

# **DNOW Inc. (DNOW) Q1 2024 Earnings Call Transcript**

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**Body**

DNOW Inc. (DNOW)

Q1 2024 Earnings Conference Call

May 10, 2024 09:00 ET

Company Participants

Brad Wise - Vice President, Digital Strategy and Investor Relations

David Cherechinsky - President and Chief Executive Officer

Mark Johnson - Senior Vice President and Chief Financial Officer

Conference Call Participants

Nathan Jones - Stifel

Max Kane - Stephens

Jeff Robertson - Water Tower Research

Presentation

Operator

Good morning. My name is Ian and I will be your conference operator today. At this time, I would like to welcome everyone to the DNOW First Quarter 2024 Earnings Conference Call. [Operator Instructions] Thank you. I'd like to hand things over to Mr. Brad Wise, Vice President of Digital Strategy and Investor Relations. You may begin your conference.

Brad Wise

Well, thank you, Ian and good morning and welcome to DNOW's first quarter 2024 earnings conference call. We appreciate you joining us and thank you for your interest in DNOW. With me today is David Cherechinsky, President and Chief Executive Officer and Mark Johnson, Senior Vice President and Chief Financial Officer. We operate under the DNOW brand, which is also our New York Stock Exchange ticker symbol.

Please note that some of the statements we make during this call, including responses to your questions, may contain forecasts, projections and estimates, including but not limited to comments about the outlook for the company's business. These are forward-looking statements within the meeting of the U.S. federal securities laws based on limited information as of today, May 10, 2024, which is subject to change. They are subject to risks and uncertainties and actual results may differ materially. No one should assume these forward-looking statements remain valid later in the quarter or later in the year. We do not undertake any obligation to publicly update or revise any forward-looking statements for any reason.

In addition, this conference call contains time-sensitive information that reflects management's best judgment at the time of the live call. I refer you to the latest Forms 10-K and 10-Q that DNOW has on file with the U.S. Securities and Exchange Commission for a more detailed discussion of the major risk factors affecting our business. Further information as well as supplemental financial and operating information maybe found within our earnings release on our website at ir.dnow.com or in our filings with the SEC. In an effort to provide investors with additional information relative to our results as determined by U.S. GAAP, you will note that we also disclosed various non-GAAP financial measures, including EBITDA, excluding other costs, sometimes referred to as EBITDA, net income attributable to DNOW, Inc., excluding other costs, and diluted earnings per share attributable to DNOW, Inc., excluding other costs. Each excludes the impact of certain other costs and therefore have not been calculated in accordance with GAAP.

Please refer to reconciliation of each of these non-GAAP financial measures to its most comparable GAAP financial measure in the supplemental information available at the end of the earnings release. As of this morning, the Investor Relations section of our website contains a presentation covering our results and key takeaways for the first quarter of 2024. A replay of today's call will also be available on the site for the next 30 days. We plan to file our 2024 Form 10-Q for the first quarter later today and it will also be available on our website.

Now, let me turn the call over to Dave.

David Cherechinsky

Thank you, Brad and good morning everyone. I am incredibly pleased with the progress we made in the first quarter, generating strong free cash flow of $80 million towards our $150 million full year target, which we expect could now approach $200 million in 2024. Free cash flow is represented by cash flows from operating activities reduced by capital expenditures made during the period.

Our enhanced free cash flow dynamics are the result of DNOW's pedigree of sound balance sheet management supported by a strong transformed business on a path that could make 2024 our best year yet. Assuming an increase in market activity as modeled and that is on top of a record EBITDA margin years in 2022 surpassed again in 2023, we believe 2024 could top that yet again. Our quarterly cash haul was much better than expected as we guided to negative free cash flow in the first quarter, but instead generated $80 million in free cash flow in 1Q '24 and $262 million in free cash flow over the last four quarters, the best trailing four-quarter period of cash generation since 2016.

