



## **FINANCIAL RESULTS AND COMPANY OVERVIEW**

# **2018 Third-Quarter Performance**

December 4<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 taxes, Net sales, Adjusted EBITDA, Adjusted net income per diluted share and Free Cash Flow are preliminary estimates and are subject to risks and uncertainties, including, among others, changes in connection with quarter-end and year-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.”*

# Q3'18 CEO Execution Highlights



## Strategic

## Financial

- ✓ **Promoted Brad Paulsen** President of Facilities Maintenance
- ✓ **Facilities Maintenance Investments** in Early Stages of Return
- ✓ **A.H. Harris Integration** Progressing On Track
- ✓ **Refinanced \$1.0B Senior Secured Notes** and ~\$1.1B in Term Loans
- ✓ **Executed Repurchases** of \$216 million of Shares through Nov. 30<sup>2</sup>. Another \$500M Authorization Announced
- ✓ **Hurricane and Wildfire Management**

- ✓ Sales and Earnings at **High End Guidance**
  - ✓ +300 BPs Sales Outgrowth
  - ✓ Double-Digit Earnings Growth
- ✓ **+18% Net Sales Growth** Versus Prior Year (“VPY”)
  - ✓ **+9% Organic Sales** Growth VPY
- ✓ **\$453M LTM Free Cash Flow<sup>1</sup>**
- ✓ **Raised 2018 Full Year Guidance at Midpoint**

<sup>1</sup> Free Cash Flow is defined as LTM Operating Cash Flow of \$561M, Less Capital Expenditures of \$108M

<sup>2</sup> \$91 million repurchased in the third quarter 2018. Subsequent repurchases between quarter end and November 30, 2018 totaled \$125 million

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

**Focused on Controllable Execution**

# Topics of Recent Investor Interest



Topic

Consideration

1. Tariffs

Limited Impact from Section 301; Rebar Stabilizing

2. Non-residential End Market

Continued Strong End Market Performance

3. Hurricanes and Wildfires

Limited Impact on Sales; No Locations Impacted

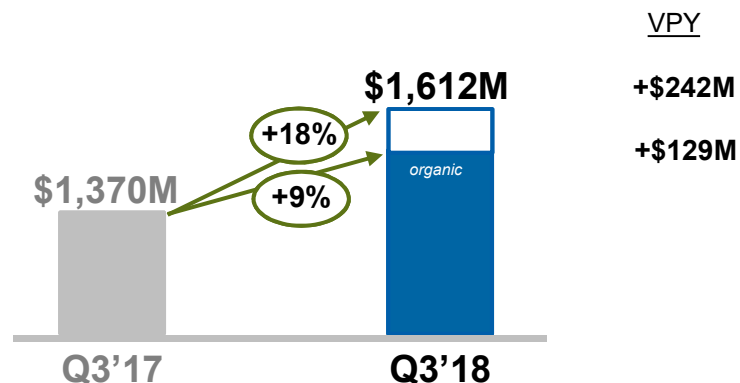
**Focused on Shareholder Value**

# Q3'18 Financial Results



(\$ in millions, except per share data)

## Net Sales



	Q3'17	Q3'18	Change
<b>Gross Profit</b>	\$542M	\$629M	+16%
<i>Gross Margin %</i>	39.6%	39.0%	-60 BPs
<b>Operating Income</b>	\$182M	\$213M	+17%
<i>Op. Income %</i>	13.3%	13.2%	-10 BPs
<b>Net Income<sup>1</sup></b>	\$452M	\$82M	-82%
Per Diluted Share <sup>1</sup>	\$2.42	\$0.45	-\$1.97
<b>Adj. EBITDA<sup>2</sup></b>	\$214M	\$248M	+16%
<i>Adj. EBITDA %</i>	15.6%	15.4%	-20 BPs
<b>Adj. Net Income<sup>2</sup></b>	\$149M	\$184M	+23%
Per Diluted Share <sup>2</sup>	\$0.80	\$1.00	+25%

<sup>1</sup> Q3'17 Net Income includes \$406M of Income from Discontinued Operations

<sup>2</sup> See appendix slides 21 and 22 for a reconciliation of Adjusted EBITDA, Adjusted Net Income and Adjusted Net Income per Diluted Share to Net Income and Income from Continuing Operations

