



## **FINANCIAL RESULTS AND COMPANY OVERVIEW**

# **2018 Second-Quarter Performance**

September 5<sup>th</sup>, 2018

## **Forward-Looking Statements and Preliminary Results**

*This presentation includes “forward-looking statements” within the meaning of Section 27A of the Securities Act and Section 21E of the Exchange Act. Forward-looking statements are based on management’s beliefs and assumptions and information currently available to management and are subject to known and unknown risks and uncertainties, many of which may be beyond our control. We caution you that the forward-looking information presented in this presentation is not a guarantee of future results, and that actual results may differ materially from those made in or suggested by the forward-looking information contained in this presentation. In addition, forward-looking statements generally can be identified by the use of forward-looking terminology such as “may,” “plan,” “seek,” “comfortable with,” “will,” “expect,” “intend,” “estimate,” “anticipate,” “believe” or “continue” or the negative thereof or variations thereon or similar terminology. A number of important factors could cause actual events to differ materially from those contained in or implied by the forward-looking statements, including those “Risk factors” in our annual report on Form 10-K, for the fiscal year ended January 28, 2018, filed on March 13, 2018 and those described from time to time in our, and HD Supply, Inc.’s, other filings with the U.S. Securities and Exchange Commission, which can be found at the SEC’s website [www.sec.gov](http://www.sec.gov). Any forward-looking information presented herein is made only as of the date of this presentation, and we do not undertake any obligation to update or revise any forward-looking information to reflect changes in assumptions, the occurrence of unanticipated events, or otherwise.*

*Estimates for Net sales, Adjusted EBITDA and Adjusted net income per diluted share are preliminary estimates and are subject to risks and uncertainties, including, among others, changes in connection with quarter-end adjustments. Any variation between HD Supply’s actual results and the preliminary financial data set forth herein may be material.*

## **Non-GAAP Financial Measures**

*HD Supply supplements its financial results that are determined in accordance with accounting principles generally accepted in the United States of America (“GAAP”) with non-GAAP measurements, including Adjusted EBITDA, Adjusted net income, Adjusted net income per diluted share, Net debt and Free cash flow. This supplemental information should not be considered in isolation or as a substitute for the GAAP measurements. Additional information regarding Adjusted EBITDA, Adjusted net income, Adjusted net income per diluted share and Net Debt referred to in this presentation is included at the end of this presentation under “Capital Structure Overview and Reconciliation of Non-GAAP Measures.”*

## Q2'18 Execution Highlights



- ✓ **+18% Net Sales Growth Versus Prior Year (“VPY”)**
  - +10% Organic Sales Growth VPY
- ✓ **+17% Operating Income Growth VPY**
- ✓ **+60% Income from Continuing Operations VPY**
  - 70% Net Income Decline VPY<sup>1</sup>
- ✓ **+18% Adjusted EBITDA<sup>2</sup> Growth VPY**
- ✓ **+55% Adjusted Net Income per Diluted Share<sup>2</sup> Growth VPY**
- ✓ **\$401M LTM Free Cash Flow<sup>3</sup>**

<sup>1</sup> Q2'17 Net Income includes \$361M of Income from Discontinued Operations

<sup>2</sup> See appendix slides 20 and 21 for a reconciliation of Adjusted EBITDA, Adjusted Net Income and Adjusted Net Income per Diluted Share to Net Income and Income from Continuing Operations

<sup>3</sup> Free Cash Flow is defined as LTM Operating Cash Flow of \$499M, Less Capital Expenditures of \$98M (including Cash Flow from Discontinued Operations)

Note: “VPY” denotes Versus Prior Year, “LTM” denotes Last Twelve Months

**Focused on Controllable Execution**

# Topics of Recent Investor Interest



## Topic

## Consideration

- |                               |   |
|-------------------------------|---|
| 1. Tariff Impact on Rebar     | Rebar Represents Approximately 5% of Total Sales  |
| 2. Proprietary Brands         | Currently Minimal Impact on Sourcing from Tariffs |
| 3. Freight Costs              | Rising Freight Costs                              |
| 4. Inflation                  | Pricing In-line with Market                       |
| 5. Non-residential End Market | Remains Strong                                    |

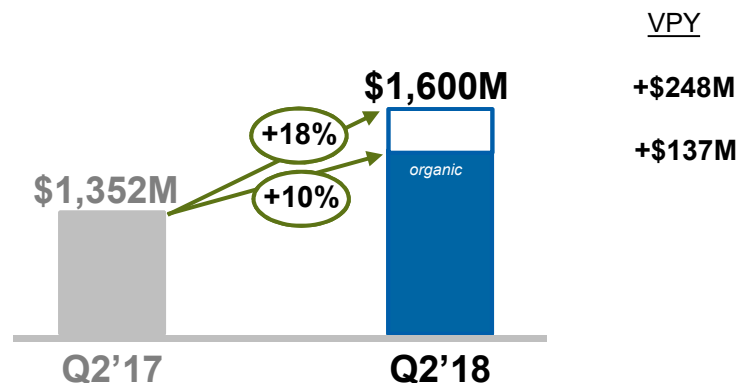
**Focused on Shareholder Value**

# Q2'18 Financial Results



(\$ in millions, except per share data)

