HD SUPPLY

HD Supply
2018 Investor Day

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Earning Our Growth Potential

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Overview

Welcome everybody. Thanks for joining us today. I think we've got a great day planned for you. Before I get started I wanted to let you know that we are going to be sharing forward-looking statements, non-GAAP measures, so be advised.

Let me take you through the agenda. We have our presentations in the morning and they will be given by our executive leadership team and will include Q&A. Then we have our business showcases in the afternoon. That will give us the opportunity to have 70 of our associates share with you how they operate and invest in the business for competitive advantage. So we're going to make sure that we keep on schedule and stay tight and if we can gain some time in the morning, that will give us more time in the afternoon. And we're keeping close eye on the weather to make sure it doesn't rain on us, because we do have some outside displays that we'd like to get to before everyone takes off. But it's a great opportunity for us to tell our story on behalf of the 11,000 associates out there.

We have included on page 4, three years of GAAP financials for your reference. And I'll just get started with an overview of HD Supply.

So HD Supply today, we are a very focused, winning growth company with tremendous momentum. We operate in terrific markets, $85 billion combined. Those markets by design are very large, they're fragmented and they're growing.

Now we win in those markets and we've established leadership positions in those markets by doing three things. One is ensuring that we are very specialized and we provide complete solutions for our living space MRO and our construction supply.

We also have scale and national presence that's combined with local expertise to be able to allow us to outperform in the markets we participate in. Most importantly we're a talent shop and so we'll be exposing you today to 70 of our associates. Some of those associates have been with us 30 years; some of those associates have been with us a week. So a great opportunity to understand how we operate our talent shop. Focused completely on how we create a winning environment that allows us to consistently deliver high quality investments that deliver sustainable EPS growth. So a talent shop that delivers sustainable EPS growth.

So we're in a great position today. A very strong, focused, winning company and great momentum.

HD Supply leadership

This is the leadership team. I'm very proud of this team. This is a team that's been together since we emerged from the financial crisis. We've been together, taken the company public. We've been together while we de-levered the company. And now we're together as we enter the next phase of the company we have great opportunities for terrific capital allocation and execution to be able to deliver a sustainable EPS growth as we go forward.

But what we're most proud of is the teams that this team has created, the depth of those teams, the success of those teams. And those teams will have the opportunity to share with you today how they operate, how they invest so they extend their competitive advantage.

Our evolution

Just a brief overview of our evolution. So we've had a very disciplined strategic process as we've gone forward. We have two businesses that are winning, customer-centric businesses that were started in the late 60s, early 70s. So we've been around and we've been expert for a long time.

We've gone through a very long period of driving growth, creating value and quite frankly doing a lot of heavy lifting. But now where we are today, we stand distraction-free and ready to win together.

Let me give you a snapshot ofthat timeline where we were when we IPO'd and where we are today. So when we IPO'd, we were highly leveraged at over 7 times; today we're appropriately leveraged within our targets.

We had significant fixed charges, so over $500 million of our cash went to paying interest. Now we're modest, about $120 million a year.

We had a high degree of complexity. We had eight business units. Today we are very simple, two focused leadership business units.

And we were geographically separated, so we had leadership teams all around the country. Today we're consolidated. All of our leadership is in Atlanta.

And from 2013 on until we sold our waterworks business last summer, all of our available resources and activities focused on de-leveraging. From the time we sold our waterworks business we've had the opportunity to be able to invest in very attractive capital allocation alternatives. Those alternatives are organic, inorganic and share repurchases.

So great fundamental improvements in the business from where we were when we IPO'd to where we are today, to on a non-distracted basis, be able to commit to capital allocation that is precise and organic, inorganic and share repurchases that will deliver sustainable EPS growth across the cycle.

Corporate Social Responsibility

We're also very proud of being a leading corporate citizen. So if you look at the culture of the company and the way we drive the company, we're a performance-based company. A performance-based company where everyone has a purpose bigger than themselves that they're working towards. So the way we drive our operations, the way we execute together, the way we support each other, the way we support our communities is the heartbeat of our execution.

So I'll just give you a simple example. Last year we had a whole bunch of very devastating events relative to storms and fires. Our employee funded Helping Hand fund leaned in, supported 500 of our associates that were basically displaced from their homes. Plus all the associates around those areas, swarmed into those areas, helped those associates get back on their feet, helped their operations get back on their feet faster than anyone else, so we could support our customers better than anybody else.

So we're a wonderful leading corporate citizen driven by our performance-based culture and our drive for a purpose bigger than ourselves.

Investment considerations

So if you look at our investment, if you look at HD Supply, we're in a great place. We operate in fragmented, large and growing markets and we have a very long runway for growth and an advantage because of our leadership position within those markets.

We've developed very deep customer relationships. We've earned those. We earned those through differentiated service, from our product breadth and knowledge, from our constant support, the reliability of that support, our wonderful ownership of our last-mile logistics and our tremendous supplier relationships.

And we've been successful. We've been successful at growing our sales and EBITDA across the cycle. We have a stack of high return growth initiatives that will allow us to continue that process. We also add to that tremendous acquisition opportunities and balance sheet flexibility to be able to repurchase shares opportunistically.

And most importantly, a very experienced team with a track record and a very, very deep bench that will allow us to grow together as we move forward.

So we have a very differentiated platform. We will demonstrate that in the presentations today, the interaction you'll have with our talent. And the net sum of everything is the ability to commit to and constantly deliver sustained increasing EPS growth.

So thank you very much. I'd like introduce Will Stengel to the stage.

Facilities Maintenance

Will Stengel

President, Facilities Maintenance, HD Supply

Thanks Joe. Good morning everyone. It's great to be here. Thanks for the opportunity to represent nearly 6,000 Facilities Maintenance associates across the country who work really hard to take care of our customers and be great teammates every day. What I'm going to do for the next 30 minutes or so here is really twofold. One is provide a quick background and foundational understanding of the business with an emphasis on the customer and how our customer relationships are differentiated. And then spend a decent amount of time walking through how we're investing in the business and how that's translated into differentiated growth.

Facilities Maintenance at a glance

So the Facilities Maintenance business is a living space MRO expert. We're a solution provider to the maintenance professionals that are fixing and dealing with all the issues that go wrong in an apartment unit, a hotel/motel and a senior care living facility.

We play an important role between our customers, of which we have about 300,000 active customer accounts, and over 3,000 strategic supplier partners as a solution intermediary to bring those two parts of the value chain together.

We go to market with an increasingly connected series of selling channels. I'll talk about that in a few slides. The business grew up as a direct marketer, a catalog-based business in the mid 70s. Obviously as the world and the capabilities have evolved around the business we have more selling channels. We have field sales, we have inside sales, we have catalog, we have web, etc. So a very diverse, connected omni-channel, selling experience.

That is enabled by a custom configured supply chain network design. We have about 44 distribution centers nationally. We supplement our stocking locations with about 50 cross-dock facilities that enable us to play the role between customer and supplier as a critical solution provider with same day or next day delivery in the vast majority of our markets. And that network is designed and configured around the demand patterns and the needs of our customers.

As Joe said HD Supply is a talent shop. We are a distribution business. The lifeblood of our company is the talent and the associates that are great teammates and take care of our customers every day. We have about 5,500 associates. About 3,000 of those associates are in operations ranging from drivers to inside the walls of our DCs and about 2,000 sales and service professionals that are customer facing or field support.

You can see our product depth in the lower right-hand corner of the page. We sell anything that you could see in an apartment unit that's going to break. That's the way to think about our assortment strategy and we'll talk a little bit about that. Anything that can go wrong in a living space, we have a solution with a product that will solve that unexpected problem. Today we've got about 17% of our business in proprietary brands and I'll talk a little bit more about that in a few minutes on how that's growing. We'll get that north of 20% over the next three years.

Our history

Look at the history of the Facilities Maintenance business. It started in the 70s. The takeaway on this page is that the history and the evolution of the company has been around capability addition and growth. Adding sales professionals in the late 90s; adding new living space profit pools in hospitality and healthcare; adding new capabilities in the early part of 2009 around property improvement; acquiring value-added services in the Peachtree business that gives us an opportunity to do customized marketing materials for our property managers.

And then, as Joe talked about, a massive foundational cultural investment with the opening of this building that has driven a huge amount of momentum, excitement, collaboration, energy and focus so that we can continue to evolve, execute, establish and grow capabilities.

You can see on the right hand side, we've done a lot of work in the last 12 to 15 months. I'll talk a little bit about that as we think about what that means for the business and where we are in terms of those investments around growth.

Our team

I am super proud of the team. We've done a lot of investment and work around making sure that our executive leadership team in Facilities Maintenance is not only aligned to the critical priorities of the business, but has deep relevant experience in the execution, not only jn what we're doing today but also as we think forward for the next five to ten years.

You can see we've aligned the team in our selling channels – think of those as our four commercial leaders – and our field support or our enabler functions, think about those that enable our selling channels to be effective. In every instance, we have folks on field that have passed a very high screening for culture fit, relevant experience and growth bias. People that are joining the team to be a part of doing something exciting and different and being empowered and accountable to do quality work that they're going to see in the results.

Key facts

I thought this was a helpful page to reinforce that we feel great about the profit pool in which we participate. This [industry] is a critical piece of the US economy, the maintenance of apartments, hotel/motels and senior care living facilities. These are mega trends that we think line up perfectly with the capabilities that we have today and the capabilities that we're investing in.

80% of apartment units in the market were built 18 plus years ago. The average age of an apartment is 40 years. That is right in the wheelhouse of our capabilities and our differentiation. 5 million hospitality properties in the United States and increasing. 50% increase in the number of seniors by 2030. One in five Americans will be at retirement age. Number of residents in assisted living facilities expected to double by 2030.

As the stock in these facilities need to be maintained, renovated, and upgraded, that is the profit pool in which we participate. We're incredibly focused on the living space maintenance expert to whom we can deliver solutions.

Growth opportunity

Another way to think about the growth opportunity, a $55 billion market. A third party consultant comes in to analyze what's addressable today, $55 billion opportunity across our verticals and across our business.

Today we have a leadership position with differentiated skills and we have a 5% share percentage. A $3 billion business with a 5% penetration in a $55 billion market. A fair question is how do you go get the white space.

On the right hand side of the page you've heard this from us for years. These are our G5 growth plays. Very methodical, risk adjusted execution, controllable, focused – in descending order of importance on how we go get that white space.

Selling more to existing customers will be 80% of our execution. Selling more to existing customers, adding new products and enhancing the sales channels represents nearly 100% of our execution most likely. We do not need to go hunt for incremental net new customers as our first priority. We need to empower our sales professionals and our selling channels to sell more to existing customers.

We do that really in five ways – sales coverage, a disciplined selling system, strategic account partnerships, tools and training and incentive alignment. And we've made incredible progress on all five of those in the last 12 to 24 months.

Living Space Verticals

So let me put a face to our customer here and offer a little bit more perspective of the verticals into which we sell.

So multi-family is about 65% of our business today. The customer in that multi-family vertical can range from the owner of a property, the leasing agent, the maintenance professional, the CEO of the REIT. It's a very deep complex customer relationship. The reason that's relevant and how it applies to our differentiation is we have a sales coverage model, specifically designated to cover every element of that end-to-end relationship.

And the customers have different needs within the actual winning relationship itself. The CEO has a different objective than the maintenance tech that's trying to get into Apartment 2A, get the work done and get out with all the right stuff.

In every instance, if you look at the bottom of the page, the order qualifiers across our verticals are the same. Easy interaction to order, helpful to find the right products for the problem and accurate next day delivery. And so internally when we're running the company, we're talking about execution with three words – easy, accurate, helpful. If people are doing work in our business that are disconnected from being easy, accurate and helpful for our customers, they're distracted.

Hospitality is about 20% of our business. Same takeaway, very complex customer relationships ranging from franchisee, maintenance tech, housekeeper expert responsible for linens on the property up to the big national account procurement managers, the CEOs of some of the world's largest hospitality companies. Relationship coverage with a specialized sales organization to cover that account end to end.

