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PRESENTATION

Operator

Good day, ladies and gentlemen, and welcome to the Mammoth Energy Services' Second Quarter 2019 Earnings Conference Call. (Operator Instructions)

As a reminder, this conference call is being recorded and will be available for replay on Mammoth Energy Services' website. I would now like to introduce your host for today's conference, Mr. Don Crist, Mammoth Energy Services' Director of Investor Relations. Sir, you may begin.

Donald Peter Crist - *Mammoth Energy Services, Inc. - Director of IR*

Thank you, Noel. Good morning, and welcome to Mammoth Energy Services' Second Quarter 2019 Earnings Conference Call. Joining me on today's call are Arty Straehla, Chief Executive Officer; and Mark Layton, Chief Financial Officer. Before I turn the call over to them, I'd like to read our safe harbor statement.

Some of our comments today may include forward-looking statements, reflecting Mammoth Energy Services' views about future events. These matters involve risks and uncertainties that could cause our actual results to materially differ from our forward-looking statements. These risks are discussed in Mammoth Energy Services' Form 10-K, Forms 10-Q, current reports on Form 8-K and other Securities and Exchange Commission filings.

We undertake no obligation to revise or update publicly any forward-looking statements for any reason.

Our comments today may also include non-GAAP financial measures. Additional details and reconciliations to the most directly comparable GAAP financial measures are included in our second quarter press release, which can be found on our website along with an updated presentation. And now I'll turn the call over to Arty.

Arty Straehla - *Mammoth Energy Services, Inc. - CEO & Director*

Thank you, Don, and good morning, everyone. Before I discuss Mammoth's second quarter operations, let me address one topic, which has overshadowed our operations and contributed to the volatility in our stock price beyond the general weakness within the oilfield services group.

Recent developments have focused a bright spotlight on the many problems confronting Puerto Rico. During the second quarter, we received approximately $42 million in payments from PREPA. As of July 30, we had approximately $250 million in accounts receivable related to our work in Puerto Rico. We continue to work with PREPA, COR3 and FEMA in an effort to collect our remaining accounts receivable and help PREPA get reimbursed from FEMA. One important thing to note is that PREPA has paid us more than they have been reimbursed by FEMA, and we continue to work with PREPA to provide the necessary documentation to obtain additional funding from FEMA. The electric grid in Puerto Rico is fully energized today, due in part to the outstanding performance of our crews which navigated very difficult working conditions, including rainforest and mountains. The quality of our work has not been called into question.

Our operations in Puerto Rico have concluded and all of our equipment has now been demobilized from the island. As we discussed on our last conference call, additional expenses were incurred during the second quarter to perform necessary maintenance on returning the equipment. The resources we utilized in Puerto Rico were maintaining using support from our Lower 48 operations. We are performing a full evaluation of our Lower 48 operations in order to rightsize the cost structure and streamline operations for our current backlog, which stands at $595 million. This process is expected to be completed over the next 3 to 6 months.

Industry-wide demand for T&D services remains high, and we are bidding on opportunities from both large and small IOUs. We believe there's currently more demand that can be fulfilled by existing experienced crews, and this is creating upward pressure on pricing. The overall spending of the industry is growing and is expected to translate into more work for all of the companies in this sector. Our recent investments have positioned us well to competitively bid on these opportunities and potentially increase our market share over the coming years.

The experience and competencies of our infrastructure team also allows us to build on significantly demanding projects both domestically and abroad. Some of these opportunities would utilize all of our infrastructure capabilities, including project engineering, logistics, helicopters and project management. Bidding opportunities in Puerto Rico are still ongoing with our fees expected to be issued in the back half of 2019 for work starting in 2020. Although, the current state of affairs may delay this process.

The second quarter of 2019 was challenging for the oilfield service side of our business. Despite oil price increases at an average of approximately 9%, we saw a moderation in oilfield service activity from several other companies we work for as further capital constraints were implemented from E&Ps causing white space to appear on our calendar. While we entered the second quarter with a nearly full fracked calendar, utilization across the industry moderated, especially in those areas we are exposed to, resulting in some of our expected jobs to get delayed or canceled.