## Net Sales



	Q2'17	Q2'18	Change
<b>Gross Profit</b>	\$539M	\$622M	+15%
<i>Gross Margin %</i>	39.9%	38.9%	-100 BPs
<b>Operating Income</b>	\$180M	\$211M	+17%
<i>Op. Income %</i>	13.3%	13.2%	-10 BPs
<b>Net Income<sup>1</sup></b>	\$442M	\$131M	-70%
Per Diluted Share <sup>1</sup>	\$2.22	\$0.71	-\$1.51
<b>Adj. EBITDA<sup>2</sup></b>	\$208M	\$246M	+18%
<i>Adj. EBITDA %</i>	15.4%	15.4%	-
<b>Adj. Net Income<sup>2</sup></b>	\$127M	\$182M	+43%
Per Diluted Share <sup>2</sup>	\$0.64	\$0.99	+55%

<sup>1</sup> Q2'17 Net Income includes \$361M of Income from Discontinued Operations

<sup>2</sup> See appendix slides 20 and 21 for a reconciliation of Adjusted EBITDA, Adjusted Net Income and Adjusted Net Income per Diluted Share to Net Income and Income from Continuing Operations

## +18.3% Net Sales Growth VPY

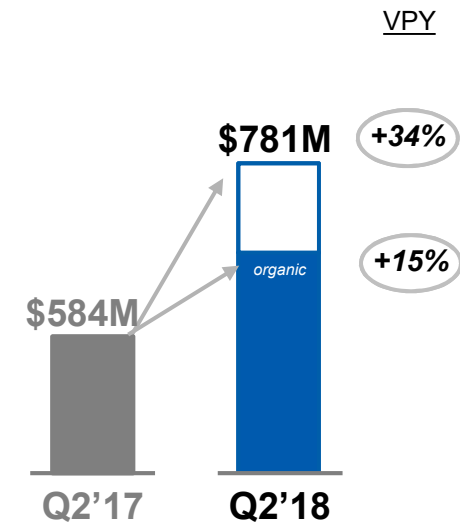
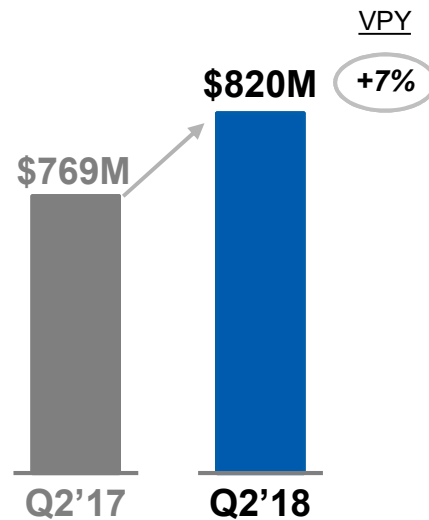
# Q2'18 Segment Performance



(\$ in millions)



Net Sales



Adj. EBITDA



## Organic Growth in Both Business Units

## Taxes

- **Favorable Tax Asset with Significant Gross Federal Net Operating Loss (“NOL”) Carryforwards of Approximately \$495M**
  - ~\$161M Tax-affected Amount of Federal and State NOLs
- **Cash Taxes**
  - \$3M in Q2'18
  - \$2-4M Estimated in Q3'18
  - \$10-12M Estimated in FY'18
- **Effective Rate**
  - ~25% for Q2'18
  - Expected 25-26% for FY'18

## Cash Flow

- **\$2.0B Net Debt<sup>1</sup> at the End of Q2'18**
  - 2.4x Net Debt to Adj. EBITDA
- **\$401M Q2'18 LTM Free Cash Flow<sup>2</sup>**
- **\$28M of Capital Expenditures in Q2'18**

*Note: Contains forward-looking information; please see Disclaimer on slide 2*

<sup>1</sup> Reconciled on slide 16 “Net Debt” defined as Total Debt plus letter of credit and capital lease obligations, less cash and cash equivalents