## +17.7% Net Sales Growth VPY

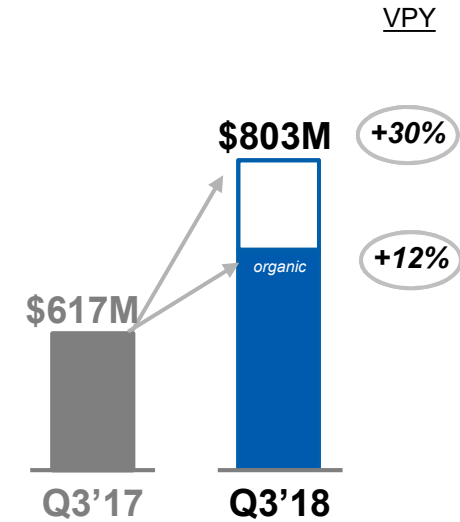
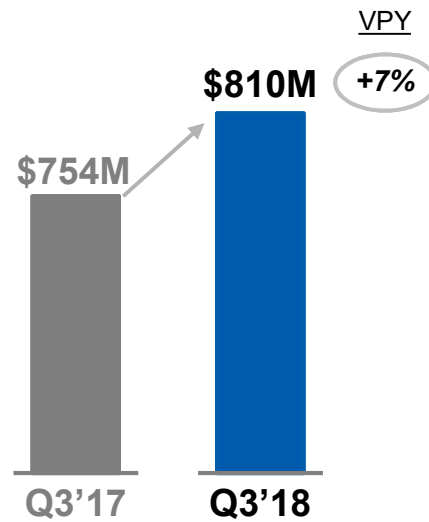
# Q3'18 Segment Performance



(\$ 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 \$334M**
  - ~\$121M Tax-affected Amount of Federal and State NOLs
- **Cash Taxes**
  - \$4M in Q3'18
  - \$3-4M Estimated in Q4'18
  - \$40-50M Estimated in FY'19
- **Effective Tax Rate**
  - ~26% for Q4'18
  - Expected ~26% for FY'18 and FY'19

## Cash Flow

- **\$2.0B Net Debt<sup>1</sup> at the End of Q3'18**
  - 2.4x Net Debt to Adj. EBITDA
- **\$453M Q3'18 LTM Free Cash Flow<sup>2</sup>**
- **\$32M of Capital Expenditures in Q3'18**

<sup>1</sup> Reconciled on slide 17. “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 \$561M, Less Capital Expenditures of \$108M

