

REFINITIV




# DELTA REPORT

## 10-Q

DXPE - DXP ENTERPRISES INC

10-Q - MARCH 31, 2024 COMPARED TO 10-Q - SEPTEMBER 30, 2023

The following comparison report has been automatically generated

TOTAL DELTAS	581
 CHANGES	155
 DELETIONS	232
 ADDITIONS	194

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM 10-Q

(Mark One)

☒ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934.  
For the quarterly period ended September 30, 2023 March 31, 2024

OR

☐ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934. For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number 0-21513

**DXP Enterprises, Inc.**

(Exact name of registrant as specified in its charter)

Texas

76-0509661

(State or other jurisdiction of incorporation or organization)

(I.R.S. Employer Identification Number)

5301 Hollister, Houston, Texas 77040

(Address of principal executive offices, including zip code)

(713) 996-4700

(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Exchange Act:

Title of Each Class	Trading Symbol	Name of Exchange on which Registered
Common Stock par value \$0.01	DXPE	NASDAQ Global Select Market

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically, every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See definitions of "large accelerated filer," "accelerated filer," "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer ☐ Accelerated filer ☒ Non-accelerated filer ☐ Smaller reporting company ☐  
Emerging growth company ☐

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☒

Number of shares of registrant's Common Stock, par value \$0.01 per share outstanding as of November 3, 2023 May 3, 2024: 16,176,412 15,928,305.

**DXP ENTERPRISES, INC. AND SUBSIDIARIES**  
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**PART I: FINANCIAL INFORMATION**

**ITEM 1: FINANCIAL STATEMENTS**

**DXP ENTERPRISES, INC. AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS**  
**AND COMPREHENSIVE INCOME**  
*(in thousands, except per share amounts) (unaudited)*

		Three Months Ended September 30,		Nine Months Ended September 30,	
		2023	2022	2023	2022
Sales	Sales	\$ 419,249	\$ 387,314	\$ 1,271,556	\$ 1,074,537
Sales					
Sales					
Cost of sales					
Cost of sales					
Cost of sales	Cost of sales	293,687	275,681	889,101	763,758

Gross profit	Gross profit	125,562	111,633	382,455	310,779
Gross profit					
Gross profit					
Selling, general and administrative expenses					
Selling, general and administrative expenses					
Selling, general and administrative expenses	Selling, general and administrative expenses	89,706	85,094	273,720	236,761
Income from operations	Income from operations	35,856	26,539	108,735	74,018
Other expense (income), net		1,234	1,565	522	2,941
Income from operations					
Income from operations					
Other income, net					
Other income, net					
Other income, net					
Interest expense					
Interest expense					
Interest expense	Interest expense	12,684	6,833	36,068	17,610
Income before income taxes	Income before income taxes	21,938	18,141	72,145	53,467
Provision for income tax expense		5,766	5,097	19,339	13,402
Income before income taxes					
Income before income taxes					
Provision for income taxes					
Provision for income taxes					
Provision for income taxes					
Net income	Net income	16,172	13,044	52,806	40,065
Net loss attributable to noncontrolling interest		—	(885)	—	(938)
Net income attributable to DXP Enterprises, Inc.		16,172	13,929	52,806	41,003
Net income					
Net income					
Preferred stock dividend	Preferred stock dividend	22	22	67	67
Preferred stock dividend					
Preferred stock dividend					
Net income attributable to common shareholders					
Net income attributable to common shareholders					
Net income attributable to common shareholders	Net income attributable to common shareholders	\$ 16,150	\$ 13,907	\$ 52,739	\$ 40,936
Net income	Net income	\$ 16,172	\$ 13,044	\$ 52,806	\$ 40,065
Net income					
Net income					

Foreign currency translation adjustments	Foreign currency translation adjustments	(844)	(1,156)	(87)	(3,078)
Foreign currency translation adjustments					
Foreign currency translation adjustments					
Comprehensive income					
Comprehensive income					
Comprehensive income	Comprehensive income	\$ 15,328	\$ 11,888	\$ 52,719	\$ 36,987
Earnings per share (Note 9):	Earnings per share (Note 9):				
Earnings per share (Note 9):					
Earnings per share (Note 9):					
Basic	Basic	\$ 0.98	\$ 0.74	\$ 3.08	\$ 2.19
Basic					
Basic					
Diluted					
Diluted					
Diluted	Diluted	\$ 0.93	\$ 0.71	\$ 2.94	\$ 2.10
Weighted average common shares outstanding:	Weighted average common shares outstanding:				
Weighted average common shares outstanding:					
Weighted average common shares outstanding:					
Basic					
Basic					
Basic	Basic	16,516	18,820	17,104	18,712
Diluted	Diluted	17,356	19,660	17,944	19,552
Diluted					
Diluted					

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.

**DXP ENTERPRISES, INC. AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED BALANCE SHEETS**  
*(in thousands) thousands, except share amounts) (unaudited)*

	September 30, 2023	December 31, 2022	
	March 31, 2024		
	March 31, 2024		
	March 31, 2024		December 31, 2023
<b>ASSETS</b>	<b>ASSETS</b>		
Current assets:			
Current assets:			
Current assets:	Current assets:		

Cash	Cash	\$ 27,176	\$ 46,026
Restricted cash	Restricted cash	91	91
Accounts receivable, net of allowance of \$4,088 and \$7,610, respectively		320,972	320,880
Accounts receivable, net of allowance of \$4,946 and \$5,584, respectively			
Inventories	Inventories	105,145	101,392
Costs and estimated profits in excess of billings	Costs and estimated profits in excess of billings	47,211	23,588
Prepaid expenses and other current assets	Prepaid expenses and other current assets	15,799	21,644
Income taxes receivable		393	2,493

#### Total current assets

#### Total current assets

<b>Total current assets</b>	<b>Total current assets</b>	<b>516,787</b>	<b>516,114</b>
Property and equipment, net	Property and equipment, net	56,277	45,964
Goodwill	Goodwill	342,122	333,759
Other intangible assets, net	Other intangible assets, net	67,913	79,585
Operating lease right of use assets, net	Operating lease right of use assets, net	48,462	57,402
Other long-term assets	Other long-term assets	13,543	4,456

<b>Total assets</b>	<b>Total assets</b>	<b>\$1,045,104</b>	<b>\$1,037,280</b>
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#### LIABILITIES AND EQUITY

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#### LIABILITIES AND EQUITY

<b>Current liabilities:</b>	<b>Current liabilities:</b>		
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#### Current liabilities:

#### Current liabilities:

Current maturities of debt

Current maturities of debt

Current maturities of debt	Current maturities of debt	\$ 4,369	\$ 4,369
Trade accounts payable	Trade accounts payable	101,439	100,784
Accrued wages and benefits	Accrued wages and benefits	35,540	26,260
Customer advances	Customer advances	12,595	20,128
Billings in excess of costs and estimated profits	Billings in excess of costs and estimated profits	7,181	10,411
Short-term operating lease liabilities	Short-term operating lease liabilities	15,459	18,083
Short-term operating lease liabilities			
Short-term operating lease liabilities			
Other current liabilities	Other current liabilities	45,275	32,866
<b>Total current liabilities</b>	<b>Total current liabilities</b>	<b>221,858</b>	<b>212,901</b>
Long-term debt, net of unamortized debt issuance costs	Long-term debt, net of unamortized debt issuance costs	408,105	409,205
Long-term debt, net of unamortized debt issuance costs and discounts			
Long-term debt, net of unamortized debt issuance costs and discounts			
Long-term debt, net of unamortized debt issuance costs and discounts			
Long-term operating lease liabilities	Long-term operating lease liabilities	34,028	40,189
Other long-term liabilities	Other long-term liabilities	15,469	4,701
Deferred income taxes liability	Deferred income taxes liability	2,068	4,892
<b>Total long-term liabilities</b>			
<b>Total long-term liabilities</b>			
<b>Total long-term liabilities</b>	<b>Total long-term liabilities</b>	<b>459,670</b>	<b>458,987</b>
<b>Total liabilities</b>	<b>Total liabilities</b>	<b>681,528</b>	<b>671,888</b>
Commitments and contingencies ( <a href="#">Note 10</a> )			

Commitments and Contingencies (Note 10)			
Commitments and Contingencies (Note 10)			
Shareholders' equity:	Shareholders' equity:		
Series A and B preferred stock, \$1.00 par value each; 1,000,000 shares authorized each		16	16
Common stock, \$0.01 par value, 100,000,000 shares authorized; 16,176,787 and 17,690,069 outstanding, respectively		345	345
Series A preferred stock, \$1.00 par value; 1,000,000 shares authorized			
Series A preferred stock, \$1.00 par value; 1,000,000 shares authorized			
Series A preferred stock, \$1.00 par value; 1,000,000 shares authorized			1
Series B preferred stock, \$1.00 par value; 1,000,000 shares authorized			
Common stock, \$0.01 par value, 100,000,000 shares authorized; 15,928,305 and 16,177,237 outstanding, respectively			
Additional paid-in capital	Additional paid-in capital	215,684	213,937
Retained earnings	Retained earnings	303,288	250,549
Accumulated other comprehensive loss	Accumulated other comprehensive loss	(31,762)	(31,675)
Treasury stock, at cost 4,141,989 and 2,435,352 shares, respectively		(123,995)	(67,780)



Treasury stock, at cost 4,468,354 and 4,141,989 shares, respectively			
<b>Total</b>	<b>DXP</b>	<b>Total</b>	<b>DXP</b>
<b>Enterprises, Inc. equity</b>		<b>Enterprises, Inc. equity</b>	
		363,576	365,392
<b>Total</b>	<b>Total</b>		
<b>liabilities and equity</b>	<b>liabilities and equity</b>	<b>\$1,045,104</b>	<b>\$1,037,280</b>
<b>Total liabilities and equity</b>			
<b>Total liabilities and equity</b>			

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.

**DXP ENTERPRISES, INC. AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**  
*(in thousands) (unaudited)*

		Nine Months Ended September 30,			
		Three Months Ended March 31,		Three Months Ended March 31,	
		2023	2022	2024	2023
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>	<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>				
Net income	Net income	52,806	40,065		
Net income					
Net income					
Reconciliation of net income to net cash provided by operating activities:	Reconciliation of net income to net cash provided by operating activities:				
Depreciation	Depreciation				
Depreciation	Depreciation	6,262	7,367		
Amortization of intangibles and fixed assets	Amortization of intangibles and fixed assets	15,206	13,958		
Provision for (recovery of) credit losses	Provision for (recovery of) credit losses	(277)	834		
(Recovery of) provision for credit losses					
(Recovery of) provision for credit losses					
(Recovery of) provision for credit losses					

Payment of contingent consideration liability in excess of acquisition-date fair value	Payment of contingent consideration liability in excess of acquisition-date fair value	(160)	(781)
Fair value adjustment on contingent consideration	Fair value adjustment on contingent consideration	1,502	2,125
Amortization of debt issuance costs	Amortization of debt issuance costs	2,176	1,357
Restricted stock compensation expense	Restricted stock compensation expense	2,211	1,368
Deferred income taxes	Deferred income taxes	(10,178)	(3,009)
Changes in operating assets and liabilities:			
Changes in operating assets and liabilities, net of effects of businesses acquired:			
Accounts receivable, net			
Accounts receivable, net	Accounts receivable, net	2,295	(59,563)
Costs and estimated profits in excess of billings	Costs and estimated profits in excess of billings	(23,629)	(12,988)
Accounts payable and accrued expenses	Accounts payable and accrued expenses	12,868	40,936
Prepaid expenses and other assets	Prepaid expenses and other assets	16,583	2,341
Inventories	Inventories	(3,397)	(27,858)
Billings in excess of costs and estimated profits	Billings in excess of costs and estimated profits	(3,232)	721

Other long-term liabilities	Other long-term liabilities	(7,261)	(4,617)
<b>Net cash provided by operating activities</b>	<b>Net cash provided by operating activities</b>	<b>\$ 63,775</b>	<b>\$ 2,256</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>	<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Purchase of property and equipment	Purchase of property and equipment	(7,103)	(3,426)
Acquisition of businesses, net of cash acquired	Acquisition of businesses, net of cash acquired	(8,848)	(48,506)
<b>Net cash used in investing activities</b>	<b>Net cash used in investing activities</b>	<b>\$(15,951)</b>	<b>\$(51,932)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>	<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Borrowings on asset-backed credit facility	Borrowings on asset-backed credit facility	7,870	577,999
Repayments on asset-backed credit facility	Repayments on asset-backed credit facility	(7,870)	(537,393)
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>	<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Repayments under term loan facility	Repayments under term loan facility	(3,276)	(2,475)
Debt issuance costs	Debt issuance costs	—	(540)
Repayments under term loan facility	Repayments under term loan facility		
Repayments under term loan facility	Repayments under term loan facility		

Payment for acquisition contingent consideration liability			
Payment for acquisition contingent consideration liability			
Payment for acquisition contingent consideration liability	Payment for acquisition contingent consideration liability	(5,090)	(469)
Preferred stock dividends paid	Preferred stock dividends paid	(67)	(67)
Shares repurchased held in treasury	Shares repurchased held in treasury	(56,215)	(18,470)
Payment for employee taxes withheld from stock awards	Payment for employee taxes withheld from stock awards	(464)	(292)
Principal payments on finance leases	Principal payments on finance leases	(1,632)	—
<b>Net cash (used in) provided by financing activities</b>		<b>\$(66,744)</b>	<b>\$ 18,293</b>
<b>Net cash used in financing activities</b>			
Effect of foreign currency on cash	Effect of foreign currency on cash	70	(634)
Net change in cash and restricted cash	Net change in cash and restricted cash	(18,850)	(32,017)
Cash and restricted cash at beginning of period	Cash and restricted cash at beginning of period	46,117	49,080
<b>Cash and restricted cash at end of period</b>	<b>Cash and restricted cash at end of period</b>	<b>\$ 27,267</b>	<b>\$ 17,063</b>
Supplemental cash flow information (Note 14)			
Supplemental cash flow information ( <a href="#">Note 14</a> )			
Supplemental cash flow information ( <a href="#">Note 14</a> )			
Supplemental cash flow information ( <a href="#">Note 14</a> )			

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.