Healthcare – we talk about it as healthcare, this is our senior care living facility business where our customer is the maintenance professional that's fixing the things that go wrong in the living space in a senior care living facility.

Look at the depth of customer relationships. 120,000 multi-family relationships, 45,000 unique hospitality customers, 26,000 in healthcare. Thousands and thousands of complex local customer relationships covered by professional sales folks.

If you aggregate up all of that complexity, we have about 80% of our business in what we would call strategic accounts, or a winning relationship. From there, we have thousands of active customers in all of the local markets nationally that we need to service on a daily basis.

Customer relationship

Here's a visual of the complexity of the relationship. So we've got specialized sales experts, solution providers for each tier of each vertical. As I said it could be a property owner in multi-family down to the leasing agent. Each person has a different success criterion of how they are viewed as successful in their job. We know what that is. We've built our business around being easy, accurate and helpful for them and that's how we run the business.

Customer testimonials

I pulled just a few pieces of data from our voice of the customer. The center of everything we do, easy, accurate and helpful here, but I've bolded a few words that make the point. "Help, convenient, save us time and money. You have what I need, you help me, you take care of me, you assist me, you give us the answers, we trust you, you've got scale". These are a handful of examples but this is the feedback and this is how the value proposition resonates when you listen to the voice of the customer.

Property Improvement Services

I thought I would spend a few minutes here because I think the property improvement offering that we have is a good example of value-add service, solution selling, differentiated customer relationships and investment. And so property improvement today is about 12% of our business. We see a lot of property improvement in our multi-family vertical.

And think about this customer experience for context. So the customer looks at a property, they are looking at a unit or a series of units. They say they can't compete with the property down the street that's new build or the rental rates in this unit have been stagnant and I need to do something to freshen up the feel of this unit to attract new tenants. They call us, they say, I don't know what that means, but that's what I want to do.

And so generally that conversation will happen with a local field representative. That's how a lead gets generated. Or a strategic account with a national corporate initiative says we've got a big investment program that we want to undertake and that triggers a very consultative, service-rich experience, which is where we come in. Understand the budget, understand the product specifications, understand the timing requirements and kick off an end-to-end partnership to execute that.

We've also invested meaningfully in this part of our business. This is complex execution. This requires very sophisticated supply chain execution for us to grow and scale efficiently. We've invested in this part of the business. You can see in the lower left hand corner, we have invested in a proprietary tool that enhances the speed in which we can quote and the rigor in which we can quote. That translates into more wins. It translates into a better customer experience. It translates into more rigor around the economics associated with the bid and it gives the valuable selling time of the field rep back. Big, big deal.

All the way to the other end of the spectrum, budget management, investment in technology let us be help our customers on property improvement – what have you spent, how are you tracking. Do you have another apartment that you'd like to improve; send us a quote digitally, we don't have to have a discussion; here's what the analytics suggest that you need for that unit and so on and so on.

So good example of service content, good example of investing in technology, good example of accelerated growth.

Other value-added services

We do a lot of other value-added services for our customers including the installation of product. So the customer comes to us and says we want to retro fit a kitchen in Apartment 5C, but we don't want to manage or don't know the labor to help us execute that. We will leverage our local labor relationships on national scale to come in and get that work done. If you talk to any maintenance professional on property, managing contractors to do this work is very painful. It is not a fun part of their job. We are there to help.

Fabricated product – an example here, we will custom cut blinds to spec. That doesn't sound like a big deal, but you would amazed at the inconsistency of blind sizes in an apartment unit that has been around for 40 years. So we will do that work. Go in, consult with them, do you need cordless, do you need corded, do you need 6 inches, do you need 12 inches. There's two that are 12 inches in 2A and 2B; there's seven that are 8 inches in 3C and 3A.

We have 260 fabrication professionals in 15 distribution centers. We have national coverage for our fabrication execution. 2.3 million fabricated units sold in 2017.

Technical expertise. We have dedicated sales support, customer support professionals that wake up every day as experts helping customers. Fielding inbound, making outbound, linking up with strategic account discussions, partnering with our vendors, 12,000 customer touch points a month where we've got a product specialist that's helping solve a problem for a customer.

Product training – this is a big, big deal. We have to empower our sales professionals to be experts in their trade. We do that work on behalf of the maintenance professional who doesn't have the time to be an expert. That's the value proposition. Nearly every single one of our strategic account relationships have some sort of language in our relationship that talks about what we will do for them from a customer training perspective – online training, in person training, onsite training, certification training. This is a huge request of our customers and we've got a massive infrastructure across our selling resources and supplier partners to make this come to life.

We've got one of our strategic supplier partners here. I think that's a good case study where we will talk about how we work with suppliers to make sure that we're delivering knowledge as well as product to the customers.

That type of customer training also informs our internal sales training. So our product training, our customer discussions, how we're interacting, what we're doing to be helpful to the customer is informed on what we teach our sales professionals nationally. This building [LDC] will make a huge difference and has already made a huge difference in our ability to train. We're seeing great anecdotal and quantitative evidence of people that come into this building for training like this, go out into the field and are a lot more impactful to drive growth.

Credit services, also a huge deal for our customers – help us [the customer] figure out credit, be there to resolve credit issues. We have a world class team that executes credit services. 11 basis points of bad debt on net sales of roughly $3 billion over the last three years,that is an incredible statistic for a wholesale distribution business.

So lots of help and solutions that we offer up in service content for our customers.

Selling channels

So let's talk a little bit about the selling channels. This is an important page because I think it's a hugely, unique and differentiated concept for our business.

Let me start in the middle of the page. This is the omni-channel word that I was using before. This is the way of describing all of the interaction and interplay between our selling channels, ranging from field sales professionals, inside sales, strategic marketing, our web and mobile experience, the catalog/customer care call center. All of those channels need to work seamlessly together with the same customer experience, talking to each other in terms of products being sold, analytics, data so that we offer the choice to our customers on how they want to interact with us.

If you go back to the order qualifier for our customer, easy way to order, easy to deal with. This is a differentiated capability that we have that's a mix of physical assets built up over 40 years plus virtual assets.

And the key takeaway on this is we know from the data that when you have a customer moving around the circle and using multiple channels, the value equation and the economics to us is about three times that of someone that's solely focused in one channel. Better average ticket, better retention, better customer engagement.

And so as we think about where we're taking the business, it's all around evolving and investing in these channels to make the customer experience better and evolve each one of these with their own strategic roadmap so that we can migrate more and more customers to that multi-channel value proposition.

The capabilities down the left hand side of the page, these are built over many, many years, ranging from having our associates literally sitting with our customers, talking to them every day in their office – here's what you do, here's what you don't do, here's how you're trending relative to your clients etc – to our new mobile app, to our feet on the street. Years and years of investment, learning, relationships that have built up those capabilities.

Growth vision

This page attempts to capture where are we taking the business, what does this all mean for how we're investing, what does the next five or ten years look like. It's actually pretty simple. Easy, accurate and helpful [for our customers every day] sits in the middle. That's the engine that creates incredible customer loyalty and profitable growth.

We know what the customer needs from us [on the right hand side of the page]. Those examples are simplified, but there's a consistent complex set of customer needs that we understand and are well positioned to serve going forward.

And on the left-hand side of the page you can see omni-channel sales.

We've got to have service rich content and continue to add to that mix as a part of our business.

Mobile is the future and we'll talk a little bit more about that. Think mobile and web together, but it starts with mobile and builds out from there. That's a shift over the last two to three years.

Delivery excellence – it's got to be accurate, next day, same day.

And then this idea of predictive and preventative, how we're helpful in a proactive way as opposed to simply being an order taker.

Strategic growth investment

This vision informs how we're investing in the business. And I think this page has been in the public domain before. It's pretty straightforward I think. We're investing in our selling channels and we're investing in the enablers that empower those selling channels. Our supply chain, our breadth of offering, pricing and analytics, data. Talent is shown there on the bottom of the page, but talent is relevant for this whole page.

And on the top of the page how do we extend the customer experience with a seamless, coordinated, strategic omni-channel experience.

Sales enablement

So let me give you a few examples. I'll bring this to life a little bit here. So let's start with sales enablement. So think about this as traditional sales, field sales, inside sales. We'll have an opportunity later today to see these tools, you have a chance to ask some deeper level questions.

But the example on the far left of the page here, this is a proprietary sales dashboard. The history was lots of information, lots of data goes to the local field rep who's working from home, calling on local customers. This is a tool that required investment to aggregate, simplify, synthesize, and make actionable data that's going to drive profitable growth. We have a Super User Group in our business that has shown 2x the year to date growth rate of the company average by being a super user.

It allows you to look at share of wallet, figure out how do I sell more to existing customers, links all the relevant customer information. The vision of this is ultimately that becomes the interface for our field sales professionals to be smart about pre-planning in the customer discussion, follow-up, linkage to marketing material that's in market, linkage to email campaigns that the customer has seen, clicked or not clicked. It's an empowering tool that makes that sales professional more effective to sell more to existing customers.

Digital quoting, another example here. This is a tool empowered for the sales professional to respond more quickly to a request from a customer. Old world customer says, I'm not sure what I need, help me figure out widget A, B, C, give me some choices, what do you think you can do. Sales professional says, no problem, let me get back to you. Now real time tool, let me load A, B and C widget and here's your quote. 60% conversion rate, real time of winning that quote which is an increase of about 2x.

This tool has been in the sales professional's hands for roughly four to five months and we're seeing massive adoption. We had a 1,000 sales professionals at our national sales conference and the single most consistent piece of feedback was we love the digital quoting tool. So early innings here, really excited about the momentum.

Strategic marketing, another example. So as I talked about strategic sales coverage, how do we leverage the omni-channel selling channels that we have to cover the largest amount of our customer bases, most efficiently. Strategic marketing plays a huge role in that.

We did a lot of analytics around what is the appropriate size of business in terms of number of accounts that a field account rep should have. In many instances that was less than what they had. Where did those accounts go? Spread across our different channels with the same or better impact. Strategic marketing, we moved some of those accounts to what we call "marketing only". We've seen a 10 percentage point increase in the growth rates in one pilot, in one of the verticals associated with strategic marketing coverage. That is a great testament to the loyalty of the customers, the brand recognition locally, the impact and execution of the strategic marketing team, and detailed understanding the persona that helps inform sending a HVAC flyer here, but not here etc. Big, big deal for us.

Mobile and website experience

So I alluded to this a little bit. The mobile experience is in the middle of the page for a reason and there are arrows going left and right for a reason. These are all connected. Today about 65% of our orders are coming through online. That's up pretty meaningfully in the last two years.

We helped that progression by making some changes in our printed catalog this year strategically. We wanted to drive people to our web experience because we think it's more personalized, it can be more helpful, it gives them real time pricing, it can be a community and a knowledge center for them to figure out what they do and don't need.

And that starts with the mobile experience. In the past you started with your website experience on the desktop and then the mobile was the extension of that experience. [Today] mobile is the experience and the desktop is the extension of the mobile experience. Figuring out how do you optimize the real estate with a simple and helpful mobile experience and link back to the web as appropriate.

We supplement that with the mobile app. We have a patent pending mobile app, really slick technology, scanning, visual recognition. And we're seeing with the mobile app in the early days of adoption here that the average order size is 8% higher on our mobile app versus the desktop experience. Our theory is that that's because these are our most loyal, front of mind share customers. Average order size is up, growth rate is up and we're only in the early innings of our digital sales channels. This mobile app is going to get better and better as we go.

We're making big investments in here. We're re-platforming our website. It'll take us three to four to five versions ahead which will give us lots of degrees of freedom to do capability building coming out of the new website platform with a better customer experience.

Another data point. 43% increase in website visits versus prior year. Some of that is because of the strategic move we made to get customers to the website, but a really good indicator of the importance of this channel.