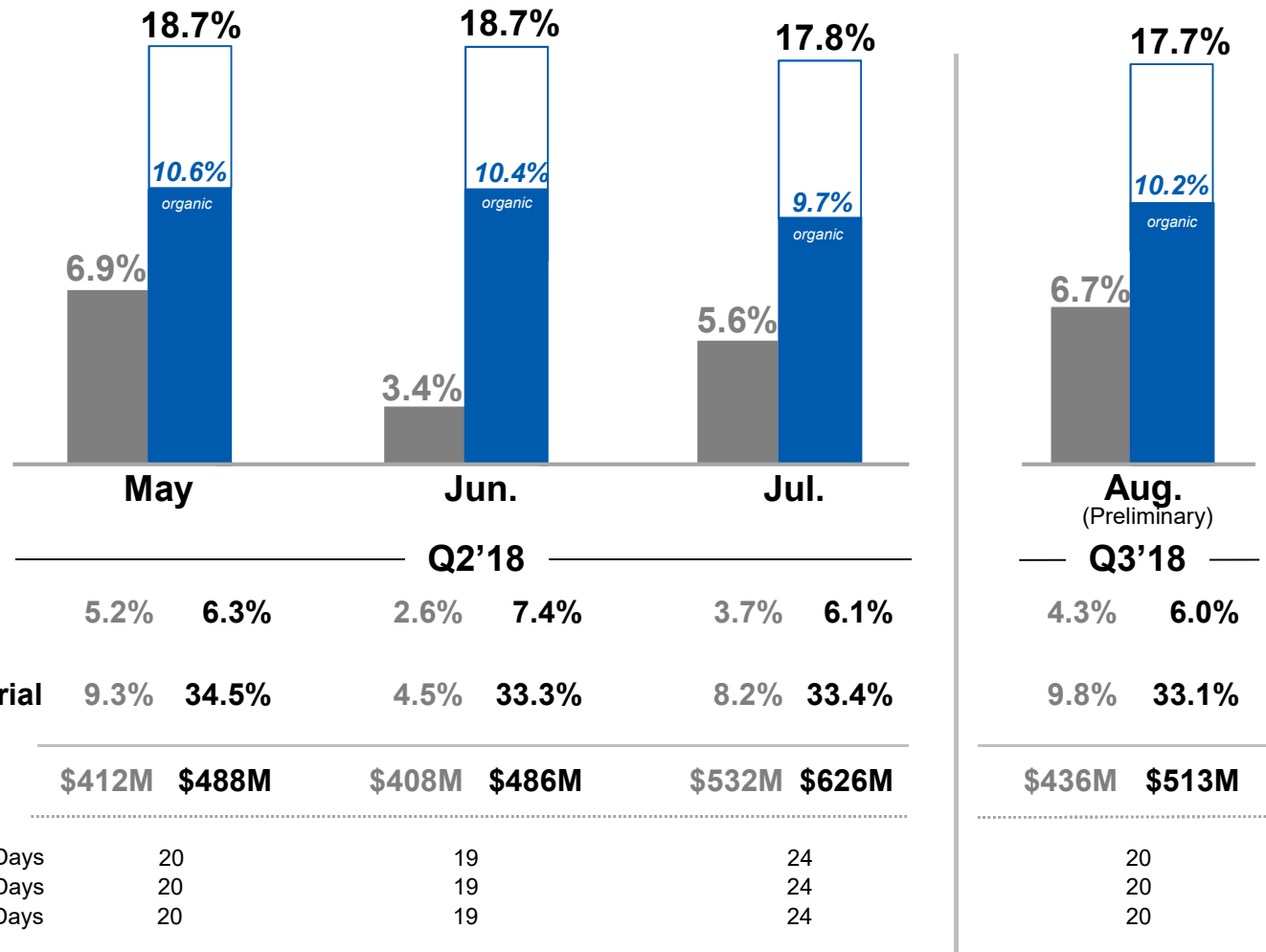
<sup>2</sup> Free Cash Flow is defined as LTM Operating Cash Flow of \$499M, Less Capital Expenditures of \$98M (including Cash Flow from Discontinued Operations)

# Q2'18 Monthly Average Daily Sales (%)



■ Prior Year  
■ Current Year

## HD Supply Average Daily Sales Growth VPY



Note: Contains forward-looking information; please see Disclaimer on slide 2

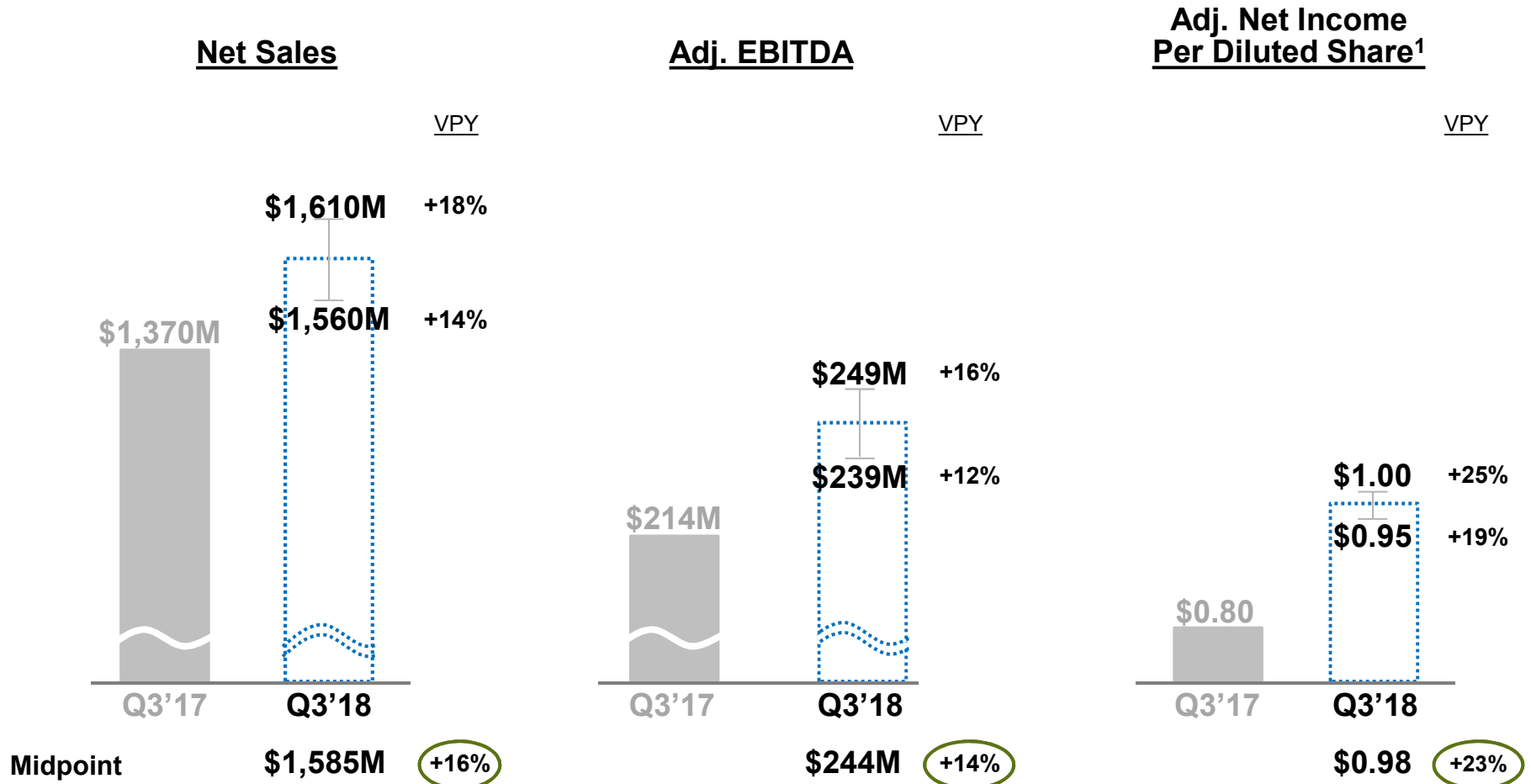
# +18.3% Q2'18 Average Daily Sales Growth