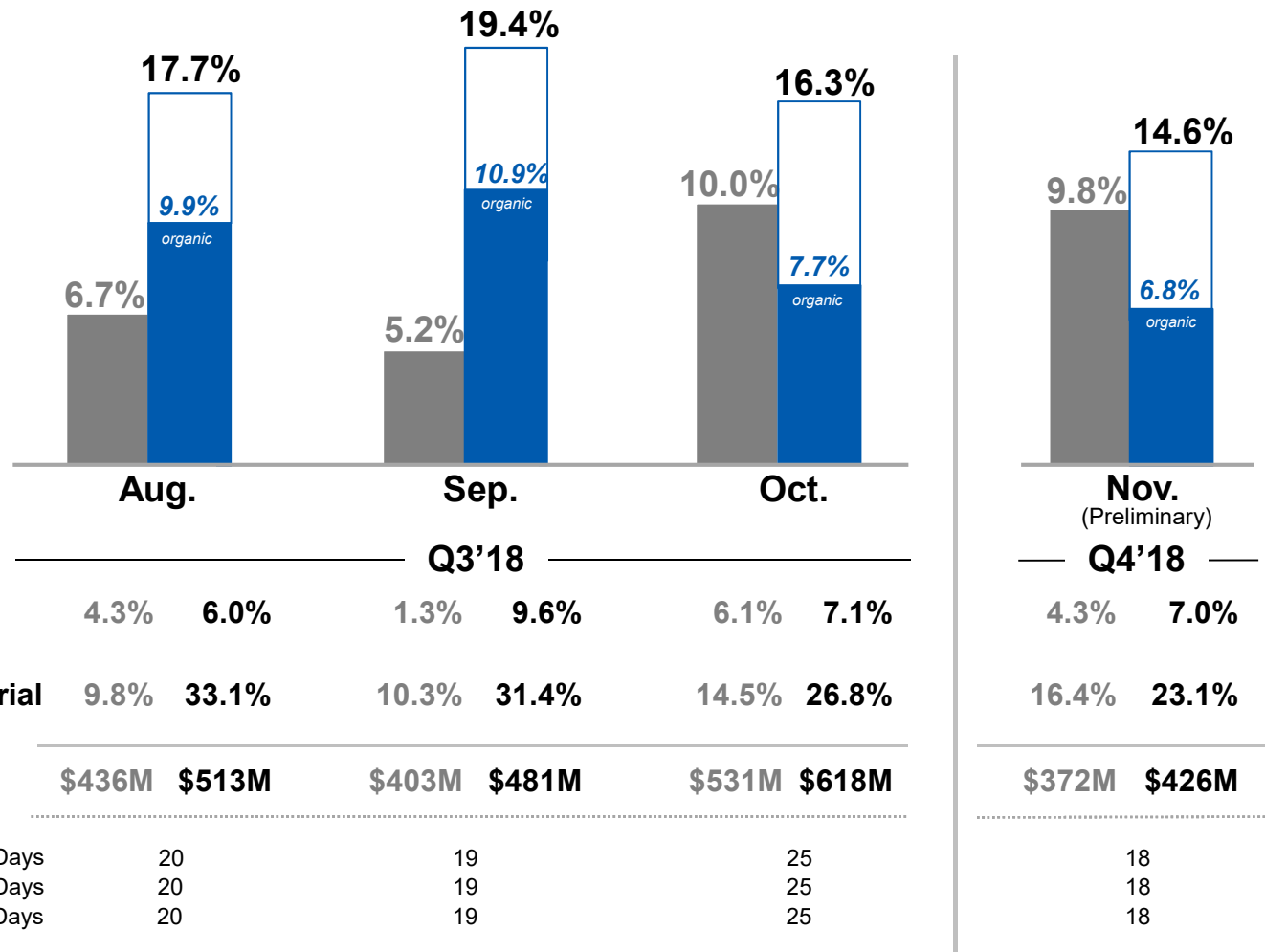
Note: Contains forward-looking information; please see Disclaimer on slide 2

# Q3'18 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

## +17.7% Q3'18 Average Daily Sales Growth

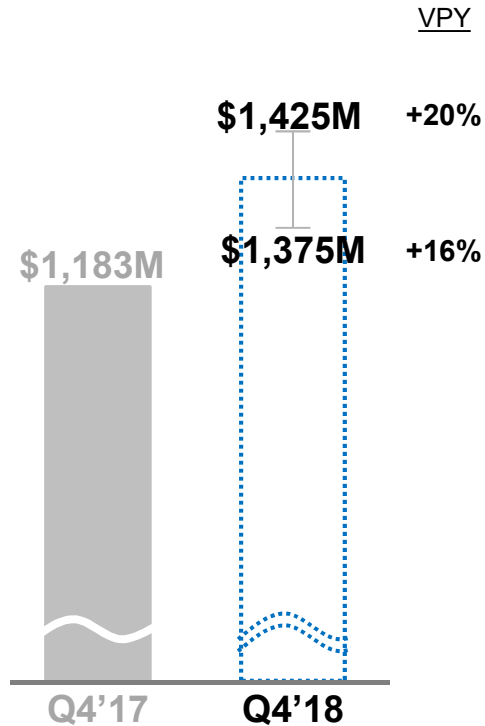


# Q4'18 Guidance



(\$ in millions, except per share amounts)