The economics of this channel are the same as the core business. We do not have a different pricing strategy or value proposition across omni-channel. That is a big, big point for us. So as digital channels evolve, I'm not diluting the core business because I've got a different pricing algorithm, category management, product offering or operating strategy for my digital channels. Reinforces this idea that all the omni-channels experiences are linked together.

Category management

You've heard from us on this topic for a long time. I thought I would explain it a bit just to give people a little bit more perspective. So this page is laid out this way for a reason. If you think about the left-hand side of the page, category management starts with scaled, differentiated relationships with your vendor partners. They work with you because they know you're the horse to ride as the expert in this space. They work with you because you are professional, thoughtful and appropriate to do business with.

We've got 3,000 supplier partnerships. And the merchant organization wakes up every single day building, nurturing, developing, thinking about how do you get the first look on programs, the best talent from the suppliers, how do we get their folks out training our people – a lot of rigor and relationship building that's built over many, many years.

They also have a lot of disciplined execution on how they work together. Line reviews, assortment strategy, good, better, best analyses, how do I think about where I'm positioning my assortment. This is a critical part of effectively selling what our customers want and it requires a lot of hard work and a lot of discipline.

Another piece of this is adding to the assortment in a strategic way. So today we have about 30 merchandizing categories, we have about 100 product categories and then you go down to the SKU level where you've got tens of thousands after that. It is the portfolio theory of all of our products in aggregate that informs how we think about what we sell and where we position ourselves, not only within that assortment strategy but relative to market, so we can deliver the best total offering and value proposition to our customers.

So I'll jump to the right hand side of the page, the differentiated value proposition. We've made a lot of investments in how we understand, think about and analyze our price positioning. Where are we relative to the market; what are the demand drivers of specific SKUs; what visibility do we need on a daily/weekly basis to understand how we're reacting or not reacting to market. Again, to deliver the best total value to our customers.

We've built an entire new pricing team in house in the last six to 12 months based here in Atlanta. Relevant expertise, focused on growth, cultural fit – a great example of talent investment that will pay us back as we move forward.

Proprietary brands plays a big role in category management. 17% of the business today; we make a commitment that by fiscal year '21 we'll be at over 20%. As we think about the portfolio strategy of category management by SKU, proprietary brands plays a very important role within our generally good, better positioning as we think about line logic. We've got lots of opportunity there. Difficult execution, it requires supply chain complexity, but something that we've demonstrated an ability to do and something that we're focused on doing going forward.

Supply chain excellence

The supply chain, as a distribution business will always be an area of investment and we've got great examples of how we've been investing in the business. It starts with the customer experience. Our simplified metric there is our quality metric. We have lots of detail by day, by DC, by person to assess where we are from a quality perspective. And we have opportunities to invest in simple, helpful, surgical technology – not next gen unproven technology, but simple surgical proven technology – to make the customer experience better from a quality perspective.

Just as an illustration, we have seen a 20 basis points improvement in one of our big DCs in quality, as a result of process improvement and investment. That execution plus other related factors has helped drive a 13 point sales growth increase year to date versus prior year. Another good illustration that quality matters that accurate same day or next day delivery is a critical customer need.

Productivity – think about the middle pane and right pane as productivity inside the four walls and productivity of transportation, respectively. As a distribution business we're talking about labor, we're talking about the movement of product. Lots of opportunities to continue to get better there. Invest in technology. It starts with good old fashioned disciplined execution, holding people accountable for execution targets. Brought in a lot of talent into the supply chain organization. It's showing a real difference in what we call our lines per hour calculation, so how productive are our workers in our DCs being relative to the targets that we give them. You can see the picture there. Very detailed, granular, daily execution – where were you this week, why, what's changed etc. Great execution around that.

Same thought on logistics. Lots of opportunity, endless opportunity. That's not a negative statement, it's just there's so much opportunity to get better each and every day around productivity as a distribution business.

We've invested in a third-party software that gives us visibility and analytics around understanding the efficiency and logic around our dedicated delivery routing. Where are our drivers spending their time, how much time, should they stop 22 times, 19 times, what are the traffic patterns? We saw a 100 basis point improvement with that software in stop delivered before 4 pm in a pilot. Another example of delivering the customer promise, investing in the business, leveraging our assets.

We have nearly 900 dedicated HD Supply delivery drivers. That is a huge competitive advantage for us. They are the face of HD Supply in many instances with our local customers. HD Supply branded trucks, they show up, they're interacting with our customers. Last mile execution that's getting a lot more sophisticated as we invest in it.

Program Management Office

So it's great to be executing and investing in lots of high impact initiatives but you've got to have rigor around how that work is getting done. And so this slide is to give a perspective of how we have the execution organized and the operating cadence that we have when we put investments into the business. We call this our project management office. We realigned and organized everybody across the company that were in a program management initiative or project management role and aggregated it together under our corporate strategy leader, Tripper Briggs.

So now we have an end-to-end visibility and accountability for what we're working on, where is it in the priority stack, what resources does it consume, what's the next milestone, what's the financial commitment and how are we tracking. We review it weekly and I have real time investment visibility at any time on my desktop to see where we are for our initiatives. That's how we're running the company.

So a lot of rigor around how we invest, based on return, based on customer need, based on available resources, based on investment requirements, how much we can consume practically, which is our biggest constraint. And then we execute.

Investment key takeaways

So we'll have an opportunity to go to the showcase and I'll leave you with just maybe a few takeaways as you go. Hopefully these are already resonating with you, but they continue to come to life as you spend time with the extended team here as we showcase the business.

We have a 1,000 customer facing associates that are empowered with relationships and technology and it's the combination of the relationships and the surgical technology that helps drives profitable growth.

Mobile/web, a critical part of the business as we move forward. It's integrated, it's personalized and it's profitable.

Category management. It's disciplined execution with existing strategic relationships with repeatable processes year after year and that positions you with your assortment logic, your price positioning, product breadth so we deliver the best total value for our customers. And it's highly complex as you think about the portfolio of what we sell to our customers.

That starts with supplier partnerships. As I mentioned we have one here as an example. We've got 3,000 others that we could have brought here. We can have the best sales organization in the world, but if we don't have the best supplier partners to give us the products at attractive economics and programs, we don't have much to sell.

Lastly, supply chain. It's a strategic footprint. So these are physical investments built up over many, many years, that enable next day and same day delivery in local markets. It is built around the customer need and enabled by HD Supply associates that are the face of the company as they deal with our customers.

Construction & Industrial

John Stegeman

President, Construction & Industrial, HD Supply

Good morning and welcome everybody. Very, very excited to be able to share the Construction & Industrial story with all of you this morning on behalf of our 5,500 associates that are out there making it happen with our customers every day.

I know you get a chance to be able to learn more about the business in the next 20 minutes or so from me. But I think to be able to see the business and how we go about creating stickiness with our customers in our showcase downstairs after lunch will be a great opportunity for each and every one of you.

C&I at a glance

So with that, what is it we do in the Construction & Industrial business? We're a leading distributor out there in specialty construction, which I know doesn't tell you a lot so I'll add the word concrete accessories in there that will give you a little better scope with what our core business is. And also we've become a leading distributors with contractors in the safety space. Lot of opportunity out there for us.

You see our sales after the first quarter 2018, $2.4 billion so we continue to grow at a good clip. More importantly, our EBITDA continues to grow faster than our sales growth which is very, very exciting.

We have a lot of customers, 200,000 customers or so that we know buy from us on a regular basis. But what's even more exciting is we have a lot of customers that are not buying from us. An opportunity to be able to grow and expand the business and I'll talk about that as well.

What's complex about our business is the number of skews that we actually sell out there to the construction world. A lot of these products are specialty products. I'll get into some of that detail to give you a better feel for why it's so important for our sales teams to have knowledge in the industry to be able to help our customers understand what are the right products for their jobs, day in in and day out.

Our growth history is interesting. I'll share that with you in a historical slide in just a minute. And I think you'll see that there's been a great combination of acquisitions, particularly early on in the business. We just recently made a big one that we'll talk about a little bit. But what's been real exciting is that we've been able to grow this business very organically – very profitably, by opening lots of new stores.

Our operating model is one that is extremely collaborative with customers. We work very, very hard to align ourselves with suppliers that provide quality products in the industry, strong brands and at the same time using them as an extension of our sales teams, our account managers create stickiness with contractors out there on jobs. And you'll get a good taste for the type of jobs that we're on right now that are just very, very exciting.

C&I history

So with that, if you look at our history the business started very, very small, in 1967. White Cap which was the original brand that the company was branded under, still a very popular name today with a lot of contractors, they opened their first store in 1976 in Santa Ana California. Now that store is store number one in our business and still very vibrant today and growing. White Cap was a West Coast company that really grew through a couple of ownership transactions, both public and private before Home Depot acquired the business in 2004.

And I think people started paying attention to all the businesses that Home Depot was buying up as they went through their acquisition binge. They bought a lot of companies in addition to White Cap including Hughes Supply which was actually a big competitor of mine when I was in my Ferguson days because they had a big plumbing business, they had a waterworks business and they had a building materials business that today has given us a footprint in the southeast which has made us very, very strong on the east coast.

I joined the company in 2010. I've never been more excited about the opportunities that we have in front of us in terms of the business. We IPO'd of course in 2013. It's been a phenomenal run for us. The amount of migration that we've gone through as a business has been exciting, but the one thing that's been consistent is the amount of support that Joe DeAngelo and the Board of Directors has provided our business particularly in the toughest times. Back when we went through the recession, we were going through that financial crisis, the business was struggling a little bit, it wasn't very diversified. And with the cash that was being generated from the other businesses in HD Supply as you'll see as we talk about our greenfields, we were actually investing in the business and growing during the toughest times. It really has provided a great platform for us today.

What is really exciting is what just happened in March which all of you are aware of, the acquisition of A H Harris, which has given us the footprint all the way from the Carolinas, all the way up through northern New England, as you can see on the map of all the blue dots, it has replicated the density that we have California, in the North East So very, very excited about that.

Again I talked about our growth trajectory. We teach our associates, day in and day out that if we're not growing double digit we are not doing our jobs. That opportunity is out there for us to be able to grab space. It's a very, very fragmented industry out there and there's just huge opportunities to be able to grow. But we're very selective about how we grow and where we try to grow our different products.

Our product mix is relatively unique. We sell a lot of concrete and chemicals out there in the marketplace. You have to understand how to sell chemicals to make sure your customers are using the right product on the job. We sell an awful lot of power tools and you guys would be surprised today to know that on jobsites today almost 60% of tools are cordless versus corded tools. The innovation in the tool industry is probably at an all-time high. And it's all based on battery platforms promoting more safety. And you can imagine, if you don't have a cord attached to something when you're hanging from a line on a roof, one less opportunity to hurt yourself and be safe.

So the safety part of our business has grown dramatically over the last six years or so. We really started from scratch in that business. We've developed a team of experts, a lot of product safety specialists that are helping a lot of our account managers better understand how to sell safety on the job.

OSHA has also regulated two major things in the safety industry as it relates to contractors, one being fall protection. You'll get to see firsthand downstairs later this afternoon, the fall protection trailers that our product safety specialists use when they go out on jobs. They actually get contractors in harnesses to make them understand what does it feel like if you do fall off something. How tight does your harness need to be? It needs to be inspected and safe to make sure that they go back home safely as they arrived that day.

In addition to that, OSHA just put in place a major silica initiative. How many of you have driven by, in a neighborhood and watched the concrete contractor with a cut saw digging in concrete and there's all this dust, concrete dust, silica dust, that's all around him. It is amazing to see a lot of them do not have masks on and is very scary when you think about what that could mean long-term for contractors.

But having said that, OSHA finally grabbed onto the fact that everybody on the job now needs to be protected. All the tools that now drill into concrete, cut into concrete, grind concrete have an attached vacuum cleaner to it to be able to grab that silica dust to make sure that it is not going into the lungs of the contractors that are doing the work.