# Q3'18 Guidance



(\$ in millions, except per share amounts)



<sup>1</sup> Q3'18 Adjusted Net Income per Diluted Share range assumes a fully diluted weighted average share count of ~184 million  
 Note: Contains forward-looking information; please see Disclaimer on slide 2. No reconciliation of the forecasted range for Adjusted EBITDA to Net income and Adjusted net income per diluted share to Net income per diluted share for the third quarter of fiscal 2018 is included in this presentation because we are unable to quantify certain amounts that would be required to be included in the GAAP measure without unreasonable efforts. In addition, the company believes such reconciliations would imply a degree of precision that would be confusing or misleading to investors.

**+16% Net Sales Growth VPY at Midpoint**

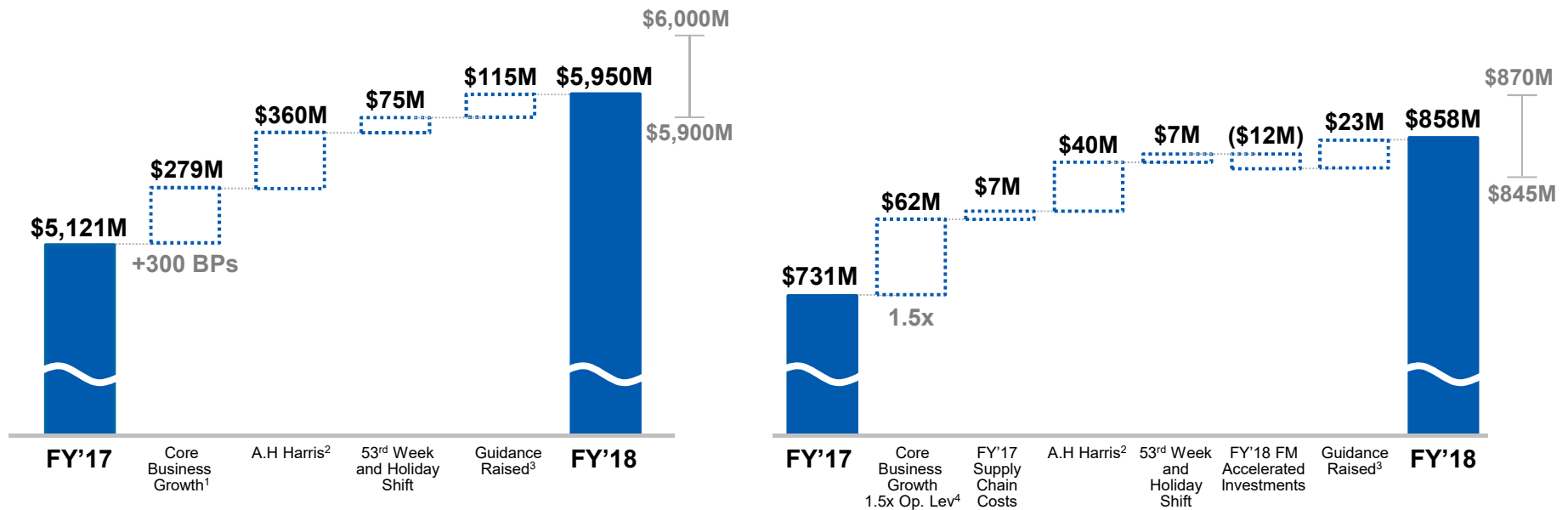
# FY'18 Guidance



(\$ in millions)

