NOW Inc.
Form 10-Q
May 02, 2019

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 March 31, 2019

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
Commission File Number 001-36325

NOW INC.

(Exact name of registrant as specified in its charter)

Delaware	46-4191184
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

7402 North Eldridge Parkway,

Houston, Texas 77041

(Address of principal executive offices)

(281) 823-4700

(Registrant’s telephone number, including area code)

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, smaller reporting company, or an emerging growth company. See the 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	Small 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

As of April 25, 2019 the registrant had 108,720,185 shares of common stock (excluding 1,348,147 unvested restricted shares), par value $0.01 per share, outstanding.

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

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock, par value $0.01	DNOW	New York Stock Exchange

NOW INC.

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PART I—FINANCIAL INFORMATION

Item 1. Financial Statements

NOW INC.

CONSOLIDATED BALANCE SHEETS

(In millions, except share data)

	March 31, 2019 (Unaudited)	December 31, 2018
ASSETS		
Current assets:		
Cash and cash equivalents	$ 87	$ 116
Receivables, net	513	482
Inventories, net	634	602
Prepaid and other current assets	18	19
Total current assets	1,252	1,219
Property, plant and equipment, net	110	106
Deferred income taxes	2	2
Goodwill	318	314
Intangibles, net	140	144
Other assets	74	10
Total assets	$ 1,896	$ 1,795
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 339	$ 329
Accrued liabilities	130	110
Other current liabilities	6	2
Total current liabilities	475	441
Long-term debt	124	132
Long-term operating lease liabilities	40	—
Deferred income taxes	5	6
Other long-term liabilities	7	2
Total liabilities	651	581
Commitments and contingencies		
Stockholders' equity:		
Preferred stock—par value $0.01; 20 million shares authorized; no shares issued and outstanding	—	—
Common stock - par value $0.01; 330 million shares authorized;	1	1

108,708,922 and 108,426,962 shares issued and outstanding at March 31, 2019

and December 31, 2018, respectively		
Additional paid-in capital	2,037	2,034
Accumulated deficit	(660)	(678)
Accumulated other comprehensive loss	(133)	(143)
Total stockholders' equity	1,245	1,214
Total liabilities and stockholders' equity	$ 1,896	$ 1,795

See notes to unaudited consolidated financial statements.

NOW INC.

CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)

(In millions, except per share data)

	Three Months Ended March 31,	
	2019	2018
Revenue	$785	$764
Operating expenses:		
Cost of products	627	616
Warehousing, selling and administrative	135	141
Operating profit	23	7
Other expense	(4)	(4)
Income before income taxes	19	3
Income tax provision	1	1
Net income	$18	$2
Earnings per share:		
Basic earnings per common share	$0.17	$0.02
Diluted earnings per common share	$0.16	$0.02
Weighted-average common shares outstanding, basic	109	108
Weighted-average common shares outstanding, diluted	109	108

See notes to unaudited consolidated financial statements.

NOW INC.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (UNAUDITED)

(In millions)

	Three Months Ended March 31,	
	2019	2018
Net income	$18	$ 2
Other comprehensive income:		
Foreign currency translation adjustments	10	1
Comprehensive income	$28	$ 3

See notes to unaudited consolidated financial statements.

NOW INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

(In millions)

	Three Months Ended March 31, 2019	2018
Cash flows from operating activities:		
Net income	$18	$2
Adjustments to reconcile net income to net cash used in operating activities:		
Depreciation and amortization	10	11
Deferred income taxes	—	—
Stock-based compensation	4	4
Provision for inventory	4	2
Other, net	5	1
Change in operating assets and liabilities:		
Receivables	(26)	(74)
Inventories	(34)	(22)
Prepaid and other current assets	—	(3)
Accounts payable and accrued liabilities	(1)	48
Income taxes receivable / payable	1	1
Other assets / liabilities, net	(1)	—
Net cash used in operating activities	(20)	(30)
Cash flows from investing activities:		
Purchases of property, plant and equipment	—	(1)
Net cash used in investing activities	—	(1)
Cash flows from financing activities:		
Borrowings under the revolving credit facility	106	85
Repayments under the revolving credit facility	(114)	(72)
Other	(2)	—
Net cash provided by (used in) financing activities	(10)	13
Effect of exchange rates on cash and cash equivalents	1	—
Net change in cash and cash equivalents	(29)	(18)
Cash and cash equivalents, beginning of period	116	98
Cash and cash equivalents, end of period	$87	$80
Supplemental disclosure of cash flow information:		
Accrued purchases of property, plant and equipment	$1	$—

See notes to unaudited consolidated financial statements.