## 6. EQUITY

Currency translation adjustment	Currency translation adjustment	—	—	—	—	—	—	—	659	659
Repurchases of shares	Repurchases of shares	—	—	—	—	(25,053)	—	—	—	(25,053)
Net income	Net income	—	—	—	—	19,054	—	—	—	19,054
Balance at June 30, 2023		1	15	345	214,852	287,138	(101,968)	—	(30,918)	369,465
Preferred dividends paid		—	—	—	—	(22)	—	—	—	(22)
Restricted stock compensation expense		—	—	—	864	—	—	—	—	864
Tax related items for share based awards		—	—	—	(32)	—	—	—	—	(32)
Currency translation adjustment		—	—	—	—	—	—	—	(844)	(844)
Repurchases of shares		—	—	—	—	—	(22,027)	—	—	(22,027)
Net income		—	—	—	—	16,172	—	—	—	16,172
Balance at September 30, 2023		\$ 1	\$ 15	\$ 345	\$215,684	\$303,288	\$(123,995)	\$ —	\$(31,762)	\$363,576
Balance at March 31, 2024										

	<u>Series A</u> <u>preferred</u> <u>stock</u>	<u>Series B</u> <u>preferred</u> <u>stock</u>	<u>Common</u> <u>stock</u>	<u>Paid-in</u> <u>capital</u>	<u>Retained</u> <u>earnings</u>	<u>Treasury</u> <u>stock</u>	<u>Accum other</u> <u>comp loss</u>	<u>Total equity</u>
<b>Balance at December 31, 2022</b>	\$ 1	\$ 15	\$ 345	\$ 213,937	\$ 250,549	\$ (67,780)	\$ (31,675)	\$ 365,392
Preferred dividends paid	—	—	—	—	(23)	—	—	(23)
Compensation expense for restricted stock	—	—	—	476	—	—	—	476
Tax related items for share based awards	—	—	—	(104)	—	—	—	(104)
Currency translation adjustment	—	—	—	—	—	—	98	98
Repurchases of shares	—	—	—	—	—	(9,135)	—	(9,135)
Net income	—	—	—	—	17,580	—	—	17,580
<b>Balance at March 31, 2023</b>	<b>\$ 1</b>	<b>\$ 15</b>	<b>\$ 345</b>	<b>\$ 214,309</b>	<b>\$ 268,106</b>	<b>\$ (76,915)</b>	<b>\$ (31,577)</b>	<b>\$ 374,284</b>

**DXP ENTERPRISES, INC. AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED STATEMENTS OF EQUITY**  
*(in thousands) (unaudited)*

	<u>Series A</u> <u>preferred</u> <u>stock</u>	<u>Series B</u> <u>preferred</u> <u>stock</u>	<u>Common</u> <u>stock</u>	<u>Paid-in</u> <u>capital</u>	<u>Retained</u> <u>earnings</u>	<u>Treasury</u> <u>stock</u>	<u>Non</u> <u>controlling</u> <u>interest</u>	<u>Accum other</u> <u>comp loss</u>	<u>Total equity</u>
<b>Balance at December 31, 2021</b>	\$ 1	\$ 15	\$ 195	\$ 206,772	\$ 202,484	\$ (33,511)	\$ 53	\$ (29,282)	\$ 346,727
Preferred dividends paid	—	—	—	—	(23)	—	—	—	(23)
Restricted stock compensation expense	—	—	—	370	—	—	—	—	370
Tax related items for share based awards	—	—	—	(159)	—	—	—	—	(159)
Issuance of shares of common stock	—	—	—	527	—	—	—	—	527
Currency translation adjustment	—	—	—	—	—	—	—	1,669	1,669
Repurchases of shares	—	—	—	—	—	(1,513)	—	—	(1,513)
Net income (loss)	—	—	—	—	12,642	—	(113)	—	12,529
<b>Balance at March 31, 2022</b>	<b>1</b>	<b>15</b>	<b>195</b>	<b>207,510</b>	<b>215,103</b>	<b>(35,024)</b>	<b>(60)</b>	<b>(27,613)</b>	<b>360,127</b>
Preferred dividends paid	—	—	—	—	(22)	—	—	—	(22)

Restricted stock compensation expense	—	—	—	493	—	—	—	—	493
Tax related items for share based awards	—	—	—	(131)	—	—	—	—	(131)
Issuance of shares of common stock	—	—	2	4,215	—	—	—	—	4,217
Currency translation adjustment	—	—	—	—	—	—	—	(3,591)	(3,591)
Net income	—	—	—	—	14,433	—	60	—	14,493
<b>Balance at June 30, 2022</b>	<b>1</b>	<b>15</b>	<b>197</b>	<b>212,087</b>	<b>229,514</b>	<b>(35,024)</b>	<b>—</b>	<b>(31,204)</b>	<b>375,586</b>
Preferred dividends paid	—	—	—	—	(22)	—	—	—	(22)
Restricted stock compensation expense	—	—	—	505	—	—	—	—	505
Tax related items for share based awards	—	—	—	(2)	—	—	—	—	(2)
Issuance of shares of common stock	—	—	148	865	—	—	—	—	1,013
Currency translation adjustment	—	—	—	—	—	—	—	(1,156)	(1,156)
Repurchases of shares	—	—	—	—	—	(3,355)	—	—	(3,355)
Net income (loss)	—	—	—	—	13,928	—	(885)	—	13,043
<b>Balance at September 30, 2022</b>	<b>\$ 1</b>	<b>\$ 15</b>	<b>\$ 345</b>	<b>\$ 213,455</b>	<b>\$ 243,420</b>	<b>\$ (38,379)</b>	<b>\$ (885)</b>	<b>\$ (32,360)</b>	<b>\$ 385,612</b>

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements

**DXP ENTERPRISES, INC. AND SUBSIDIARIES**  
**NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 1 - THE COMPANY**

DXP Enterprises, Inc. together with its subsidiaries (collectively "DXP," the "Company," "us," "we," or "our") was incorporated in Texas on July 26, 1996. DXP Enterprises, Inc. and its subsidiaries are engaged in the business of distributing maintenance, repair and operating ("MRO") products and services to a variety of end markets and business-to-business customers. Additionally, DXP provides integrated, custom pump skid packages, pump remanufacturing and manufactures branded private label pumps to energy and broad industrial customers. The Company is currently organized into three business segments: Service Centers ("SC"), Innovative Pumping Solutions ("IPS"), and Supply Chain Services ("SCS"). See [Note 11 - Segment Reporting](#) for discussion of the business segments.

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING AND BUSINESS POLICIES**

*Basis of Presentation*

The Company's financial statements are prepared in accordance with generally accepted accounting principles in the United States of America ("U.S. GAAP"). For interim financial reporting not all disclosures normally required in annual consolidated financial statements prepared in accordance with U.S. GAAP are required. The unaudited condensed consolidated financial statements should be read in conjunction with our audited consolidated financial statements for the year ended [December 31, 2022](#) [December 31, 2023](#) that are included in our annual report on Form 10-K filed with the SEC on [April 17, 2023](#) [March 11, 2024](#) ("Annual Report").

The results of operations for the [nine](#) [three](#) months ended [September 30, 2023](#) [March 31, 2024](#) are not necessarily indicative of results expected for the full fiscal year. In the opinion of management, the accompanying unaudited condensed consolidated financial statements reflect all normal recurring adjustments necessary for the fair statement of the Company's financial position, results of operations and cash flows for the interim periods presented. [The ownership interest of noncontrolling investors of the Company's subsidiaries are recorded as noncontrolling interest.](#)

All [inter-company](#) [intercompany](#) accounts and transactions have been eliminated in consolidation.

[During the fourth quarter of 2022, the Company became aware of a financing cash flow error related to borrowings and repayments on our asset-backed credit facility as a result of the Company inadvertently duplicating journal entries, resulting in the overstatement of financing cash flow activities from borrowings and repayments related to our revolving credit facility. Management's assessment concluded that the errors were not material, individually or in the aggregate, to any prior period unaudited condensed consolidated financial statements. The Company concluded to revise prior period unaudited condensed consolidated financial statements the next time they were reported. The unaudited condensed consolidated financial statements included herein, have been revised to correct for the impact of these errors. The revision for the unaudited condensed consolidated statement of cash flows for the nine months ended September 30, 2022, is provided in the following table \(in thousands\):](#)

	As Previously Reported	Adjustments	Revised
Proceeds from asset-backed credit facility	\$ 605,257	\$ (27,258)	\$ 577,999

Payments on asset-backed credit facility	(564,651)	27,258	(537,393)
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The change did not result in a change in net income or earnings per share for the three and nine months ended September 30, 2022. Additionally, the change did not result in a change in the unaudited condensed consolidated balance sheets and statements of equity.

### NOTE 3 - RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

The Company has implemented considers the applicability and impact of all new accounting pronouncements that are in effect Accounting Standard Updates ("ASUs") issued by the Financial Accounting Standards Board ("FASB"). ASUs not listed within this Quarterly Report on Form 10-Q were assessed and is evaluating any new accounting pronouncements that may impact its financial statements, including determined as either not applicable or not material to the new Business Combinations (Topic 805) - Accounting for Contract Assets and Contract Liabilities from Contracts with Customers standard. The Company does not believe the new accounting pronouncement will have a material impact on its Company's consolidated financial position or results of operations for recent acquisitions.

#### Accounting Pronouncements Not Yet Adopted

All other new accounting pronouncements that have been issued, but not yet effective, are currently being evaluated and at this time are not expected to have a material impact on our financial position or results result of operations.

### NOTE 4 - FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

Our acquisitions may include contingent consideration as part of the purchase price. The fair value of the contingent consideration is estimated as of the acquisition date based on the present value of the contingent payments to be made using a weighted probability of possible payments. The unobservable inputs used in the determination of the fair value of the contingent consideration include management's assumptions about the likelihood of payment based on the established benchmarks, discount rates, and an internal rate of return analysis. The fair value measurement includes inputs that are Level 3 inputs as they are not observable in the market. Should actual results increase or decrease as compared to the assumptions used in our analysis, the fair value of the contingent consideration obligations will increase or decrease, up to the contracted limit, as applicable. Changes in the fair value of the contingent consideration are measured each reporting period and reflected in our results of operations.

As of September 30, 2023 March 31, 2024, we recorded liabilities \$6.1 million in other current and other long-term liabilities for contingent consideration associated with the acquisitions of Drydon Equipment, Inc. ("Drydon"), Cisco Air Systems, Inc. ("Cisco"), Sullivan Environmental Technologies, Inc. ("Sullivan"), Florida Valve & Equipment, LLC and Environmental MD, Inc. (collectively, "Florida Valve EMD") and Riordan Materials Corporation ("Riordan") of \$1.8 million, \$2.4 million, \$1.6 million, \$0.3 million, and \$2.8 million, respectively, recent acquisitions.

The following table provides a reconciliation of the beginning and ending balances and gains or losses recognized during the nine three months ended September 30, 2023 March 31, 2024 (in thousands):

	Contingent Consideration
*Beginning balance at December 31, 2022 December 31, 2023	\$ 10,166 8,753
Acquisitions (Note 12)	2,498 6,108
Settlements	(5,250) (1,000)
Total remeasurement adjustments:	
Changes in fair value recorded in other (income) expense, income, net	(194) 1,502
*Ending Balance at September 30, 2023 March 31, 2024	\$ 8,916 13,667

\*Amounts included in other current liabilities were \$5.2 million \$8.1 million and \$5.5 million \$5.4 million for the periods ending September 30, 2023 March 31, 2024 and December 31, 2022 December 31, 2023, respectively. Amounts included in other long-term liabilities were \$3.7 million \$5.6 million and \$4.7 million \$3.4 million for the periods ending September 30, 2023 March 31, 2024 and December 31, 2022 December 31, 2023, respectively.

#### Sensitivity to Changes in Significant Unobservable Inputs

The significant Level 3 unobservable inputs used in the fair value measurement of contingent consideration related to the acquisitions of Drydon, Cisco, Sullivan, Florida Valve EMD, and Riordan are annualized EBITDA forecasts developed by the Company's management and the probability of achievement of those EBITDA results. The discount rate used in the calculations was 11.1 10.6 percent. Changes in our unobservable inputs in isolation would result in a change to our fair value measurement. The As of March 31, 2024, the maximum amount of contingent consideration payable under these arrangements is \$10.4 \$17.5 million.

Other financial instruments not measured at fair value on the Company's unaudited condensed consolidated balance sheets at September 30, 2023 March 31, 2024 and December 31, 2022 December 31, 2023, but which require disclosure of their fair values include: cash, restricted cash, accounts receivable, trade accounts payable and accrued expenses. The Company believes that the estimated fair value of such instruments at September 30, 2023 March 31, 2024 and December 31, 2022 December 31, 2023 approximates their carrying value as reported on the unaudited condensed consolidated balance sheets due to the relative short maturity of



these instruments. See [Note 8 - Long-term Debt](#) for fair value disclosures on our asset-backed line of credit and term loan debt under our syndicated credit agreement facilities.