## Net Sales Midpoint

## Adj. EBITDA Midpoint



<sup>1</sup> End Market estimate of ~3% is the management estimate of the growth of our markets based on multiple quantitative and long-term average growth target based on management estimates and projections

<sup>2</sup> Consolidated from March 5, 2018

<sup>3</sup> Guidance Raised on June 5, 2018 and September 5, 2018

<sup>4</sup> Operating Leverage is defined as Adjusted EBITDA Growth Divided by Total Net Sales Growth

Note: Contains forward-looking information; please see Disclaimer on slide 2. No reconciliation of the forecasted range for Adjusted EBITDA to Net income for the full year fiscal 2018 is included in this presentation because we are unable to quantify certain amounts that would be required to be included in the GAAP measure without unreasonable efforts. In addition, the company believes such reconciliations would imply a degree of precision that would be confusing or misleading to investors.

## Strong Sales and Earnings Growth

# FY'18 End Market Preliminary Outlook



— FY'18 End Market Estimates<sup>1</sup> —

## Primary End Market



Current View  
as of September '18

Residential  
Construction



↑ Mid-Single Digit

Non-Residential  
Construction



↑ Low Single Digits to  
Mid-Single Digit

“Living Space”  
MRO



↑ 1% to 2%



↑ ~3%

<sup>1</sup> Management estimate; end market growth based on multiple quantitative and qualitative inputs  
Note: Contains forward looking information; please see Disclaimer on slide 2

## Approximately 3% End Market Growth for FY'18

## Q3'18

- **+16% Net Sales VPY at Midpoint**
  - \$1,560M to \$1,610M Net Sales
- **+14% Adj. EBITDA VPY at Midpoint**
  - \$239M to \$249M Adj. EBITDA
- **+23% Adj. Net Income per Diluted Share VPY at Midpoint**
  - \$0.95 to \$1.00 Adj. Net Income per Diluted Share
- **Assumes ~184M Diluted Share Count<sup>1</sup>**

## FY'18

- **Approximately 3% End Market VPY<sup>2</sup>**
- **+16% Net Sales VPY at Midpoint**
  - \$5,900M to \$6,000M Net Sales
- **+17% Adj. EBITDA VPY at Midpoint**
  - \$845M to \$870M Adj. EBITDA
- **+42% Adj. Net Income per Diluted Share VPY at Midpoint**
  - \$3.22 to \$3.35 Adj. Net Income per Diluted Share
- **Assumes ~184M Diluted Share Count<sup>1</sup>**

<sup>1</sup> Assumes No Additional Share Repurchases

<sup>2</sup> Management estimate; end market growth based on multiple quantitative and qualitative inputs

Note: Contains forward-looking information; please see Disclaimer on slide 2. No reconciliation of the forecasted range for Adjusted EBITDA to Net income and Adjusted net income per diluted share to Net income per diluted share for the third quarter of fiscal 2018 and full-year fiscal 2018 is included in this presentation because we are unable to quantify certain amounts that would be required to be included in the GAAP measure without unreasonable efforts. In addition, the company believes such reconciliations would imply a degree of precision that would be confusing or misleading to investors

The logo for HD Supply, featuring the letters 'HD' in a bold, yellow, sans-serif font, followed by 'SUPPLY' in a white, bold, sans-serif font. A registered trademark symbol (®) is located at the end of the word 'SUPPLY'.

# HD SUPPLY®

A black and white photograph of a city skyline at night. The image shows a dense cluster of skyscrapers, with the most prominent one being a tall, slender tower with a pointed top. The city lights are visible, and a highway interchange with light trails is in the foreground. The image is partially obscured by a yellow bar at the bottom.

**Q&A**

- **Continual Operational Improvement**
  - **+18% Net Sales Growth** in Q2'18 VPY
  - **+18% Adjusted EBITDA<sup>1</sup> Growth** in Q2'18 VPY
  - **+55% Adjusted Net Income per Diluted Share<sup>1</sup> Growth** in Q2'18 VPY
  
- **Continued Momentum into the Second Half of 2018**
  
- **Team is Focused and Energized to Deliver**

<sup>1</sup> See appendix slides 20 and 21 for a reconciliation of Adjusted EBITDA, Adjusted Net Income and Adjusted Net Income per Diluted Share to Net Income and Income from Continuing Operations  
Note: "VPY" denotes Versus Prior Year.