So that safety side of our business has been very, very exciting. You can see at the end of the scale here, we have opened 47 greenfields since 2011. That has been a big part of our organic growth. We have been able to dense out areas where we already exist, providing more pickup points for our customers. We have been able to greenfield in major markets like New Jersey, New York and Boston. I'll share more about that very shortly.

Construction & Industrial Leadership

I think what gets me the most excited about my job every day is the just unbelievable talent that I am able to work around and with. We worked very hard over the last eight years or so to be able to build a team that sets the right example day-in and day-out and drives productivity out there for our teams.

Today we have two of those senior leaders with us, Alan Sollenberger, our Chief Operating Officer, who will be presenting at the tail end of my presentation. And then also we have Stephanie Suggs, our Chief Financial Officer with us today. What is even more exciting is most of our leaders on this page are waiting for each and every one of you downstairs to be able to showcase our business. So you will get to meet them firsthand.

The group of individuals on this page has 437 years of relevant experience in the industry. To some that may sound a little crazy but none of them are ready to retire. They love what they are doing. Most importantly, they grew up, a lot of them, in diverse construction related businesses that now give us the expertise to be able to drive our business forward. Very exciting.

Customer and Product Overview

So when you look at our business, why do we get fired up every day when we go to work? When you look at a job like this, a stadium or any project, even if it is a residential home, we are able to sell product from the time the dirt is turned. And if you want to ask me what gets me excited, is dirt that is turning because I want to know what work we have done ahead of time to understand that project. That project management side of our business is very important.

If we have done our job properly, we are going to know the contractor that is going to be on that job. We are going to have already provided a quote to that contractor for the products and materials and submitted on products so they can use the products that we sell day-in and day-out. It is really tough to do that if you come to these jobs too late and somebody else is already there. It is almost impossible to displace a competitor if they beat you to it.

But we serve a minimum of 14 trades every day. And with the new acquisition that we just made under the specialty category, you could now add glazing contractors to that as well. So glazing contractors for those individuals that live in a city, we have a lot of high-risers. Every single one of those windows that goes in those buildings has got to be sealed and caught. That is a huge opportunity with some of our preferred suppliers out there.

You will see right in the middle to the right, the multiple product categories that we have and you will notice that many of them have to do with concrete. So flatwork, poured wall, masonry, pre-cast, tilt-up, road & bridge and then waterproofing, whether it is the foundation that we are waterproofing or the membrane of the building. It does not mean typically the roof that a Beacon Roofing or one of those companies would go after. But the sides of the buildings, the foundation of the building are opportunities for us, particularly with the business that we acquired, Harris, that had Kenseal, who specializes in the waterproofing business.

Actually Ken Pfrommer, the most senior leader in the Harris business is downstairs today as well. He will have an opportunity to talk to you about what could that waterproofing business mean to the construction and industrial business down the road. So lots of opportunity here to be able to develop our business. You will see framing on there. We sell a lot of framers, not the framing lumber, but the wood connectors that are utilized particularly on the West Coast in seismic areas where everything has to be braced. There is also strong walls that are sold and those are literally walls that are put together with metal inserts to make sure that if there is a seismic event, the building will not collapse.

The reason why we are much better at that on the West Coast than we are on the East Coast is our business was established 40 years ago on the West Coast, long before the lumber companies started to affiliate themselves with those products. You also have a lot of trusses on the East Coast that are pre-manufactured with connectors. So we do not participate in a lot of that on the East Coast.

Industry Segment Opportunity

From an industry segment opportunity, you saw wall slide for FM. Our stories are pretty similar. Our market share is very similar. We estimate our market share somewhere between 6% and maybe 7% but nothing but white space ahead of us. This is the construction industry that we operate in every day. We work with the same G5 growth place that Will talked about. And that first one is critical, sell more to existing customers.

Our opportunity there is very big but our opportunity in finding new customers is just as important. One of the things you are going to see a little bit later is one of our jobsite training events. We go out and do 150 to 180 jobsite training events on the job for our contracts. We go out for one general contractor to do job. It is amazing how many other subcontractors are on that job that say, "hey, is it possible for me to have that type of training as well?" So that opportunity for us to find those new customers is out there every single day for our business.

We do focus a lot of our functional support and team support and financial investment in priority markets. What is a priority market for us? A priority market is a market where we are basically not represented from a market share perspective to the extent that we would like to be. So it provides nothing but big opportunity for us. What I mean by that is as our senior team is traveling, as we are doing teaching and training and coaching, we are trying to focus that spend in areas where we can get our greatest return from a sales and profitability perspective.

Construction segments served

So who are our customers? Customers for us come in basically two different shapes and sizes. Really you could say three. The commercial side of the business is very important to us. You are going to see in a couple of slides the kinds of jobs that we are on today that keep us busy. And Evan and Joe have referred to some of those jobs as two-year jobs or three year jobs. They are out there right now and they are very exciting. They are big in scale and they provide us again opportunity from start to finish.

But when you look at our biggest contractor, it is the national general contractor, the contractors that go from state to state that are doing big projects. Anybody know what that picture is there on the left? LaGuardia Airport, right. I know you guys don't get very excited about flying back into that airport. I actually get real excited when I go to LaGuardia. I get real excited because maybe I get a chance to see the job from the airs we are landing. And then after I land, I get to go out and ask our district manager, how many trucks have we delivered to that jobsite today. So right now Skanska and Walsh, two big general contractors that do major jobs are the GCs on that job. We are selling them products. We are also selling subcontractors' product on that job. We are delivering two truckloads on average per day to that jobsite right now. So that is just an example of the type of work that we can do. There is a lot of airport renovation going on right now out there in the United States.

On the residential side, I talked about the framing piece already, so I will not elaborate on that too much. I will say we are getting better as we have hired more talent on the East Coast, being able to supply some of the ancillary products in the foundation process of a residential new home or a multifamily project. So there are opportunities there for us as well in the industry.

So when you look at these jobs, some of these should be familiar to a lot of you. You see jobs that are big with transportation, like rail, tunnels. You see jobs that are just high-risers, that are being used for office space. And you see jobs that are industrial in nature, mobile plants that are virtually a city in Texas. And then all the residential work and commercial work that goes around that when they bring in the people to be able to fill those industrial plants. So very excited about the casinos that are going on right now.

Then you look at the bottom three, talk about technology investment and where is our world going from a technology perspective. Well, those three facilities that are being built – I know Apple is just about completed and I know it has been move into. I have been on that job twice. Very difficult to get on that job from a security perspective. They did not want to show a lot of people what they were doing and they are very particular about it.

Facebook, just coming out of the ground. The Google campus that has been built. So if we do not think technology is going to affect every industry we are in, those investments are out there but they are great projects for us to be able to work on every single day. The Apple campus for us was one of the largest projects that we have ever worked on as a business in terms of the revenues that were created on that job.

Value-Added Services

So what are value-added services? I talked about the importance of our account manager spending time with customers. We have over 600 account managers that every day their job is to be out there with customers on the job or in their offices either planning the project that is coming and helping them understand their material needs, bidding them on work or taking care of their day-to-day needs on a job.

The construction industry is really interesting. About 40% or 50% of the product needs of the job are typically identified before the job starts. There is a lot of bid work that goes into that. It is probably the most competitive side of the business that we have, particularly the larger the project. Having said that, they land on the job and then they go to work. Day one, they hit something in the ground. They do not have their safety product they need. Turmoil begins.

Our project managers, when they are there, they are not only seeing what the customers need that day, but if they are really good at what they do from a product knowledge perspective, they are going to actually talk to the contractor about what they are going to need tomorrow or next week. That is why product knowledge in our business is just so critical. A lot of the project managers on jobs do not plan very well. Our job is to be really the paramedics for them day-in and day-out to make sure that we take care of the needs they have to be able to drive their business.

Our account managers, we give them a lot of tools, some really good mobile tools as well to be able to tell customers this is the product you picked up last week. This is what you paid for. This is what we have in inventory. So we have those mobile apps in the construction business today. We've learned a lot from our sister business facilities maintenance to be able to understand the tools that our account managers can use to be successful.

They are backed up by product specialist that help them learn more about safety or more about other products that may not completely understand. So they are more apt to sell more product. They are also backed up by inside sales associates and counter sales associates. A lot of our customers come to us to our locations to our, what we call, showrooms to be able to buy product day-in and day-out.

If you look at some of our more mature markets where we have significant market share, it is not uncommon in our San Francisco location to have 250 customers a day coming in to pickup material at our counters. We backed that up with same day delivery service or next day delivery service. If they call ahead and they have a large order, we'll make sure that we give them a two-hour will call guarantee that their product will be ready to go when they come to the store so they are not waiting. In some of our busier locations we have two separate counters. We have a will call counter and then we have, just what we call, the regular counter, where they will come in and buy what they need.

So our goal is to get them in and out as fast as we can and for them to come into the store, see something in our displays that they did not think they needed, right, the Walmart concept and walk out with a bigger bag. So we do a lot of that from a merchandising perspective as well.

You saw the map of all the branches. We have got a national branch network out there. That is a huge barrier for entry for a lot of our competition that maybe regional or local in nature. That is important for our national accounts that are traveling from state to state to be able to work on a job. They can go from one part of the country with a relationship with the C&I business. They can go to another part of the country. Our national account managers are making sure that they are being treated the same wherever they go. Very important for our business to be able to have that.

The supplier support is critical to our business. Joe participates every year in some of the supplier events that we have and just to get to know personally the individuals that are out there driving the business. We ask our key suppliers to provide us with a national account manager, one voice that we can talk to about any issues we have in the business day-in and day-out.

We create standard buying agreements and programs. It is nice when you acquire a business, which we recently did and you find out what programs your preferred suppliers have with them versus what they had with you. Sometimes it creates a little bit of excitement in our business.

Other Value-Added Services

Other value-added services that we have out there for our customers, we fabricate product. We do a really nice job with brace and form rental. Through the Harris acquisition, we will get better at this in terms of what we are going to be able to scale across the United States in time. The same thing with rebar fabrication. They have a couple of locations that are participating in large rebar fabrication jobs. We are going to learn from some of the equipment they have.

They have got some unique fabrication capabilities that we feel will be able to expand across a larger geography and be better at it. We do have some tool repair locations across the country where it makes sense. Where it makes sense is typically where our tool manufacturers do not have warranty centers. If they have a warranty center, we will act as the liaison for the customer to take back their damaged tool. We will be happy to sell them a new one and we will make sure we get their damaged one repaired. We will take care of that service for them.

Product training, as I mentioned, is critical. You will get to see that firsthand today and hear from our experts downstairs. We have to keep in mind also that the majority of our business goes through credit. We have got a group of credit professionals. As a matter of fact, I heard one of the analysts speaking earlier that customers do not like to put all their apples in one basket and give HD Supply all of their business. While I agree with that in many cases, we want to get the majority of the business.

And our credit teams actually help train our customers on how they can be better business people, how they can pay their bills, better, faster and it takes a little bit of pressure off our account managers to not go out and sell thing or sell one thing and then ask for a check at the same time. We want them to be able to do that and be very cognizant of what is going on out there in the market, be our eyes and our ears. But we have backed up by a credit team that is just second to none. Very excited to that.

Greenfield Growth

Our greenfield growth story, again 47 greenfields since 2011, is twofold. One, why do we have a greenfield focus? Well, we do not want our customers driving past the competitor. We want them to find one of our stores and make sure that we can service them. So touch points are important. Again their runners pickup a lot of material for them on jobs.

When we look at a good greenfield, it could give us new products and capabilities out there in a particular market where we are not very strong. So again as you look across our 14 trades, although we want to be core in the concrete business, we may focus for example on the mechanical and electrical trade to be able to grow and develop the business out there with those types of contractors.

Also it gives us obviously geographic expansion across the country. Today we are in 39 states. We are not absolutely determined to be in all 50 but if the opportunity presents itself to be in major metropolitan markets where we can grow our market share, grow it profitability then we will consider that.

The biggest impediment for greenfields are people and facilities. And particularly now it is very difficult to find facilities out there that will suite our needs. We have to be typically in industrial areas that allow yard storage for products and there is a lot of places that just do not allow that any more. So makes it a little bit more difficult for us.