## NOTE 5 – INVENTORIES

Inventories are made up of equipment purchased for resale, and materials utilized in the fabrication of industrial and wastewater equipment stated at lower of cost and net realizable value, primarily determined using the weighted average cost method. The Company reviews inventory and records provisions for the difference between cost and net realizable value arising from excess and obsolete items on hand based upon the aging of the inventories, market trends, and continued demand.

The carrying values of inventories are as follows (*in thousands*):

		September 30, 2023	December 31, 2022		
March 31, 2024				March 31, 2024	December 31, 2023
Finished goods	Finished goods	\$ 77,539	\$ 82,906		
Work in process	Work in process	27,606	18,486		
Inventories	Inventories	<u>\$105,145</u>	<u>\$101,392</u>		

## NOTE 6 – CONTRACT ASSETS AND LIABILITIES

Under our customized pump production and water and wastewater project contracts, amounts are billed as work progresses in accordance with agreed-upon contractual terms, upon various measures of performance, including achievement of certain milestones, completion of specified units, or completion of a contract. Generally, billing occurs subsequent to revenue recognition, resulting in contract assets presented as "Costs and estimated profits in excess of billings". However, we sometimes receive advances or deposits from our customers before revenue is recognized, resulting in contract liabilities that are presented as "Billings in excess of costs and estimated profits" on our unaudited condensed consolidated balance sheets.

Costs and estimated profits on uncompleted contracts and related amounts billed were as follows (*in thousands*):

		September 30, 2023	December 31, 2022		
				March 31, 2024	December 31, 2023
Costs incurred on uncompleted contracts	Costs incurred on uncompleted contracts	\$ 96,903	\$ 70,329		
Estimated profits, thereon	Estimated profits, thereon	34,852	23,274		
Total costs and estimated profits on uncompleted contracts	Total costs and estimated profits on uncompleted contracts	131,755	93,603		
Less: billings to date	Less: billings to date	91,717	80,421		
Net	Net	<u>\$40,038</u>	<u>\$13,182</u>		

Such amounts were included in the accompanying unaudited condensed consolidated balance sheets for [September 30, 2023](#), [March 31, 2024](#) and [December 31, 2022](#) [December 31, 2023](#) under the following captions (*in thousands*):

		September 30, 2023	December 31, 2022	March 31, 2024	December 31, 2023
Costs and estimated profits in excess of billings	Costs and estimated profits in excess of billings	\$47,211	\$23,588		
Billings in excess of costs and estimated profits	Billings in excess of costs and estimated profits	(7,181)	(10,411)		
Translation adjustment	Translation adjustment	8	5		
Net	Net	\$40,038	\$13,182		

During the nine three months ended September 30, 2023, \$10.0 million March 31, 2024 and 2023, \$1.4 million and \$9.7 million of the balances that were previously classified as contract liabilities at the beginning of the period were recognized in revenues, revenues, respectively. Contract asset and liability changes were primarily due to normal activity and timing differences between our performance and customer payments.

#### NOTE 7 – INCOME TAXES

Income tax expense during interim periods is based on our estimated annual effective income tax rate plus any discrete items, which are recorded in the period in which they occur. Our effective tax rate from continuing operations was a tax expense of 26.3 27.2 percent for the three months ended September 30, 2023 March 31, 2024 compared to a tax expense of 28.1 27.9 percent for the three months ended September 30, 2022 March 31, 2023. Compared to the U.S. statutory rate for the three months ended September 30, 2023 March 31, 2024, the effective tax rate was increased by state taxes, foreign taxes, nondeductible expenses, earnout payments, and uncertain tax positions recorded for research and development tax credits and was partially offset by research and development tax credits and other tax credits.

Our effective tax rate from continuing operations was a tax expense of 26.8 percent for the nine months ended September 30, 2023 compared to a tax expense of 25.1 percent for the nine months ended September 30, 2022. Compared to the U.S. statutory rate for the nine months ended September 30, 2023, the effective tax rate was increased by state taxes, foreign taxes, nondeductible expenses, and uncertain tax positions recorded for research and development tax credits and was partially offset by research and development tax credits and other tax credits. Compared to the U.S. statutory rate for the nine months ended September 30, 2022, the effective tax rate was increased by state taxes, foreign taxes, nondeductible expenses and uncertain tax positions for research and development tax credits and was partially offset by research and development tax credits and other tax credits.

To the extent penalties and interest would be assessed on any underpayment of income tax, such accrued amounts would be classified as a component of income tax provision (benefit) in the financial statements consistent with the Company's policy.

The Organization of Economic Cooperation and Development (OECD) continues to release additional guidance, including administrative guidance on how Pillar Two rules should be interpreted and applied by jurisdictions as they adopt Pillar Two. A number of countries have utilized the administrative guidance as a starting point for legislation that went into effect January 1, 2024. As of March 31, 2024 DXP anticipates the impact of Pillar Two to be immaterial to the Company based on current legislation that has been enacted to date.

#### NOTE 8 – LONG-TERM DEBT

The components of the Company's long-term debt consisted of the following (in thousands):

	September 30, 2023		December 31, 2022	
	Carrying Value <sup>(1)</sup>	Fair Value	Carrying Value <sup>(1)</sup>	Fair Value
ABL Revolver	\$ —	\$ —	\$ —	\$ —
Term Loan B	424,857	424,857	428,133	411,008
Total debt	424,857	424,857	428,133	411,008
Less: current portion	(4,369)	(4,369)	(4,369)	(4,194)
Long-term debt less current maturities	\$ 420,488	\$ 420,488	\$ 423,764	\$ 406,814

	March 31, 2024	December 31, 2023
ABL Revolver	\$ —	\$ —
Senior Secured Term Loan B due October 13, 2030 <sup>(1)</sup>	547,250	548,625
Total debt	547,250	548,625
Less: current maturities	(5,500)	(5,500)
Total long-term debt	\$ 541,750	\$ 543,125
Unamortized discount and debt issuance costs	21,533	22,428
Long-term debt, net of unamortized discount and debt issuance costs	\$ 520,217	\$ 520,697

<sup>(1)</sup> Carrying The fair value amounts do not include unamortized debt issuance costs of \$12.4 million the Term Loan B due October 13, 2030 was \$551.4 million and \$14.6 million for September 30, 2023 \$554.1 million as of March 31, 2024 and December 31, 2022 December 31, 2023, respectively.

#### **Credit Agreements Senior Secured Term Loan B:**

On October 13, 2023, the Company entered into an amendment on its existing Senior Secured Term Loan B (the "Term Loan Amendment"), which provides for, among other things, an additional \$125 million in new incremental commitments. The Term Loan Amendment refinanced the existing Senior Term Loan B and replaced it with a new Senior Secured Term Loan B with total borrowings of \$550.0 million. The new Senior Secured Term Loan B amortizes in equal quarterly installments of 0.25%, with the remaining balance being payable on October 13, 2030, when the facility matures.

Deferred financing costs associated with the Term Loan Amendment were \$11.7 million, which is being amortized to interest expense using the interest method over the remaining maturity of the Senior Secured Term Loan B. The interest rate for the Senior Secured Term Loan B was 10.29% and 10.44% as of March 31, 2024 and December 31, 2023, respectively.

In connection with the Term Loan Amendment the Company expensed third-party fees of \$0.8 million and recognized a \$1.2 million loss on debt extinguishment, which were included in interest expense during 2023. Quarterly interest payments accrue on outstanding borrowings under the new Senior Secured Term Loan B at a rate equal to Term SOFR (with a floor of 1.00%) plus 4.75%, or base rate plus 3.75%. The new Senior Secured Term Loan B is guaranteed by each of the Company's direct and indirect material wholly owned subsidiaries, other than any of the Company's Canadian subsidiaries and certain other excluded subsidiaries.

As of March 31, 2024 there was \$547.3 million outstanding under the Senior Secured Term Loan B.

#### **ABL Revolver:**

On July 19, 2022, the Company entered into an Amended and Restated Loan and Security Agreement (the "ABL Credit Agreement") that provided for a \$135.0 million asset-backed revolving line of credit (the "ABL Revolver"). The ABL Credit Agreement amends and restates the Loan and Security Agreement dated as of August 29, 2017. Subject to the conditions set forth in the ABL Credit Agreement, the ABL Revolver may be increased by in increments of \$10.0 million up to an aggregate of \$50.0 million, in minimum increments of \$10.0 million. The ABL Revolver matures on July 19, 2027. As of September 30, 2023, the Company had no borrowings outstanding under the ABL Revolver, and total borrowing capacity under the ABL Revolver was \$131.9 million, net of the letters of credit outstanding of \$3.1 million.

On November 22, 2022, the Company entered into an amendment to its existing \$330 million Senior Secured Term Loan (the "Term Loan Amendment"), borrowing an additional \$105 million that was added to the existing \$330 million Senior Secured Term Loan (the "Term Loan Agreement"). As of September 30, 2023 there was \$424.9 million outstanding under the Term Loan Agreement.

The Term Loan Amendment amends and supplements the Term Loan Agreement, dated as of December 23, 2020, and provides for among other things, \$105.0 million in new incremental commitments. The Term Loan Agreement and Term Loan Amendment amortize in equal quarterly installments of 0.25 percent with the balance payable in December 2027 when the facility matures. Subject to securing additional lender commitments, the Term Loan Agreement allows for incremental increases in facility size up to an aggregate of \$85.0 million, plus an additional amount such that the Company's Secured Leverage Ratio (as defined in the Term Loan Agreement) would not exceed 3.75 to 1.00. Interest accrues on the Term Loan outstanding borrowings at a rate equal to SOFR plus a margin of 5.25 percent ranging from 1.25% to 1.75% per annum, or at an alternate base rate, Canadian prime rate or Canadian base rate plus a margin ranging from 0.25% to 0.75% per annum, in each case, based upon the average daily excess availability under the ABL Revolver for the SOFR most recently completed calendar quarter. Fees payable on the unused portion of the facility range from 0.25% to 0.375% per annum. At March 31, 2024 the unused line fee was 0.375% and there were no amounts outstanding under the ABL Revolver.

As of March 31, 2024, the borrowing availability under our credit facility was \$131.8 million compared to \$132.1 million at December 31, 2023, primarily as a result of outstanding letters of credit.

The interest rate for the ABL Revolver was 8.75% as of March 31, 2024 and December 31, 2023, respectively.

#### **Financial Covenants:**

The Company's principal financial covenants under the ABL Credit Agreement and Term Loan B Agreement include:

**Fixed Charge Coverage Ratio** – The Fixed Charge Coverage Ratio under the ABL Credit Agreement is defined as the ratio for the most recently completed four-fiscal quarter period, of (a) EBITDA minus capital expenditures (excluding (i) those financed or funded with debt (other than the ABL Loans), (ii) the portion thereof funded with the net proceeds from asset dispositions of equipment or real property which the Company is permitted to reinvest pursuant to the Term Loan and (iii) the portion thereof funded with the net proceeds of casualty insurance or condemnation awards in respect of any equipment and real estate which DXP is not required to use to prepay the ABL Loans as pursuant to the Term Loan B Agreement or with the proceeds of casualty insurance or condemnation awards in respect of any other property) minus cash taxes paid (net of cash tax refunds received during such period), to (b) fixed charges. The Company is restricted from allowing its fixed charge coverage ratio to be less than 1.00 to 1.00 during a compliance period, which is triggered when the availability under the ABL Revolver falls below a threshold set forth in the ABL Credit Agreement.

As of March 31, 2024, the Company's Fixed Charge Coverage Ratio was 2.28 to 1.00.

**Secured Leverage Ratio** – The Term Loan B Agreement requires that the Company's Secured Leverage Ratio, defined as the ratio, as of the last day of any fiscal quarter of consolidated secured debt (net of unrestricted cash, not to exceed \$200 million) as of such day to EBITDA, beginning with the fiscal quarter ending March 31, 2024, is either equal to or less than as indicated in the table below:

Fiscal Quarter	Secured Leverage Ratio
March 31, 2024	5.75:1.00
June 30, 2024	5.50:1.00
September 30, 2024	5.50:1.00
December 31, 2024	5.50:1.00
March 31, 2025	5.25:1.00
June 30, 2025	5.25:1.00
September 30, 2025	5.25:1.00
December 31, 2025	5.00:1.00
March 31, 2026	5.00:1.00
June 30, 2026 and thereafter	4.75:1.00

As of March 31, 2024, the Company's Secured Leverage Ratio was 2.27 to 1.00.

EBITDA as defined under the Term Loan B Agreement for financial covenant purposes means, without duplication, for any period of determination, the sum of, consolidated net income during such period; plus to the extent deducted from consolidated net income in such period: (i) income tax expense, (ii) franchise tax expense, (iii) interest expense, (iv) amortization and depreciation during such period, (v) all non-cash charges and adjustments, and (vi) non-recurring cash expenses related to the Term Loan, provided, that if the Company acquires or disposes of any property during such period (other than under certain exceptions specified in the Term Loan Amendment). We are required B Agreement, including the sale of inventory in the ordinary course of business), then EBITDA shall be calculated, after giving pro forma effect to repay such acquisition or disposition, as if such acquisition or disposition had occurred on the Term Loan with certain asset sales and insurance proceeds, certain debt proceeds and 50 percent first day of excess cash flow--reducing to (i.) 25 percent if our total leverage ratio is no more than 3.00 to 1.00 and (ii.) zero percent if our total leverage ratio is no more than 2.50 to 1.00. such period.

