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President & CEO, Kevin Longe

05.APR.16 - DMC

Dear Stockholders:

In the midst of a collapse in the oil and gas industry, DMC's two businesses made substantial progress on a range of strategic and operational initiatives during 2015. While DynaEnergetics and NobelClad generate more than two thirds of their combined sales from the energy sector, a series of technology, product and operational advantages have helped them deflect the full force of an industry downturn that has reduced the price of crude by 65% since its 2014 peak.

DMC reported consolidated 2015 sales of \$166.9 million, down 18% versus 2014, or 11% after excluding the impact of unfavorable foreign currency exchange translation. DynaEnergetics, which operates exclusively in the exploration and production sector, reported full-year sales of \$76.9 million, down 27% from 2014, and 21% after excluding the impact of foreign currency exchange translation. NobelClad, our explosion welding business, reported full-year sales of \$90.0 million, down 7% year-over-year, and up 1% after eliminating foreign currency impact.

Our 2015 gross profit margin was 26%, excluding previously announced reserves for potential anti-dumping duties and excess inventory. By comparison, adjusted gross margin in 2014 was 31%. The

decline principally relates to pricing pressure in both businesses' end markets, a less favorable project mix at NobelClad, and ongoing investments in research and development.

We continued to execute the restructuring and consolidation programs initiated in 2014, which are designed to improve operating efficiencies, strengthen our infrastructure and position our businesses for growth. Charges associated with these programs, combined with an \$11.5 million goodwill impairment charge at DynaEnergetics and the inventory and anti-dumping reserves, totaled \$23.7 million in 2015.

Excluding these charges, we reported breakeven operating results and an after-tax loss from continuing operations of \$8.0 million, or \$0.57 per diluted share*. Our full-year adjusted EBITDA* was \$13.1 million. A reconciliation of non-GAAP measures to GAAP measures is available in the tables on page 3.

While the industry downturn has been challenging, it also has presented opportunities, particularly at DynaEnergetics. Oil and gas companies are seeking proven products and technologies that can reduce operating costs and improve efficiencies. DynaEnergetics' substantial investments in research and development have helped the business capitalize on this situation.

The DynaSelect™ integrated switch detonator illustrates this point. DynaSelect is used to initiate the explosives in a perforating system during the well completion process. Introduced in late 2013, the product has been lowering our customers' total cost of operations by providing measurable improvements in perforating reliability and safety versus competing detonator technologies. Although well completions fell sharply in 2015, unit sales of DynaSelect increased over the same period. Approximately 20 different companies in the United States, Canada and China are using DynaSelect, up from a single

customer when the product was launched less than three years ago.

A major follow-on offering was DynaStage™, a customizable, factory-assembled perforating system that utilizes the DynaSelect technology. Under the industry's traditional perforating model, service companies use dedicated crews to assemble and wire perforating guns in the field. DynaStage makes this process unnecessary, and allows customers to redeploy or eliminate their investments in field assembly. DynaStage was formally commercialized in

October 2015 when Weatherford International became our first principal distribution partner. While widespread adoption of the system has been slowed by the downturn, interest from exploration and production companies has been encouraging. We expect field trials with other select service companies to commence later in 2016.

We are confident that well-site assembly of explosive perforating guns will ultimately be viewed as an outdated and inefficient process. DynaEnergetics is leading a transition toward a new business model, and holds a significant technological advantage over the competition.

DynaEnergetics' recent success is also attributable to its investments in educating exploration and production companies (E&Ps) about our products and technologies. This is leading to the pull through of sales from service companies, as E&Ps specify our products. Critical to our education efforts has been our new mobile marketing trailer. Introduced in October 2015, it features a fully assembled DynaStage system, as well as a

comprehensive portfolio of related perforating products and down-hole tools. This marketing platform allows DynaEnergetics to take its entire product suite into the field, where our sales team can provide customers with tangible evidence of our products' features and benefits. Since its introduction last October, the trailer has traveled throughout five major U.S. oil and gas markets, and hosted well completions teams from more than 50 E&Ps. DynaEnergetics has made important progress on the international front as well. In Tyumen, Siberia, a



DynaEnergetics Mobile Marketing Platform

production facility under development for the past several years recently received final permits for industrial explosives production, and subsequently completed testing of a fully automated shaped charge manufacturing line. Internal quality checks are complete, and at this writing, charges are being shipped to the field for down-hole testing. We expect to begin commercial sales in the coming weeks, and believe DynaEnergetics now has an opportunity to build a much larger presence in Russia and the broader CIS region.