The second story I want to tell you about is the A.H. Harris acquisition and why it is so important to HD Supply strategically? So when you look at these acquisitions, you see in 2012 we opened up in Stoughton, Massachusetts, which is just a little south of Boston for those of you that are from that area and know it well. We also opened in North Bergen, New Jersey. And the reason we did that is we had an opportunity. At the time A.H. Harris was making an acquisition of a rebar company and forming company. When they did that, they decided the only assets they wanted were the inventory and they basically let most of the leadership and people go. Then they were going to rehire those people.

We stepped right in and we hired not only the leadership team but enough people from that business to get it started in Stoughton, Mass, and in New Jersey. So we opened up two stores. Those stores grew exponentially, continue to grow today. We have got a very good leader that we pulled in from San Francisco to be able to drive that business.

Then as you look a little further, we went to Queens, New York. For those of that are in New York, you probably understand better than most how difficult it is to find a facility that you can operate out of. Very difficult. We found one. We had to do a lot of work to get it ready but that store is thriving today.

Now while all these stores were developing and we opened in downtown Boston a little while later. Then we opened up in Manchester, New Hampshire as the northern side of Boston. As these businesses were growing, we realized at the same time that we had a competitor up there that had non-competes with their account managers that created a nice barrier to entry. They were getting their share more than their share of business.

Until the opportunity came up for us to be able to acquire that business. It took a lot of work for us to get there. But now you can see from the map, the critical scale and mass that we have in addition to the capabilities of more waterproofing opportunity for the business, strengthening core of our business and the concrete space. And most importantly, an incredible group of associates that were on their team. To me the number one thing you do when you make an acquisition is you acquire talent and you acquire people to be able to give you what you need.

So very excited about this acquisition and what it will mean for us inorganically. We had not done an acquisition in the business since 2009 before my time when HD Supply acquired ORCO. So only two acquisitions in the last eight years in the business.

Construction & Industrial Summary

So to summarize, why would you want to promote or invest in HD Supply and our business? Well, certainly both businesses, number one in their space, huge opportunity white space to be able to continue to provide nice growth returns. The leadership in both businesses very established, very relevant. You should have great confidence that these businesses are going to be managed the right way and they are going to move down the right path, continue to provide results for that people that invest in it.

Very proud of what we do to train and develop our people. . You could always do more but we have very established training programs going on, that our suppliers help with. They provide us with e-learning programs but also we create programs for our associates to be able to understand what being a leader is all about. How do you run a business from a financial perspective? That kind of training just does not happen very much out there. You are certainly not going to pickup a lot of that in college unless you are in a particular space.

We have strong customer and supplier relationships that we are very proud of. As a matter of fact, next week we are going to be celebrating our top performing associates that are district managers in the field, that are account managers in the field, what we call our first choice associates, that are recommended by leaders as somebody that is making an incredible impact. We are going to have 28 of our preferred suppliers with us. They are all going to receive plaques thanking them for what they do to help us win.

When we are aligned with them properly, they bring business to us instead of spending time with our competition and growing their business. Very important that we consider them an extension of our sales teams out there.

Our depth and breadth of product and inventory helps us in the toughest times to compete and really helps our service jobs, so our customers complete their jobs on time. Very critical. And then lastly, the growth engine, the organic growth opportunity to continue to greenfield. We challenge each one of our regional vice presidents every year to find two to three locations that we can open up in to create a pro forma that is going to give us a return quickly. We have been very successful doing that all throughout the country and we were certainly be opportunistic on the acquisition front.

I know that we gained a lot of attention when we acquired our largest most similar competitor in the marketplace just recently. So very exciting times for our business. Real excited about what you are going to see after lunch today in the opportunity to be able to understand the talent that we have in the business and what we really focusing on as a group.

And with that, I am going to turn the floor over to our Chief Operating Officer, somebody that I work beside now for eight years in the business. Somebody who was a big part of a lot of the acquisitions that made up what our business is today, Mr. Alan Sollenberger. Alan?

Alan Sollenberger

Chief Operating Officer, HD Supply

Preview of Afternoon Showcase

Thank you, John. John provided a terrific overview of our leadership team and our operational capabilities. It truly is our exceptional associates and our operational differentiators that set us apart and allow us to provide superior service to our customers and grow with them. You are going to have the opportunity this afternoon, as John mentioned, to meet more of our leadership team in our breakout sessions.

The objective of the breakout sessions is to provide you with another level of detail around what truly differentiates HD Supply C&I from much of our competition. To do so, we are going to head down to the loading dock where we brought in some products and equipment. We have setup some stations to highlight some of our products and services.

Our senior leadership team will be there along with some of our category management team members to go over some of our specific categories and provide you a little more detail on those products and services that we provide to our customers.

It will be a little warm, so we will have some water down there. There will be no heavy construction going on, so we will keep you safe and clean. But please be careful and be hydrated. Safety is very important to us and our contractors. You will get a taste of what it takes for our customers out there today in the heat. They are out there every single day our associates out there, making sure that they are safe.

So a glimpse of our stations. First off we are going to talk about some of our sales and marketing differentiators. We are also going to have our category manager in charge of safety providing more information on that safety category. Our next breakout will be around our training and development, the investment that we are making in our associates so that we can continue to grow and service our customers. And we will also talk about our waterproofing business that as John mentioned has been added to in the northeast region with the acquisition of A.H. Harris.

Our third breakout will focus on our category management and how our category team partners with our field associates and our supplier partners to continue to drive value and support our customers. Our fourth breakout is about our value-added services. As John mentioned these are the capabilities we provide in our location to support our customers. Then lastly as John mentioned, we brought our jobsite in that van and tent to give you a glimpse of what we do on the jobsite over 150 times a year to provide added services to our customers and our customers' associates.

Showcase Takeaways

So summarizing the breakout sessions, we selected these specifically to provide you with that added information around our capabilities and how we service our customers. It is our national scale, our broad product mix, the value-added services we provide our customers, our supplier relationships, and most of all, our most knowledgeable associates in the construction supply space that will continue to support our continued growth.

I want to thank you. And right now I will introduce Evan Levitt, our CFO, for HD Supply financial update. Evan?

Financial Performance Review

Evan Levitt

Chief Financial Officer, HD Supply

Recent Financial Performance

All right, good morning. Thank you all for being here with us today. It's my pleasure to share with you financial overview of HD Supply. We will start with our recent financial performance. Our recent performance has been driven by an accelerating sales growth. For the 12 months ending April 2018, we have grown our organic sales by 8% year-over-year.

We expect to generate an 8% sales growth on an organic basis for the full-year of 2018. That compares favorably to our 2017 sales growth of 6% and our 2016 sales growth of 4%. Over this period of time, our gross margins have remained constant, relatively stable and as we've repeatedly said, a flat gross margin in this environment we believe is very strong execution.

Adjusted EBITDA as a percentage of net sales over the last 12 months is coming in at 14.4%. We also expect adjusted EBITDA as a percentage of net sales to come in at about 14.4% for the full year of fiscal 2018. That is a modest improvement from the last couple of years and keep in mind that also overcomes about 30 basis points of dilution from the A.H. Harris acquisition. I will talk a little bit more about A.H. Harris shortly.

We have seen strong growth in our adjusted net income per diluted share over the last several years. That is driven by our strong operating performance, improvements in our capital structure whereby we have paid down a significant amount of debt as well as reduced the cost of that debt and our recent share repurchases.

Similarly, we have seen strong growth in our free cash flow. We now expect to generate about $500 million of free cash flow during fiscal 2018.

Capital Structure through the Cycle

This slide, Slide 54, depicts our historical financial leverage profile. We defined financial leverage as net debt divided by adjusted EBITDA. In 2013 when we did our IPO, we were levered over 7 times. At that time, we set a target to reduce our leverage below 3 times.

Over the next four years, we repaid more than $3 billion of debt. We did so with free cash flow and proceeds from the sale of non-core assets. Over that same time, we reduced our cash interest cost on an annual basis from $527 million to about $120 million today. And in 2017, we reached our financial leverage target of below 3 times, effectively normalizing our capital structure.

Today, we are levered about 2.6 times, which is right in the middle of our 2 to 3 times financial leverage target. We are very comfortable operating the business at this level of leverage given the strong cash flow profile of our businesses.

Capital Structure

Page 55 depicts our current debt structure. We maintained a $1 billion revolving asset-backed lending facility, of which $52 million is drawn all of it in Canada. We have $1.1 billion of term loan outstanding and $1 billion of senior notes outstanding.

Now the interest rates on the current $1.1 billion of term loan and $1 billion of senior notes is priced higher than today's market. Therefore we are closely monitoring today's market as we may have an opportunity to reprice or refinance some or all of this debt to further reduce our interest costs and you may very well see us take action on that over the course of 2018.

Tax Reform: Key Highlights

Page 56, we talk about taxes. We continue to be in a very favorable tax position. We currently maintain $675 million of gross federal net operating loss carryforwards and about $35 million of federal tax credits. These net operating loss carryforwards and tax credits currently allow us to avoid paying federal income tax. We pay zero federal income tax today.

We expect the net operating loss carryforwards and tax credits to be exhausted. Right now we are estimating the second half of 2019. When those tax credits and carryforwards are exhausted, we will become a regular federal income tax payer. We are primarily domestic company. 95% of our business is here in the United States. Therefore when we become a regular federal income taxpayer, we will pay tax at close to the statutory rate.

Therefore the recent tax reform legislation that reduced the federal statutory rate from 35% to 21% very significant for HD Supply. That dramatically improves the after tax cash flow profile of our company. We do not expect to have any limitations on our interest deductibility under the new tax law and we expect to report approximately 25% to 26% tax rate. That is comprised of 21% federal statutory rate and a 4% to 5% net state rate.

Long-Term Capital Allocation Strategy

I want to spend some time talking about capital allocation strategy. Prior to normalizing our capital structure, nearly all of our cash flow went towards debt reduction. Today we are committed to allocating capital so the highest return investment opportunities available to us.

And those opportunities include organic growth investments, acquisitions and returning cash to shareholders. So let us start with organic growth investments. We are always investing in our business. Investing in our business is how we fund our 300 basis points of outgrowth relative to market growth.

It is how we execute 1.5 times operating leverage on that core market growth and our growth. We have a rigorous internal review process where we review all proposed investments to ensure that those investments will deliver appropriate returns for our shareholders. In 2017, we announced an accelerated investment strategy including the $12 million of accelerated investment that we are spending here in 2018.

Now Will, in his presentation, walked you through a number of those investments. This afternoon you will get to meet the extended team that is directly working on those investments that can share more information. But we are already seeing those investments make a positive impact on our business. We are seeing significant increases in traffic on our website. We are seeing increases in our mobile order volume. We are seeing very positive responses on a number of our pilot initiatives throughout the company. We believe these initiatives are already positively impacting our current sales performance.

The next alternative for capital allocation is acquisitions. We believe we can be the natural consolidator in both of our industry segments, for both facilities maintenance and construction and industrial. We are the largest provider in both spaces, but both spaces are highly fragmented and our market share is relatively low, providing us an opportunity to be a natural consolidator.

Now when we do acquisitions or when we look for acquisitions, we are looking for several things. First, we are looking for additional density or scale within geographies that we currently operate. Density and distribution is very important. It not only provides us with the ability to improve our profitability, but it provides us with the ability to improve customer service.

When we are looking for an acquisition, we are looking for a new capability that we are acquiring. The new capability could be a new product offering, a new service offering, some kinds of expertise or process that the target has that we can leverage across our existing business. We are looking for an opportunity where we have to improve the performance of the target, so whether we can improve the profitability of the target, whether we can improve the sales profile, the sales growth profile of the target. We want to add value to whatever we acquire.

We are looking for compelling value. In general, we like to buy companies for a multiple of earnings below the multiple at which the applicable HD Supply business trades on a sum of the parts approach. We are looking to identify synergies that we can realize when combining these two businesses to further pay down that earnings multiple.