The Company was in compliance with all financial covenants under the ABL Credit Agreement and Term Loan Agreements as of September 30, 2023 March 31, 2024.

As of March 31, 2024, the maturities of long-term debt for the next five years and thereafter were as follows (*in thousands*):

	Amount
2024	\$ 4,125
2025	5,500
2026	5,500
2027	5,500
2028	5,500
Thereafter	521,125
Total	\$ 547,250

## NOTE 9 - EARNINGS PER SHARE

Basic earnings per share is computed based on weighted average shares outstanding and excludes dilutive securities. Diluted earnings per share is computed including the impacts of all potentially dilutive securities.

The following table sets forth the computation of basic and diluted earnings per share for the periods indicated (*in thousands, except per share data*):

		Three Months Ended September 30,		Nine Months Ended September 30,	
		2023	2022	2023	2022
<b>Basic earnings per share:</b>	<b>Basic earnings per share:</b>				
<b>Basic earnings per share:</b>					
<b>Basic earnings per share:</b>					
Weighted average shares outstanding					
Weighted average shares outstanding					
Weighted average shares outstanding	Weighted average shares outstanding	16,516	18,820	17,104	18,712
Net income attributable to DXP Enterprises, Inc.	Net income attributable to DXP Enterprises, Inc.	\$ 16,172	\$ 13,929	\$ 52,806	\$ 41,003
Net income attributable to DXP Enterprises, Inc.					
Net income attributable to DXP Enterprises, Inc.					
Convertible preferred stock dividend					
Convertible preferred stock dividend					
Convertible preferred stock dividend	Convertible preferred stock dividend	22	22	67	67
Net income attributable to common shareholders	Net income attributable to common shareholders	\$ 16,150	\$ 13,907	\$ 52,739	\$ 40,936
Net income attributable to common shareholders					
Net income attributable to common shareholders					
Per share amount					
Per share amount					
Per share amount	Per share amount	\$ 0.98	\$ 0.74	\$ 3.08	\$ 2.19
<b>Diluted earnings per share:</b>	<b>Diluted earnings per share:</b>				
<b>Diluted earnings per share:</b>					
<b>Diluted earnings per share:</b>					
Weighted average shares outstanding					
Weighted average shares outstanding					
Weighted average shares outstanding	Weighted average shares outstanding	16,516	18,820	17,104	18,712

Assumed conversion of convertible preferred stock	Assumed conversion of convertible preferred stock	840	840	840	840
Assumed conversion of convertible preferred stock					
Assumed conversion of convertible preferred stock					
Total dilutive shares					
Total dilutive shares					
Total dilutive shares	Total dilutive shares	17,356	19,660	17,944	19,552
Net income attributable to common shareholders	Net income attributable to common shareholders	\$ 16,150	\$ 13,907	\$ 52,739	\$ 40,936
Net income attributable to common shareholders					
Net income attributable to common shareholders					
Convertible preferred stock dividend					
Convertible preferred stock dividend					
Convertible preferred stock dividend	Convertible preferred stock dividend	22	22	67	67
Net income attributable to DXP Enterprises, Inc.	Net income attributable to DXP Enterprises, Inc.	\$ 16,172	\$ 13,929	\$ 52,806	\$ 41,003
Net income attributable to DXP Enterprises, Inc.					
Net income attributable to DXP Enterprises, Inc.					
Per share amount	Per share amount	\$ 0.93	\$ 0.71	\$ 2.94	\$ 2.10
Per share amount					
Per share amount					

#### **NOTE 10 - COMMITMENTS AND CONTINGENCIES**

From time to time, the Company is a party to various legal proceedings arising in the ordinary course of business. While DXP is unable to predict the outcome or estimate the financial impact of these disputes, it believes that the ultimate resolution will not have, either individually or in the aggregate, a material adverse effect on DXP's consolidated financial position, cash flows, or results of operations.

#### **NOTE 11 - SEGMENT REPORTING**

The Company's reportable business segments are: Service Centers ("SC"), Innovative Pumping Solutions ("IPS"), and Supply Chain Services. Services ("SCS").

The Service Centers segment is engaged in providing MRO products, equipment and integrated services, including logistics capabilities, to business-to-business customers. The Service Centers segment provides a wide range of MRO products in the rotating equipment, bearing, power transmission, hose, fluid power, metal working, industrial supply, safety products and safety services categories.

The Innovative Pumping Solutions segment fabricates and assembles custom-made pump packages, re-manufactures pumps, manufactures branded private label pumps and provides products and process lines for the water and wastewater treatment industries.

The Supply Chain Services segment provides a wide range of MRO products and manages all or part of a customer's supply chain, including warehouse and inventory management.

Sales are shown net of inter-segment eliminations.

Our chief operating decision maker ("CODM") is the Chief Executive Officer. The Company's CODM directs the allocation of resources to operating or business segments based on revenue and operating income of each respective segment.

As a part of the Company's annual business planning, the CODM reviews our reportable segment composition and financial performance. As a result of this review, on January 1st, 2024, we moved certain branch locations previously reported under our IPS segment to our SC segment. Prior period segment disclosures have been recast.

The following table sets out financial information related to the Company's segments excluding amortization (*in thousands*):

		Three Months Ended September 30,		Nine Months Ended September 30,	
		2023	2022	2023	2022
<b>Sales</b>	<b>Sales</b>				
<b>Sales</b>					
<b>Sales</b>					
Service Centers					
Service Centers					
Service Centers	Service Centers	\$ 294,458	\$ 260,083	\$ 888,116	\$ 729,977
Innovative Pumping Solutions	Innovative Pumping Solutions	58,963	59,044	184,402	169,890
Innovative Pumping Solutions					
Innovative Pumping Solutions					
Supply Chain Services	Supply Chain Services	65,828	68,187	199,038	174,670
Supply Chain Services					
Supply Chain Services					
Total Sales					
Total Sales					
Total Sales	Total Sales	\$ 419,249	\$ 387,314	\$ 1,271,556	\$ 1,074,537
<b>Operating Income</b>	<b>Operating Income</b>				
<b>Operating Income</b>					
<b>Operating Income</b>					
Service Centers					
Service Centers					
Service Centers	Service Centers	\$ 41,441	\$ 35,718	\$ 130,274	\$ 95,437
Innovative Pumping Solutions	Innovative Pumping Solutions	11,155	7,327	31,638	23,122
Innovative Pumping Solutions					
Innovative Pumping Solutions					
Supply Chain Services					
Supply Chain Services					

Supply Chain Services	Supply Chain Services	5,593	5,332	16,522	14,311
Total Segments Operating Income	Total Segments Operating Income	\$ 58,189	\$ 48,377	\$ 178,434	\$ 132,870
Total Segments Operating Income					
Total Segments Operating Income					

The following table presents reconciliations of income from operations for reportable segments to the consolidated income before taxes (*in thousands*):

		Three Months Ended September 30,		Nine Months Ended September 30,	
		2023	2022	2023	2022
Income from operations for reportable segments	Income from operations for reportable segments	\$ 58,189	\$ 48,377	\$ 178,434	\$ 132,870
Income from operations for reportable segments					
Income from operations for reportable segments					
Adjustment for:					
Adjustment for:					
Amortization of intangible assets	Amortization of intangible assets	5,866	5,132	15,206	13,958
Amortization of intangible assets					
Amortization of intangible assets					
Corporate expenses					
Corporate expenses					
Corporate expenses	Corporate expenses	16,467	16,706	54,493	44,894
Income from operations	Income from operations	\$ 35,856	\$ 26,539	108,735	74,018
Income from operations					
Income from operations					
Interest expense	Interest expense	12,684	6,833	36,068	17,610
Other (income) expense, net		1,234	1,565	522	2,941
Interest expense					
Interest expense					
Other income, net					
Other income, net					
Other income, net					
Income before income taxes	Income before income taxes	\$ 21,938	\$ 18,141	\$ 72,145	\$ 53,467
Income before income taxes					
Income before income taxes					

## NOTE 12 - BUSINESS ACQUISITIONS

On May 1, 2023, the Company completed the acquisition of Florida Valve EMD, a leading provider of valve enters into strategic acquisitions in an effort to better service existing customers and related products and services for the municipal water markets in the State of Florida. Florida Valve EMD is included within our IPS



business segment. Total consideration for the transaction was approximately \$3.3 million, funded with a mixture of cash on hand of \$3.0 million and future consideration of \$0.3 million. Goodwill for the transaction totaled approximately \$2.4 million.

On May 1, 2023, the Company completed the acquisition of Riordan, a leading provider of products for water treatment, wastewater treatment, odor control, solids handling, pumping and bio solid processes in the States of Maryland, New Jersey, Pennsylvania, Delaware and Virginia. Riordan is included within our IPS business segment. Total consideration for the transaction was approximately \$8.4 million, funded with a mixture of cash on hand of \$6.2 million and future consideration of \$2.2 million. Goodwill for the transaction totaled approximately \$5.9 million. to attract new customers.

In aggregate, the acquisition-date fair value A summary of the consideration transferred for the two businesses totaled \$11.7 million, which consisted allocation of the following total purchase consideration of our three business acquisitions during the three months ended March 31, 2024 is presented as follows (in thousands):

	Purchase Price Consideration
Cash payments	\$ 9,200 4
Future consideration	2,498
Total purchase price consideration	4
Net Tangible Assets Acquired	1
Purchased Intangible Assets	
Goodwill	\$ 11,698 2

Pro forma results of operations information have not been presented, as The total purchase consideration related to our acquisitions during the effect of the recent acquisitions is not material. The operating results of Riordan and Florida Valve EMD are included within the Company's consolidated statements of operations since the acquisition date of May 1, 2023 and were not material for the nine three months ended September 30, 2023. Pursuant to U.S. GAAP, costs incurred to complete the March 31, 2024 consisted primarily of cash consideration. The total cash and cash equivalents acquired for these acquisitions as well as costs incurred to integrate into the Company's operations are expensed as incurred, was \$1.2 million. Transaction-related costs incurred, which are included within selling, general, and administrative expenses in the consolidated statements of operations were not material for the nine three months ended September 30, 2023 March 31, 2024.

The following table summarizes the preliminary estimated fair values of the assets acquired and liabilities assumed at the acquisition date (in thousands):

	Amount
Cash	\$ 352
Accounts receivable	2,236
Inventory	355
Other current assets	134
Non-compete agreements	595
Customer relationships	1,708
Property and equipment	41
Other assets	5
Assets acquired	5,426
Current liabilities assumed	(1,395)
Other long term liabilities	(23)
Deferred tax liability	(538)
Net assets acquired	3,470
Total Consideration	11,698
Goodwill	\$ 8,228

Of the \$2.3 million of acquired intangible assets, \$0.6 million was provisionally assigned to non-compete agreements that are subject to amortization over 5 years, coinciding with the terms The Company makes an initial allocation of the agreements. In addition, \$1.7 million purchase price at the date of acquisition based upon its estimate of the fair value of the acquired assets and assumed liabilities. Additional information that existed as of the acquisition date but at that time was assigned unknown to customer relationships and will be amortized over us may become known during the remainder of the measurement period, a period of 8 years. not to exceed 12 months from the acquisition date.

The goodwill total of approximately \$8.2 million \$27.2 million is attributable primarily to expected synergies and the assembled workforce of each entity and is generally not deductible for tax purposes. \$6.9 million of goodwill was assigned to our SC segment and \$20.3 million was assigned to our IPS segment relating to these acquisitions.

The Company recognized approximately \$400 thousand operating results of acquisition related costs that were expensed during the year. These costs these acquisitions are included in within the Unaudited Condensed Consolidated Statements Company's consolidated statements of Operations operations from the date of acquisition. Pro forma results of operations information have not been presented, as the effects of the acquisitions were not material to our financial results.

Of the \$8.2 million of acquired intangible assets, \$0.9 million was provisionally assigned to non-compete agreements that are subject to amortization over 5 years. In addition, \$7.2 million was assigned to customer relationships and Comprehensive Income in Selling, General and Administrative costs will be amortized over a period of 8 years.

NOTE 13 - SHARE REPURCHASES

On December 15, 2022, the Company announced a new Share Repurchase Program pursuant to which it may repurchase up to \$85.0 million worth, or 2.8 million shares, of the Company's outstanding common stock over the next 24 months months from the date of the announcement.

Total consideration paid to repurchase the shares was recorded in shareholders' equity as treasury shares stock.

		Three Months Ended	Nine Months Ended		
		September 30, 2023	September 30, 2023		
(in thousands, except share data)					
		Three Months Ended March 31,			
		Three Months Ended March 31,			
		Three Months Ended March 31,			
(in thousands, except per share data)					
		(in thousands, except per share data)		2024	2023
Total number of shares purchased					
Total number of shares purchased					
Total number of shares purchased	Total number of shares purchased	618,282	1,706,637		
Amount paid	Amount paid	\$ 21,508	\$ 54,721		
Average price paid per share	Average price paid per share	\$ 34.79	\$ 32.06		

NOTE 14 - SUPPLEMENTAL CASH FLOW INFORMATION

	Nine Months Ended September 30,	
	2023	2022
Supplemental disclosures of cash flow information:		
Cash paid for interest	\$ 33,892	\$ 16,253
Cash paid for income taxes	\$ 20,298	\$ 12,220

Cash paid for finance lease liability	\$	1,632	\$	—
Shares issued for acquisition	\$	—	\$	5,757
<b>Non-cash investing and financing activities:</b>				
Assets obtained in exchange for finance lease obligations	\$	10,819	\$	—

## NOTE 15 - SUBSEQUENT EVENT

### Senior Secured Term Loan B

On October 13, 2023, the Company entered into an amendment (the "Second Term Loan Amendment") on its existing Senior Secured Term Loan B, borrowing an incremental \$125 million that was added to the existing Senior Secured Term Loan B. Including the new borrowings, the Company will have \$550.0 million in Senior Secured Term Loan B borrowings. The Term Loan B borrowings mature on October 30, 2030, and are priced at Term SOFR plus an applicable margin of 4.75 percent.