NOW INC.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY (UNAUDITED)

($ In millions)

	Common Stock Shares Outstanding (in thousands)	Par Value	Additional Paid-In Capital	Retained Earnings (Deficit)	Accum. Other Comprehensive Income (Loss)	Total Stockholders' Equity
December 31, 2017	108,030	$ 1	$ 2,019	$ (730)	$ (105)	$ 1,185
Net income	—	—	—	2	—	2
Stock-based compensation	—	—	4	—	—	4
Vesting of restricted stock	158	—	—	—	—	—
Shares withheld for taxes	(47)	—	—	—	—	—
Other comprehensive income	—	—	—	—	1	1
March 31, 2018	108,141	$ 1	$ 2,023	$ (728)	$ (104)	$ 1,192
December 31, 2018	108,427	$ 1	$ 2,034	$ (678)	$ (143)	$ 1,214
Net income	—	—	—	18	—	18
Stock-based compensation	—	—	4	—	—	4
Exercise of stock options	70	—	1	—	—	1
Vesting of restricted stock	305	—	—	—	—	—
Shares withheld for taxes	(93)	—	(2)	—	—	(2)
Other comprehensive income	—	—	—	—	10	10
March 31, 2019	108,709	$ 1	$ 2,037	$ (660)	$ (133)	$ 1,245

See notes to unaudited consolidated financial statements.

NOW INC.

Notes to Unaudited Consolidated Financial Statements

1. Organization and Basis of Presentation

Nature of Operations

NOW Inc. (“NOW” or the “Company”) is a holding company headquartered in Houston, Texas that was incorporated in Delaware on November 22, 2013. NOW operates primarily under the DistributionNOW and Wilson Export brands. NOW is a global distributor of energy products as well as products for industrial applications through its locations in the U.S., Canada and internationally which are geographically positioned to serve the energy and industrial markets in over 80 countries. NOW’s energy product offerings are used in the oil and gas industry including upstream drilling and completion, exploration and production, midstream infrastructure development and downstream petroleum refining – as well as in other industries, such as chemical processing, power generation and industrial manufacturing operations. The industrial distribution portion of NOW’s business targets a diverse range of manufacturing and other facilities across numerous industries and end markets. NOW also provides supply chain management to drilling contractors, E&P operators, midstream operators, downstream energy and industrial manufacturing companies. NOW’s supplier network consists of thousands of vendors in approximately 40 countries.

Basis of Presentation

All significant intercompany transactions and accounts have been eliminated. The unaudited consolidated financial information included in this report has been prepared in accordance with accounting principles generally accepted in the United States (“GAAP”) for interim financial information and Article 10 of SEC Regulation S-X. The principles for interim financial information do not require the inclusion of all the information and footnotes required by generally accepted accounting principles for complete financial statements. Therefore, these financial statements should be read in conjunction with the financial statements included in the Company’s most recent Annual Report on Form 10-K. In the opinion of the Company’s management, the consolidated financial statements include all adjustments, all of which are of a normal recurring nature, necessary for a fair presentation of the results for the interim periods. The results of operations for the three months ended March 31, 2019 are not necessarily indicative of the results to be expected for the full year.

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect reported and contingent amounts of assets and liabilities as of the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Reclassification

Certain amounts in the prior periods presented have been reclassified to conform to the current period financial statement presentation. These reclassifications have no effect on previously reported results of operations.