In the first quarter, we were privileged to welcome an onboard Whitco Supply to the DNOW family, one of our largest acquisitions yet. And we still ended the quarter debt-free with $188 million in cash. The addition of Whitco's talented team, rich culture, and technical expertise enhances our service levels and capabilities, enabling us to better support our customer's midstream and energy evolution investments. With our first U.S. Energy Center's acquisition since 2015, Whitco Supply expands our U.S. footprint and customer base across the midstream energy sector. Whitco operates 8 locations, where they've carved out a devout customer following and effectively deploy a supercenter-like strategy where the main active centers of commerce support and embed efficiencies in the fulfillment model.

While I have already had the privilege of sharing the best employee-caught and home-fried South Louisiana catfish, shrimp, and rice, with over 100 of our Whitco employees, I'm honored to welcome everyone from Whitco Supply to the DNOW family. The now larger DNOW enjoys a solid balance sheet, an expanding diversified customer base, a proactive approach to seizing value-enhancing acquisition opportunities, and the best people in the business. I'm excited about our future together. We are focused on opportunities that drive a creative growth in operating margins, while diversifying our market mix. Our strategy is to defend, invest, and grow our core market, capture additional revenues from the growing energy evolution market, and diversify our customer base by targeting and realizing revenue opportunities from adjacent industrial markets, while driving efficiencies across our business.

With our current liquidity and capital allocation framework, we have the ability to strike deals at the right time and repurchase shares opportunistically, thus balancing the return of capital with the growth of our business to produce sustainable long-term value for our shareholders. We run our business like a successful gardener might, and I'm often reminded how much the two are alike. We plant the seeds to sow innovative ideas for our customers, and provide the necessary resources for growth. We nourish the soil to foster a collaborative environment that continuously enriches our culture. We water abundantly and fertilize by making prudent investments in inventory, new products, capital expenditures, and process improvements, while rewarding our people for the results they produce to fuel progress and expansion. We try to make sure we sell aging inventory before it goes bad and while it's still in season, and offer new products as we liquidate or remove less desirable ones to produce the greatest yield and adapt to changing customer tastes. We seek and promote self-starter leaders who don't wait to act, those who prune to drive efficiencies and trim unnecessary processes, promoting healthy growth and optimized performance.

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Seeking a nexus between where we shine and where the customer sees value. We care about and protect each other, focus on safety, act with integrity, guard our processes and competitive information, and identify and weed out potential threats protecting our business from harm. We're mindful of the seasons and how they're changing affects our garden. So we can adapt, embrace change, adjust our tactics as our business evolves and grows. We harvest the fruits of hard work, celebrate accomplishments, and learn from challenges so we can reinvest in our business, make smart acquisitions, and return cash to shareholders, and repeat. You can have an impressive garden or a great business simply by being more disciplined than your competitors, tending in a year like this more stringently to the fundamentals.

Now some comments on a regional basis. In the U.S., revenue was $435 million, up $17 million, or 4% sequentially, resulting from the added acquisition activity from Whitco Supply. U.S. rig count was essentially flat quarter-over-quarter, while U.S. completions declined 11% sequentially and 15% year-over-year. During the quarter, we renewed a master service agreement with one of our major supply chain services customers that will continue to drive future revenue, while presenting opportunities for increased wallet share on their newly acquired assets with a large IOC activity in the Permian, was robust with an assortment of capital projects and day-to-day maintenance operations.

Activity remained strong with another integrated supply customer with assets in the Eagle Ford and Bakken. Punctuating the strength of our supply chain service partnerships, one of our customers recognized the DNOW team's performance in helping them achieve an important operational performance target, demonstrating the impact our partnership has on delivering their operational objectives. The effect our employees have on our customers operations is a source of pride as our customers trust us to help them deliver on their production goals.

In U.S. Process Solutions, demand for our products was mixed across our brands as MRO business continued to grow as we experienced some lumpiness in projects, with a number of those projects pushed to later in the year. Demand for our fabricated process and production equipment remained steady, servicing a variety of operators for the upstream, midstream, and downstream sectors. Demand for our industrial air compressor package offerings remained strong as operators worked to eliminate the venting of methane as they replaced it with compressed air systems. Outside of oil and gas, in the municipal water market, we delivered a large shipment of pumps for a sizable project in North Texas, in addition to providing pumps for a pulp and paper customer, a food and beverage Protein Company, and chilled water pumps for a Bitcoin data mining facility.