**HD SUPPLY**®

**APPENDIX**

# Capital Structure Overview



(\$ in millions)

	Q2'18 Debt Balances			
	Balance	Interest Rate <sup>1</sup>	Maturity	Soft Call Date <sup>2</sup>
Senior ABL Facility	\$49	3.07%	4/5/22	n/a
Term B-3 Loans	531	4.33%	8/13/21	Now
Term B-4 Loans	542	4.58%	10/17/23	Now
April 2016 Senior Unsecured Notes	1,000	5.75%	4/15/24	4/15/19
<b>Outstanding Debt<sup>3</sup></b>	<b>\$2,122</b>			
Plus: Letters of Credit	27			
Less: Cash and Cash Equivalents	(228)			
Plus: Capital Lease Obligation	87			
<b>Net Debt</b>	<b>\$2,008</b>			

<sup>1</sup> Represents the Stated Rate of Interest, Without Including the Effect of Discounts or Premiums

<sup>2</sup> Subject to Applicable Redemption Price Terms

<sup>3</sup> Excludes Unamortized Discounts of \$5M and Unamortized Deferred Financing Costs of \$19M



# Illustrative Adjusted EPS Calculation



(\$ in millions, except per share data)

Illustrative

	Actual				Estimates	
	<u>Q3'17</u>	<u>Q4'17</u>	<u>Q1'18</u>	<u>Q2'18</u>	<u>Q3'18</u>	<u>FY'18</u>
<b>Adjusted EBITDA</b>	\$214M	\$152M	\$190M	\$246M	TBD	TBD
( - ) Depreciation and Amortization <sup>1</sup>	(\$22M)	(\$24M)	(\$24M)	(\$27M)	(~\$25M)	(~\$101M)
( + ) Amortization of Acquired Intangibles	\$3M	\$3M	\$5M	\$6M	~\$5M	~\$22M
( - ) Interest Expense, Net (GAAP)	(\$35M)	(\$31M)	(\$33M)	(\$35M)	(~\$35M)	(~\$140M)
( - ) Cash Income Taxes <sup>2</sup>	(\$4M)	(\$2M)	(\$2M)	(\$3M)	(~\$3M)	(~\$11M)
( - ) Stock-based Compensation	(\$7M)	(\$7M)	(\$6M)	(\$6M)	(~\$6M)	(~\$24M)
( + ) Other	-	-	-	\$1M	-	\$1M
<b>= Adjusted Net Income</b>	\$149M	\$91M	\$130M	\$182M	TBD	TBD
<b>÷ Diluted Shares Outstanding</b>	~187M	~186M	~185M	~184M	~184M	~184M
<b>= Adjusted Net Income per Diluted Share</b>	\$0.80	\$0.49	\$0.70	\$0.99	TBD	TBD

<sup>1</sup> Includes Amounts Recorded within Cost of Sales

<sup>2</sup> Q3'17 excludes \$13 million of taxes paid in relation to the sale of the Waterworks Business Unit

Note: Contains forward looking information; please see Disclaimer on slide 2. No reconciliation of Adjusted EBITDA to Net income, Adjusted net Income to Net Income and Adjusted net income per diluted share to Net income per diluted share for the third quarter of fiscal 2018 and full year fiscal 2018 is included in this presentation because we are unable to quantify certain amounts that would be required to be included in the GAAP measure without unreasonable efforts. In addition, the company believes such reconciliations would imply a degree of precision that would be confusing or misleading to investors.

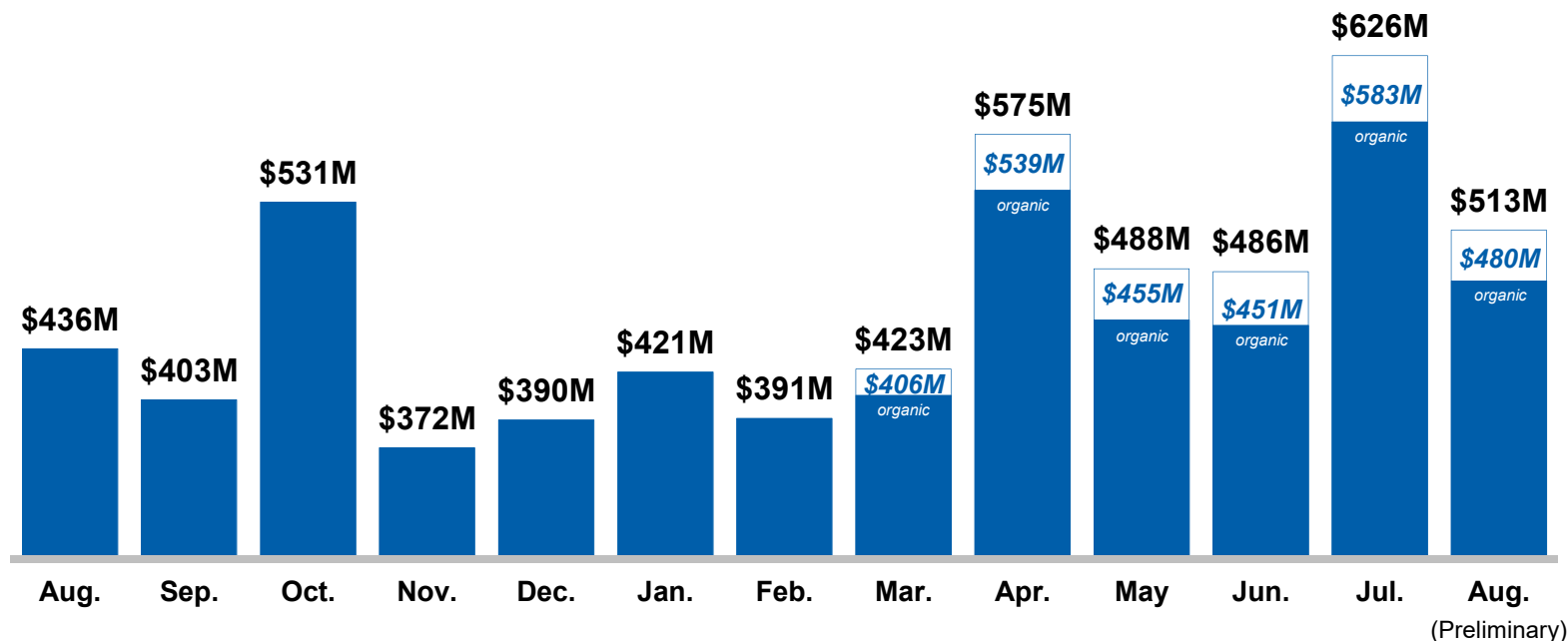
## Illustrative Adjusted EPS Calculation

