

# Solaris Oilfield

## Q3 2017 Earnings Conference Call

November 3, 2017 at 8:30 a.m. Eastern

### **CORPORATE PARTICIPANTS**

**Kyle Ramachandran** – *Chief Financial Officer*

**Bill Zartler** – *Founder and Chairman*

**Greg Lanham** – *Chief Executive Officer*

**Kelly Price** – *Chief Operating Officer*

**Jonathan Scheiner** – *Vice President of Commercial and Strategy*

## **PRESENTATION**

### **Operator**

Good morning, and welcome to the Solaris Oilfield Q3 2017 Earnings Conference Call. All participants will be in listen-only mode. Should you need assistance, please signal a conference specialist by pressing the star key followed by zero. After today's presentation there will be an opportunity to ask questions. To ask a question you may press star, then one on your telephone keypad. To withdraw your question, please press star, then two. Please note, this event is being recorded.

I'd now like to turn the conference over to Kyle Ramachandran. Mr. Ramachandran, you may begin.

### **Kyle Ramachandran**

Thank you, operator. Thank you for joining Solaris' Third Quarter 2017 Conference Call. I am joined today by our Founder and Chairman, Bill Zartler; our CEO, Greg Lanham; our Chief Operating Officer, Kelly Price; and our Vice President of Commercial and Strategy, Jonathan Scheiner.

Before we begin our call today we would like to caution listeners that some of the statements today will be forward-looking statements. Such forward-looking statements may include comments regarding future financial results and reflect a number of known and unknown risks. Please refer to our press release issued on November 2, 2017, and the Form 10-Q filed yesterday, along with other recent public filings with the Securities and Exchange Commission that outline those risks.

I would like to point out that in our earnings release and in today's conference call we have discussed and will refer to Adjusted EBITDA, which is a non-GAAP measure of operating performance. We use adjusted EBITDA to measure operating performance over various periods exclusive of certain items, such as costs associated with our current capital structure, that reflect our underlying operating performance. Our earnings release provides a reconciliation of adjusted EBITDA to net income, the nearest GAAP financial measure.

With that said, I'll now turn the call over to our Founder and Chairman, Bill Zartler.

### **Bill Zartler**

Thank you, Kyle. Welcome to Solaris' Third Quarter 2017 Earnings Conference Call. This morning I will kick off with an update on our business and provide some color on the trends that we're seeing in the industry today.

In the third quarter, our Mobile Proppant Management Systems continued to gain market share. We ended the quarter with 59 systems in our fleet, all deployed to customers. That compares to 24 systems at the end of the third quarter of 2016. As of today, we have 68 systems in our fleet, which we believe represents the industry's leading market share for the next generation proppant handling solutions. Based on an estimated 375 operational frac fleets in the US, we have approximately 18% market share.

The expansion of our business is a testament not only to our manufacturing and operations teams, but also to the commercial adoption of our technology, largely driven by the simple fact that we improved the supply chain handling of proppant and at the well site. The continued use of high volumes of proppant and the desire to frac efficiently underpin the value-add of our systems to our customers.

The industry continues transitioning towards manufacturing-style development across US basins, with more frequent and larger multi-well pads and zipper fracking operations. We see this trend continuing. The industry, both E&P operators and pressure pumpers, are looking for innovative solutions to help

improve their well-level economics, complete wells on time and/or below budget, and efficiently manage their labor requirements.

Our industry-leading footprint to storage ratio allows our customers to pre-fill or stage volumes directly on the well site right at the blender before fracking operations begin. This buffer of 2.5 million pounds helps manage the volatility of the consumption side of the equation as well as the delivery side on proppant. Several customers are in the queue awaiting additional systems to be used as 12 packs, whereby 5 million pounds of sand or proppant can be pre-filled prior to running the first stage. Additionally, our real-time inventory management system, PropView, provides critical information to improve the dispatching of trucks and therefore drives improved truck utilization.

The development of our Kingfisher Facility in Oklahoma is a natural extension of what we are doing on the well site. The SCOOP/STACK plays have been some of the most compelling well-level economics in the industry, but relative to the Midland and Delaware basins, they lack the scale of infrastructure required to efficiently develop the play. We are putting a large buffer in the heart of the play, which will reduce trucking distances to the well site and transportation costs.