Fair Value of Financial Instruments

The carrying amounts of cash and cash equivalents, receivables and payables approximated fair value because of the relatively short maturity of these instruments. Cash equivalents include only those investments having a maturity date of three months or less at the time of purchase. See Note 12 “Derivative Financial Instruments” for the fair value of derivative financial instruments.

Recently Issued Accounting Standards

In June 2016, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2016-13, Measurement of Credit Losses on Financial Instruments (Topic 326), which replaces the incurred loss impairment methodology in current GAAP with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to determine credit loss estimates. ASU 2016-13 requires entities to measure all expected credit losses for financial assets held at the reporting date based on historical experience, current conditions and reasonable and supportable forecasts. Entities will now use forward-looking information to better form their credit loss estimates. ASU 2016-13 is effective for annual and interim periods in fiscal years beginning after December 15, 2019, with early adoption permitted as of December 15, 2018, and requires the modified retrospective transition method. The Company is currently assessing the impact of ASU 2016-13 on its consolidated financial statements.

In August 2018, the FASB issued ASU 2018-13, Disclosure Framework-Changes to the Disclosure Requirements for Fair Value Measurement (Topic 820), which modified the disclosure requirements on fair value measurements. ASU 2018-13 is effective for annual and interim periods in fiscal years beginning after December 15, 2019, with early adoption permitted for removed or modified disclosures. The Company is currently assessing the impact of ASU 2018-13 on its consolidated financial statements.

Recently Adopted Accounting Standards

In February 2016, the Financial Accounting Standards Board ("FASB") issued ASU 2016-02, Leases (Topic 842), which requires lessees to recognize a lease liability and a right-of-use ("ROU") asset for all leases, including operating leases, with a term greater than twelve months in its balance sheets. In July 2018, the FASB issued ASU 2018-11, Targeted Improvements, which provided entities with an additional (and optional) transition method, allowing an entity to apply the new lease standard at the adoption date and to recognize a cumulative-effect adjustment to the opening balance of retained earnings in the period of adoption. On January 1, 2019, the Company adopted ASC 842 using the modified retrospective method allowed under ASU 2018-11. The Company has utilized the package of practical expedients permitted under the transition guidance within ASC 842 which, among other things, allow an entity to carry forward its historical lease classifications. The adoption of ASC 842 resulted in the recognition of $66 million of ROU assets, net of $1 million deferred rent, and $67 million of lease liabilities related to leases that were previously not required to be presented in the consolidated balance sheets. See Note 13 "Leases" for additional information.

2. Revenue

The Company's primary source of revenue is the sale of energy products and an extensive selection of products for industrial applications based upon purchase orders or contracts with customers. The majority of revenue is recognized at a point in time once the Company has determined that the customer has obtained control over the product. Control is typically deemed to have been transferred to the customer when the product is shipped, delivered, or picked up by the customer. The Company does not grant extended payment terms. Revenue is recognized net of any taxes collected from customers, which are subsequently remitted to government authorities. Shipping and handling costs for product shipments occur prior to the customer obtaining control of the goods and are recorded in cost of products.

The amount of revenue recognized reflects the consideration to which the Company expects to be entitled to receive in exchange for products sold. Revenue is recorded at the transaction price net of estimates of variable consideration, which may include product returns, trade discounts and allowances. The Company accrues for variable consideration using the expected value method. Estimates of variable consideration are included in revenue to the extent that it is probable that a significant reversal in the amount of cumulative revenue recognized will not occur.

See Note 7 "Business Segments" for disaggregation of revenue by reporting segments. The Company believes this disaggregation best depicts how the nature, amount, timing and uncertainty of revenue and cash flows are affected by economic factors.

Remaining Performance Obligations

Remaining performance obligations represent the transaction price of firm orders for which work has not been performed on contracts with an original expected duration of more than one year. The Company's contracts are predominantly short-term in nature with a contract term of one year or less. For those contracts, the Company has utilized the practical expedient in ASC Topic 606 exempting the Company from disclosure of the transaction price allocated to remaining performance obligations when the performance obligation is part of a contract that has an original expected duration of one year or less.

Receivables

Receivables are recorded when the Company has an unconditional right to consideration.