During the quarter, we expanded a pump territorial distribution agreement across several U.S. western states, targeting the mining industry. The agreement will create opportunities and complements our current efforts within this growing and market. Demand for our FlexFlow horizontal pump products remained steady as operators sought rental pump assets for produced water disposal and transfer applications. For our EcoVapor line, demand for our sulfur sentinel product increased in the quarter as operators sought solutions to remove H2S from low-pressure gas thus eliminating emissions that would have occurred from flaring the gas. Our EcoVapor rental fleet has been steady despite low natural gas prices. And finally, we tapped into new market share by receiving orders from several new R&G customers as we continue to grow our EcoVapor ZerO2 product line in the renewable natural gas space.

In Canada, revenue was $66 million for the quarter. From an activity perspective, the year started off sluggish, where our Canadian operations were adversely impacted by two weather events. In January, there was a nine-day timeframe where the extreme sub-zero temperatures halted activity and delayed the start of the joint season. In March, we experienced an early spring breakup that limited what has historically been a very active month. From conversations with customers, we are hearing drilling plans that were impacted in 1Q '24 that, at this time, remain intact for the full year. So we're optimistic that the delayed activity will come later in 2024. We were successful in being selected by a top Canadian producer to provide pipe fittings and flanges and MRO products. The producer had recently acquired a DNOW customer we already service, so we should benefit from that as well.

Finally, with the Trans Mountain expansion pipeline expected to come online this month, we expect the increased takeaway capacity could narrow the WTI Western Canadian Select differential and lead to increased future activity for our Canadian business. For our International segment, revenue is $62 million, sequentially lower as expected and guided last quarter by $10 million, primarily due to non-repeating projects in the fourth quarter in the Middle East and Australia. In Europe and the UK, we are seeing steady activity and demand for our electrical and safety products tied to brownfield and modernization investment projects. But we are also observing headwinds in customer investment and traditional energy greenfield investments due to instability caused in part by the windfall test.

In Norway, we saw an increase in investment in the Norwegian continental shelf as we supplied electrical cable for offshore drilling contractors and drilling rig recertifications. We are seeing an increasing level of FID projects across a number of EPCs as investment in hydrogen, CCS, and floating wind continue to gain steam. These types of projects require many of the PBF and electrical products we provide. In Australia, we are seeing project activity growing from several ILCs related to CO2 injection, LNG, and biofuel projects. Finally, during the quarter, we provided electrical products tied to a carbon capture project and a lighting modernization project through an EPC for a large energy producer.

And now a few additional comments related to the energy evolution. For DNOW, the energy transition includes activity primarily associated with carbon capture utilization and storage, hydrogen, and RNG-related projects. We are tracking a number of projects in this target market which fit nicely into DNOW's core product offerings. And as we have mentioned on prior calls, many of the projects are being funded by DNOW customers who are familiar with our quality products, services, and solutions combined with our differentiated level of service. In 2023, we submitted quotes and proposals for a number of energy evolution projects, comparing last year's quote activity to this year's first quarter quote activity, the value this quarter has grown and surpassed last year's total quote value.

We delivered PVF products for several CCUS projects, one for a gas storage project in support of a low-carbon power plant that uses the gas when other intermittent power generation sources are interrupted. Another energy evolution project in the quarter was for a natural gas [indiscernible] combined with the carbon capture and sequestration component that will remove 100% of the CO2 and permanently store it underground.

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For our digital initiatives, our digital revenue as a percent of total SIP revenue increased to 49% during the quarter, driving improved efficiencies through integrated systems. With a major IOC, we completed a system integration project that eliminates redundancies across multiple systems allowing for efficiency gains using DNOW systems, technology, and people in order fulfillment, procurement, and inventory management functionality. For another major IOC, we successfully expanded our customer consignment program, capturing a real-time order processing and inventory visibility through the use of our DNOW mobile app.

We launched Flex Flow's OptiWatch 2.0, our second-generation digital real-time monitoring and optimization software for horizontal pumping system that includes enhanced data sampling combined with an upgraded dashboard visualization that has been well received by OptiWatch customers. Operators are realizing financial benefits for reduced expenditures in power consumption, maintenance, and downtime, and other efficiency gains from using OptiWatch 2.0.