In addition, pairing together critical supply-chain data through the transload all to the well site through our PropView application will drive continued efficiencies across the supply chain for our customers. We believe the integration of key supply chain buffers and real-time inventory data are critical to ensuring the industry can continue to economically develop the US onshore oil and gas plays going forward.

With that, I'll turn it over to Greg to discuss the operational highlights from the third quarter.

**Greg Lanham**

Thanks Bill. Good morning, everyone. During the third quarter we delivered 15 new systems to the fleet, ending the quarter with a total of 59 systems. The increase in our fleet size, growing customer demand and industry activity levels led to a record 4,564 revenue days during the third quarter, a 202% year-over-year increase and a 35% sequential increase versus second quarter 2017. During the third quarter we were effectively fully-utilized. Customer demand for our systems has risen due to the increased well completion activity, increased proppant usage on average per well, in addition to the increased awareness of the advantages of our proven technology.

During the third quarter we continued to have a well-balanced customer mix; approximately 62% of our revenue was sourced from operators and approximately 38% was from pressure pumping companies. We are very proud of our blue-chip customer base and look forward to continuing to grow with our existing customers as well as add new customers.

We remain busy with some of our most active customers. During our last update call in August, 30 of our systems were deployed to our top four customers. Today, we have 41 systems deployed to those same customers, which represents an increase of more than 35%.

Adding our fifth most active customer to the analysis, we have a total of 48 systems, or 70% of our current fleet, deployed to our top five customers. This allocation mix is driven by our focus on partnering with well capitalized and active operators and competitively positioned pressure pumpers. Our top customers are typically responsible for the procurement and management of proppant, as they see firsthand the value proposition of our technology.

Our most active operating areas continue to be the Midland and Delaware basins, where we have 41 systems deployed. This is followed by the Eagle Ford, with 13 systems, the SCOOP/STACK with 7

systems, the Haynesville with 5 systems, and finally the Marcellus/Utica with 2 systems. Since deploying our first system, we have continued to refine and improve the offering. We are very excited to announce the deployment of our first system with our non-pneumatic loading option. Our non-pneumatic set-up allows our customers to continue to realize the benefit of our systems' multiple unloading points that can be used simultaneously, while increasing trucking flexibility by accessing the belly dump trailer fleet.

We are also excited to announce that we recently termed-up a portion of our fleet with customers for the next 12 to 14 months. We believe our customers' desire to term up of our well site proppant management systems demonstrates the belief by our customers that our technology works and is a preferred solution.

Regarding outlook, we expect to deliver an additional 6 to 8 systems in the fourth quarter, bringing the total to 74 to 76 systems by the end of the year. Our order book remains solid through the end of the year and well into 2018.

One of the ways we have been able to scale up and rapidly grow market share over the last 12-months has been the inherent design of our system, which does not require a significant number of personnel to operate it. Our systems are typically operated by a single individual, and that person is usually an employee of the pressure pumper on site. Our personnel supervise the rigging up and down of our systems, they perform preventative maintenance in the field, and generally train-up our customers to operate the equipment on their own. We typically hire only one new field technician for every new system we deploy in the field.

Our systems are plug-and-play with existing well site infrastructure. Once sand is offloaded into our silos, the sand is delivered directly to the blender at the touch of a button. No ancillary equipment or movement is required. Sand is gravity fed on to our electrically powered belts, which are controlled from our rugged touch-screen control panel.

As completion activity continues to increase, one of the biggest challenges our industry faces is hiring experienced personnel. We believe our proppant management systems are unique in the minimal amount of personnel required to maintain 2.5 million pounds, or 50 truckloads, at the blender. This allows us to scale quickly with demand.

I'll now provide an update on our Kingfisher Facility. We kicked-off construction on the facility in August. Construction is going according to schedule, with rails being laid and initial construction commencing on the silo pad. The first proppant through the facility will occur in early 2018. We remain engaged with numerous third-parties, including a mix of operators, pressure pumpers, and proppant suppliers who are interested in terming-up capacity at the facility.