Contract Assets and Liabilities

Contract assets primarily consist of retainage amounts held as a form of security by customers until the Company satisfies its remaining performance obligations. As of March 31, 2019, contract assets were approximately $2 million and were included in receivables, net in the consolidated balance sheets. The Company generally accounts for the incremental costs of obtaining a contract as an expense when incurred if the amortization period of the asset that the entity otherwise would have been recognized is one year or less. These expenses were not material for the three months ended March 31, 2019.

Contract liabilities primarily consist of deferred revenues recorded when customer payments are received or due in advance of satisfying performance obligations, including amounts which are refundable, and other accrued customer liabilities. Revenue recognition is deferred to a future period until the Company completes its obligations contractually agreed with customers. The increase in contract liabilities for the quarter ended March 31, 2019 was primarily related to customer deposits of approximately $14 million, partially offset by approximately $9 million of revenue that was deferred at December 31, 2018.

3. Property, Plant and Equipment, net

Property, plant and equipment consist of (in millions):

	Estimated Useful Lives	March 31, 2019	December 31, 2018
Information technology assets	1-7 Years	$ 45	$ 45
Operating equipment [1]	2-15 Years	100	92
Buildings and land [2]	5-35 Years	99	99
Construction in progress		1	—
Total property, plant and equipment		245	236
Less: accumulated depreciation		(135)	(130)
Property, plant and equipment, net		$ 110	$ 106

(1) Includes finance lease ROU assets.
(2) Land has an indefinite life.

4. Accrued Liabilities

Accrued liabilities consist of (in millions):

	March 31, 2019	December 31, 2018
Compensation and other related expenses	$ 33	$ 38
Contract liabilities	33	29
Taxes (non-income)	12	14
Current portion of operating lease liabilities	22	—
Other	30	29
Total	$ 130	$ 110

5. Debt

On April 30, 2018, the Company replaced its existing senior secured revolving credit facility and entered into a senior secured revolving credit facility (the “Credit Facility”) with a syndicate of lenders with Wells Fargo Bank, National Association serving as the administrative agent. The five-year Credit Facility provides for a $750 million global revolving credit facility (with a letter of credit subfacility of $60 million and a swing line subfacility of 10% of the facility amount), of which up to $100 million is available for the Company’s Canadian subsidiaries and $40 million for the Company’s UK subsidiaries. The Company has the right, subject to certain conditions, to increase the aggregate principal amount of commitments under the credit facility by $250 million. The obligations under the Credit Facility are secured by substantially all the assets of the Company and its subsidiaries. The Credit Facility contains customary covenants, representations and warranties and events of default. The Company will be required to maintain a fixed charge coverage ratio of at least 1.00:1.00 as of the end of each fiscal quarter if excess availability under the Credit Facility falls below the greater of 12.5% of the borrowing base or $60 million.

Borrowings under the Credit Facility will bear an interest rate at the Company’s option, at (i) the base rate plus an applicable margin based on the Company’s fixed charge coverage ratio (and if applicable, the Company’s leverage ratio); or (ii) the greater of LIBOR for the applicable interest period and zero, plus an applicable margin based on the Company’s fixed charge coverage ratio (and if applicable, the Company’s leverage ratio). The Credit Facility includes a commitment fee on the unused portion of commitments that ranges from 25 to 37.5 basis points. Commitment fees incurred during the period were included in other expense in the consolidated statements of operations.

Availability under the Credit Facility is determined by a borrowing base comprised of eligible receivables and eligible inventory in the U.S and Canada. As of March 31, 2019, the Company borrowed $124 million against the Credit Facility and had approximately $444 million in availability (as defined in the Credit Facility) resulting in the excess availability (as defined in the Credit Facility) of 77% subject to certain limitations. The Company was not obligated to pay back the borrowing against the Credit Facility until the expiration date, as such the outstanding borrowing is classified as long-term debt in the consolidated balance sheets.

The Company issued $7 million in letters of credit under the Credit Facility primarily for casualty insurance expiring in July 2019.

6. Accumulated Other Comprehensive Income (Loss)

The components of accumulated other comprehensive income (loss) are as follows (in millions):