And finally, our process solutions field service technicians have been equipped with new digital tablets that are connected to our ERP service app, thus eliminating manual paperwork while streamlining work orders to deliver efficiencies through digital transformation on aftermarket service orders.

With that, let me hand it over to Mark.

Mark Johnson

Thank you, David, and good morning, everyone. Total first quarter 2024 revenue was $563 million, up 1% or $8 million from the fourth quarter of 2023. EBITDA excluding other costs, or EBITDA, for the first quarter was $39 million, or 6.9% of revenue. U.S. revenue for the first quarter, 2024, totaled $435 million, a $17 million increase, or 4% higher than the fourth quarter of 2023. Year-over-year, U.S. revenue increased $8 million, or 2% from the first quarter of 2023. The U.S. energy centers contributed approximately 70% of total U.S. revenue in the first quarter, and U.S. process solutions contributed approximately 30%.

In Canada, for the first quarter, revenue totaled $66 million, an increase of $1 million, or 2% from the fourth quarter of 2023. International revenue for the first quarter of 2024 was $62 million, down $10 million, or 14% sequentially. Growth margins for the first quarter were 22.9%, down 20 basis points from the 2023 average, driven primarily by $1 million in inventory step-up amortization charges related to the acquisition, attributing to the decline. We estimate the remaining $4 million in inventory step-up charges will be recorded in the second quarter, temporarily impacting gross margins and 2Q. And I want to highlight, we exclude these acquisition-related charges when computing our non-GAAP measures, like EBITDA and net income and EPS, excluding other costs.

Gross margins declined 50 basis points from the fourth quarter level, considering the 1Q acquisition purchase accounting impact mentioned earlier, 20 basis points. And the expected margin decline from non-recurring fourth quarter projects and year-end vendor consideration impacts. Warehousing, selling, and administrative, or WSA, for the quarter was $101 million, up $3 million sequentially, primarily related to the acquisition that closed late in the quarter. We forecast the second quarter WSA level should be in the $110 million range with the full quarter contribution of the recent acquisition. In the first quarter, we reported $7 million of depreciation and amortization expense. And for the second quarter of 2024, we forecast depreciation and amortization to be approximately $9 million due to the full quarter contribution of the acquisition.

Now moving to operating profit, in the first quarter, total company operating profit was $28 million. Respectively, the U.S. generated $23 million, Canada delivered $3 million, and international contributing the remaining $2 million in the first quarter of 2024. Interest income in the period was $2 million, and we forecast that to reduce slightly in the second quarter.

Moving to income taxes in the first quarter of 2024, DNOW's income tax expense was $8 million, and our effective tax rate was 27.6%. We continue to estimate our 2024 full-year effective tax rate will be approximately 27% to 28%. In prior periods, our tax expense, as reported for GAAP, included the benefits from changes in valuation allowances recorded against our deferred tax assets. We excluded the impacts from the changes in our valuation allowances for calculations of net income and EPS, excluding other costs. At year-end 2023, as a result of releasing the majority of our valuation allowances, and as discussed on our last call, starting in 2024, we expect that our go-forward gap effective tax rate will be more closely aligned with our non-gap effective tax rate. And from a cash income tax perspective, we do not expect to pay U.S. federal cash income taxes in 2024 due to available net operating loss carry-forwards.

Net income attributable to DNOW, Inc. for the first quarter was $21 million, or $0.19 per fully diluted share. And on a non-GAAP basis, Q1 2024 net income attributable to DNOW, Inc., excluding other costs, was $23 million, or $0.21 per fully diluted share.

Now moving to the balance sheet, at the end of the quarter, we had a cash position of $188 million and zero debt. Cash decreased by $111 million in the first quarter, driven by the $185 million acquisition of Whitco Supply that was partially offset by cash generation from operating activities. Also worth noting, we acquired $93 million in networking capital, excluding cash as part of the acquisition. We ended the quarter with total liquidity of $564 million, comprising our net cash position of $188 million plus $376 million in additional credit facility availability.

