inc., Research Division - Equity Analyst*

Okay. Well, with that, we're out of time. Gentlemen, thanks so much for being with us.

Amin J. Khoury - *KLX Inc. - Chairman & CEO*

Thank you, Noah.

Michael F. Senft - *KLX Inc. - CFO, VP & Treasurer*

Thank you, Noah.