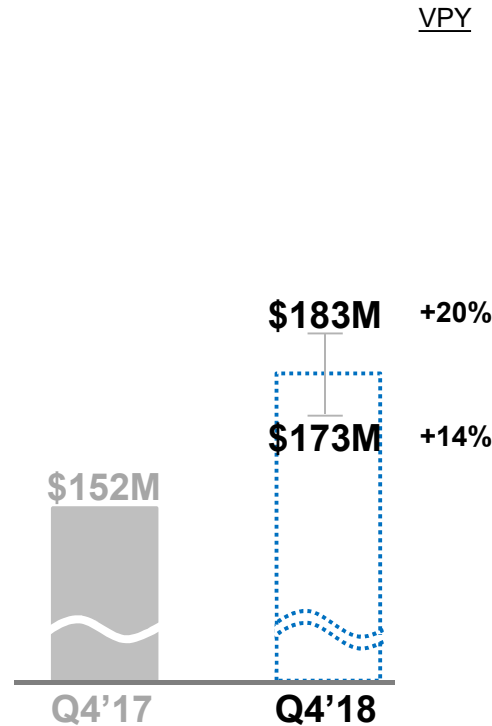
## Net Sales



**Midpoint**      **\$1,400M**      **+18%**

Midpoint ex. 53<sup>rd</sup> Week and Holiday Shift<sup>2</sup>      +12%

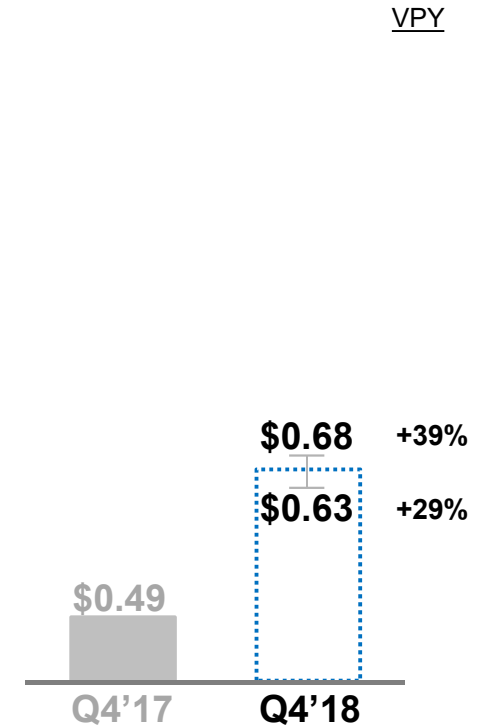
## Adj. EBITDA



**Midpoint**      **\$178M**      **+17%**

+13%

## Adj. Net Income Per Diluted Share<sup>1</sup>



**Midpoint**      **\$0.66**      **+35%**

<sup>1</sup> Q4'18 Adjusted Net Income per Diluted Share range assumes a fully diluted weighted average share count of ~180 million

<sup>2</sup> Holiday Shift Relates to C&I Branch Closures on Dec. 24, 2018 and Dec. 31, 2018

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 fourth 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