The operators we are working for today have been customers for several months or years, and they recognize the benefits that come with the efficient operations we provide. The current OFS environment remains competitive as a result of oversupply of equipment, causing a compression of pricing across several of the business lines we operate.

We have been making reductions in our cost structure across our portfolio to rightsize our operations to current activity levels. As a result of this evaluation, we made the difficult decision to temporarily shut down some of our business lines, including our cementing and acidizing operations and our flowback operations. We continue to evaluate our operations to further adapt to market conditions, and we'll remain disciplined in our approach.

During the second quarter of 2019, we pumped 1,717 stages with EBITDA margins for our pressure pumping division coming in at approximately 13% or approximately $15 million in EBITDA per active fleet on an annualized basis. Our sand division performed admirably, despite the industry demand moderating quarter-over-quarter. The Piranha and Taylor mines are currently operating at an average of 4 to 5 days a week or approximately 60% to 70% of capacity. Our contracted capacity has provided a strong baseline of business, which has kept our Taylor and Piranha plants operating and our costs low.

We sold approximately 813,000 tons of sand during the second quarter of 2019, of which approximately 28% was brokered. The average sales price for the sand sold during the second quarter of 2019 was $30.09 per ton, while our blended second quarter production costs came in at approximately $12 per ton.

Our rentals business has experienced significant growth over the past year and that growth continues today. Throughout the second quarter, we averaged 600 pieces of equipment on rent across the Northeast and Mid-Continent regions, which is up more than 77% year-over-year, and we have expanded our offering to several customers in the Permian basin.

Our water transfer business experienced some weather-related issues during the early portion of the second quarter, but rebounded nicely and resumed its growth trajectory. We are decreasing the number of jobs for existing customers, and we are adding new customers with a steady ramp up and activity expected throughout the back half of 2019.

The water handling business is a growing, and we are actively looking at potential expansion opportunities, both organically and through acquisitions.

Our transportation business continues to grow beyond crude oil and frac sand, and we are diversifying into general over-the-road freight. We have identified opportunities to expand our fleet to support our other divisions and into new areas to further our expansion during the back half of '19 and into 2020.

The pipeline of M&A opportunities in the oilfield remains robust, but our focus has shifted towards more industrial offerings. Our team is currently evaluating numerous transactions primarily in industrial sectors that would be expected to have attractive returns. We remain committed to exploring opportunities in the areas we have highlighted for several quarters, including telecommunications, manufacturing and IMO 2020.

Throughout 2019, we intend to be selective in our investments and build cash for future opportunities. As our history has shown, we intend to remain disciplined in the deployment of capital, choosing only the transactions that are projected to meet our or exceed our hurdle rates. Organically, the best opportunities we see today are in the expansion of our rental fleet, our water transfer operations and the trucking fleets. All of these business lines are generating solid returns, with room for growth in existing operations, areas and new basins.

Before passing the call to Mark, let me sum up the second quarter 2019 in this way. It was challenging, but we are rising to the challenge. The market dynamics in the T&D industry are -- today are positive as current demand for experienced crews is outstripping supply causing upward pricing pressure. With the return of our equipment from Puerto Rico, we have turned our attention towards streamlining our operations and increasing market share in the Lower 48. Longer term shareholders will remember why we entered the infrastructure space, and our expectation for higher spending from IOUs in the T&D space of the medium to long term is beginning to be seen.

Given our integrated offering, we feel that we are well positioned for the future. One item to take note of regarding the challenging space in the oilfield services side of our businesses is that this is not the first time this management team has seen a slowdown in oilfield activity. During the 2014 to 2016 time frame, we were able to control cost and reduce debt while preferring -- preparing for the next upturn.

Commodity pricing has remained fairly stable in the $50 to $65 range throughout the second quarter, which provides for a baseline of business for the most efficient operators, some of which are -- we are working with today.