As mentioned in our press release, our proprietary inventory management system, PropView, continues to gain traction. Our customers are using PropView to improve visibility across their supply chain. We are seeing our operator and pressure pumping customers utilize the platform, as well as third-party trucking firms. We believe establishing a lead in the data integration is key to positioning our business to continue to gain market share.

I'll close my prepared remarks with a comment on our view of the rest of year and 2018 industry activity levels. In recent weeks we have seen the industry's most widely tracked activity metric, US onshore rig count, begin to flatten out and over the course of the last couple of weeks actually decline, albeit modestly. As the industry pushes for capital discipline, we believe the need for our technology and service offerings only increase. Our business is driven by secular trends in the industry. Since starting

the business in 2014, we have grown in a severely contracted operating environment. We believe that if US onshore completion activity remains at current levels we, will continue to grow our business and increase market share, we save our customers money, reduce complexities around delivering ever-increasing volumes of proppant down a wellbore and improve safety at the well site, and we continue to transition from new technology to an incumbent solution.

With that, I'll turn the call over to Kyle for a more detailed financial review.

### **Kyle Ramachandran**

Thanks, Greg. In the third quarter we achieved a number of record operational and financial results, including 4,564 revenue days, \$18.5 million of revenue and adjusted EBITDA of \$11.2 million. Similar to our prior call, this morning I will focus on providing a comparison of our third quarter 2017 results to our second quarter 2017 results, as we view that comparison as most relevant. For those interested in comparing our year-over-year third quarter results in more detail, I would point you to our 10-Q that was filed with the SEC yesterday.

Revenue for the third quarter increased 38% to a record \$18.5 million from \$13.4 million in the second quarter. This increase was primarily due to a 35% increase in the number of revenue days, driven by an increase in our fleet size, as well as growing customer adoption of our patented technology.

Gross profit, defined as total revenue less both the cost of proppant system rental and the cost of proppant system services, excluding depreciation and amortization expense, increased 37% to a record \$14.0 million, compared to \$10.2 million in the second quarter, primarily due to higher revenues and operating activity.

Selling, general and administrative costs and salaries, benefits, and payroll taxes increased to \$4.1 million, from \$3.3 million in the second quarter. This increase was driven primarily by our continued transition to a public company, including increased headcount and bonus accruals and increased non-cash compensation.

Net income for the quarter was \$7.4 million, versus \$1.1 million in the second quarter.

Adjusted EBITDA increased to a record \$11.2 million, an increase of more than 50% versus the second quarter, reflecting the factors previously discussed.

Total capital expenditures for the quarter were approximately \$28 million and year-to-date of \$49 million. As previously disclosed, we have increased our system outlook for 2017 to 74 to 76 systems in the fleet by the end of the year, and we have increased our 2017 forecasted capital expenditures to between \$85 million and \$95 million. These strategic capital investments are designed to capture rising customer demand and to grow future earnings and cash flow.

I'll wrap-up by outlining our liquidity position. We ended the third quarter with a cash balance of \$54 million and \$20 million available under our undrawn credit facility, for a total liquidity of approximately \$74 million.

With that, we would be happy to take your questions.

## **QUESTIONS AND ANSWERS**

### **Operator**

Thank you. At this time, we will begin the question-and-answer session. To ask a question, you may

press star, then one on your touchtone phone. If you are using a speaker phone, please pick up your handset before pressing the keys. To withdraw your question, please press star, then two. At this time, we will pause momentarily to assemble the roster.

The first question comes from Jim Wicklund with Credit Suisse.

**Jim Wicklund**

You talk about terming up customers, which is always a good thing. I'm just curious, you've got so many systems with your top five, are you terming them up with your good customers or new customers, and can you talk about the approximate term? We've heard a lot of industry, a lot of business segments right now don't want to term up because pricing is low and you don't have that issue. And how much of a discount do I get if I term up for a year or two?

**Greg Lanham**

Good morning, Jim. Well, a couple of things. In terms of terming them up, on the well site silos, as we mentioned, it's 12-to-14 months, in that range. The number of the customers, they're a bit of both. So it's new customers and existing customers. And don't forget, on Kingfisher we have a seven-year contract out there with the customer as well, so we've actually got visibility across a lot of fronts. And I think the third part of your question was on pricing, and it's more or less to get into the queue, not necessarily getting a discount on the terming up of the contracts. So that's how we're doing it. There's really no discount, it's just basically guaranteeing customers access to our equipment.