**+18% Net Sales Growth VPY at Midpoint**

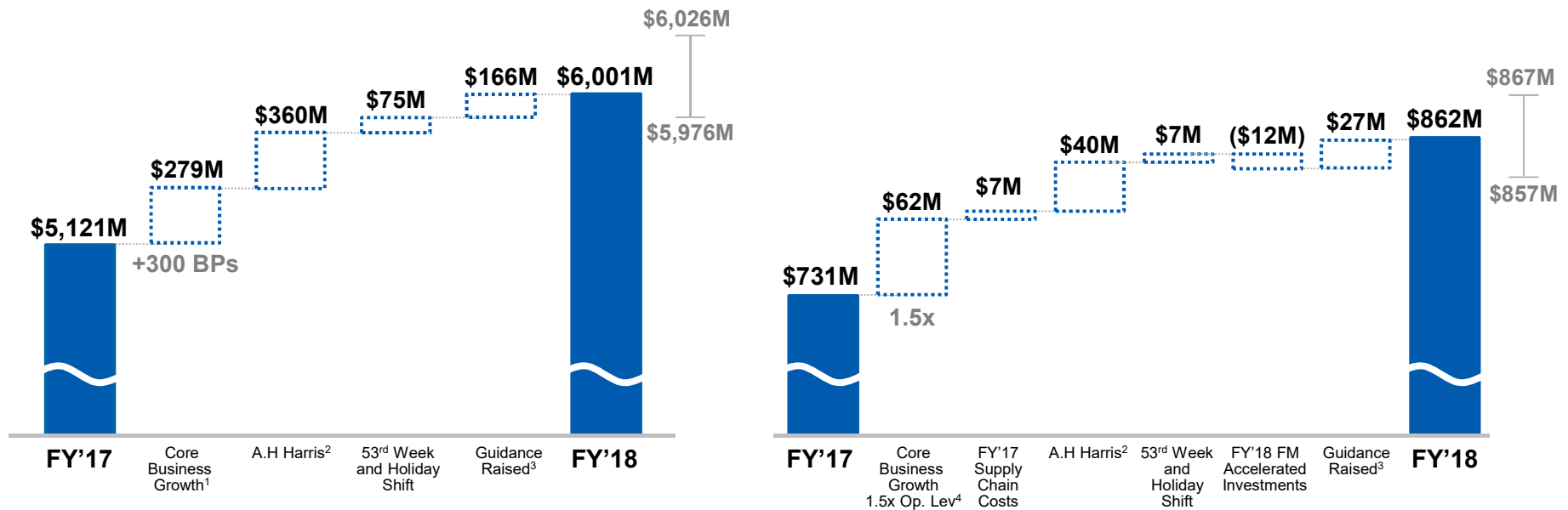
# FY'18 Guidance



(\$ 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, September 5, 2018 and December 4, 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'19 End Market Preliminary Outlook



— FY'19 End Market Estimates<sup>1</sup> —

## Primary End Market



Current View  
as of December '18

Residential  
Construction



↑ Low Single Digits to  
Mid-Single Digits

Non-Residential  
Construction



↑ Low Single Digits to  
Mid-Single Digits

“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'19

# FY'19 Preliminary Framework



- ✓ **+300 BPs Outgrowth**
- ✓ **9-10 Percent Adjusted EBITDA Growth on a 52-week Basis**
- ✓ **~\$500 million in Free Cash Flow**
  - ✓ Working Capital Investment to be **Approximately 18% of Sales Growth**
  - ✓ Capex **Approximately 2% of Sales**
  - ✓ **\$100 - \$110 million** in Cash Interest
  - ✓ **\$40 - \$50 million** in Cash Taxes
  - ✓ **GAAP Tax Rate of Approximately 26%**

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

*No reconciliation of the forecasted range for Adjusted EBITDA or Free Cash Flow for the full year fiscal 2019 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*

**300 Basis Points Market Outgrowth, Double Digit Earnings Growth**

## Q4'18

- **+18% Net Sales VPY at Midpoint**
  - \$1,375M to \$1,425M Net Sales
- **+17% Adj. EBITDA VPY at Midpoint**
  - \$173M to \$183M Adj. EBITDA
- **+35% Adj. Net Income per Diluted Share VPY at Midpoint**
  - \$0.63 to \$0.68 Adj. Net Income per Diluted Share
- **Assumes ~180M Diluted Share Count<sup>1</sup>**

## FY'18

- **Approximately 3% End Market VPY<sup>2</sup>**
- **+17% Net Sales VPY at Midpoint**
  - \$5,976M to \$6,026M Net Sales
- **+18% Adj. EBITDA VPY at Midpoint**
  - \$857M to \$867M Adj. EBITDA
- **+45% Adj. Net Income per Diluted Share VPY at Midpoint**
  - \$3.33 to \$3.38 Adj. Net Income per Diluted Share
- **Assumes ~183M Diluted Share Count<sup>1</sup>**

<sup>1</sup> Assumes no additional share repurchases post November 30, 2018

<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 fourth 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 image features a black and white photograph of a city skyline at night, with numerous skyscrapers and a complex highway interchange. The HD Supply logo is overlaid in the top left corner. The logo consists of 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®**

**Q&A**

- **Continual Operational Improvement**
  - **+18% Net Sales Growth** in Q3'18 VPY
  - **+16% Adjusted EBITDA<sup>1</sup> Growth** in Q3'18 VPY
  - **+25% Adjusted Net Income per Diluted Share<sup>1</sup> Growth** in Q3'18 VPY
  
- **Exiting 2018 in a Position of Strength**
  
- **Team is Focused and Energized to Deliver**

<sup>1</sup> See appendix slides 21 and 22 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)

	Q3'18 Debt Balances			
	Balance	Interest Rate <sup>1</sup>	Maturity	Soft Call Date <sup>2</sup>
Senior ABL Facility	\$105	3.61%	4/5/22	n/a
Term B-5 Loans	1,070	4.03%	10/17/23	4/22/19
Oct. 2018 Senior Unsecured Notes	750	5.375%	10/15/26	10/15/21
<b>Outstanding Debt<sup>3</sup></b>	<b>\$1,925</b>			
Plus: Letters of Credit	27			
Less: Cash and Cash Equivalents	(52)			
Plus: Capital Lease Obligation	87			
<b>Net Debt</b>	<b>\$1,987</b>			

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

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

<sup>3</sup> Excludes Unamortized Discounts of \$4M and Unamortized Deferred Financing Costs of \$22M