At NobelClad, roughly 50% of bookings during 2015 came from the downstream oil and gas sector, as refiners leveraged healthy crack spreads (margins) to invest in repair, maintenance and modernization programs. New construction in the global chemical and petrochemical markets remained modest due to continued low capital spending levels, but still accounted



for 25% of 2015 bookings.

NobelClad continued its efforts to strengthen end-user relationships, enter new industrial markets and expand applications for its explosion-clad plates. The expertise we have added to our sales team in the chemical, pipe and transition-joint sectors is generating a range of long-term opportunities that we believe will return NobelClad to a position of top-line growth and enhance its already strong free cash flow performance.

A recent large order served to validate NobelClad's strategy of working more intimately with end users. During 2015, the business began discussions with a prominent East Asian semiconductor materials company regarding its need for specialized clad plate for a new generation of production equipment. Our teams in Asia and Germany worked closely with the customer to establish project parameters and a production strategy. Earlier this year, the customer awarded NobelClad a \$6.3 million order for specialized plates to be produced during the second quarter at our new plant in Liebenscheid, Germany.

In my letter last May, I highlighted a series of restructuring initiatives we had commenced to strengthen DMC's global infrastructure, enhance operating efficiencies and reduce costs. Those programs were largely completed in 2015 and reduced our headcount by approximately 20%. They included the consolidation of DynaEnergetics'

North American manufacturing operations into our plant in Whitney, Texas; and the closure of 10 small distribution centers in favor of a more efficient, centralized facility in Texas. NobelClad consolidated the majority of its European cladding operations onto a state-of-the-art manufacturing campus in Liebenscheid, Germany. At the corporate level, we streamlined our executive team and reduced the number of directors on our board from nine to seven.

The impact of the oil-price collapse reverberated across all segments of the global energy industry during 2015. We closely monitored conditions throughout the year, and in the third quarter, determined the decline in customer capital spending, coupled with our investments in consolidation and restructuring programs, could potentially push our future leverage and debt-service-coverage ratios beyond levels allowed for in our bank credit agreements. We approached our commercial lenders and worked together to temporarily amend our covenants. The new terms, which do not include any pricing modifications, should provide us with the financial flexibility to operate through the downturn.

We are taking a conservative approach to managing our balance sheet, as illustrated by the 23% sequential reduction in our net debt position during the final quarter of 2015. Net debt at December 31, 2015, stood at \$21.2 million and our debt-to-EBITDA ratio was less than

2, well below the allowable levels in our bank covenants.

Under the direction of DMC Chairman Gerard Munera, our Board has worked closely with management to enhance DMC's enterprise risk evaluation and mitigation programs. A key component of this initiative is a more comprehensive and rigorous global security program. Given the heightened sensitivity to issues of security and safety, combined with our extensive use of industrial explosives, this program addresses our worldwide supply chain and substantially strengthens our guidelines for the handling and control of explosive substances, monitoring the security perimeters around our facilities, and coordinating with local security agencies if ever necessary.

The Compensation Committee of our Board further refined DMC's executive compensation structure during 2015. In an effort to closely align executive pay with value creation for stockholders, compensation has been more directly tied to revenue and profitability performance, as well as effective management of working capital. While we are disappointed by DMC's performance against these metrics during the downturn, we are confident the steps we have taken to strengthen the business and position it for future growth will lead to enhanced stockholder returns when our end markets improve.

In light of the current market environment, our objective during 2016

is to operate within our cash flow and deliver breakeven to positive operating income while further reducing our debt. While we will continue to hold the line on operational and administrative costs, we intend to maintain our investments in research, development and market expansion initiatives – the very programs that are helping DMC outperform its peers. We also intend to maintain a focus on longer-range, external growth opportunities that would fit well with our global footprint and management expertise. Opportunities would include technical product or service businesses that participate in stable or growing niche markets. Our overarching objective is to add businesses with the people, products and market access that will enhance the strength of DMC and accelerate our long-term growth.

I want to thank DMC's global family of employees who collectively have put forth extraordinary effort during a difficult period to ensure the success of their company. I also want to thank our Board of Directors for their continued wisdom and guidance, and you, our stockholders, for your ongoing support of DMC.

Best Regards,

Kevin Longe
Chief Executive Officer

***Non-GAAP Measures**

Adjusted EBITDA, as well as financial measures that exclude reserves and restructuring expenses (ex-items), are non-GAAP financial measures used by management to measure operating performance. For a discussion of why we use non-GAAP financial measures and for reconciliations of the most directly comparable GAAP measures to non-GAAP measures, please see the accompanying DMC annual report on Form 10-K for the year ended December 31, 2015.