**Kyle Ramachandran**

And the only thing, Jim, I would add—this is Kyle—is that, as far as pricing goes and this is sort of getting ahead of the question likely, but we're going out, and have gone out to all of our customers, with outlining 2018 pricing. We have various arrangements with folks today, between 6-and-12 months as to setting pricing, and as we've talked about in the past, there's just a natural evolution of that as those terms roll off.

**Jim Wicklund**

You're in an enviable position, most companies are trying to get term. You actually have people asking for it. That's nice. You talk about 12-packs, some of your customers are asking for 12-packs. We're hearing that demurrage is back after being gone for a couple of years. That can't hurt you guys. How many 12-packs do you really expect to have out there by the end of '18? I know that's a crystal ball kind of question, but is that going to be a rapidly-increasing part of your business, or a couple of one-offs?

**Greg Lanham**

Early in the year I would say we're looking at probably six in the first quarter. Towards the end of '18, we hope that will continue to grow. So you're probably looking at double-digits by the end of the year.

**Jim Wicklund**

Okay, that's good. And a last one, if I could. On Kingfisher, you talk about the one seven-year contract. How much of your capacity does that contract involve, and how much of Kingfisher do you want to have contracted and how much do you want to have available for spot? Because that's a different business than the silos.

**Kyle Ramachandran**

Yes, what we've said in the past—so this facility, it's sitting on 300 acres, it's highly scalable. The initial construction is really a third of the true footprint capacity of the facility. We've got an ability to add two additional loop tracks and multiple additional storage areas. And when we look at the minimum

volumes of this contract, we think it represents about 50% of the capacity of that initial phase, so, in other words, lots of additional capacity there.

And then, your point of spot is totally spot-on. We've got a great contract in place today with a great customer. Not everyone in the market is going to be prepared to lock into something that long, so we're going to be opportunistic and make sure we have capacity to take some of that spot business. And when those guys are out-terming capacity, that will likely result in higher pricing.

**Jim Wicklund**

That's a nice way to gain the system. And one last one, if I could. Sixty-two percent of your revenues are from E&P, 38 from oilfield service. Which way do you see that skewing over the next year?

**Kyle Ramachandran**

It's hard to put a fine pin to it. We think they both grow in lockstep, but we really do like the mix of customers that we have. We try to outline it there, but our top five customers today have a significant number of our systems, and that's what really excites us, which is this adoption of this technology across the group's total activity. Those are the types of customers that we continue to target on the new customer front, and so that will continue to be a mix of pressure pumpers as well as operators.

**Jim Wicklund**

Excellent. Gentlemen, thank you very much. Good quarter.

**Greg Lanham**

Thanks, Jim.

**Kyle Ramachandran**

Thanks, Jim.

**Operator**

Thank you. The next question comes from Waqar Syed with Goldman Sachs.

**Waqar Syed**

Thank you. Jim asked most of my questions, so thanks, Jim. My question relates more to G&A. Kyle, could you provide us some guidance for G&A going forward? And there were some items that you broke out separately, the adjusted EBITDA, could you guide on which of those IPO bonuses are unit-based compensation expenses, and what do you expect to be the carrying going forward?

**Kyle Ramachandran**

Yes. Thanks, Waqar. So on IPO bonuses that in the third quarter was really the recognition of expense-related to some restricted stock that was issued in the IPO, so those were 12-month restricted stock. So, that will still be in the next couple of quarters, we'll still see that \$600,000 roll forward.

Then in terms of stock-based compensation expense, as we continue to grow our team, that likely will increase. And we want to make sure our employees are incentivized, and all interests are aligned, so I think we had about \$800,000 in the third quarter and I'd see that going to probably \$1 million in the fourth quarter.

Then as far as cash G&A, I think the third quarter is representative of where we are today. The business is growing, so we would expect to see that to continue to grow, but not in any significant manner. We do have a very scalable business, but I think where we are today, the third quarter really represents a good starting point.

**Waqar Syed**

Okay. Then on the fleet that you have been able to put on term of 12-to-14 months, could you guide us, what proportion of the fleet has been termed up?