Finally cultural fit. You got to have a good cultural fit. The leadership team and the associates of the target need to share our core values. Now we closed on the A.H. Harris acquisition in March of this year, $362 million. And A.H. Harris checked off everyone of those boxes on that list that I just described. Certainly they provide us additional density and market presence in important markets where we have previously underrepresented like New York and Boston.

They provide us with additional capabilities. They have got a very strong waterproofing and sealant business. They have got strong fabrication capabilities that we can leverage across our legacy construction in industrial business. We can provide improvement to the A.H. Harris business. A.H. Harris has been a business for over 100 years. They have got very strong customer relationships. They have got great vendor partnerships.

In over the last several years, they have been growing in line with the market about 3% to 4% a year. John and his team have certainly demonstrated the ability to grow significantly faster than that. We are excited about taking the process, the culture, the sales growth culture of HD Supply construction and industrial and translating it to A.H. Harris and accelerating their growth.

The acquisition of the two businesses is going very well. We are pleased with what we have bought. We are very pleased with the talent we have acquired. We are confident in the return profile of the business we bought. We believe the A.H. Harris business will generate double-digit returns for years to come. We would like to do more transactions like A.H. Harris for both businesses, for both facilities maintenance and construction and industrial.

Finally, capital allocation alternative number three is return cash to shareholders. Over the last year, our board of directors has authorized two 500 share repurchase programs. Under those programs, we have repurchased a total of $627 million worth of stock, almost 10% of the outstanding stock as of the end of the first quarter of 2017. We paid an average price of $32.39.

As of yesterday’s close, we generated nearly 35% return on those share repurchases. We will continue to strategically and opportunistically buyback shares. We are very pleased with the return profile that we are seeing on all of our capital allocation investments over the course of the last year, our organic growth investments, our acquisition and our share repurchases. We expect to do more the same with the same discipline and the same rigor. We will continue to be good stewards of capital.

EPS Growth Framework

Now our capital allocation strategy leads directly into our EPS growth framework. We believe that organically we can growth earnings per share on a double-digit basis through the cycle. That is organic growth double-digit earnings per share through the cycle. We do that by delivering on our organic growth commitments and through our organic growth investments.

Now our organic growth commitments should sound familiar to you because they haven't changed. 300 basis points of growth in excess of the market. On that core growth, we deliver 1.5 times operating leverage. Those two metrics, 300 basis points of growth in excess to the market, 1.5 times operating leverage. That informs our target earnings for each year. As we execute over the course of the year, we work to over deliver on that earnings target to deliver more.

We do that by identifying incremental profitable growth opportunities to deliver more earnings. That formula gives us that organic double-digit earnings growth. Then to that, our capital allocation strategy enables us to further grow earnings per share and add more value to shareholders through accretive acquisitions that we can identify and integrate and through opportunistic share repurchases.

So our commitment is double-digit organic growth with the opportunity to add additional earnings per share growth and value with capital allocation.

Raised FY'18 Guidance

Now I want to close with a review of our guidance walk. This is a guidance walk from our 2017 sales and earnings to the current midpoint of our 2018 sales and earnings guidance. We initially showed this slide at the start of the year when we released our year-end earnings. You will see the first step in the walk is our core growth. Again that does not change. 300 basis points of growth in excess of the market.

On that core growth, we commit to 1.5 times operating leverage. To that, we had our recent acquisition of A.H. Harris. We estimate that is worth $360 million of sales and $40 million of EBITDA. We then have a couple of one-time items in here that we share with you as we identify them. After a very strong first quarter, we were pleased to raise guidance for the full-year.

We raised guidance at the midpoint by $45 million of sales and $12 million of EBITDA. The midpoint of our EBITDA guidance range is $847 million. That represents 16% growth from prior year. 2018 is off to a really good start. 2018 looks like it is going to be a very good year. We are very pleased with our first quarter performance. Our May performance, the first month of our second quarter was very strong. We delivered 10% organic growth.

In the month of June, well it is not finished yet, is progressing very well. We are pleased with our performance in the month of June and it is coming in similar to our expectations. Our team is excited. We are in the heart of our selling season right now. Everybody is confident and excited about delivering a terrific fiscal 2018.

Okay, I think we are going to take a break for a few minutes now. Give everybody an opportunity to stretch their legs. We are going to come back after the break and Joe, Will and John are going to join me on stage. We will do a Q&A session.

Thanks very much.

[Break]

Q&A

Joe DeAngelo: Okay. Well, thanks a lot for your attention this morning. Now we will take questions.

Deane Dray - RBC Capital: A couple of questions, I was really interested in hearing more points regarding the point Will made that you do not have a need or there is not a big focus on looking for new customers that the big growth opportunity is increasing share of wallet with existing customers? And then I had a follow-up question on the proprietary products.

Will Stengel: Yeah, so first and foremost, we are always excited about new customers in terms of tactical execution, the energies and the tools and the investments that are in focus right now are all around enabling selling more to existing relationships. That 5% penetration in the market, if we look across the data for wallet share directionally, we have folks that are 60%, 70%, 80% penetrated in the wallet share and we have folks that are 5%, 6%, 7%, 8% penetrated.

So our task is to get that median wallet share penetration up and we do that by being very disciplined and very in synch with strategic relationships who are also interested in driving compliance down in the local markets. We are working together to do that. So that is a daily tactical piece of execution that bears a lot of fruit. That is a high impact.

Deane Dray - RBC Capital: And then the second question, just elaborate on the strategy regarding proprietary brands? Just one of the issues or sensitivities that sometimes come up is as you get bigger in that space, you may come into some conflicts with suppliers and there is some sensitivities there. Maybe there are even some important tariff issues that come up as well. So, just how are you addressing those, I guess?

Will Stengel: Yes, so it is a great question. The way I would describe it is we actually get very positive feedback with our existing vendor relationships who like to work with us to do proprietary brands that line up with our assortment strategy and our line logic.

In many instances, it is actually not in conflict, it is completely additive to our strategic relationship with those vendors. We think we have a big runway to do that. It starts with the discipline of looking at which product categories, based on the customer need and the assortment strategy, do you go to first and then how do you refer surgical on it.

Hamzah Mazari - Macquarie: First question is just for Joe. Joe, maybe if you could touch on some of the big box retailers – your former shop or have a focus on the FM business? Could you maybe – you have sat on both sides of the fence – maybe walk us through what is the synergy of having an FM business in a big box retailer versus running independent pros and cons? Then, just a follow-up for Will.

Joe DeAngelo: I would say I am pretty dated. I have been a decade out. I did have that at Home Depot. Now, you have two people that I worked with either running Home Depot or running Lowe's. I really cannot comment on what their strategy is.

I will tell you that it wasn't until we separated from Home Depot, that we had the ability to focus and grow Facilities Maintenance – just look at the empirical evidence of the growth rate of that Facilities Maintenance business and the profitability of that Facilities Maintenance business. It is similar story with our Construction and Industrial, although we didn't own it as long.

It just works better when you are focused. When you're focused, you win. We had 12 businesses, we are down to two businesses. We know that we will focus on those and do a better job. I would say if you are part of a retailer, your job is harder than being part of HD Supply and being a very focused executer there.

Whether it fits or not is up to their strategy. If I just look at their market sizes and where they touch and what you need to protect, clearly if you are in the DIY space, if you ever do anything to take your eye off the ball in the DIY space, you will really get into trouble, particularly when you look at the emerging competitors that are out there. My view is you have to focus to win. We are focused. We will win.

Hamzah Mazari – Macquarie: Just a follow-up for Will. You talked about setting up a pricing group in the last six to 12 months. Maybe walk us through the process of how you set price versus the market? Do you see the market going up or down, currently? Thanks.

Will Stengel: Yes. When I said we set up a Pricing team, we have dedicated professionals that wake up every day looking at assortment in the context of category management. They are not a team of people that are just kind of doing math to set price. The way that we philosophically have and always will be thinking about price is by offering and delivering a total value proposition to our customers that is differentiated and complete, and that is competitively priced plus incredible service.

Nothing has changed, in terms of that and kind of the investments that we are making in price. We are seeing inflation in categories that you would expect to see – anything around steel content. We are seeing that dynamic, like every other industry across the country and across the globe.

Typically, what happens in our industry is the move in commodity prices inflation is pretty organized. To the extent that there is a need to adjust relative to what is going on in the world, we and the world will do that together. However, we are super-focused on being competitively priced to claim our value, in terms of the service and the delivery that we provide our customers. We feel like we are well-positioned to do that.

Keith Hughes - Suntrust: Thank you. A question for John. You had talked in your slides, you have 47 greenfields that has been at six, seven years. You have done your first acquisition. If you look at the next couple of years, is it going to be more greenfield for growth or do you think acquisitions will be a bigger part of the strategy?

John Stegeman: I think both opportunities you evaluate every day as part of the business. The greenfield strategy has been part of our organic growth flight. It is embedded in the way our field leaders think, in terms of bringing opportunities to either expand the market or expand it in other market where we may be opportunistic and find some people.

On the acquisition front, I think that will depend on the opportunities that are there and what makes sense to us. There are a lot that do not, as we evaluate them. There are a lot of small companies out there that would require a lot of work that we may not be interested in.

Again, I think it comes down to the people opportunity and the opportunity to be able to drive our business forward and create a profitable return. However, I think both will be a part of our strategy, going forward.

Keith Hughes - Suntrust: Also, you called out some of your end-user mortgage. You have residential and non-residential. What is the break-up, by revenue, right now of those?

John Stegeman: We do not currently disclose that.

Evelyn Chow – Goldman Sachs: Hi, guys. Maybe the first question, why is EPS and not EBITDA growth the right metric with which to operate your business? Maybe within that answer, if you could provide some detail on how you think about operating leverage across the two businesses and the profitability on growth you are getting outside of the market plus 300 bps algorithm?

Evan Levitt: Yes. The metric versus the EBITDA metric, both are important. I think there will be an increasing focus on earnings per share now that the capital structure is normalized. When we were levered seven times, looking at earnings per share was not really comparable – looking at our earnings per share versus others, particularly during the process where we were delivering.

Now that our capital structure is stable, I think earnings per share is more meaningful. We will become a tax payer here in 2019. That will make it more meaningful again. I believe there will be more focus on earnings per share. However, that does not mean we do not focus on EBITDA. We certainly do still focus on EBITDA as well. Then, I am sorry, what was the other question?

Evelyn Chow – Goldman Sachs: Yes, Evan, just understanding the operating leverage profile across each of the businesses and further understanding the profitability of the growth you might achieve above the 300 bps of outgrowth.

Evan Levitt: Yes. Okay. Both of our businesses are highly profitable. They are both double-digit EBITDA. Obviously, the Facilities Maintenance margin is higher than the Construction and Industrial margin. We do think we can deliver 1.5 times operating leverage in both businesses on that core growth of market plus 300 basis points.

For Facilities Maintenance, when you are an 18% margin business, 1.5 times operating leverage implies a contribution margin of about 27%, so a very healthy contribution margin. The Construction business is just a different business. A 14% margin, still healthy contribution at 1.5 times the operating leverage implies a contribution margin of over 20%.

In terms of incremental opportunities above that 1.5 times operating leverage, the reason we are talking about that is we do not want that 1.5 times operating leverage metric to constrain our ability to grow profitably. If we have an opportunity to grow profitably for an investment, a vertical of business and acquisition that dilutes our operating leverage but still adds incremental earnings and incremental cash flow to the bottom line, we want to pursue those activities.

Now, the A.H. Harris acquisition is a great example of that. A.H. Harris dilutes our operating leverage for fiscal 2018 by about a quarter point. However, it is still a tremendous acquisition for us for all the reasons that John talked about. We are excited about it. It has going to provide a terrific return profile for our shareholders. However, if we held that 1.5 times operating leverage metric rigid, that we will not deviate from that, we might have passed on an opportunity like A.H. Harris.