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Our existing $500 million revolving credit facility extends into December 2026, providing DNOW with immediate access to capital under the facility. Ending accounts receivable was $410 million, an increase of $26 million from the fourth quarter driven by the acquired receivables. And day sales outstanding, or DSO, was 66 days at the end of the first quarter, impacted by the incongruent contribution between the full balance sheet of the acquired accounts receivable and only a partial quarter of sales contribution. Excluding the acquisition contribution, DSO improved from the fourth quarter.

Inventory was $428 million at the end of the first quarter, an increase of $62 million from the fourth quarter, with an annualized turn rate of 4.1x, also impacted by the acquired inventory on a partial quarter of sales contribution. When excluding the acquisition contribution, turn rates would have been similar to their fourth quarter levels. We expect a slight inventory build in the second quarter based on increased activity and the timing of project deliveries. And accounts payable was $339 million at the end of the first quarter, an increase of $51 million from the fourth quarter, impacted by the acquired payables and the timing of inventory purchases late in the first quarter. We expect the second quarter ending accounts payable balance to decrease slightly from the first quarter levels. And for the first quarter of 2024, working capital excluding cash as a percentage of annualized first quarter revenue was 17.5%. Excluding the ending first quarter working capital balances from the acquisition and the related partial quarter of sales contribution, working capital excluding cash as a percentage of annualized first quarter revenue was 14.4%.

In the first quarter, we generated $80 million of free cash flow, net of capital expenditures of $1 million in the quarter, attributable to resilient earnings contribution and a reduction in year-end net working capital. We continue to execute our share repurchase program that is authorized through December 31, 2024. And as of March 31, our cumulative repurchases under our $80 million authorized share repurchase program total $58 million. Our commitment to growing the company through a creative organic and inorganic growth remains a key priority while also having the ability to repurchase shares opportunistically as we use the tools in our capital allocation framework to generate attractive shareholder returns without deviating from our disciplined approach to balance sheet management. We continue to be debt-free and keep cash flow generation a top priority.

And with that, let me turn the call back to Dave.

David Cherechinsky

Thank you, Mark. Now switching to our outlook for the second quarter and full year 2024. We are encouraged by our prospects for the remainder of the year and are upgrading our 2024 full-year outlook, assuming increased market activity. We expect sequential second quarter growth in the U.S. and international. And in Canada, the expected seasonality will drive sequential revenue lower. Canada's revenue historically declines approximately 20% sequentially from the first quarter due to the second quarter breakup. However, due to the weather implications I mentioned earlier that impacted our 1Q '24 revenue, we believe – the sequential decline could be less. Taken all together, we expect DNOW second quarter sequential revenues to increase in the 10% to 15% range from 1Q '24.

And for the full year 2024, our view is to increase revenue in the mid-to-high single digit range compared to the full year 2023 revenue. And our 2024 full-year EBITDA percent of revenue would be similar to full-year 2023 EBITDA as a percent of revenue. As mentioned earlier, we are upgrading our prior $150 million full-year free cash flow target, which we expect could now approach $200 million in 2024.

So to close, this month marks an important milestone in our company history. May 30th will be our 10-year anniversary as a publicly traded company. And today I am excited to unveil DNOW's new brand and logo. Together, we embrace the new symbol, knowing that it represents seeds planted in 1862 when we were founded, but more so to where we are heading. Our journey began with a vision to redefine DNOW, not just financially, but culturally, as we align around our ethos, inspire one another, to like the customer and fuel the future. Beyond its visual appeal, our new logo tells a new DNOW story, a story of growth, transformation, and an exciting future. As we execute on our strategy to leverage our solid position in upstream and midstream markets, achieve leadership and energy evolution, expand our presence in adjacent industrial markets, and leverage M&A as a fuel for growth through an accumulation strategy, our new logo serves as a beacon to who we are and what we stand for.

With that, let's open the call for questions.

Question-and-Answer Session

Operator

[Operator Instructions] Our first question comes from the line of Nathan Jones with Stifel. Your line is open.

Nathan Jones

Good morning everyone.

David Cherechinsky

Good morning, Nathan.

Mark Johnson

Good morning.