(in thousands)	Three Months Ended March 31,	
	2024	2023
<b>Supplemental disclosures of cash flow information:</b>		
Cash paid for interest	\$ 14,649	\$ 10,879
Cash paid for income taxes	14,693	379
<b>Non-cash investing and financing activities:</b>		
Treasury shares repurchase accruals	\$ 2,105	\$ —

## ITEM 2: MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following management discussion and analysis ("MD&A") of the financial condition and results of operations of DXP Enterprises, Inc. together with its subsidiaries (collectively "DXP," "Company," "us," "we," or "our") for the three and nine months ended September 30, 2023 March 31, 2024 should be read in conjunction with our previous Annual Report on Form 10-K and our Quarterly Reports on Form 10-Q, and the consolidated financial statements and notes thereto included in such reports. The Company's consolidated financial statements are prepared in accordance with U.S. GAAP.

### DISCLOSURE REGARDING FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q (this "Report") contains statements that constitute "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995, as amended. These forward-looking statements include without limitation those about the Company's expectations regarding the Company's business, the Company's future profitability, cash flow, liquidity, and growth. Such forward-looking statements can be identified by the use of forward-looking terminology such as "believes", "expects", "may", "might", "estimates", "will", "should", "could", "would", "suspect", "potential", "current", "achieve", "plans" or "anticipates" or the negative thereof or other variations thereon or comparable terminology, or by discussions of strategy. Any such forward-looking statements are not guarantees of future performance and may involve significant risks and uncertainties, and actual results may vary materially from those discussed in the forward-looking statements or historical performance as a result of various factors. These factors include, but are not limited to, the effectiveness of management's strategies and decisions; our ability to implement our internal growth and acquisition growth strategies; general economic and business conditions specific to our primary customers; changes in government regulations; our ability to effectively integrate businesses we may acquire; new or modified statutory or regulatory requirements; availability of materials and labor; inability to obtain or delay in obtaining government or third-party approvals and permits; non-performance by third parties of their contractual obligations; unforeseen hazards such as weather conditions, acts of war or terrorist acts and the governmental or military response thereto; cyber-attacks adversely affecting our operations; other geological, operating and economic considerations and declining prices and market conditions, including reduced oil and gas prices and supply or demand for maintenance, repair and operating products, equipment and service; decreases in oil and natural gas industry capital expenditure levels, which may result from decreased oil and natural gas prices or other factors; our ability to manage changes and the continued health or availability of management personnel; and our ability to obtain financing on favorable terms or amend our credit facilities, as needed. This Report identifies other factors that could cause such differences. We cannot assure that these are all of the factors that could cause actual results to vary materially from the forward-looking statements. Factors that could cause or contribute to such differences include, but are not limited to, those discussed in "Risk Factors", in our Annual Report on Form 10-K filed with the Securities and Exchange Commission on April 17, 2023 March 11, 2024. We assume no obligation and do not intend to update these forward-looking statements. Unless the context otherwise requires, references in this Report to the "Company", "DXP", "we" or "our" shall mean DXP Enterprises, Inc., a Texas corporation, together with its subsidiaries.

### NON-GAAP FINANCIAL MEASURES

In an effort to provide investors with additional information regarding our results of operations as determined by accounting principles generally accepted in the United States of America ("U.S. GAAP"), we disclose non-GAAP financial measures. The non-GAAP financial measures we provide in this report should be viewed in

addition to, and not as an alternative for, results prepared in accordance with U.S. GAAP.

Our primary non-GAAP financial measures are organic sales ("Organic Sales"), sales per business day ("Sales per Business Day"), organic sales per business day ("Organic Sales per Business Day"), free cash flow ("Free Cash Flow"), earnings before interest, taxes, depreciation and amortization ("EBITDA") adjusted EBITDA ("Adjusted EBITDA"), EBITDA Margin, and Adjusted EBITDA Margin. The non-GAAP financial measures presented may differ from similarly titled non-GAAP financial measures presented by other companies, and other companies may not define these non-GAAP financial measures in the same way. These measures are not substitutes for their comparable U.S. GAAP financial measures.

Management uses these non-GAAP financial measures to assist in comparing our performance on a consistent basis for purposes of business decision making by removing the impact of certain items that management believes do not directly reflect our underlying operations. Management believes that presenting our non-GAAP financial measures are useful to investors because it (i) provides investors with meaningful supplemental information regarding financial performance by excluding certain items, (ii) permits investors to view performance using the same tools that management uses to budget, make operating and strategic decisions, and evaluate historical performance, and (iii) otherwise provides supplemental information that may be useful to investors in evaluating our results. We believe that the presentation of these non-GAAP financial measures, when considered together with the corresponding U.S. GAAP financial measures and the reconciliations to those measures, provides investors with additional understanding of the factors and trends affecting our business than could be obtained absent these disclosures.

Refer to the Non-GAAP Financial Measures and Reconciliation section below for detailed reconciliations of our non-GAAP financial measures.

## GENERAL BUSINESS OVERVIEW

### General

DXP Enterprises, Inc. is a business-to-business distributor of MRO products and services to a variety of customers in different end markets across North America and Dubai. Additionally, we fabricate, remanufacture, and assemble custom pump packages along with manufacturing branded private label pumps.

### Key Business Metrics

We regularly monitor several financial and operating metrics to evaluate our business, measure our performance, identify trends affecting our business, formulate financial projections and make strategic decisions. Our key non-GAAP business metrics may be calculated in a different manner than similarly titled metrics used by other companies. See "Non-GAAP Financial Measures and Reconciliations" for additional information on non-GAAP financial measures and a reconciliation to the most comparable GAAP measures.

		Three Months Ended September 30,		Nine Months Ended September 30,	
		2023	2022	2023	2022
Three Months Ended March 31,					
Three Months Ended March 31,					
Three Months Ended March 31,					
2024					
2024					
2024					
<b>Sales by Business Segment</b>					
<b>Sales by Business Segment</b>					
<b>Sales by Business Segment</b>	<b>Sales by Business Segment</b>				
Service Centers	Service Centers	\$ 294,458	\$ 260,083	\$ 888,116	\$ 729,977
Service Centers					
Service Centers					
Innovative Pumping Solutions					
Innovative Pumping Solutions					
Innovative Pumping Solutions	Innovative Pumping Solutions	58,963	59,044	184,402	169,890
Supply Chain Services	Supply Chain Services	65,828	68,187	199,038	174,670

Supply Chain Services									
Supply Chain Services									
Total DXP Sales									
Total DXP Sales									
Total DXP Sales	Total DXP Sales	\$ 419,249			\$ 387,314		\$ 1,271,556		\$ 1,074,537
Acquisition Sales	Acquisition Sales	3,868			15,916		30,266		38,273
Acquisition Sales									
Acquisition Sales									
Organic Sales									
Organic Sales									
Organic Sales	Organic Sales	\$ 415,381			\$ 371,398		\$ 1,241,290		\$ 1,036,264
Business Days	Business Days	63			64		191		191
Business Days									
Business Days									
Sales per Business Day	Sales per Business Day	\$ 6,655			\$ 6,052		\$ 6,657		\$ 5,626
Sales per Business Day									
Sales per Business Day									
Organic Sales per Business Day									
Organic Sales per Business Day									
Organic Sales per Business Day	Organic Sales per Business Day	\$ 6,593			\$ 5,803		\$ 6,499		\$ 5,425
Gross Profit	Gross Profit	\$ 125,562			\$ 111,633		\$ 382,455		\$ 310,779
Gross Profit									
Gross Profit									
Gross Profit Margin									
Gross Profit Margin									
Gross Profit Margin	Gross Profit Margin	29.9 %			28.8 %		30.1 %		28.9 %
EBITDA	EBITDA	\$ 42,605			\$ 32,467		\$ 129,681		\$ 92,402
EBITDA									
EBITDA									
EBITDA Margin									
EBITDA Margin									
EBITDA Margin	EBITDA Margin	10.2 %			8.4 %		10.2 %		8.6 %
Adjusted EBITDA	Adjusted EBITDA	\$ 44,020			\$ 34,324		\$ 132,443		\$ 95,396
Adjusted EBITDA									
Adjusted EBITDA									
Adjusted EBITDA Margin									
Adjusted EBITDA Margin									
Adjusted EBITDA Margin	Adjusted EBITDA Margin	10.5 %			8.9 %		10.4 %		8.9 %
Free Cash Flow	Free Cash Flow	\$ 38,272			\$ (5,010)		\$ 56,672		\$ (1,170)
Free Cash Flow									
Free Cash Flow									

<sup>(1)</sup> Prior period segment disclosures have been recast. For additional information, please refer to [Note 11. Segment Reporting](#).

<sup>(1)</sup> Prior period segment disclosures have been recast. For additional information, please refer to [Note 11. Segment Reporting](#).

<sup>(1)</sup> Prior period segment disclosures have been recast. For additional information, please refer to [Note 11. Segment Reporting](#).

## **Organic Sales and Acquisition Sales**

We define and calculate organic sales to include locations and acquisitions under our ownership for at least twelve months. "Acquisition Sales" are sales from acquisitions that have been under our ownership for less than twelve months and are excluded in our calculation of Organic Sales.

## **Business Days**

"Business Days" are days of the week, excluding Saturdays, Sundays, and holidays, that our locations are open during the year. Depending on the location and the season, our branches may be open on Saturdays and Sundays; however, for consistency, those days have been excluded from the calculation of Business Days.

## **Sales per Business Day**

We define and calculate Sales per Business Day as sales divided by the number of Business Days in the relevant reporting period.

## **Organic Sales per Business Days**

We define and calculate Organic Sales per Business Day as Organic Sales divided by the number of Business Days in the relevant reporting period.

## **EBITDA and Adjusted EBITDA**

We define and calculate EBITDA as Net income attributable to DXP Enterprises, Inc., plus interest, taxes, depreciation, amortization, and non-controlling interest. We define and calculate Adjusted EBITDA as Net income attributable to DXP Enterprises, Inc., plus interest, taxes, depreciation, amortization minus stock-based compensation expense, non-controlling interest before taxes and all other non-cash charges, adjustments, and non-recurring items. We identify the impact of all other non-cash charges, adjustments and non-recurring items because we believe these items do not directly reflect our underlying operations.

## **EBITDA Margin and Adjusted EBITDA Margin**

We define and calculate EBITDA Margin as EBITDA divided by sales. We define and calculate Adjusted EBITDA Margin as Adjusted EBITDA divided by sales.

## **Free Cash Flow**

We define and calculate free cash flow as net cash (used in) provided by operating activities less net purchases of property and equipment.

## **Matters Affecting Comparability**

There were 63 business days in the three months ended March 31, 2024 and 64 business days in the three months ended March 31, 2023.

## **CURRENT MARKET CONDITIONS AND OUTLOOK**

### **Inflation Reduction Act**

In August 2022, the Inflation Reduction Act of 2022 (IRA) was signed into United States (U.S.) law. The IRA establishes a new 15% corporate minimum tax and a new 1% excise tax on stock repurchases, effective after December 31, 2022. In addition, the IRA contains provisions relating to climate change, energy and health care. Based on the Company's current analysis of the provisions, the Company does not anticipate a material impact to the consolidated financial statements as a result of the IRA.

### **Inflation**

The global commodity and labor markets experienced significant inflationary pressures attributable to economic recovery and supply chain issues tightening caused by the COVID-19 pandemic and the Ukrainian-Russia conflict, among other factors. These inflationary trends increased the cost of many of the products we buy. As a distributor, we often remain neutral to inflation as those costs are generally passed on to customers. The Company was able to pass price increases on to customers and implement other strategies designed to mitigate some of the adverse effects of higher costs during the nine months ended September 30, 2023.

## Service Centers and Innovative Pumping Solutions Segments

The replacement and mission-critical nature of our products and services within the Company's Service Centers and Innovative Pumping Solutions business segments and industrial and manufacturing environments and processes drives a demand and outlook that are correlated with global, national and regional industrial production, capacity utilization and long-term GDP growth. The Company's recent order activity improved as markets strengthened. For the three months ended September 30, 2023 and nine months ended September 30, 2023 March 31, 2024, we had approximately \$353.4 \$350.7 million and \$1,072.5 million in sales in our Service Centers and Innovative Pumping Solutions segments, an increase a decrease of approximately 10.7 percent and 19.2 percent 1.8% compared to the three months ended September 30, 2022 and the nine months ended September 30, 2022, respectively. March 31, 2023. Our performance has been strengthened by price increases from our vendors and suppliers suppliers. During the nine three months ended September 30, 2023 March 31, 2024, \$11.2 million \$10.3 million was associated with recent acquisitions in the water and wastewater markets. We expect to continue to benefit from the increased oil and gas activity throughout the remainder of 2023, 2024. Additionally, we expect to benefit from the recent water and wastewater acquisitions as we continue to scale this platform both organically and by positioning DXP Water to bid on projects that historically may have not been available to the separate acquisitions on a standalone basis.