**Kyle Ramachandran**

At this point, we're not going to get to that number really, because we're in those discussions with customers today. But as we get more advanced with finalizing all those discussions with the majority of our customers, we may be in a position to articulate where that sits.

**Waqar Syed**

Okay. Then just one last question. Your run rate of about six systems a month, can that be increased further up, or that's the limit? And number two, if you were to scale it down, how quickly could you do that?

**Greg Lanham**

Hi, Waqar. Good morning. What we're going to stick is around that six number right now, because it helps us from the standpoint of keeping quality control and making sure that we're able to manage the supply chain well. To the second part of your question, that's four internally completely sourced, and then we have components that are coming in, which gives us an incremental two. So, we do have a lot of flex in that number. And so if we were to get in a situation we wanted to scale that down we could do it pretty quickly. But we wanted to stick with the existing footprint of our manufacturing facility and just add capacity by outsourcing, so that way it gives us the most flexibility as possible.

**Waqar Syed**

That's a good strategy. Thank you very much, sir. Thank you.

**Greg Lanham**

Thanks.

**Operator**

Thank you. And the next question comes from John Daniels with Simmons.

**John Daniels**

Hi guys. Good quarter. Just two for me. Greg, you guys noted in the release that you're in discussions with tenants interested in obtaining capacity at Kingfisher. As you look at that potential tenant list, how many of them use the current Solaris silo system, and where are the cross-selling opportunities for you?

**Greg Lanham**

Good morning, John. Our current customer, the one we've talked about and signed up, they are a current utilizer and in fact, a big customer. But we also see that as an opportunity for additional cross-selling. Others, it's a bit of a mix. We've got a lot of negotiations going on. We're in the process of getting to some finalized documentation. Some are existing users and some are going to be potentially new users. So we're using that as a—it's a good leveraging point, because we're actually able to organically grow some new customers because of touch points we have through the facility and then we have existing customers who are talking to us as well. So it's been a really positive outcome for us so far.

**Bill Zartler**

Yes, John. This is Bill. One other comment to that that I think is important to note is the integration of



the PropView system and the supply chain management from the well site with our system, combined with inventory management and scheduling of trains and all the things that happen at the transload. We are finalizing the development of a complete integrated system from well site back that we'll be able to provide that information, which makes the mental part of this business very sticky, because what people need is the way to plan better the supply chain.

**John Daniels**

Right, okay. This one might be a stretch, but as regional sand production expands, it would seem presumably a risk factor for the railroad guys. Do you see any interest on the part of the railroads to work with folks like you? And if so, what opportunities that could present down the road.

**Greg Lanham**

Well, we have seen—the railroads has been very, on our facility, very cooperative, very engaged, so far. I'm not sure how much of that is due to regional sand competition or just because it's a uniquely-positioned facility in an underserved market. But all I can say is, they have been very cooperative. We're moving ahead on schedule, which was a very aggressive timeline, but we're able to meet all those marks so far. And it's in part the cooperation we're getting from the railroad.

**John Daniels**

Okay. I'm going to squeak one more. You mentioned, you said the 12-pack options are growing. Is there a different pricing strategy for someone who gets a 12-pack versus the 6-pack?

**Kyle Ramachandran**

Hi, John. No, it's effectively just running two systems.

**John Daniels**

Okay, cool. Thanks, guys.

**Kyle Ramachandran**

Thanks.

**Greg Lanham**

Thanks.

**Operator**

Thank you. And the next question comes from James West with Evercore ISI.

**Blake**

Hi. Good morning, guys. This is Blake on for James.

**Greg Lanham**

Hi, Blake.

**Blake**

More of a thematic one for me. You guys mentioned during the roadshow potentially stepping out into water and chemicals. With logistics getting tight as they are and you guys benefiting from it on the part of the sand, any progress in expanding, perhaps horizontally into that arena, talks with maybe some of well site water containment guys in developing a more bundled solution?