# Monthly Net Sales (\$)



(\$ in millions)

## HD Supply Net Sales



	FY'17							FY'18					
Facil. Maint.	\$248	\$223	\$283	\$197	\$208	\$237	\$212	\$224	\$287	\$246	\$249	\$325	\$263
Const. & Ind.	\$188	\$180	\$249	\$175	\$182	\$185	\$179	\$199	\$288	\$243	\$237	\$301	\$250
'18 Selling Days	20	19	25	18	20	28 <sup>1</sup>	20	20	25	20	19	24	20
'17 Selling Days	20	19	25	18	20	23	20	20	25	20	19	24	20
'16 Selling Days	20	19	25	18	20	23	20	20	25	20	19	24	20

Note: Contains forward-looking information; please see Disclaimer on slide 2

<sup>1</sup> Contains an extra selling week as compared with other years. Fiscal 2018 contains 53 weeks

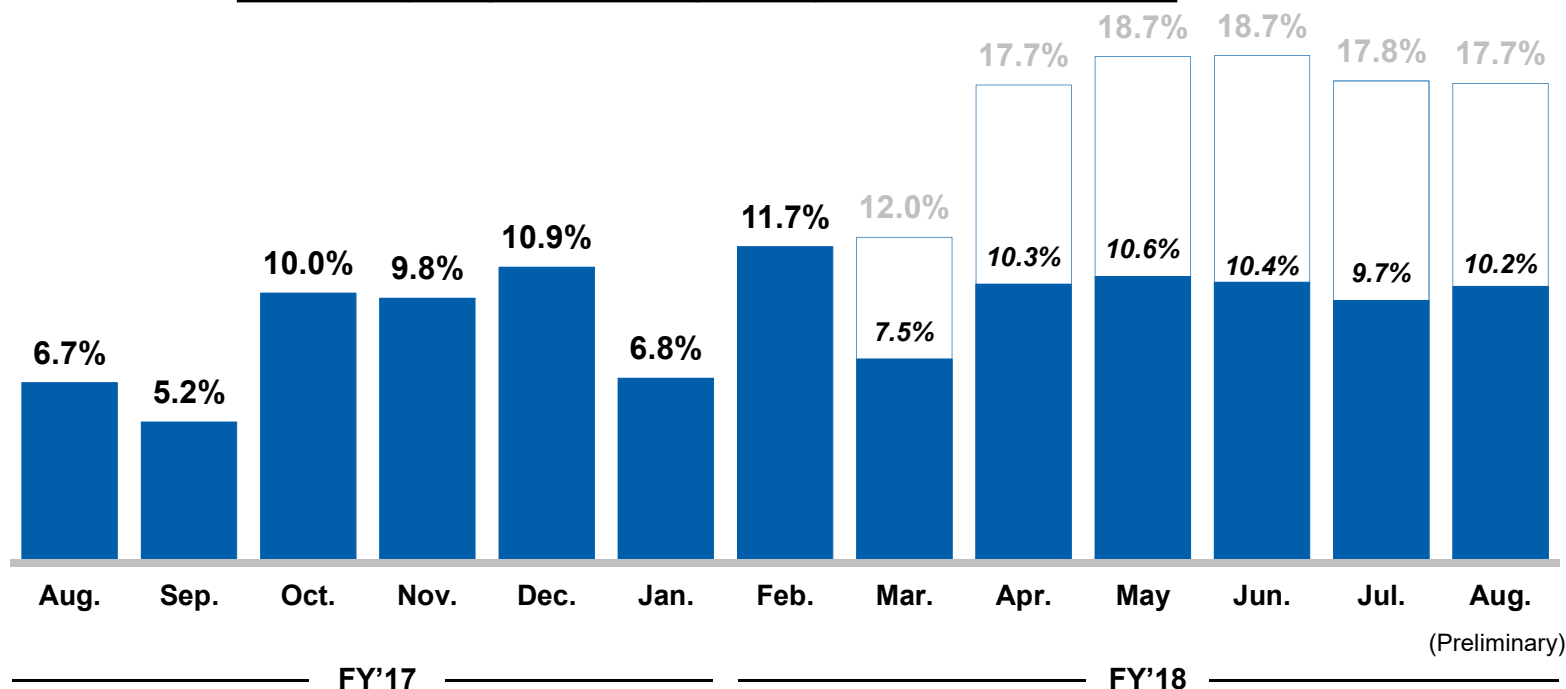
# \$513M Preliminary August Sales

# Average Daily Sales – Organic<sup>1</sup> (VPY%)



(VPY%)