## Supply Chain Services Segment

For the three and nine months ended September 30, 2023 March 31, 2024, we had approximately \$65.8 million and \$199.0 million \$62.0 million in sales in our Supply Chain Services segment, respectively, a decrease of approximately 3.5 percent and an increase of 14.0 7.5 percent compared to the three and nine months ended September 30, 2022, respectively. Our performance compared March 31, 2023 due to the previous nine month period has benefited from the addition some facility closures with some of a our customers as well as efficiencies we brought to our new diversified chemical customer that recently reached its one-year anniversary during the second quarter of 2023, we added last year. As we move forward and given our increasing demand, we expect our performance to be driven by either the addition of new customers or an increase in spend by our existing customers.

## RESULTS OF OPERATIONS

(in thousands, except percentages and per share data)

DXP is organized into three business segments: Service Centers, ("SC"), Innovative Pumping Solutions, ("IPS"), and Supply Chain Services ("SCS"). Services. The Service Centers are engaged in providing MRO products, equipment and integrated services, including technical expertise and logistics capabilities, to industrial customers with the ability to provide same day delivery. The Service Centers provide a wide range of MRO products and services in the rotating equipment, bearing, power transmission, hose, fluid power, metal working, industrial supply and safety product and service categories. The IPS segment provides products and services to the water and wastewater market and fabricates and assembles integrated pump system packages custom made to customer specifications, remanufactures pumps, and manufactures branded private label pumps. The SCS segment provides a wide range of MRO products and manages all or part of our customer's supply chain function, and inventory management.

		Three Months Ended September 30,				Three Months Ended March 31,					
		2023	%	2022	%	2024	%		2023		%
Sales	Sales	\$419,249	100.0%	\$387,314	100.0%						
Sales											
Sales						\$412,635	100.0%		\$424,267		100.0%
Cost of sales	Cost of sales	293,687	70.1%	275,681	71.2%	Cost of sales	288,753	70.0%	70.0%	299,226	70.5%
Gross profit	Gross profit	125,562	29.9%	111,633	28.8%	Gross profit	123,882	30.0%	30.0%	125,041	29.5%
Selling, general and administrative expenses	Selling, general and administrative expenses	89,706	21.4%	85,094	22.0%	Selling, general and administrative expenses	94,751	23.0%	23.0%	89,642	21.1%
Income from operations	Income from operations	35,856	8.6%	26,539	6.9%	Income from operations	29,131	7.1%	7.1%	35,399	8.3%
Other expense (income), net		1,234	0.3%	1,565	0.4%						
Other income, net						Other income, net	(1,968)	(0.5)%	(469)		(0.1)%
Interest expense	Interest expense	12,684	3.0%	6,833	1.8%	Interest expense	15,544	3.8%	3.8%	11,521	2.7%
Income before income taxes	Income before income taxes	21,938	5.2%	18,141	4.7%	Income before income taxes	15,555	3.8%	3.8%	24,347	5.7%

Provision for income tax expense	Provision for income tax expense	5,766	1.4%	5,097	1.3%	Provision for income tax expense	4,223	1.0%	1.0%	6,767	1.6%	1.6%
Net income	Net income	16,172	3.9%	13,044	3.4%	Net income	\$ 11,332	2.7%	2.7%	\$17,580	4.1%	4.1%
Net income attributable to noncontrolling interest												
Net income attributable to DXP Enterprises, Inc.												
Per share amounts attributable to DXP Enterprises, Inc.												
Basic earnings per share												
Basic earnings per share												
Basic earnings per share	Basic earnings per share	\$ 0.98		\$ 0.74								
Diluted earnings per share	Diluted earnings per share	\$ 0.93		\$ 0.71								
Diluted earnings per share												
Diluted earnings per share												

Three Months Ended September 30, 2023 March 31, 2024 compared to Three Months Ended September 30, 2022 March 31, 2023

**SALES.** Sales for the three months ended September 30, 2023 increased \$31.9 million March 31, 2024 decreased \$11.6 million, or 8.2 2.7 percent, to approximately \$419.2 million \$412.6 million from \$387.3 million \$424.3 million for the prior year's corresponding period. Sales from acquisitions for the three months ended September 30, 2023 March 31, 2024, accounted for \$3.9 million \$11.8 million. The overall increase decrease in sales was the result of an increase a decrease in sales in our SC segment and SCS segments of \$34.4 million \$17.4 million and \$5.1 million, respectively, partially offset by decreases increases in sales in our SCS and IPS segments of \$2.4 million and \$0.1 million, respectively. \$10.8 million. The fluctuations in sales are further explained in our business segment discussions below.

Sales by Business Segment	Sales by Business Segment	Three Months Ended September 30,				Three Months Ended March 31,					
		2023	2022	Change	Change%	2024	2023(1)		Change		Change%
Service Centers	Service Centers	\$294,458	\$260,083	\$34,375	13.2 %						
Service Centers						\$288,435	\$305,813		\$(17,378)		(5.7) %
Innovative Pumping Solutions	Innovative Pumping Solutions	58,963	59,044	(81)	(0.1) %	62,216	51,411	51,411	10,805	10,805	21.0 %
Supply Chain Services	Supply Chain Services	65,828	68,187	(2,359)	(3.5) %	61,984	67,043	67,043	(5,059)	(5,059)	(7.5) %
<b>Total DXP Sales</b>	<b>Total DXP Sales</b>	<b>\$419,249</b>	<b>\$387,314</b>	<b>\$31,935</b>	<b>8.2 %</b>	<b>\$412,635</b>	<b>\$424,267</b>	<b>\$</b>	<b>\$(11,632)</b>	<b>(2.7)</b>	<b>(2.7) %</b>



(1) Prior period segment disclosures have been recast. For additional information, please refer to Note 11.

Segment Reporting.

(1) Prior period segment disclosures have been recast. For additional information, please refer to Note 11. Segment Reporting.

**Service Centers segment.** Sales for the SC segment increased by approximately \$34.4 million decreased \$17.4 million, or 13.2 5.7 percent, for the three months ended September 30, 2023 March 31, 2024, compared to the prior year's corresponding period. This sales increase decrease is primarily the result of the timing of jobs and business mix within the SC segment.

**Innovative Pumping Solutions segment.** Sales for the IPS segment increased sales of rotating equipment \$10.8 million, or 21.0 percent, for the three months ended March 31, 2024, compared to the prior year's corresponding period. \$10.3 million was associated with recent acquisitions in the water and bearings and power transmission products to customers engaged in variety of wastewater markets.

**Supply Chain Services segment.** Sales for the SCS segment decreased by \$2.4 million \$5.1 million, or 3.5 7.5 percent, for the three months ended September 30, 2023 three months ended March 31, 2024, compared to the prior year's corresponding period. The decrease in sales was primarily the result of facility closures with existing customers.

**GROSS PROFIT.** Gross profit as a percentage of sales for the three months ended September 30, 2023 March 31, 2024 was 29.9 30.0 percent versus 28.8 29.5 percent in the prior year's corresponding period. The increase in the gross profit percentage is primarily the result of an increase in gross profit within our SC and IPS SCS segments.

**SELLING, GENERAL AND ADMINISTRATIVE EXPENSES ("SG&A").** SG&A for the three months ended September 30, 2023 March 31, 2024 increased by approximately \$4.6 million \$5.1 million, or 5.4 5.7 percent, to \$89.7 million \$94.8 million from \$85.1 million \$89.6 million for the prior year's corresponding period. The increase in SG&A is primarily the result of increased payroll, incentive compensation and related taxes and 401(k) expenses as a result of increased business activity. expenses.

**OPERATING INCOME.** Operating income for the third first quarter of 2023 increased 2024 decreased by \$9.3 million \$6.3 million to \$35.9 million \$29.1 million, from \$26.5 million \$35.4 million in the prior year's corresponding period. This increase decrease in operating income is was driven by the result of the aforementioned increase in business activity across all segments. SG&A during the period.

**INTEREST EXPENSE.** Interest expense for the third first quarter of 2023 2024 increased \$5.9 million \$4.0 million compared to the prior year's corresponding period. This increase was primarily due to the Company borrowing an additional \$105.0 million \$125.0 million on its Term Loan during the fourth quarter of 2022 2023 and incurring higher than average interest rates on such debt due to changes in the macroeconomic environment and the associated increasing interest rate policy by the U.S. Federal Reserve Bank.

**INCOME TAXES.** Our effective tax rate from continuing operations was a tax expense of 26.3 27.2 percent for the three months ended September 30, 2023 March 31, 2024, compared to a tax expense of 28.1 27.9 percent for the three months ended September 30, 2022 March 31, 2023. Compared to the U.S. statutory rate for the three months ended September 30, 2023 March 31, 2024, the effective tax rate was increased by state taxes, foreign taxes, nondeductible expenses, earnout payments, and uncertain tax positions recorded for research and development tax credits and was partially offset by research and development tax credits and other tax credits.

Nine Months Ended September 30, 2023 compared to Nine Months Ended September 30, 2022

	Nine Months Ended September 30,			
	2023	%	2022	%
Sales	\$ 1,271,556	100.0%	\$ 1,074,537	100.0%
Cost of sales	889,101	69.9%	763,758	71.1%
Gross profit	382,455	30.1%	310,779	28.9%

Selling, general and administrative expenses	273,720	21.5%	236,761	22.0%
Income from operations	108,735	8.6%	74,018	6.9%
Other (income) expense, net	522	—%	2,941	0.3%
Interest expense	36,068	2.8%	17,610	1.6%
Income before income taxes	72,145	5.7%	53,467	5.0%
Provision for income taxes	19,339	1.5%	13,402	1.2%
Net income	52,806	4.2%	40,065	3.7%
Net loss attributable to noncontrolling interest	—	—	(938)	—%
Net income attributable to DXP Enterprises, Inc.	\$ 52,806	4.2%	\$ 41,003	3.8%
Per share amounts attributable to DXP Enterprises, Inc.				
Basic earnings per share	\$ 3.08		\$ 2.19	
Diluted earnings per share	\$ 2.94		\$ 2.10	

**SALES.** Sales for the nine months ended September 30, 2023 increased \$197.0 million, or 18.3 percent, to approximately \$1,271.6 million from \$1,074.5 million for the prior year's corresponding period. Sales from businesses acquired accounted for \$30.3 million of sales for the nine months ended September 30, 2023. The overall increase in sales was the result of an increase in sales within our SC, IPS and SCS segments of \$158.1 million, \$14.5 million and \$24.4 million, respectively. The fluctuations in sales are further explained in our business segment discussions below.

	Nine Months Ended September 30,			
	2023	2022	Change	Change%
<b>Sales by Business Segment</b>	<i>(in thousands, except change %)</i>			
Service Centers	\$ 888,116	\$ 729,977	\$ 158,139	21.7 %
Innovative Pumping Solutions	184,402	169,890	14,512	8.5 %
Supply Chain Services	199,038	174,670	24,368	14.0 %
<b>Total DXP Sales</b>	<b>\$ 1,271,556</b>	<b>\$ 1,074,537</b>	<b>\$ 197,019</b>	<b>18.3 %</b>

**Service Centers segment.** Sales for the SC segment increased by \$158.1 million, or 21.7 percent for the nine months ended September 30, 2023, compared to the prior year's corresponding period. Sales from acquisitions for the SC segment was \$19.1 million during the nine months ended September 30, 2023. Total sales for the SC segment excluding acquisitions increased \$139.0 million from the prior year's corresponding period. This sales increase is primarily the result of increased sales of rotating equipment and bearings product lines to customers engaged in operating and maintenance services in the general industrial, diversified chemical, and oil & gas markets in connection with increased capital spending by oil and gas producers.

**Innovative Pumping Solutions segment.** Sales for the IPS segment increased by \$14.5 million, or 8.5% for the nine months ended September 30, 2023 compared to the prior year's corresponding period. Sales from acquisitions for the IPS segment was \$11.2 million during the nine months ended September 30, 2023. Total sales for the IPS segment excluding acquisitions increased \$3.4 million from the prior year's corresponding period. This increase was primarily the result of an increase in the capital spending by oil and gas producers and renewables sector.

**Supply Chain Services segment.** Sales for the SCS segment increased by \$24.4 million, or 14.0 percent, for the nine months ended September 30, 2023, compared to the prior year's corresponding period. The improved sales are primarily related to the addition of a new customer in the diversified chemicals market, as well as sales increases in the medical technology, food and beverage and oil and gas markets.

**GROSS PROFIT.** Gross profit as a percentage of sales for the nine months ended September 30, 2023 increased by approximately 116 basis points from the prior year's corresponding period. The increase in the gross profit percentage is primarily the result of an approximate 91 basis points and 363 basis points increase in the gross profit percentage in our SC and IPS segments, respectively, partially offset by an approximate 48 basis points decrease in our SCS segment.

**SELLING, GENERAL AND ADMINISTRATIVE EXPENSES ("SG&A").** SG&A for the nine months ended September 30, 2023 increased by approximately \$37.0 million, or 15.6 percent, to \$273.7 million from \$236.8 million for the prior year's corresponding period. The increase in SG&A is primarily the result of increased payroll, incentive compensation and related taxes and 401(k) expenses as a result of increased business activity.

**OPERATING INCOME.** Operating income for the nine months ended September 30, 2023 increased by \$34.7 million or 46.9% to \$108.7 million from \$74.0 million in the prior year's corresponding period. This increase in operating income is primarily related to the aforementioned increased business activity across all segments.