**Bill Zartler**

Yes, Blake, it's Bill. We do have water silos that are out rented today that have been part of this

business. We have not spent a whole lot of time in additional R&D effort to perfect that, obviously frac tanks are relatively inexpensive and we think the silos enable a big footprint savings at our well site. We have been, and are, actively looking at how to better provide equipment for handling of chemicals at well site. That R&D effort is ongoing. It's been somewhat back-burned, based on the development of our belly dump system, which we are very excited to have out there now, and that's taken the bulk of our R&D effort over the last couple of quarters. But we are evaluating that and continue to evaluate the ways we can use our technology and talents in the company to create a broader offering, if you will.

**Blake**

Thanks, guys.

**Operator**

Thank you. And the next question comes from Judd Bailey with Wells Fargo.

**Judd Bailey**

Thanks. Good morning. The question on your cadence of building six systems per month through 2018, is there a way, or can you frame what percentage of those, do you have visibility on how many of those are already committed to customers, or you feel confident or already going to go on lease with the customer in 2018?

**Greg Lanham**

Sure. Good morning, Judd. We've mentioned before that, well, I guess we're going towards the end of '17 right now, but we're certainly fully committed there, and I will say, well into '18 as we go on, and it depends a lot on a couple of things. We're still seeing increased demand on 12-pack configurations, so that's something, honestly, that we have to factor into the calculus. Secondly, it's just been, as we've gone out and talking about new pricing strategy to customers, we're starting to get a better understanding of what their demands are. But so far in '18 we're seeing really strong demand.

**Judd Bailey**

Okay. And my follow up is on Kingfisher. When you guys first announced the transaction with one E&P, it sounds like you're starting to sign up more customers. Mistake me if I'm wrong, but the initial revenue numbers you guys cited were just for that one customer, so is there any update you can provide on the profitability or revenue outlook for Kingfisher, or a way to think about that relative to the initial release you guys sent out?

**Kyle Ramachandran**

Hi, Judd. This is Kyle. No, we have not come out with any additional guidance, so your numbers are right. I think what we've said here is we're in advanced discussions with several parties in definitive documentation. Once we are in a position to have that wrapped up and completed, we'll be certainly out and informing you guys as to how you should be looking at the opportunity there. So nothing has changed in a concrete way, whereby we'd be providing any different guidance at this stage.

**Judd Bailey**

Okay. Well, thanks for clarifying that. I appreciate it. And I've got one more, if I could. So it sounds as if you have one system out with the non-pneumatic set-up. Can you give a little bit of color on demand for that product versus the pneumatic end? Is there a risk of cannibalizing it at some point, that more customers want the belly dump feature and don't use the pneumatic systems, or is it too early to tell how that can ultimately shake out? Are all those non-pneumatic systems, will they truly be additive to the overall—what you have in the fleet?

**Kyle Ramachandran**

The way I'd answer that is, we'd still contend that the most readily available way to move sand in the oil and gas industry is through pneumatic trucks, so we think there's always going to be a need for a system that can readily handle lots of pneumatic trucks and efficiently. So that's what our system does. I think what's really unique about what we're doing is we're maintaining that flexibility, but now giving our customers an ability to access another set of trucks, that is, belly dump trucks. So I don't know that we'll see folks abandon pneumatics, just given the prevalence of them.

And then the other thing is, the way we've designed our non-pneumatic, and I think it's really the way anyone would design it, you just won't have the same number of offloading points. And that's what's really unique about what we're doing with the 6-pack and the 18-or-24 unloading points. So I think that will allow us to continue to see the need for pneumatics going forward.

**Judd Bailey**

Okay.

**Greg Lanham**

And I think an important point to the cannibalization question is, is that the non-pneumatic belly dump unloading option doesn't change the fundamental silo set-up. So it's an additional piece of equipment associated with a set of silos, so you don't lose the basic functionality of the six-pack in any way. There's no real cannibalism, it's just an additive feature.

**Judd Bailey**

Okay. Right. Thanks for clarifying that. I appreciate it.

**Kyle Ramachandran**

And Judd, I just wanted to quickly circle back on the Kingfisher comment. While I said we didn't have any additional firm capacity, we are contemplating putting in additional spot rail for nominal CapEx. But again, like I said earlier, there are participants in the market ready to term up, so we want to be able to take their capacity, even if it means on a spot basis.

**Judd Bailey**

Okay. Alright. Thanks, guys. I appreciate it. I'll turn it back.