# Illustrative Adjusted EPS Calculation



(\$ and Shares in millions, except per share data)

Illustrative

	Actual				Estimates	
	Q4'17	Q1'18	Q2'18	Q3'18	Q4'18	FY'18
<b>Adjusted EBITDA</b>	\$152	\$190	\$246	\$248	TBD	TBD
( - ) Depreciation and Amortization <sup>1</sup>	(\$24)	(\$24)	(\$27)	(\$27)	(~\$26)	(~\$104)
( + ) Amortization of Acquired Intangibles	\$3	\$5	\$6	\$5	~\$6	~\$22
( - ) Interest Expense, Net (GAAP)	(\$31)	(\$33)	(\$35)	(\$32)	(~\$29)	(~\$129)
( - ) Cash Income Taxes	(\$2)	(\$2)	(\$3)	(\$4)	(~\$3)	(~\$12)
( - ) Stock-based Compensation	(\$7)	(\$6)	(\$6)	(\$7)	(~\$6)	(~\$25)
( + ) Other	-	-	\$1	\$1	(~\$2)	-
<b>= Adjusted Net Income</b>	<b>\$91</b>	<b>\$130</b>	<b>\$182</b>	<b>\$184</b>	<i>TBD</i>	<i>TBD</i>
<b>÷ Diluted Shares Outstanding</b>	<b>~186</b>	<b>~185</b>	<b>~184</b>	<b>~184</b>	<b>~180</b>	<b>~183</b>
<b>= Adjusted Net Income per Diluted Share</b>	<b>\$0.49</b>	<b>\$0.70</b>	<b>\$0.99</b>	<b>\$1.00</b>	<i>TBD</i>	<i>TBD</i>

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

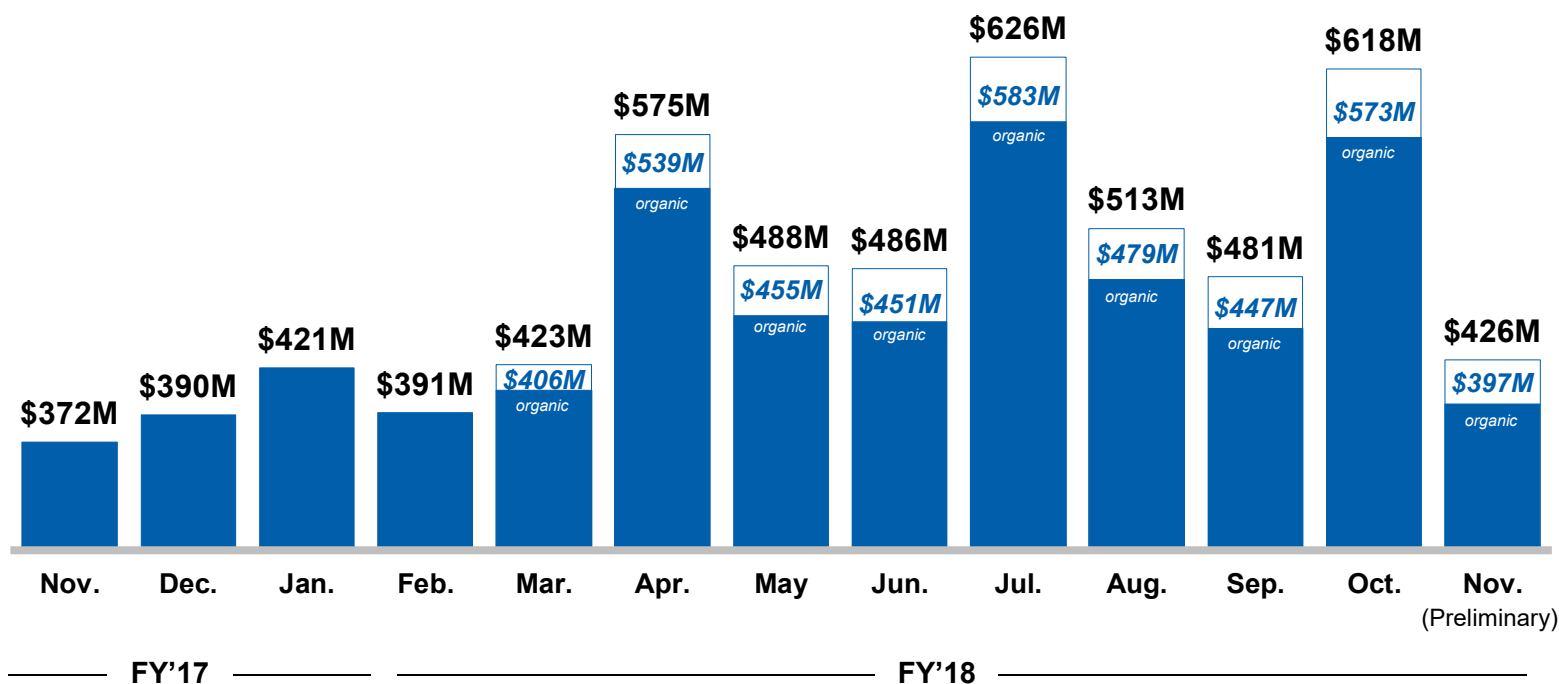
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# Monthly Net Sales (\$)