**INTEREST EXPENSE.** Interest expense for the nine months ended September 30, 2023 increased \$18.5 million compared with the prior year's corresponding period. This increase was primarily due to the Company borrowing an additional \$105.0 million on its Term Loan during the fourth quarter of 2022 and incurring higher than average interest rates on such debt due to changes in the macroeconomic environment and the associated increasing interest rate policy by the U.S. Federal Reserve Bank.

**INCOME TAXES.** Our effective tax rate from continuing operations was a tax expense of 26.8 percent for the nine months ended September 30, 2023, compared to a tax expense of 25.1 percent for the nine months ended September 30, 2022. Compared to the U.S. statutory rate for the nine months ended September 30, 2023, the effective tax rate was increased by state taxes, foreign taxes, nondeductible expenses, and uncertain tax positions recorded for research and development tax credits and was partially offset by research and development tax credits and other tax credits.

## NON-GAAP FINANCIAL MEASURES AND RECONCILIATIONS

### Organic Sales and Acquisition Sales

We define and calculate organic sales to include locations and acquisitions under our ownership for at least twelve months. "Acquisition Sales" are sales from acquisitions that have been under our ownership for less than twelve months and are excluded in our calculation of Organic Sales.

The following table sets forth the reconciliation of Acquisition Sales and Organic Sales to the most comparable U.S. GAAP financial measure (*in thousands*):

		Three Months Ended September 30,		Nine Months Ended September 30,	
		2023	2022	2023	2022
Three Months Ended March 31,					
Three Months Ended March 31,					
Three Months Ended March 31,					
2024					
2024					
2024					
Service Centers					
Service Centers					
Service Centers	Service Centers	\$ 294,458	\$ 260,083	\$ 888,116	\$ 729,977
Innovative Pumping Solutions	Innovative Pumping Solutions	58,963	59,044	184,402	169,890
Innovative Pumping Solutions					
Innovative Pumping Solutions					
Supply Chain Services					
Supply Chain Services					
Supply Chain Services	Supply Chain Services	65,828	68,187	199,038	174,670
<b>Total DXP Sales</b>	<b>Total DXP Sales</b>	<b>419,249</b>	<b>387,314</b>	<b>1,271,556</b>	<b>1,074,537</b>
<b>Total DXP Sales</b>					
<b>Total DXP Sales</b>					
Acquisition Sales					
Acquisition Sales					
Acquisition Sales	Acquisition Sales	3,868	15,916	30,266	38,273
<b>Organic Sales</b>	<b>Organic Sales</b>	<b>\$ 415,381</b>	<b>\$ 371,398</b>	<b>\$ 1,241,290</b>	<b>\$ 1,036,264</b>
<b>Organic Sales</b>					

## Organic Sales

(1) Prior period segment disclosures have been recast. For additional information, please refer to [Note 11. Segment Reporting](#).

(1) Prior period segment disclosures have been recast. For additional information, please refer to [Note 11. Segment Reporting](#).

(1) Prior period segment disclosures have been recast. For additional information, please refer to [Note 11. Segment Reporting](#).

## EBITDA, Adjusted EBITDA, EBITDA Margin, and Adjusted EBITDA Margin

We define and calculate EBITDA as Net income attributable to DXP Enterprises, Inc., plus interest, taxes, depreciation, amortization, and non-controlling interest. We define and calculate Adjusted EBITDA as Net income attributable to DXP Enterprises, Inc., plus interest, taxes, depreciation, amortization minus stock-based compensation expense, non-controlling interest before taxes and all other non-cash charges, adjustments, and non-recurring items. We identify the impact of all other non-cash charges, adjustments and non-recurring items because we believe these items do not directly reflect our underlying operations.

We define and calculate EBITDA Margin as EBITDA divided by sales. We define and calculate Adjusted EBITDA Margin as Adjusted EBITDA divided by sales.

The following table sets forth the reconciliation of EBITDA, EBITDA Margin, Adjusted EBITDA, and Adjusted EBITDA Margin to the most comparable U.S. GAAP financial measure (*in thousands*):

Three Months Ended March 31,					
	Three Months Ended September 30,		Nine Months Ended September 30,		
Three Months Ended March 31,					
	2023	2022	2023	2022	
Three Months Ended March 31,					
	2024				
	2024				
	2024				
Net income attributable to DXP Enterprises, Inc.	Net income attributable to DXP Enterprises, Inc.	\$16,172	\$13,929	\$ 52,806	\$41,003
Less: Net loss attributable to non-controlling interest		—	(885)	—	(938)
Net income attributable to DXP Enterprises, Inc.					
Net income attributable to DXP Enterprises, Inc.					
Plus: Interest expense	Plus: Interest expense	12,684	6,833	36,068	17,610
Plus: Provision for income taxes		5,766	5,097	19,339	13,402
Plus: Interest expense					
Plus: Interest expense					
Plus: Provision for income tax expense					
Plus: Provision for income tax expense					

Plus: Provision for income tax expense					
Plus: Depreciation and amortization					
Plus: Depreciation and amortization					
Plus: Depreciation and amortization	Plus: Depreciation and amortization	7,983	7,493	21,468	21,325
EBITDA	EBITDA	\$42,605	\$32,467	\$129,681	\$92,402
EBITDA					
EBITDA					
Plus: NCI income (loss) before tax <sup>(1)</sup>		—	159	—	433
Plus: other non-recurring items <sup>(2)</sup>		551	1,193	551	1,193
Plus: other non-recurring items <sup>(1)</sup>					
Plus: other non-recurring items <sup>(1)</sup>					
Plus: other non-recurring items <sup>(1)</sup>					
Plus: stock compensation expense	Plus: stock compensation expense	864	505	2,211	1,368
Plus: stock compensation expense					
Plus: stock compensation expense					
Adjusted EBITDA					
Adjusted EBITDA					
Adjusted EBITDA	Adjusted EBITDA	\$44,020	\$34,324	\$132,443	\$95,396
Operating Income Margin	Operating Income Margin	8.6 %	6.9 %	8.6 %	6.9 %
Operating Income Margin					
Operating Income Margin					
EBITDA Margin					
EBITDA Margin					
EBITDA Margin	EBITDA Margin	10.2 %	8.4 %	10.2 %	8.6 %
Adjusted EBITDA Margin	Adjusted EBITDA Margin	10.5 %	8.9 %	10.4 %	8.9 %
(1) NCI represents non-controlling interest.					
(2) Other non-recurring items includes the loss associated with closing an international location for the three and nine months ended September 30, 2023 and the loss associated with the sale of a VIE for the three and nine months ended September 30, 2022.					
Adjusted EBITDA Margin					
Adjusted EBITDA Margin					

(1) Other non-recurring items includes unique acquisition integration costs and other non-cash, non-recurring costs not related to continuing business operations.
(1) Other non-recurring items includes unique acquisition integration costs and other non-cash, non-recurring costs not related to continuing business operations.
(1) Other non-recurring items includes unique acquisition integration costs and other non-cash, non-recurring costs not related to continuing business operations.

Free Cash Flow

We define and calculate free cash flow as net cash (used in) provided by operating activities less net purchases of property and equipment.

The following table sets forth the reconciliation of Free Cash Flow to the most comparable U.S. GAAP financial measure *(in thousands)*:

	Three Months Ended March 31,		Three Months Ended March 31,		Three Months Ended March 31,	
	2024		2024		2024	
Net cash provided by operating activities						
Net cash provided by operating activities						
Net cash provided by operating activities						
Less: purchases of property and equipment						
Less: purchases of property and equipment						
Less: purchases of property and equipment						
	Three Months Ended September 30,			Nine Months Ended September 30,		
Free Cash Flow						
	2023		2022		2023	
Net cash provided by (used in) operating activities	\$	39,758	\$	(3,432)	\$	63,775
Less: purchases of property and equipment		(1,486)		(1,578)		(7,103)
Free Cash Flow						
Free Cash Flow	\$	38,272	\$	(5,010)	\$	56,672
Free Cash Flow						

LIQUIDITY AND CAPITAL RESOURCES

General Overview

As of September 30, 2023, March 31, 2024, we had cash and restricted available cash of \$27.3 million\$139.7 million and credit facility availability of \$131.9 million\$131.8 million. We have a \$135.0 million asset-backed line of credit (the "ABL Revolver"), partially offset by letters of credit of \$3.1 million\$3.2 million. We had no borrowings outstanding on our ABL Revolver as of September 30, 2023 March 31, 2024. We had \$424.9 million in borrowings During the three months ended March 31, 2024, we did not draw down on our Term Loan as of September 30, 2023. ABL Revolver.

Our primary source of capital is cash flow from operations, supplemented as necessary by bank borrowings or other sources of financing. As a distributor of MRO products and services and fabricator of custom pumps and packages, working capital can fluctuate as a result of changes in inventory levels, accounts receivable and costs in excess of billings for project work. Additional cash is required for capital items for information technology, warehouse equipment, leasehold improvements, pump manufacturing and safety services equipment. We also require cash to pay our lease obligations and to service our debt.

The following table summarizes our net cash flows generated provided by and used in operating activities, net cash used in investing activities and net cash used in financing activities for the periods presented (in thousands):

		Nine Months Ended September 30,		Three Months Ended March 31,	
		2023	2022	2024	2023
Net Cash	Net Cash				
Provided	Provided				
by (Used	by (Used				
in):	in):				
Operating Activities	Operating Activities				
Operating Activities	Operating Activities	\$ 63,775	\$ 2,256		
Investing Activities	Investing Activities	(15,951)	(51,932)		
Financing Activities	Financing Activities	(66,744)	18,293		
Effect of Foreign Currency	Effect of Foreign Currency	70	(634)		
Net Change in Cash	Net Change in Cash	<u>\$(18,850)</u>	<u>\$(32,017)</u>		

#### Operating Activities

The Company generated \$63.8 million \$27.0 million of cash from operating activities during the nine three months ended September 30, 2023 March 31, 2024 compared to \$2.3 million \$26.4 million of cash generated during the prior year's corresponding period. The \$61.5 million increase in the amount of cash provided by operating activities between the two periods was primarily due to increased business activity and higher sales at a higher margin partially offset by a decrease of progress billings as compared to the prior period.

#### Investing Activities

For the nine three months ended September 30, 2023 March 31, 2024, net cash used in investing activities was \$16.0 million \$42.2 million compared to a \$51.9 million \$3.8 million use of cash during the prior year's corresponding period. This \$36.0 million decrease \$38.4 million increase was primarily driven by a reduction in acquisition activity during the total purchase price three months ended March 31, 2024. Total cash paid for acquisitions, net of cash acquired, was \$39.3 million compared to no acquisition activity during the nine three months ended September 30, 2023 of \$8.8 million compared to \$48.5 million during the nine months ended September 30, 2022 March 31, 2023. The decrease increase was partially offset by purchases of property and equipment of \$7.1 million \$2.9 million for the nine three months ended September 30, 2023 March 31, 2024 compared to \$3.4 million \$3.8 million for the nine three months ended September 30, 2022 March 31, 2023.

#### Financing Activities

For the nine three months ended September 30, 2023 March 31, 2024, net cash used in financing activities was \$66.7 million \$18.1 million, compared to net cash provided by used in financing activities of \$18.3 million \$10.4 million during the prior year's corresponding period. The increase was primarily due to share repurchases of \$56.2 million \$14.8 million for the nine three months ended September 30, 2023 March 31, 2024 compared to \$18.5 million \$9.1 million for the nine three months ended September 30, 2022. During the nine months ended September 30, 2022, the Company had \$40.6 million outstanding under the ABL Revolver compared to no borrowings outstanding during the nine months ended September 30, 2023 March 31, 2023. The Company also paid contingent consideration of \$5.1 million \$1.0 million for the nine three months ended September 30, 2023 March 31, 2024 compared to \$0.5 million none for the nine three months ended September 30, 2022 March 31, 2023.

## Funding Commitments

We intend to pursue additional acquisition targets, but the timing, size or success of any acquisition and the related potential capital commitments cannot be determined with certainty. We continue to expect to fund future acquisitions primarily with cash flows from operations and borrowings, including the undrawn portion of the credit facility or new debt issuances, but may also issue additional equity either directly or in connection with acquisitions. There can be no assurance that additional financing for acquisitions will be available at terms acceptable to the Company.

The Company believes it has adequate funding and liquidity to meet its normal working capital needs during the next twelve months. However, the Company may require additional debt outside of our credit facilities or equity financing to fund potential acquisitions. Such additional financings may include additional bank debt or the public or private sale of debt or equity securities. In connection with any such financing, the Company may issue securities that dilute the interests of our shareholders.

## DISCUSSION OF SIGNIFICANT ACCOUNTING AND BUSINESS POLICIES

Critical accounting and business policies are those that are both most important to the portrayal of a company's financial position and results of operations, and require management's subjective or complex judgments. These policies have been discussed with the Audit Committee of the Board of Directors of DXP.

The Company's unaudited condensed financial statements are prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP"). The accompanying unaudited Condensed Consolidated Financial Statements have been prepared on substantially the same basis as our annual Consolidated Financial Statements and should be read in conjunction with our Annual Report on Form 10-K for the year ended **December 31, 2022** **December 31, 2023**. For a more complete discussion of our significant accounting policies and business practices, refer to the consolidated Annual Report on Form 10-K filed with the Securities and Exchange Commission on **April 17, 2023** **March 11, 2024**. The results of operations for the **nine** **three** months ended **September 30, 2023** **March 31, 2024** are not necessarily indicative of results expected for the full fiscal year.