We will remain diligent in controlling cost, while protecting the balance sheet and maintaining our equipment. Mammoth remains in transition to a shift to a broader industrial focus, and we are continuing down that path in an attempt to remove some of the cyclicality inherent in commodity-driven businesses. We will remain disciplined, patient and exclusively focused on opportunities that we believe meet or exceed our targeted thresholds.

Let me turn the call over to Mark to take you through the financial performance during the second quarter of 2019, after which we will take questions.

Mark Layton - *Mammoth Energy Services, Inc. - CFO & Company Secretary*

Thank you, Arty. And good morning, everyone. I hope that all of you have had a chance to read our press release, so I'll keep my financial comments brief and focused on certain highlights.

Mammoth's revenue during the second quarter of 2019 came in at $182 million, down 30% from the first quarter of 2019. The majority of the change quarter-over-quarter was due to the work in Puerto Rico coming to an end in our infrastructure segment.

Our net loss for the second quarter of 2019 was $11 million as compared to net income of $28 million during the first quarter of 2019. Several factors contributed to the reduction, including a general slowdown in oilfield activity and our work in Puerto Rico coming to an end.

On a per share basis, the net loss for the second quarter of 2019 came in at $0.24 per diluted share.

Adjusted EBITDA for the second quarter of 2019 came in at $9 million, resulting in a corporate adjusted EBITDA margin of 5%.

Selling, general and administrative expenses came in at $9 million or 5% of revenues during the second quarter of 2019 compared to $17 million or 7% of revenues in the first quarter of 2019.

CapEx during the second quarter of 2019 was approximately $10 million, the majority of which was related to the organic growth of our trucking, rental and water transfer businesses.

For the first half of 2019, CapEx totaled approximately $30 million. We have lowered our full year 2019 CapEx budget to $41 million from $80 million. Of this total, approximately $6 million is designated for infrastructure services with approximately $35 million designated for oilfield services.

Given our current outlook, we expect the 2019 CapEx program to be completely funded through internally generated cash flows.

As a result of oilfield market conditions, our Board of Directors has decided to suspend the dividend. As of June 30, 2019, we had $7 million in cash and $82 million of borrowings under our $185 million credit facility, resulting in total liquidity of $100 million net of letters credit.

We thank our shareholders for their support. This concludes our prepared remarks, and we thank you for your time and attention. We will now open the call for questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) First question comes from the line of Mr. Tommy Moll of Stephens.

Thomas Allen Moll - *Stephens Inc., Research Division - Research Analyst*

Wanted to start on the infrastructure. There were some crosscurrents in the second quarter and I'm hoping you can help us unpack it to think about what may lie ahead, but my understanding would be that all the revenue that hit in the quarter was U.S. And so my presumption there would be that's a fair way to think about a run rate as you work through your backlog, which is still pretty strong. And then the crosscurrent would -- in the second quarter would be the expense line where, as you called out, there were some elevated expenses related to Puerto Rico that may trail into the rest of the year. But that over time, maybe the next few quarters, we ought to get back to that, call it, mid-teens type margin once Puerto Rico kind of gets fully cleaned up, and we've got the run rate in the Lower 48. So if you could help us understand those 2 dynamics, it'd be a big help.

Mark Layton - *Mammoth Energy Services, Inc. - CFO & Company Secretary*

Yes. Tommy, there's a few questions in there, so I'll try to split the answer up a little bit. Q2 included just under $11 million in revenues from Puerto Rico relative to some of the demobilization. I think if you look at the quarter, we exited the quarter at a run rate of about $150 million per year out of North America. So to your point, there's a fair amount of noise inside of that quarter but the takeaway is we exited the quarter with about $150 million in revenue run rate. There is some noise inside of the quarter in infrastructure segment relative to Puerto Rico and specifically related to demobilization of people and equipment. So we've got some inflated salaries during the quarter, as we demobilized our personnel. We've also got some repairs and maintenance inside the quarter and some associated labor related to that. The equipment was working fairly harsh conditions in Puerto Rico, so it will take us some time to work through that equipment, get it prepared to redeploy in the Lower 48.