Evelyn Chow – Goldman Sachs: That is helpful. If I may sneak in one more? I think you have been very consistent in maintaining that flat gross margins is great performance. When does the sensitivity of your long-term EPS CAGR two different gross margin environments?

Evan Levitt: Certainly, if you are able to accelerate gross margin, you are able to grow EBITDA and EPS faster. That is why in our business, that 300 basis points of outgrowth and excess of market is so important because we need that level of sales growth, that volume in order to deliver the 1.5 times operating leverage and the EPS growth by leveraging our fixed costs.

If you are in a flat sales environment, if you are expanding gross margins, you may still be able to expand EPS and operating leverage. However, we are prepared to operate in an environment with a flat gross margin. In order to operate in a period of flat gross margin, we need that sales growth.

Evelyn Chow – Goldman Sachs: Thank you.

Ryan Merkel – William Blair: Thanks. Couple of questions for Will, actually. What percent of FM is national accounts where you have special pricing? How much lower is gross margins for those national accounts? Is that a trend you expect to continue? Will national accounts outgrow small and midsize accounts, like we are seeing at some of the other distributors?

Will Stengel: Yes. We will not disclose profitability by customer segment. I would say 80% of our business is covered under some sort of winning relationship. If that is a proxy for strategic accounting, that ranges from very big to kind of a local market leader that is regional in nature.

However, I would say kind of we think about customer profitability from a category management based on the product set, based on the market coverage. I know others segment based on customer size. That is not necessarily how we think about the business.

Ryan Merkel – William Blair: Then, a follow-up on pricing. Maybe a follow-up to Hamzah's question. There is pricing out there online web price only in single-channel models. Are you pricing at a premium to those competitors because your services or do you look to price at par?

Will Stengel: Yes. This takes us back to the whole theory of skewed portfolio category management. There is an answer to the question – it depends. However, in general, we are competitively priced relative to the value proposition that we deliver for the basket that we are selling.

However, could there be a skew that would be higher to offset something that were discounted – so that were in aggregate – claiming our value? That is the way to think about and it is highly complex. You could go out in a single-channel model, look at a skew, look at a skew.

I would caution you that a retail to a retail, our customers do not pay retail. It is really hard for people to analyze how we are positioned relative to market, which is why we have done all the investment and all the good work around having that visibility internally so we can deliver that value to our customers.

Ryan Merkel – William Blair: Thank you.

Jose Garza - Gabelli: Thanks. You talked quite a bit about the technology investments on the FM side, less so on the C&I. Just wondering what are your opportunities to kind of transfer some of that knowledge across the businesses and, I guess, some of those opportunities that you are thinking about in the medium-term?

John Stegeman: Yes. If you the Harvard Business Review, right, you will gain an understanding that the construction industry is one of the slowest industries to adopt to technology. However, we are not waiting for – as we see retiring project managers being replaced with individuals that grew up with iPhones and iPads, we are seeing that technology change out there on the job site. We are certainly adjusting to that.

I did mention that we use mobile apps in our business as part of the Oracle platform that we went to in 2013. We originally, when we put Oracle in play for the business, we still grew double-digit that year in 2013, drove it across the entire business. We put in the plain vanilla platform just so we had one operating process that would support a very large business.

Our team today is working not only learning from what FM has done with some of their mobile apps, but is now turning Oracle into more of a competitive weapon for us. I did mention the mobile apps and our ability for our account managers, which is our number one resource to drive our business, to give them the tools to be able to understand what products were shipped to a job, when a truck is coming to the job site.

We have not only interaction to understand what is in our warehouses and how we can price something out there in the field so they do not have to make phone calls into the branch, improving productivity, but we also have a delivery management system. We ran off the backs of FM on that as well. We are now changing to another 108-day cart, which allows us to make sure that we have route optimization for our trucks.

We still have work to do on freight optimization as well. We are adopting a lot of what we have seen from our FM family. The good thing is our IT teams talk all the time about those opportunities. We are on different ERP platforms, so they are not exactly identical. However, we feel that we are moving down a very good path for our business.

Like Will's business, our C&I business is getting ready to break out a new website as well. We have had a couple of renditions, invested millions of dollars in it. It is used as a great research tool for our customers more than it is used as a selling tool today. They want to find out where branch is located, if they want to find out who is running the store, who they need to talk to, if they want to find out what is in our catalog, what kind of product needs they have and learned from that, they can access all of that on our website. It is going to become a more interactive tool to allow for channel growth as well.

Jose Garza - Gabelli: Thanks. Is it possible to eventually transition that to more of a sales resource or it is just the industry is set-up that is just an impediment that you cannot overcome?

John Stegeman: We are certainly going to have customers that change the way they buy product and we need to evolve with that. We understand that. We watch all the time to see what other companies are doing as well. However, the service required for a lot of the products we sell is really what differentiates us from the technology providers that are out there.

Joe DeAngelo: If you can make it more of a workflow pipe is the way to think about it versus a transaction, which is similar in both businesses. You are always trying to be able to capture the right data. That point of view that was Will's sales console, you can really make a difference with the customer. The things that can be replenishment, they can do that themselves. You are going to have that constant process of doing that.

As we look at our technology stacks, we are always advantaged because of one business or the other business taking leadership. When Will redid his compensation and we picked up the system that John were using for compensation – the system itself, not the same rules, not the same.

I would say the most important thing to realize about the HD Supply business model is the customer beacon in both of these businesses very clear. Then, you take all of the available technology and you determine which things you should apply when so you can make that customer experience better.

I do think product knowledge and the connectivity of that product knowledge, John has done a lot of leadership work on that to make sure that his people can get trained in product knowledge and they can apply that. Ultimately, you make that more ubiquitous and available to the customer without having to have assistance. Then, you can do user assistance to be at a higher level.

In all cases, the technology allows you to have a higher level, more value-added interaction with your customer on a regular basis and a much more seamless transaction basis. That is just going to evolve. Customers who have evolved differently in the industry evolve differently.

However, we will be ahead of everybody on it is the way to think about it. We will always be ahead of our industries. We will not be ahead in terms of the technologies developed, we will just make sure we are adapting to technologies that are developed faster than anybody else.

Sam Steinman – Ulysses Management: Will, you brought in a new sales leader from outside the industry. Can you talk about what sort of he has brought to the business, how you have reorganized the sales organization, how you are going to market in a different way and maybe how that is playing off the enabling tools you are providing the sales force today?

Will Stengel: I could embarrass somebody sitting right back there. Jeff, can you stand up? You will get a chance to meet Jeff later this afternoon. Jeff has been a great addition to the team. He has brought a solution selling bias, based on his background.

I would say that has big add number one, this idea of listen to the customer, what problem are we trying to solve, how do we solve it together. Kind of headset and training in that discipline has been big for the business and will continue to be big.

The discipline around a structured selling system – pre-call planning. How do you talk to the customer, how do you ask the right questions, how do you follow up, how do you look at your financial goals, etc. – big point number two.

Big point number three, we have done some pretty effective work around incentive alignment as we think about creating motivation to consistently deliver profitable growth and having all of the teams clear on what their bogey is, how and when they get paid, and making that exciting quarter after quarter and year after year. Those are three big ones.

All of those inform our investments in sales enablement – the sales console will be more helpful and effective when you are locally there with your customer, visibility; in terms of closing the sale, understanding where you are tracking relative planned performance, etc. – so a great addition. That is my sales example. I could go across the Executive team and give you all those examples as well.

Joe DeAngelo: Yes. I would say, look the big add with all the talent that Will has put on field is the ability to really do effective change management because they have been there, done that and they have the street cred to be able to say, 'Hey, look, if you follow me, you are going to get the right answer.'

That is a big advantage that now this team has, particularly as you push forward into things that require a pace of change. That has probably accelerated from where the required pace of change was in the past.

Ryan Ceislak - Northcoast: Thanks. You guys mentioned earlier about you guys being our lead consolidator within both segments, going forward. Is the message within FM that you expect to be more aggressive there with the consolidation in M&A, going forward? If so, maybe talk a little bit about the profile of targets? Are they are smaller guys you think you have a better opportunity to go out and get or are there actually some meatier types of transactions within FM right now?

Will Stengel: Yes. You want me to take it?

Evan Levitt: Yes, go ahead.

Will Stengel: I will take the first part and jump in. I would say aggressive M&A is probably not the right characterization. We will be as we always have been – super-thoughtful and super-strategic in Facilities Maintenance.

It is as much about adding product expertise, capabilities and market density. The fragmentation of the market means there are not that many scale targets – all of whom we know. There are not that many scale targets to consistently do those, but we can be very surgical and high-impact in certain markets and certain product categories.

Also, think differently about capabilities that we want to bring into the family that might be non-traditional, whether it is something to enhance the web experience, something to enhance some of our digital channels that are also very surgical and strategic in small bite sizes that will make a difference over the long term.

Evan Levitt: Yes. We actually look at many more targets than we actually pursue realistically. Whether it is because of a valuation expectation or it is just not a good fit, either culturally or business-wise, we may terminate looking at a target quickly. However, we do look at a lot.

As Will said, based on the fragmented nature of both businesses, there are more small opportunities than there are large. A.H. Harris at $360 million was a pretty large acquisition for us. There are a couple of others out there that could be of similar size, but we are not opposed to doing small deals – $20 million, $30 million, $50 million to dense in, in a specific region.

A lot of these businesses are small local, regional businesses, family-owned, so to unstick some of those targets, it takes some time. It takes some time developing some relationships with those targets. You go back a couple of times to see whether they are interested or not. Over time, you soften them up a little bit.

Ryan Ceislak - Northcoast: Sounds like a good plan. My follow-up question is just when we think about the FM business today and the mix of your end markets with the focus on multifamily, does that change at all, going forward? Is there a greater opportunity to penetrate the lodging and the senior care? Are there other verticals that you guys are looking to get into, given your leadership position in some of the investments that you have made here recently? Thanks.

Will Stengel: That is a good question. We are super-focused on our three. We have all the same exciting growth opportunities. That is the beauty about the business model, is the execution is consistent across each one of those verticals. The market opportunity is directionally correct about the same size. The White Space is exciting and available to us.

I would not envision a world where we are in a different vertical, obviously to the extent that we ever were. It would be tied and linked to that living space. We think we have a good long runway in our existing three. We have a small institutional business that is less than 5% of our business. That creates also some exciting kind of surgical growth opportunities as well.

Frank Bisk – Neuberger Berman: Just in terms of working capital and how you think about that, going forward, with all the new tools you have put out, any change there for both businesses?

Evan Levitt: We are still looking at working capital in about 17% of total sales. Obviously, over time, we will try to get more efficient with working capital as we turn inventory faster and push more volume through our existing locations.

However, we are always conscious about trying to squeeze the working capital bubble too hard. We do not want to constrain the businesses from being able to grow. Our value proposition is having the right product in the local market available for next-day delivery.

John Ajay - Iridian: I have two questions. You had one slide where you showed your growth paradigm and you talked about getting double-digit earnings growth that was before capital deployment. I would like to see how that target ties into end markets.

It seemed to grow maybe 3% or 4% – 3% long-term, if that, I would think is an end market. Your 300 bps outgrowth – 3% plus 3% is 6% and 1.5 operating leverage takes you to 9%. I am just curious how you think about that. Certainly double-digits, it seems achievable with capital deployment whereas in an organic target. How do you think about that as being a…you know?

Evan Levitt: Yes. I think your math is spot on. If you assume a 3% market, 300 basis points of outgrowth is 6%. 1.5 times leverage is 9%, so that is 9% growth. Then, we are looking for opportunities to incrementally grow organically in excess of that amount where we may or may not have to relax the 1.5 times on that incremental growth. Yes, we think we can get to double-digit organic with – and some of that capital deployment could be deployed organically.

John Ajay - Iridian: Okay, great. In terms of your capital return policy, you seemed to take some pride in the fact that your buybacks to date have been done very strategically and have had a 30% return. I am wondering if, going forward, you might need to either consider a dividend or maybe be less tactical in how you do buyback to return capital at an efficient rate, now that the story has kind of stabilized and the execution is strong. How do you think about that?