Nathan Jones

I guess I will start with some of the obvious questions around the Whitco acquisition, now that it's closed. $185 million purchase price, can you give us some details on what the annual revenue is, what the margin profile is, and I guess what the plans are for improving their business, leveraging your supply chain, leveraging the business model, etcetera?

David Cherechinsky

Okay. I will attack those questions this way, Nathan. So, the purchase price was around $185 million, the multiples are probably in the 5-6 range, given where the market is right now. Their EBITDA performance as a percent of revenue is similar to ours, maybe a little bit stronger. And their working capital turns a little bit slower based on their eight accounts payable profile. But from a P&L perspective accretive, good, strong multiples on the business. They contributed, we said in our opening comments that the U.S. business grew by $17 million, and we bought Whitco. It was kind of a stub period the last couple weeks of the quarter, they added about $17 plus million in revenues. So, they have parallel performance metrics with us, maybe a little better on the P&L. And in terms of what we are going to focus on as we onboard the business, our primary and almost solitary focus is going to be around revenue synergies. So, they have a heavy midstream component, which is in the 60% to 80% range of their business. They do business with a lot of customers that aren't in our top 25, so that's a real opportunity for us. So, we have limited overlap on our customer lists. So, we are going to, in the case of Whitco, be able to introduce our wide-ranging and ever-growing process solution brands and our fabrication competencies to Whitco. That's going to be a big thing for us. We will be a little more important to the suppliers, and we will – that will work to our advantage. But the main thing is their ability to penetrate customers and our ability to do the same with other customers and how do we synergize that. In terms of the balance sheet, I think I mentioned that, but what else – anything else I missed there, Nathan?

Nathan Jones

No, I think that answers the question. I would be interested in maybe it's a little too early to tell, given you have only owned it for less than two months here. But I think the information around the revenue synergy potential going forward, maybe when you have a better handle on it will be good. I guess my follow-up question has to be on the free cash flow generation, which was extremely strong in the first quarter. Can you maybe talk a little bit more about the main contributors to the cash flow number, given that 1Q is usually a seasonally weak quarter, seasonally usually consumes cash, not produces cash?

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David Cherechinsky

Yes. So, about half of that, and just for context, of course, we guided to your point that we would consume cash in the first quarter. We generally kind of tighten our belts at year end and generate as much cash as we can and clean up old receivables and those kinds of things. Half of that contribution was from earnings, and the other half was from improved organic accounts receivable. So, I think our organic U.S. DSOs went down by 3 days, so real nice improvement in collections, and that really helped. In terms of the prospects for the full year being increased, well, we have now since closed Whitco, they will generate potentially in that $30 million to $50 million range or $20 million to $50 million range. All of this is going to get murkier as we go through the year. And our legacy business, and the year was off to a slow start, so we didn't generate the kind of revenue growth on our legacy business as we expected, so we certainly generated some cash there in the first quarter. But we are very excited about achieving some momentum here with hopefully some increases in rigs going into the second half and completions, which were down 11% sequentially, bottoming and growing as the year goes on.

Nathan Jones

Fantastic. Thanks for taking my questions. I will pass it on.

David Cherechinsky

Thank you.

Operator

Our next question comes from the line of Max Kane with Stephens. Your line is open.

Max Kane

Hey guys. Thanks for taking my questions.

David Cherechinsky

You're welcome. Hi Max.

Max Kane

So, first question is on 2Q and full year revenue guide. I appreciate the color you all gave on the embedded assumptions for 2Q revenue, but I mean how should we be looking at the rest of the year? Should we be assuming a typical sequential slowdown in 4Q? And just, yes, once again, could you maybe just reiterate what the drivers were for 2Q revenue step-up? I appreciate that.

David Cherechinsky

Yes. I think if you look at what we are expecting going into 2Q, of course the bulk of that growth is going to be the addition of a full year quarter for Whitco. So, the great majority of those revenue gains will come from Whitco discreetly. We are going to see some growth internationally. We are going to see a seasonal decline in Canada. As I talked about in my opening comments, those are largely offsets. We will see some growth in our energy business in the U.S. and flatness primarily in our process solutions business. If you recall, last year our process solutions business grew 46%. They are at a very high run rate. They are maintaining that level. So, we expect kind of a meager gain there. But most of the contribution in the second quarter is Whitco. We expect summer growth, an emergence from breakup in Canada in the third quarter. So, that will be our best quarter of the year. And then we do expect a seasonal decline, Whitco experiences a seasonal decline as well. So, those will be the contours. We often see Q2 being a little very similar to 1Q, but that won't be the case, of course, because we will have a full quarter of Whitco contributions.

