



DNOW Integration Process

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LONG-TERM GROWTH - ACQUISITION STRATEGY

High value-add solutions bring a sustainable competitive advantage:

- Leverage product lines brought in through acquisitions to gain organic share
- Form strong customer relationships ...
- Further differentiate us from our competitors
- Promote cross-selling ...

Functional DD Checklist Examples

Market Fit

Products

- Does the target's product offering complement our current product offering

Customers

- Does the target's customer base align with our target customer base

Geographic

- Does the target's geographic focus align with our target geographic focus

Value Proposition

- Is the target's value proposition aligned with our value proposition

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Operational Fit

Processes

- Does the target's processes align close enough to our required processes to ensure minimal disruption to the business after integration

Planning

- Does it disrupt our current operations

Reporting

- Are internal reporting requirements aligned

Management

- Will the target's management structure align with our management structure

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Cultural Fit

Personalities

- In aggregate will the personalities in the business mesh well with the rest of our business

Business Focus

- Does the overall business focus mesh well with our focus

Core Values

- Does the target's core values align with our core values or at a minimum do they not contradict each other

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Finance and Accounting

Finance

- Review customer and vendor concentration
- Review of financial model and valuation used for purchase price*
- Assist in determining commercial viability with trend and ratio analysis*
- Engage our legal counsel to review all contracts

Accounting

- Investigate all accounts audited for the past 3 years
- Tie out payroll
- Reasonable
- Inventory
- Review Accounts Payable
- Review Accounts Receivable
- Review Accounts

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Legal and Compliance Due Diligence

Commercial Contracts Review

- Focus on key contractual provisions, including warranties and indemnities
- No consequential damages

Property/Lease

Target Company

Lien/Claim

Insurance Policy

Types of Contracts

Loan/Debt

Consents Required

International

FCPA/UK Bribery

Import/Export

Review of

Contracts

Environmental Due Diligence

Perform site visit

- Kick-off meeting to discuss business operations and internal due-diligence questionnaire
- Site tour to photograph and identify liabilities

Key questions and topics

- General facility information
- Property's historical operations/historical records review
- Neighboring properties
- Water/waste/air compliance
- Underground Storage Tanks/Aboveground Storage Tanks
- Chemical use
- Asbestos/Polychlorinated biphenyls/lead paint
- Spills/Notice of Violations/previous investigations

Liability table

- Outlines potential liabilities/findings to identify material issues
- Provides resolutions with estimated capital and expense costs

Report

- Phase I Report to document condition of property prior to acquisition

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Integration Plan Day One – Year One

Operations								Last Meeting:	
Key Activities	Required by DNOW Corporate	Subfunction Category	Priority (H/M/L/NA)	Status (Complete/Inprocess / Not Initiated Yet)	Pre Close Activity / Day 1 Requirement	Post Close / Day 100 Plan Phase	101 Days - 1 Year	Notes	
Begin using DNOW T's & C's.	X		High	Not Initiated Yet	X				
Property, Facilities, & Insurance								Last Meeting:	
Key Activities	Required by DNOW Corporate	Subfunction Category	Priority (H/M/L/NA)	Status (Complete/Inprocess/ Not Imitated Yet)	Pre Close Activity / Day 1 Requirement	Post Close / Day 100 Plan Phase	101 Days - 1 Year	Notes	
Implement Quality, T so that she									
Collect & return to Risk Mgmt all insurance policies related to properties, leases, address of physical locations, employee schedule	x	Financial assessment	High	Not Initiated Yet	X				
Comp & Ben								Last Meeting:	
Key Activities	Required by DNOW Corporate	Subfunction Category	Priority (H/M/L/NA)	Status (Complete/Inprocess/ Not Imitated Yet)	Pre Close Activity / Day 1 Requirement	Post Close / Day 100 Plan Phase	101 Days - 1 Year	Notes	
Assess whether it is necessary to normalize employees' salaries due to a benefits change.	X	Compensation & Benefits		Not Initiated Yet	X				
Ensure continuity and/or renewal of existing benefit plans and contract terms	X	Compensation & Benefits		Not Initiated Yet	X				
Inventory health and welfare plans offered to employees and retirees	X	Compensation & Benefits		Not Initiated Yet	X				
Understand financial and legal obligations of health, pension and welfare plans	X	Compensation & Benefits		Not Initiated Yet	X				
Develop strategy to rationalize and optimize benefit policies, plans and terms	X	Compensation & Benefits		Not Initiated Yet			X		
Standardize benefit policies, plans and terms across company	X	Compensation & Benefits		Not Initiated Yet				X	
Design harmonized compensation structure, performance incentives and recognition programs	X	Compensation & Benefits		Not Initiated Yet				X	
Harmonize salary, compensation and benefits structures and plans	X	Compensation & Benefits		Not Initiated Yet					X
Define new employee salary bands (based on the new org charts, titles and roles & responsibilities)		Compensation & Benefits		Not Initiated Yet					X

Post Close Review

Activity Tracker-Summary

Operational Area	Required by DNOW Corporate	Total Activities	In Process	Completed
Sales & Marketing				
Finance & Accounting				
HSE				
Suppliers				
Property, Facilities, & In				
Legal & Compliance				
Operations				
HR				
Comp & Ben				
IT & IS				
SOX				
Tax				
Treasury				
OE				
Assets				
Total				

Financial Review

Annual Perf	2012	2013	2014E	2015
Revenue				
BM5s				
BM%				
Expenses				
OP5s				
OP%				

Lessons Learned

Monthly avgs '14	
Revenue	
BM5s	
BM%	
OPC	
Exp	
Total Exp	
OP5s	
OP%	

- ++ Allowing the former owners to make a private announcement (considering the size of the target)
- ++ Timing of DNOW branch notification
- ++ Dinner w/DNOW-Target key players
- Need a more effective internal M&A announcement process DNOW T&Cs
- Benefits/Comp adjustments-more timely
- Misc list of minor hassles, item codes, content support,...
- Corporate sponsor of the Target Workbook
- **Request from Bobby Dear**-ask Houston to develop a list of things that need to be done (in order based on priority) so the new branch doesn't get multiple requests from various groups.

Integration Update

IT & IS:

- > New network lines and computers were installed week of 12-8-14
- > SAP was installed so employees could start reviewing systems and look on inventory
- > SAP basic:
- > SAP go live

SOX:

- > DNOW po

Tax & Tre:

- > No requ

All Pre cl:

Control valves has been CVC's door opener:

- > Working with legacy DNOW employees so they understand how we can now support them and their customers with control valves and actuation.
- > Communicating 1
- > Developing a targ actuation and fle
- > Train the CVC een
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- > Add field service

Market Share Gain Focus

Employee Retention

- > Owners Marc and Diane Strickland signed 3 year no compete contracts.
- > Diane retired on 1-31-15.
- > Marc has not shown any sellers remorse to this point. Very driven, technical individual, engineering level. Wants to grow with DNOW and expand in other geographic areas.
- > Drew Hyatt: Sales person, has been with Marc the longest of all employees.
- > Zane Conway: Inside sales, degreed mechanical engineer. Graduated in 2014.
- > Travis Conway: Shop supervisor.
- > 3 actuation and control valve technicians
- > Hired a Administrative assistant to replace Diane
- > Recently added a Technical inside sales person to replace Drew on the inside so he can get in front of customers.
- > **Future employees:**
- > Actuation and control valve field service technicians
- > Outside technical sales person



Thank you