Evan Levitt: It is a good question. We certainly do want to be opportunistic in our share buyback. We are not one of the folks that just want to buy back a certain volume of shares every quarter – the same amount every quarter regardless of other capital alternatives and our market price. We will be opportunistic.

We will be buying more when the stock trades down. We will be buying less when the stock trades up. We will be weighing the opportunities to buy back our own stock against other alternative uses of that capital. We will make what we believe is the best decision to drive shareholder value.

As far as whether we will ever consider a dividend, we would consider a dividend in the future. Right now, we think the best – we have other capital allocation alternatives that are better than a dividend. However, that does not mean we will look at that in future.

Deane Dray - RBC: Thanks. Joe, this is a little bit of a fastball question, so I apologize. However, just to put you on the spot, just the idea that the portfolio has been whittled down now to two businesses. Maybe just give us a sense on the synergies between FM and C&I and the business case on keeping them together.

Look, you have given a really impressive update this morning on the operating excellence and the focus and the customers in digital. Just maybe give us a sense of why these two businesses still belong together.

Joe DeAngelo: Yes. Look, I think most importantly is both businesses, we believe we have an incredible amount of opportunity to add value to. From an owner perspective, do I want to own both these businesses? Absolutely.

In terms of the synergies and alignment of businesses, the most important thing is the talent shop. When you look at that talent shop and the ability for us to make sure that we are constantly doing the things that make a difference for our customer – which happens in this room, happens in all the rooms around the floor, in terms of training people, aligning and learning from each other and using the lever, using something someone else invented to pass over – that is the primary synergy you have.

We do operate around separate customer segments. John said we do have separate operating systems based completely on those customer segments. However, right now, where I look at it, we are true to our purpose that we launched ten years ago, which was we are going to have leadership businesses in very attractive markets that have a clear path to distant [?] number one. I got both of those in both those businesses.

The way we make those businesses work better together over time, I think the bigger advantage is make sure they are never encumbered by each other over time and you can really rock and roll, but I will tell you, this team is very good about sharing talent and making sure that the talent has a progression that allows us to win and drive strength, so I think the talent shop is the biggest, but I will open it up to these three guys, I mean, we have been together for a long period of time so what is your view on our model?

SpeakerEvan Levitt: Yeah, it is no coincidence that we started with seven businesses, now we have two and it is these two. These are the two businesses where we have the most opportunity to continue to add value, and that is what it is all about; that is what we wake up in the morning and get excited about doing, coming to work every day, adding value to these two businesses.

John Stegeman: I think from my perspective, running the C&I business with our team, , we learn from each other and Will's business, although it is different than ours is, there is a lot that keeps us on the cutting edge of where we have to go technology wise as a business and be able to adjust to be able to do that. I think vice versa, they are learning from us as well, and I think the greatest thing you get in life is the ability to learn from something else, and if we were separate, we would not have that advantage today, and there are no impediments from my perspective; I do not feel impeded by any means. As a matter of fact, I am nothing but proud of the fact that we have flatbed trucks and they have box trucks and we are the same company under the HD supply umbrella, servicing customers out there. When we check into hotels and we are travelling, we get to hear all the time how excited the hotel is with the service that Will's company is providing to the hotel that we are staying in. That is just nice to be able to hear. I think we have an advantage being together to be able to learn from each other; that would be my perspective.

Will Stengel: At the end of the day, these are selling organizations and wholesale distribution logistics execution, and in that regard, why the customer segments might be different. There is a lot to learn and a lot to benefit from that core execution. , and I agree with the branding point, I mean scale matters, visibility matters, job site access is ultimately new construction that becomes an opportunity for us as the stock ages.

Ryan Merkel – William Blair: Question for John, a couple of quarters ago, you guys made the decision to go after lower margin work; remind us what the thesis was, of why you did that, and is that thesis playing out?

John Stegeman: If you go back almost a year or so, you heard Evan and Joe say that the amount of big work that was out there had been reduced and we had hit a little bit of a lull, and when that happens, that is typically more competitive work, but we are seeing some of the opposite of that right now; we have a very good foundation of small work that is high margin that is doing very, very well, and we have a lot of large work right now, that is bid very competitively and when you top that with the commodity market and the way that the commodity market has been moving, it creates a little bit of a challenge and a little bit of a headwind for us, to be able to continue to get pricing up as that price is going up in the market. We like to look at ourselves as market leaders from a profitability perspective, not market followers, but we pass on some business also that we deem to be, quite honestly too much work, too much expense, not enough profit, so that is our job to be able to do that and capture whether it be new customers that want to do more business with us, sometimes we have to adopt some of the pricing that our competitors were with and we have to prove to them that our service model was better and then over time we can get our pricing up, so all of those things going on in the market but we will never make a choice to simply drive volume and lower our margins and I do not believe we actually said it the way you might have asked it, so we are looking always to be able to grow our business profitably and grow our most profitable segments as well.

Eric Thompson – 1919 Investment Council: Two quick questions, first for Will, proprietary products, as you pushed for 20% mix. All else being equal, should that be gross margin accretive for you guys? Second question for John, you touched on walk up business, and if I recall that tends to be a higher margin revenue for C&I, maybe flesh out the strategy for driving that piece of the business, thanks.

Will Stengel: Proprietary brands will be an important part of continuing to get margin expansion as we go, so it is part of the broader category management, but it is an opportunity for us to be able to continue to expand margins.

John Stegeman: And as far as our walk in traffic, we basically have two very strong models to go to market; customers come to us and we go to customers on jobs, and where we find ourselves more mature in the market, more established, where we have high traffic areas where customers can come see us, we see our traffic growing dramatically in terms of pick-ups. It is more profitable for us because of our merchandising work that we do; you get a little taste of that downstairs when we go to the business case workshop, so we want to make sure, like a Walmart, as I mentioned, that when a customer does spend their own money on their own gas to come see us, that they have an unbelievable experience and I always believe that the best form of advertising is what they tell other contractors about the service they receive, whether we are delivering something to them or whether they come pick it up from us.

James Moore - Timicuan: Will, I know it is early days on some of the sales tools that you have pushed through the FM business that are newer, but you referred to, I think it was a group of super users that were maybe earlier to adopt some of these, or more interested in putting them into action, and that translated into better thancompany growth. I wondered if you could give us a little more color around exactly how they were used, what was accomplished in terms of, I am assuming maybe wallet share gains that maybe were not realized by the rest of the crowd and how long these things have been in their hands now, and what are your expectations. Maybe that gets at this point about surpassing the organic growth potential here.

Will Stengel: Good question. The tools have been in people's hands at different levels over the last, call it six plus months or so. The super user group that I reference, I would rather, just from a competitive standpoint not get into the specifics of it, but I would say the nature of that execution is very controlled; it is in an environment where you have got a leader that is working on a daily basis with those persons. They are collocated so you can really see the daily usage and application and training, all close together as opposed to someone in Topeka, someone in Lincoln, Nebraska, so we are going to use that training, that experience, that feedback and start to roll it out in a more aggressive way as we go.

James Moore - Timicuan: Just a follow up from John on CNI, you mentioned the Greenfield since 2011, I guess 47. How many locations do CNI have now, and then just in terms of the contribution into organic growth that you have seen from the Greenfields; do you guys break it out that way? Do you guys think about in terms of, I guess it is not really same store versus Green – anyway, if you kind of frame how much that has added to growth. Then for Evan, if you could elaborate on the balance sheet opportunity, as you mentioned on the refinancing; what magnitude or timing of that kind of stuff. Thanks.

John Stegeman: So, for CNI on the first page of my presentation on the right hand side, there is an indication of how many states we are in, how many locations we have in the C&I business, split between three businesses; our Canadian business, our home improvement solutions business, 14 locations on the west coast and then our C&I business, the white cap business in the United States, so that is there for you to be able to grab. We do not disclose same store sales growth for our locations out there, for many reasons we do not want to get caught up in the Greenfield game; how many stores are you opening? How many stores are you closing? We have just been very successful with the model, opening new stores and offering the product variety that we have, versus a competitor in the market. And if you were to walk in one of our competitors in any market, you would see that their merchandising, their marketing, the broad array of product is not represented very well, so it is pretty exciting when you go into New York City and open up a new store with our format, and all of a sudden you have a customer go in and say, 'Oh my god, I can buy a lot more product from you here. I have to go to three or four other places to be able to get that.' So, that is really our focus of opening a lot of our new stores and being able to grow organically.

Evan Levitt: I will just comment on that same store sales question; we do not look at it like a retailer would in terms of same store sales, because the bulk of our business is delivered to the customer and so these Greenfields we are opening are primarily in our 15 priority districts, so it is really to optimize our delivery capabilities for existing customers, versus attracting new customers the way a retailer would, now certainly the more locations, we will get more walk in traffic, but that is the smaller part of our business. As far as the balance sheet opportunity, as I said, we have $1.1 billion of term loans outstanding, and about $1 billion of senior notes outstanding. The market price of the interest rates on that debt today, I would say is about 50 basis points above market, and so we are evaluating the markets looking at the right time on if and when we should adjust those debt facilities and so you very well may see us act over the course of this year, but there is a cost to it as well, so the senior notes in particular, the billion dollars of senior notes, they do not become callable, per se, until April of 2019, and even in April of 2019, they are callable at a premium of 4.3%, so to call them early we do need to make a [inaudible] payment; we need to essentially pay the interest from the date we call it, through the earliest call date, plus the 4.3% premium. So it is not, at no cost.

Dennis Blyly - Timicuan: John, you mentioned that CNI represents 14 or 15 trades, I am wondering how well penetrated all those trades are throughout your branch infrastructure and the potential for adding trades to the business.

John Stegeman: Yes, a lot of that has to do with the maturity or the time in market for our locations. I can give you a lot of examples, you know, in Chicago for example, where we made an acquisition as a business before my time, the owners that were there left, started to compete with us, we reopened the business as a safety supplier and now we are growing into the concrete space; just huge opportunity to be able to do that. In San Francisco where we have strong market share where we have been for a long time, we are very, very good in the concrete space, we are pretty good in the mechanical and electrical space. We may not be very good in the erosion control space, so regardless of how much share we have, the concept of attacking multiple trades gives you an opportunity to grow and improve in other areas as well. There is not a market we are in today where we are the number one player in all of the trades that we are in. That provides a lot of weight space for us to be able to grow, particularly with our number one growth objective which is more business from existing customers in the markets that we are in.

Ryan Ceislak - Northcoast: Just going back to Will on the FM business regards your property improvement services, maybe just provide more detail of the growth opportunity there going forward and also how unique maybe that portfolio is for you, relative to maybe some of your competition and who do you bump up there? Who else is doing those type of services within the space?

Will Stengel: Yes, thanks, so it is a big market. Do we disclose the breakout?

Evan Levitt: Yes, it is close to 50% of the facilities maintenance estimated market.

Will Stengel: So you are talking about a $20 to $30 billion market opportunity for property improvement services across the vertical in and of itself, so it enjoys all of the white space and more than our core MRO business. It is not necessarily a differentiated offering. I would say the execution and the scalability at national scale is differentiated and a lot of times you are competing with small contractors that are doing a piece of the work and then will go and do the end to end kind of project management budget management. So it is a differentiated offering your competition is generally onesie, two-sie, local mom and pop, contractors doing piece of the work average or less. So, it is a big part of where we are taking the business; it is an important entry point for us to have a deep MRO relationship, and obviously in terms of kind of the movement of the fundamental demand of the market, it has a nice cyclical or complementary tailwind to it as growth markets, new constructions happen and that business performs well. Then as people are trying to kind of generate activity and excitement about the rental rates that business also performs well, so it is a big opportunity and we are looking forward to growing it.

Joe DeAngelo: Thank you for your interest, we are going to break for the lunch now.

[END OF TRANSCRIPT]