Max Kane

Okay. Great. Thanks for the color on that. And what has given you all confidence on margins improving throughout the year?

David Cherechinsky

Well, the margins we posted, Mark, do you want to talk to that, because some of that includes accounting for the acquisition. But you want to give some color on that?

Mark Johnson

Yes, that's correct. Yes, the first quarter included about 20 basis points for inventory step-up, which is part of the purchase accounting.

David Cherechinsky

Negative impact.

Mark Johnson

Negative impact, due to the partial quarter, that will flush out fully in the second quarter. So, we do expect the face to return to kind of where they were full year average last year in 23%.

David Cherechinsky

Probably the third quarter, right.

Mark Johnson

The third quarter, yes, sir.

Max Kane

Okay. Got it. Yes. Thanks for the color on that. I will turn it back.

Operator

Our next question comes from the line of Jeff Robertson with Water Tower Research. Your line is open.

Jeff Robertson

Thank you. Good morning. Dave or Mark, can you talk about any cost synergies with Whitco as you, since you mentioned they follow a super center model similar to DNOW. Are there overlaps or basins that you can bring them into or go in where they are strong and create some cost synergies?

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David Cherechinsky

Yes. Our focus for Whitco is on revenue synergies. Like I said earlier, the customer lists are different. The focus is different. We want to grow market share where we are really strong in upstream and where they are really strong in midstream. So, while there might be some cost savings opportunities for us to leverage each other's facilities, service models, sales talent, that's not our objective with Whitco. With Whitco, we want to drive a pure revenue synergy play. Where we might see some "cost savings" is on the product side. We expect to see some of that, especially for pipe and some valve brands where we are a big buyer and we overlap with them on the supplier side. But our objective is to grow and take market share in this kind of sideways market and invest in the infrastructure to do so, and we did so with Whitco.

Jeff Robertson

Is the revenue opportunity to expand DNOW's business with Whitco's customers, is that margin enhancing in terms of the product mix that those types of customers would need DNOW to supply?

David Cherechinsky

It could be. I mean if we – we are having a lot of fun and interest certainly from the Whitco side in introducing some of the process solutions opportunities to their customers. We are starting that. We are pretty new in the onboarding process, but we see opportunities there. Process solutions, at this point in the cycle tends to have a little bit better margins, so that could be margin accretive to the extent we can introduce our process solutions brands to the Whitco customers.

Jeff Robertson

Thanks. And then lastly, does the addition of Whitco alter the types of acquisition or types of product lines that make sense for DNOW in terms of industrial logic or the type of things you might be looking for?

David Cherechinsky

Very good question. So, Whitco is our first energy centers' acquisition since 2015. We have been careful to really focus on process solutions. We made 10 process solutions acquisitions in a row. I think that's where you will see most of our investments being made going forward. Whitco is different. This is a company that grew over a 20-year period to be a powerhouse in midstream. So, they are very specialized. They have a devout customer base, like I said in my opening remarks. And they have a special quality to them that. But you don't really see with all distribution pipe valves, fittings, distributors. So, this was kind of a – the timing was right. It was a great opportunity. And I think you will see most of our acquisitions in the near-term, anyway, being pump and process solutions oriented.

Jeff Robertson

Thank you.

David Cherechinsky

Thank you, Jeff.

Operator

There are no further questions at this time. I would like to turn the call back over to Mr. Brad Wise.

Brad Wise

Well, thank you for your questions today and your interest in DNOW. We look forward to talking with everyone on our second quarter 2024 earnings conference call in August later this year. Have a nice day and we will turn the call back over to the operator.

Operator

This concludes today's conference call. You may now disconnect. Have a good day.

**Load-Date:** May 10, 2024

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