**Operator**

Thank you. And the next question comes from Jason Wangler with Imperial Capital.

**Jason Wangler**

Hi. Good morning. I was just curious if you could talk now, you've outsourced quite a few systems, I think, just the cost differences, if you're seeing any, or if you're still building them at about the same cost that you did when you were internal?

**Kyle Ramachandran**

Hi, Marty. Nothing really new on the cost structure. We've been able to maintain the certain numbers that we've outlined in the past from a capital standpoint. We have gone out and secured Tier 2 generators for all of our manufacturing capacity next year, and that's really the key component in the supply chain that we want to make sure we have.

**Jason Wangler**

Great. That's all I had. I'll turn it back. Thank you.

**Kyle Ramachandran**

Thanks.

**Operator**

Thank you. And the next question comes from Martin Malloy with Johnson Rice.

**Martin Malloy**

Congratulations on the strong quarter.

**Kyle Ramachandran**

Thank you.

**Martin Malloy**

My first question is just on the competitive environment. Maybe you could talk a little bit about the demand for your system versus some of the other solutions out there, the containerized or the tightened system. I suspect from your comments about customers looking to entering into term contracts to get in queue, that the demand hasn't waned at all.

**Greg Lanham**

Hi, good morning. This is Greg. Yes, that's a good question. Just related to competition in general, I will say that we have certainly been surprised by the movement of the industry to adopt what I'll call all the new technologies. I guess we were really happy that we upped our cadence of our build right when we did, so we could meet that demand, so I think that's why you've seen us move pretty aggressively and gain some share.

Also, we've got a lot of new enhancements that are going on, whether it's with our PropView on the inventory management system and Kingfisher, so we feel good about where we're at. We feel good that we upped our cadence, our manufacturing cadence when we've been, and we've also been able to benefit from a more rapid adoption of new technology. So, all-in, I think it's been a positive for us, albeit it has gone a little bit quicker than anticipated.

**Martin Malloy**

Great. Thank you. I'll turn it back.

**Operator**

Thank you. And the next question comes from Praveen Narra with Raymond James.

**Praveen Narra**

Hi. Good morning, guys. I just want to follow up on Judd's question on the belly dumps. What kind of turnaround times are you seeing, or unload times, are you seeing for the belly dumps?

**Kelly Price**

This is Kelly Price here. Right now, we're seeing approximately 20 minutes, but what I would preface that with is the fact that the unit's in its infancy, so we are still working to get some more efficiencies out of it. So we'll continue to dial that in. We're hoping between the 15- to 20-minute mark, but we'll see just where it ends up by the time we get some more time to play with the unit.

**Praveen Narra**

Okay, perfect. And then just one more. In terms of your top customers, you've mentioned the top four or top five, what do you think your market share is within those top customers' profit management

systems?

**Kyle Ramachandran**

Hi, Praveen. I think it's a mix. If I think about those customers, they are somewhere, I'd take a certain basin, for example, with that customer in New Mexico and in South Texas, and we believe it to be 100%. We have other instances where a customer has maybe 20 or 30 operating frac fleets today, and we may only have 10 systems with them, because of our current capacity but plans to continue to roll it up. And then on the operator who's in multiple basins, and we may be with them in only, say, two or three of the basins, those are opportunities to continue to grow with them.

And I think that's what you've seen, the anecdote we sort of laid out in the prepared remarks was the increase in those top four customers of about 35% quarter-on-quarter. That was a mix of them tweaking activity as well as us continuing to add capacity to meet their baseline demand.

**Praveen Narra**

Perfect. Thank you very much, guys. Great quarter.

**Kyle Ramachandran**

Thanks.

**Greg Lanham**

Thank you.

**Operator**

Thank you. And the next question comes from Mike Beard with Hodges Capital.

**Mike Beard**

You all have been so successful with your silo-type system, are you seeing any others trying to get into a similar silo-type delivery system?

**Greg Lanham**

Good morning, Mike. How are you doing?

**Mike Beard**

Fine. How are you?

**Greg Lanham**

Good, good. Well, as I mentioned, there is some competition out there, but we feel good about where we're at in terms of being able to meet market demand. We certainly have the largest market share out there. There's really not any that has the same business model as us, is having a rental model in place and that way we're able to enhance the offering quite a bit, rather than just sell a piece of steel. So there might be some that have a very similar-looking type of system, but at the same time the business models are different and the offering is quite different.