(\$ in millions)

## HD Supply Net Sales



	Nov.	Dec.	Jan.	Feb.	Mar.	Apr.	May	Jun.	Jul.	Aug.	Sep.	Oct.	Nov.
Facil. Maint.	\$197	\$208	\$237	\$212	\$224	\$287	\$246	\$249	\$325	\$263	\$245	\$302	\$211
Const. & Ind.	\$175	\$182	\$185	\$179	\$199	\$288	\$243	\$237	\$301	\$250	\$237	\$316	\$215

	Nov.	Dec.	Jan.	Feb.	Mar.	Apr.	May	Jun.	Jul.	Aug.	Sep.	Oct.	Nov.
'18 Selling Days	18	20	28 <sup>1</sup>	20	20	25	20	19	24	20	19	25	18
'17 Selling Days	18	20	23	20	20	25	20	19	24	20	19	25	18
'16 Selling Days	18	20	23	20	20	25	20	19	24	20	19	25	18

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

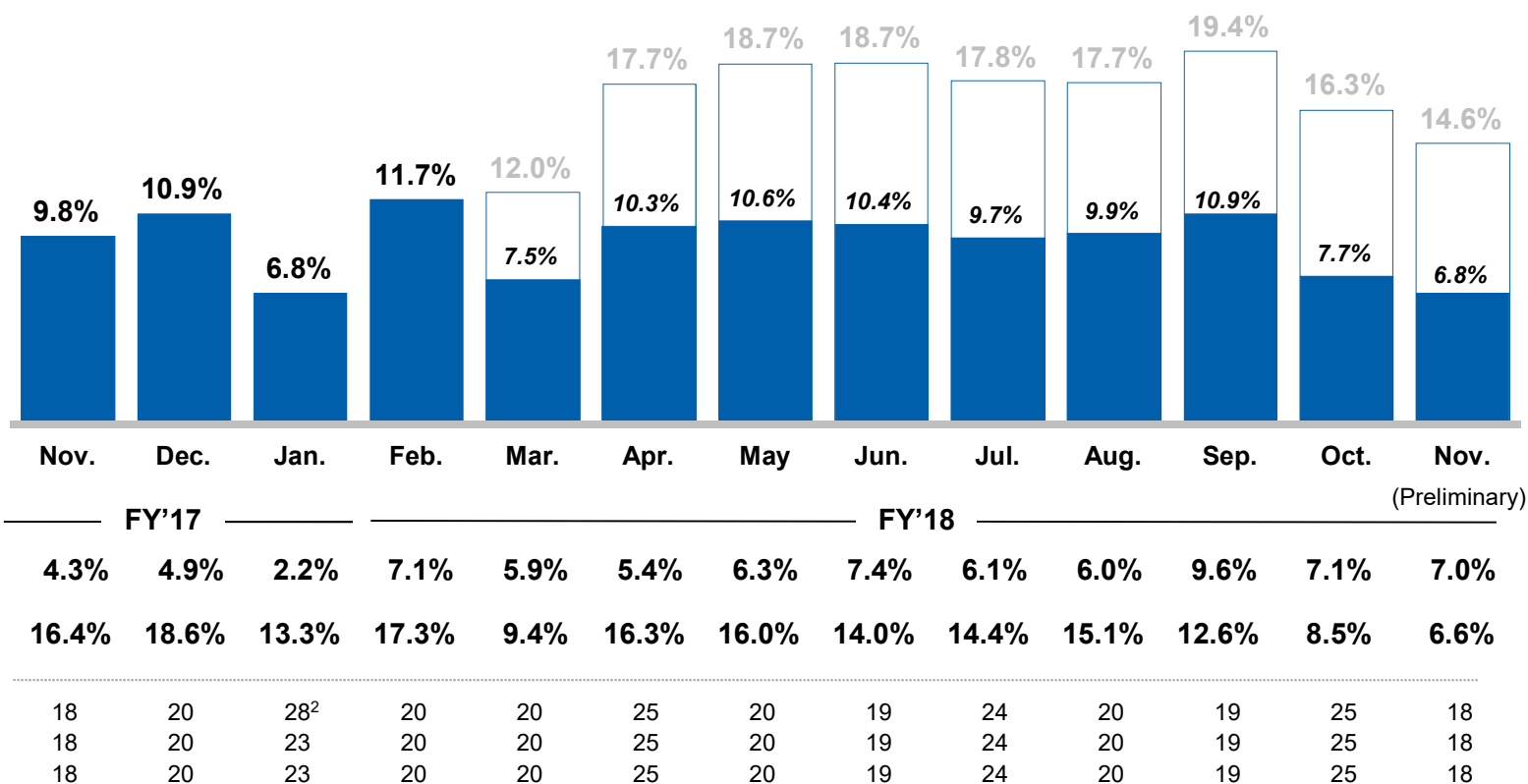
## \$426M Preliminary November Sales

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



(VPY%)

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



<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

**+6.8% Organic Preliminary Average Daily Sales Growth in Nov.**

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



(\$ in millions)

	Three Months Ended		Nine Months Ended	
	Oct. 28, 2018	Oct. 29, 2017	Oct. 28, 2018	Oct. 29, 2017
<b>Net income</b>	<b>\$82</b>	<b>\$ 452</b>	<b>\$302</b>	<b>\$ 979</b>
Less income from discontinued operations, net of tax	-	406	1	794
<b>Income from continuing operations</b>	<b>82</b>	<b>46</b>	<b>301</b>	<b>185</b>
Interest expense, net	32	35	100	133
Provision for income taxes	30	23	105	92
Depreciation and amortization <sup>1</sup>	27	22	78	66
Loss on extinguishment & modification of debt <sup>2</sup>	69	78	69	81
Restructuring charges <sup>3</sup>	-	3	9	3