## HD Supply Organic Average Daily Sales Growth VPY<sup>1</sup>



	Aug.	Sep.	Oct.	Nov.	Dec.	Jan.	Feb.	Mar.	Apr.	May	Jun.	Jul.	Aug.
<b>Facil. Maint.</b>	4.3%	1.3%	6.1%	4.3%	4.9%	2.2%	7.1%	5.9%	5.4%	6.3%	7.4%	6.1%	6.0%
<b>Const. &amp; Ind.</b>	9.8%	10.3%	14.5%	16.4%	18.6%	13.3%	17.3%	9.4%	16.3%	16.0%	14.0%	14.4%	15.7%

'18 Selling Days	20	19	25	18	20	28 <sup>2</sup>	20	20	25	20	19	24	20
'17 Selling Days	20	19	25	18	20	23	20	20	25	20	19	24	20
'16 Selling Days	20	19	25	18	20	23	20	20	25	20	19	24	20

<sup>1</sup> Adjusted for Acquisitions, Divestitures, and Selling Days

<sup>2</sup> Contains an extra selling week as compared with other years. Fiscal 2018 contains 53 weeks

Note: Contains forward-looking information; please see Disclaimer on slide 2

## +10.2% Organic Preliminary Average Daily Sales Growth in August

# Reconciliation of Non-GAAP Measures: Net Income to Adjusted EBITDA



(\$ in millions)

	Three Months Ended		Six Months Ended	
	July 29, 2018	July 30, 2017	July 29, 2018	July 30, 2017
<b>Net income</b>	<b>\$131</b>	\$ 442	<b>\$220</b>	\$ 527
Less income from discontinued operations, net of tax	1	361	1	388
<b>Income from continuing operations</b>	<b>130</b>	81	<b>219</b>	139
Interest expense, net	35	49	68	98
Provision for income taxes	46	50	75	69
Depreciation and amortization <sup>1</sup>	27	22	51	44
Loss on extinguishment & modification of debt <sup>2</sup>	-	-	-	3
Restructuring charges <sup>3</sup>	2	-	9	-
Stock-based compensation	6	6	12	12
Acquisition and Integration Costs <sup>4</sup>	1	-	3	-
Other	(1)	-	(1)	-
<b>Adjusted EBITDA</b>	<b>\$ 246</b>	\$ 208	<b>\$ 436</b>	\$ 365

<sup>1</sup> Depreciation and amortization includes amounts recorded within Cost of sales in the Consolidated Statements of Operations

<sup>2</sup> Represents the loss on extinguishment of debt including the write-off of unamortized deferred financing costs, original issue discount, and other assets or liabilities associated with such debt. Also includes the cost of debt modification.

<sup>3</sup> Represents the costs related to exiting the Company's previous corporate headquarters and the costs incurred for strategic alignment of our workforce. These costs include severance, relocation costs and other related costs

<sup>4</sup> Represents the costs incurred in the acquisition and integration of A.H. Harris Construction Supplies

# Reconciliation of Non-GAAP Measures: Net Income to Adjusted Net Income and Adjusted Net Income Per Share



(\$ in millions, except share and per share amounts)

	Three Months Ended		Six Months Ended	
	July 29, 2018	July 30, 2017	July 29, 2018	July 30, 2017
<b>Net income</b>	\$ 131	\$ 442	\$ 220	\$ 527
Less income from discontinued operations, net of tax	1	361	1	388
<b>Income from continuing operations</b>	<b>130</b>	<b>81</b>	<b>219</b>	<b>139</b>
Provision for income taxes	46	50	75	69
Cash paid for income taxes	(3)	(7)	(5)	(10)
Amortization of acquisition related intangible assets (other than software)	6	3	11	6
Loss on extinguishment & modification of debt <sup>1</sup>	-	-	-	3
Restructuring charges <sup>2</sup>	2	-	9	-
Acquisition and Integration Costs <sup>3</sup>	1	-	3	-
<b>Adjusted Net Income</b>	<b>\$ 182</b>	<b>\$ 127</b>	<b>\$ 312</b>	<b>\$ 207</b>
Weighted average common shares outstanding (in thousands)				
Basic	182,992	197,752	183,659	199,230
Diluted	183,822	198,954	184,456	201,010
<b>Adjusted Net Income Per Share - Basic</b>	<b>\$0.99</b>	\$0.64	<b>\$1.70</b>	\$1.04
<b>Adjusted Net Income Per Share - Diluted</b>	<b>\$0.99</b>	\$0.64	<b>\$1.69</b>	\$1.03

<sup>1</sup> Represents the loss on extinguishment of debt including the write-off of unamortized deferred financing costs, original issue discount, and other assets or liabilities associated with such debt. Also includes the cost of debt modification.

<sup>2</sup> Represents the costs related to exiting the Company's previous corporate headquarters and the costs incurred for strategic alignment of our workforce. These costs include severance, relocation costs and other related costs

<sup>3</sup> Represents the costs incurred in the acquisition and integration of A.H. Harris Construction Supplies