## RECENT ACCOUNTING PRONOUNCEMENTS

See [Note 3 - Recently Issued Accounting Pronouncements](#) to the Condensed Consolidated Financial Statements for information regarding recent accounting pronouncements.

## ITEM 3: QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

For quantitative and qualitative disclosures about market risk, see Item 7A, 'Quantitative and Qualitative Disclosures About Market Risk' of our Annual Report on Form 10-K for the year ended **December 31, 2022** **December 31, 2023**. Our exposures to market risk have not changed materially since **December 31, 2022** **December 31, 2023**.

## ITEM 4: CONTROLS AND PROCEDURES.

### *Evaluation of Disclosure Controls and Procedures*

With the participation of management, our principal executive officer and principal financial officer carried out an evaluation, pursuant to Rule 13a-15(b) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), of the effectiveness of our disclosure controls and procedures (as defined in Rule 13a-15(e) of the Exchange Act) as of the end of the period covered by this report. Based upon that evaluation, our principal executive officer and principal financial officer concluded that our disclosure controls and procedures were not effective as of **September 30, 2023** **March 31, 2024** because of the existing material weaknesses in internal control over financial reporting as previously disclosed in our Annual Report on Form 10-K for the year end **December 31, 2022** **December 31, 2023**.

Notwithstanding these material weaknesses, our management, including our principal executive officer and principal financial officer, has concluded that the condensed consolidated financial statements included in this Quarterly Report on Form 10-Q are fairly stated in all material respects in accordance with GAAP for each of the periods presented.

### *Management's Plan to Remediate the Material Weaknesses*

In relation to the **Material Weakness identified around lack of sufficient complement of resources** **material weakness in our control environment**, and as previously disclosed in our **second quarter** **Form 10Q**, the Company **10-K**, management believes it has hired a new Chief Accounting Officer and a Director of Technical Accounting with public company and SOX experience that are already working on the implementation of processes and controls required to remediate these material weaknesses. During the quarter ended September 30, 2023, management has continued to work on enhancing our finance department by hiring an assistant controller as well as an additional member to our Financial Reporting team as well as continuing to expand our technical accounting department. These are key individuals with the appropriate level of accounting knowledge, experience, and training to appropriately analyze, record, and disclose accounting matters timely and accurately as well as establish effective processes and controls. At this point we believe we have added the necessary talent and resources with the proper accounting knowledge to support **our** **the Company's** growth and to continue to strengthen **our** **Internal Control Over Financial Reporting**.



In relation to its internal control over financial reporting, and the Material Weakness identified around timely clearing remediation of discrepancies arising from the three-way-match process, during the quarter ended September 30, 2023, management effectively designed and implemented the necessary controls to ensure a timely clearing of discrepancies arising from the three-way match process of matching purchase orders, invoices, and item receipts. Although the remediated controls have been effective to date, the this material weakness will not be considered remediated until is only dependent on additional time to remediate the applicable controls operate for a sufficient period of time for management to conclude, through testing, that such controls are operating effectively. We expect that the remaining material weakness will be remediated by December 31, 2023. weakness.

Related to the lack of segregation of duties Material Weakness, during the quarter ended September 30, 2023, management effectively designed and implemented the necessary controls to ensure appropriate segregation of duties and adequately review user access to transactions within business processes relevant to significant accounts and disclosures within the general ledger system across the Company. Although the remediated controls have been effective to date, the material weakness will not be considered remediated until the applicable controls operate for a sufficient period of time for management to conclude, through testing, that such controls are operating effectively. We expect that the material weakness will be remediated by December 31, 2023.

Finally, related to the material weakness on revenue, recognized over the percentage of completion input method, the necessary controls have been designed and implemented during the quarter ended September 30, 2023 March 31, 2024 to ensure accuracy of pricing on invoices, including manual adjustments to prices and to ensure review of quantities against customer purchase orders or other similar documents. During the quarter ended December 31, 2023, the Company also designed and implemented controls to review and authorize credit memos. In a similar manner and in relation to revenue recognized using the percentage of completion method, during the quarter ended December 31, 2023, the Company designed and implemented controls to ensure accuracy of the cost-to-date, estimates of the cost-to-complete and the determination of revenue recognized for certain project-based contracts. Although these controls have been designed and implemented, we will continue to evaluate whether further enhancement or modification to these controls in future periods is needed. The material weakness will not be considered remediated until the applicable controls operate for a sufficient period of time for management to conclude, through testing, that such controls are operating effectively.

#### Changes in Internal Control Over Financial Reporting

Except as described above, there were no other changes in internal control over financial reporting identified in the evaluation for the quarter ended September 30, 2023 March 31, 2024, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

## PART II: OTHER INFORMATION

### ITEM 1. LEGAL PROCEEDINGS.

From time to time, the Company is a party to various legal proceedings arising in the ordinary course of business. While DXP is unable to predict the outcome of these lawsuits, it believes that the ultimate resolution will not have, either individually or in the aggregate, a material adverse effect on DXP's consolidated financial position, cash flows, or results of operations.

#### ITEM 1A. RISK FACTORS.

There have been no material changes to the risk factors as previously disclosed in "Part I. Item 1A. Risk Factors" in our Annual Report on Form 10-K for the year end December 31, 2022 December 31, 2023.

### ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS.

#### Recent Sales of Unregistered Securities

The Company did not sell any unregistered securities during the three months ended September 30, 2023 March 31, 2024.

#### Issuer Purchases of Equity Securities

A summary of our repurchases of DXP Enterprises, Inc. common stock under our current share repurchase program and employee stock awards withheld for certain tax obligations during the third first quarter of fiscal year 2023 2024 is as follows:

	Total Number of Shares Purchased (1)	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs (2)	Maximum Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs (in thousands) (2)
July 1 – July 31, 2023	58,935	\$ 36.70	58,935	\$ 45,757
August 1 – August 31, 2023	400,894	34.00	400,488	32,127

September 1 – September 30, 2023	160,316	35.65	158,859	26,412
<b>Total</b>	<b>620,145</b>	<b>34.68</b>	<b>618,282</b>	<b>26,412</b>

(1) There were 1,863 shares transferred from employees in satisfaction of minimum statutory tax withholding obligations upon the vesting of restricted stock during the three months ended September 30, 2023.

(2) On December 15, 2022, the Company announced a new Share Repurchase Program pursuant to which it may repurchase up to \$85.0 million worth, or 2.8 million shares, of the Company's outstanding common stock over the next 24 months. As of September 30, 2023, approximately \$26.4 million worth of, or approximately 1.0 million, shares remained available under the \$85.0 million Share Repurchase Program.

	Total Number of Shares Purchased (1)	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs (2)	Maximum Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs (in thousands) (2)
January 1 - January 31, 2024	70	\$ 31.01	70	\$ 26,410
February 1 – February 29, 2024	1,172	32.80	—	26,410
March 1 – March 31, 2024	356,313	51.77	326,295	9,607
<b>Total</b>	<b>357,555</b>	<b>\$ 51.70</b>	<b>326,365</b>	<b>\$ 9,607</b>

(1) There were 31,190 shares transferred from employees in satisfaction of minimum statutory tax withholding obligations upon the vesting of restricted stock during the three months ended March 31, 2024.

(2) On December 15, 2022, the Company announced a new Share Repurchase Program pursuant to which it may repurchase up to \$85.0 million worth, or 2.8 million shares, of the Company's outstanding common stock over the next 24 months from the date of announcement. As of March 31, 2024, approximately \$9.6 million worth of, or approximately 0.6 million, shares remained available under the \$85.0 million Share Repurchase Program.

### ITEM 3. DEFAULTS UPON SENIOR SECURITIES.

None.

### ITEM 4. MINE SAFETY DISCLOSURES.

None.

### ITEM 5. OTHER INFORMATION.

None.

### ITEM 6. EXHIBITS.

3.1	<a href="#">Restated Articles of Incorporation, as amended (incorporated by reference to Exhibit 4.1 to the Company's Registration Statement on Form S-8, filed with the Commission on August 20, 1998, File No. :333-61953).</a>
3.2	<a href="#">Bylaws of DXP Enterprises, Inc. (incorporated by reference to Exhibit 3.2 to the Company's Quarterly Report on Form 10-Q, filed with the SEC on May 10, 2018 (File No. 000-21513)), as amended on July 27, 2011.</a>
3.3	<a href="#">Amendment to Section 3.4 of the Bylaws of DXP Enterprises, Inc., effective January 1, 2022, (incorporated by reference to Exhibit 3.1 to the Company's Current Report on Form 8-K (File No. 000-21513 : 21860170, filed with the Commission on April 27, 2021).</a>
* 22.1	<a href="#">Subsidiary Guarantors of Guaranteed Securities.</a>
* 31.1	<a href="#">Certification of Chief Executive Officer pursuant to Rule 13a-14(a) and rule 15d-14(a) of the Securities Exchange Act, as amended.</a>
* 31.2	<a href="#">Certification of Chief Financial Officer pursuant to Rule 13a-14(a) and rule 15d-14(a) of the Securities Exchange Act, as amended.</a>
* 32.1	<a href="#">Certification of Chief Executive Officer pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.</a>
* 32.2	<a href="#">Certification of Chief Financial Officer pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.</a>

- \*101 [The following financial information from the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2023 March 31, 2024, formatted in Inline eXtensible Business Reporting Language \(iXBRL\), \(i\) Unaudited Condensed Consolidated Statements of Operations and Comprehensive Income, \(ii\) Unaudited Condensed Consolidated Balance Sheets, \(iii\) Unaudited Condensed Consolidated Statements of Cash Flows, \(iv\) Unaudited Condensed Consolidated Statements of Equity, and \(v\) Notes to Unaudited Condensed Consolidated Financial Statements.](#)
- \*104 [The cover page from the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2023 March 31, 2024 formatted in XBRL.](#)

Exhibits designated by the symbol \* are filed or furnished with this Quarterly Report on Form 10-Q. All exhibits not so designated are incorporated by reference to a prior filing with the Commission as indicated.

#### SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

DXP ENTERPRISES, INC.

(Registrant)

By: /s/ Kent Yee

Kent Yee

Senior Vice President and Chief Financial Officer

(Duly Authorized Signatory and Principal Financial Officer)

Dated: November 9, 2023 May 9, 2024

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#### Exhibit 22.1

The following is a listing of subsidiaries that guarantee the DXP Enterprises, Inc. Credit Facilities (the "ABL Revolver" and "Term Loan B Agreement") issued by DXP Enterprises, Inc.

#### SUBSIDIARY GUARANTORS OF GUARANTEED SECURITIES

DXP Acquisition, Inc DBA Strategic Supply, Inc.(NV)

Pelican State Supply Company, Inc.(NV)

Drydon Equipment, Inc. (IL)

Cisco Air Systems, Inc. (CA)

Quadna De Mexico, SA DE CV (Mexico)

Pumping Solutions, Inc.(CA)

Pumping Solutions AZ, Inc.(AZ)

Maverick Pumps Inc.(AZ)

Pump PMI, LLC(DE)

PMI Investment, LLC (DE)

Total Equipment Company (PA)

APO Pumps & Compressors LLC (DE)

Process Machinery, Inc. (AL)

Premier Water, LLC (NC)

DXP Holdings, Inc. (TX)

Corporate Equipment Company, LLC (OH)

Carter & Verplanck, LLC (FL)

B27 Resources, Inc. (TX)

Best Holding, LLC (DE)

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Florida Valve EMD (FL)

Riordan Materials Corp. (PA)

DXP Canada Enterprises Ltd. (Canada)

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DXP Supply Chain Services Mexico (Mexico)

Pro-Seal, Inc. (MI)

Kappe Associates, Inc. (MD)

**CERTIFICATION**

I, David R. Little, certify that:

1. I have reviewed this report on Form 10-Q of DXP Enterprises, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

November May 9, 2023 2024

/s/ David R. Little

David R. Little

President and Chief Executive Officer

(Principal Executive Officer)

**CERTIFICATION**

I, Kent Yee, certify that:

1. I have reviewed this report on Form 10-Q of DXP Enterprises, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

November May 9, 2023 2024

/s/ Kent Yee

Kent Yee

Senior Vice President and Chief Financial Officer

(Principal Financial Officer)

Exhibit 32.1

#### CERTIFICATION

Pursuant to 18 U.S.C. Section 1350, the undersigned officer of DXP Enterprises, Inc. (the "Company"), hereby certifies that, to my knowledge, the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2023 March 31, 2024 (the "Report") fully complies with the requirements of Section 13(a) or 15(d), as applicable, of the Securities Exchange Act of 1934 and that the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ David R. Little

David R. Little  
President and Chief Executive Officer  
(Principal Executive Officer)

November May 9, 2023 2024

The foregoing certification is being furnished solely pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, and is not being filed as part of the Report or as a separate disclosure document.

Exhibit 32.2

#### CERTIFICATION

Pursuant to 18 U.S.C. Section 1350, the undersigned officer of DXP Enterprises, Inc. (the "Company"), hereby certifies that, to my knowledge, the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2023 March 31, 2024 (the "Report") fully complies with the requirements of Section 13(a) or 15(d), as applicable, of the Securities Exchange Act of 1934 and that the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Kent Yee

Kent Yee  
Senior Vice President and Chief Financial Officer  
(Principal Financial Officer)

November May 9, 2023 2024

The foregoing certification is being furnished solely pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, and is not being filed as part of the Report or as a separate disclosure document.

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