Stock-based compensation	7	7	19	19
Acquisition and integration costs <sup>4</sup>	2	-	5	-
Other	(1)	-	(2)	-
<b>Adjusted EBITDA</b>	<b>\$ 248</b>	<b>\$ 214</b>	<b>\$ 684</b>	<b>\$ 579</b>

<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		Nine Months Ended	
	Oct. 28, 2018	Oct. 29, 2017	Oct. 28, 2018	Oct. 29, 2017
<b>Net income</b>	\$ 82	\$ 452	\$ 302	\$ 979
Less income from discontinued operations, net of tax	-	406	1	794
<b>Income from continuing operations</b>	<u>82</u>	<u>46</u>	<u>301</u>	<u>185</u>
Provision for income taxes	30	23	105	92
Cash paid for income taxes	(4)	(4)	(9)	(14)
Amortization of acquisition related intangible assets (other than software)	5	3	16	9
Loss on extinguishment & modification of debt <sup>1</sup>	69	78	69	81
Restructuring charges <sup>2</sup>	-	3	9	3
Acquisition and integration costs <sup>3</sup>	2	-	5	-
<b>Adjusted Net Income</b>	<u>\$ 184</u>	<u>\$ 149</u>	<u>\$ 496</u>	<u>\$ 356</u>
Weighted average common shares outstanding (in thousands)				
Basic	182,730	185,651	183,349	194,704
Diluted	183,579	186,652	184,192	196,258
<b>Adjusted Net Income Per Share - Basic</b>	\$1.01	\$0.80	\$2.71	\$1.83
<b>Adjusted Net Income Per Share - Diluted</b>	\$1.00	\$0.80	\$2.69	\$1.81

<sup>1</sup> Represents the loss on extinguishment of debt including the premium paid to repurchase or call the debt as well as the write-off of unamortized deferred financing costs, original issue discount, and other assets or liabilities associated with such debt. Also include the costs of debt modifications

<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