Safe Harbor Language

Except for the historical information contained herein, this letter contains forward-looking statements that involve certain known and unknown risks and uncertainties. Forward-looking statements include the expected impact of DynaEnergetics' new product and technology development and timing of field trials; anticipated timing of the beginning of commercial sales from DynaEnergetics' new Tyumen facility and penetration of the Russian and the broader CIS markets; development of the market acceptance of factory-assembled perforating systems; expectations about NobelClad's long-term prospects; and expectations about our 2016 operational and financial performance. Risks and uncertainties associated with these forward-looking statements include, but are not limited to, the following: our ability to increase clad metal bookings, our ability to realize sales from our backlog; our ability to obtain new contracts at attractive prices; the execution of purchase commitments by our customers, and our ability to successfully deliver on those purchase commitments; the size and timing of customer orders and shipments; fluctuations in customer demand; our ability to successfully execute and capitalize upon growth opportunities; the success of DynaEnergetics' product and technology development initiatives, including the DynaStage testing program; DMC's efforts at the business and corporate levels to improve efficiencies and strengthen DMC; DMC's ability to identify and execute acquisitions; fluctuations in foreign currencies, changes to customer orders; the cyclical nature of our business; competitive factors; the timely completion of contracts; the timing and size of expenditures; the timing and price of metal and other raw material; the adequacy of local labor supplies at our facilities; current or future limits on manufacturing capacity at our various operations; the availability and cost of funds; and general economic conditions, both domestic and foreign, impacting our business and the business of the end-market users we serve; as well as the other risks detailed from time to time in DMC's SEC reports, including the accompanying annual report on Form 10-K for the year ended December 31, 2015.



Dynamic Materials Corporation

Reconciliations of NON-GAAP Financial Measurements to Most Directly Comparable GAAP Financial Measurements (amounts in thousands) (unaudited)

Twelve months ended December 31, 2015

	Pre-Tax	Tax	Net	Diluted EPS
Income (loss) from continuing operations, excluding charges	\$ (2,264)	\$ 5,775	\$ (8,039)	\$ (0.57)
Restructuring programs:				
NobelClad	(750)	(164)	(586)	(0.04)
DynaEnergetics	(1,660)	(388)	(1,272)	(0.09)
Corporate	(1,653)	(579)	(1,074)	(0.08)
Goodwill impairment charge	(11,464)	(3,822)	(7,642)	(0.55)
Accrued anti-dumping duties	(6,374)	(2,267)	(4,107)	(0.30)
DynaEnergetics inventory reserve	(1,924)	(673)	(1,251)	(0.09)
Income (loss) from continuing operations, as reported	<u>\$ (26,089)</u>	<u>\$ (2,118)</u>	<u>\$ (23,971)</u>	<u>\$ (1.72)</u>

Twelve months ended December 31, 2014

	Pre-Tax	Tax	Net	Diluted EPS
Income (loss) from continuing operations, excluding charges	\$ 13,907	\$ 6,009	\$ 7,898	\$ 0.57
Restructuring programs:				
NobelClad	(6,781)	(1,646)	(5,135)	(0.38)
DynaEnergetics	-	-	-	-
Corporate	-	-	-	-
Goodwill impairment charge	-	-	-	-
Accrued anti-dumping duties	-	-	-	-
DynaEnergetics inventory reserve	(1,287)	(450)	(837)	(0.06)
Income (loss) from continuing operations, as reported	<u>\$ 5,839</u>	<u>\$ 3,913</u>	<u>\$ 1,926</u>	<u>\$ 0.13</u>

Twelve months ended December 31,

	2015	2014
Net Income (loss) attributable to DMC	\$ (23,971)	\$ 2,567
Gain (loss) from operations from discontinued operations	-	(641)
Interest Expense	1,745	551
Interest Income	(4)	(38)
Provision for income taxes	(2,118)	3,913
Depreciation	6,244	7,051
Amortization of purchased intangible assets	4,033	6,103
EBITDA	(14,071)	19,506
Restructuring	4,063	6,781
Accrued anti-dumping duties	6,205	-
Goodwill impairment charge	11,464	-
DynaEnergetics inventory reserves	1,924	1,287
Stock-based compensation	2,826	3,588
Other (income) expense, net	669	313
Adjusted EBITDA	<u>\$ 13,080</u>	<u>\$ 31,475</u>