**Mike Beard**

Okay. Thank you.

**Operator**

Thank you. And once again, please press star and then one if you would like to ask a question.

And the next question comes from Shawn Boyd with New Mark Capital.

**Shawn Boyd**

Hi. I just want to hit the operating sectors for a second. We're running around \$5.8 million in the quarter, and I understand the roughly \$700,000 in there. But what I didn't get on earlier, was that coming back at us for the next couple of quarters, or should we think about the run rate, think about \$5 million a quarter now?

**Kyle Ramachandran**

Hi. Do you mind just repeating the beginning of your question? We weren't exactly following.

**Shawn Boyd**

Sure, Kyle. Looking at quarterly operating expenses and specifically in SG&A and D&A, I'm looking at \$5.8 million now off of the third quarter. But of course we have the \$694,000 in IPO comp expense, etc. What I didn't catch earlier is how much of that we will see again in the next quarter or two, or does that all go away? So quarterly operating expenses here in the December quarter and going forward, that's where I'm going.

**Kyle Ramachandran**

No, I don't think you'll see it going down. The IPO bonus that I mentioned, that's a restricted stock that's going to continue to vest over the next couple of quarters. So that doesn't go away.

**Shawn Boyd**

Okay. What kind of growth should we think about on the operating expenses going into and through '18?

**Kyle Ramachandran**

Well, I think on D&A, I think that's just a modeling convention we're adding [audio break] systems a month, and we're building a \$40 million capital project in Kingfisher, so that will obviously continue to grow. But from a G&A perspective, we have a very scalable business, as we've mentioned in the past, and we operate in a very lean manner. So it will increase as we continue to add to the team, but modestly.

**Shawn Boyd**

Okay. If I could for my next, I just want to turn to PropView for a second. How important is PropView to your solution? And really, what I'm thinking of is, does that bring new customers over the line and help them pull the trigger on adopting your solution, or is it more of the service that existing customers are just really happy, where they're able to kind of optimize their usage over time so it sort of keeps them? I just need to understand more on the benefit of PropView.

**Kyle Ramachandran**

I want to, Greg, jump in here a second. But I would say it absolutely is a major selling point. It's a true differentiator today, relative to what else is available in the market. We've had "aha" moments with several customers, whereby they've said, it would just be great if we could see what kind of inventory we have available at the well site. And that's a great segue for us to say, well let me tell you about PropView. So, I think that's a real differentiator.

**Greg Lanham**

We've got—we mentioned over 120 users right now, independent users, which is growing considerably on a weekly basis. So we're starting to see a lot of traction there and a lot of adoption. And again, it's just helping the customers manage their supply chain much better, much more efficiently and save

money. So it is a combination of both in terms of it brings in new customers, but also we've got existing customers who are now seeing the benefits of it and starting to utilize it a lot more. So I hate to answer a question it's a bit of both, but in this case it is really.

**Shawn Boyd**

Got it. I appreciate that. And so given that you've only got 68 systems out there, is this 120, are we double counting? You've got roughly twice the number of users on PropView than you do in silos systems out there.

**Kyle Ramachandran**

Yes. Let me just clarify. What we meant by more than 120, those are actual individuals who have accounts and they're logging on and accessing the data. So if a customer has a system, we will go to them and say, who would you like to have access to this data? Who can use this to help you run your business? And so, depending on the customer, that can be the supply chain management group, it can be the procurement group, it can be the transportation group, it can be the logistics group, it can be the completions engineer, it runs the whole gamut.

**Shawn Boyd**

Got it. Thanks for the additional color, and congrats on the quarter.

**Greg Lanham**

Thanks.

**CONCLUSION**

**Operator**

Thank you. And as that was the last question I would like to return the call to management for any closing comments.

**Greg Lanham**

Alright. Thanks to everyone. I appreciate your time this morning, and looking forward to continuing to build our business and deliver results for all our shareholders. So have a great day.

**Operator**

Thank you. The conference is now concluded. Thank you for attending today's presentation. You may now disconnect.