And then that also has an ancillary impact on rentals as we rent equipment to do the work that we've got. So there's some noise in Q2, but I think one positive takeaway is that we're fortunate to have the labor that we've got. This is a labor-starved industry and to have the high quality labor that we've got inside of the infrastructure segment is actually a positive on a go-forward basis.

Arty Straehla - *Mammoth Energy Services, Inc. - CEO & Director*

Yes. Let me expand a little bit on that, Tommy, as well. We remember the entire story. At one point in time, we had 1,000 people -- over 1,000 people on the island. We had over 1,000 pieces of equipment and that came to an end on March 31. We worked in extremely harsh conditions in rainforest, in mountains, in tough conditions that took a lot of wear and tear on the equipment. And when we demobilized back, the people made it back faster than the equipment did. And we were stuck in a situation and that's why we talk about streamlining. One of the first things you do from modeling -- training and modeling path is you stabilize the process and that's exactly what we're going through. We exited the island. We did a tremendous job on the island with our teams executed at a very high level. Now that we've exited, we'll come back, and we'll put those streamline processes in and become very efficient at what we do. Remember the story that what we've done from 20 crews in October of 2017 to today, we have over 150 crews deployed. And we will continue to work that. As Mark stated, we think that this is -- there is more demand than supply, and we think that we have tremendous opportunity in this space. This is part of our industrial shift and moving over. We discussed that in the last 4 conference calls that we are moving to an industrial-focused company. And we think we are looking at a lot of other different opportunities in the industrial side and that's not that we will completely leave the oilfields service side, we're going to stay in the selected investments that we think can bring a return to us.

Thomas Allen Moll - *Stephens Inc., Research Division - Research Analyst*

And as a follow-up, I guess, I did want to spend just a brief minute on the oilfield service side, specifically for your pressure pumping business, where it sounds like the calendar didn't come through exactly as had been planned for second quarter. Could you update us on what the current utilization is? How many of your 6 fleets are running? Where they are? And what the calendar looks like going forward?

Arty Straehla - *Mammoth Energy Services, Inc. - CEO & Director*

Yes. We have -- currently, we have 3 that are running. Two in the Northeast, one in Mid-County area of Oklahoma. The -- quite honestly, the calendar has some white space in it, as we get ready to go. I think that's true of most frac companies. And a lot of it is budget restraint and budget spending by our customers, which, as you well know, that has completely changed over the last few years. We'll weather the storm, we'll get through it, and we'll be ready to run full out at the beginning of the year.

Operator

Next question comes from the line of Jason Wangler from Imperial.

Jason Andrew Wangler - *Imperial Capital, LLC, Research Division - MD & Senior Research Analyst*

Wanted to talk about, maybe -- I didn't see it, at least, in the slides, the backlogs in the infrastructure side. Just maybe if you could talk about kind of your outlook on that side? I appreciate Mark's kind of run rate numbers, but wondered if you had kind of some backlog numbers behind that?

Mark Layton - *Mammoth Energy Services, Inc. - CFO & Company Secretary*

Yes. Jason, the backlog currently sits at $595 million and that's all U.S. The pipeline of bidding opportunities for the infrastructure segment is fairly robust. And the one positive takeaway, outside of the run rate that I mentioned earlier as well as the backlog, is that they're getting more wins on the transmission side of the business, which is the higher-margin work, and certainly, speaks to some of our vertical integration opportunities that we've got inside of that segment.

Jason Andrew Wangler - *Imperial Capital, LLC, Research Division - MD & Senior Research Analyst*

Okay, great. And then maybe on the pressure pumping side. Obviously -- are you actually stacking those -- that equipment that you're not running? Or what's kind of the plan there? And can you maybe just talk about the -- I'm assuming Appalachia and Mid-Con just kind of the active crews where they're sitting today?

Arty Straehla - *Mammoth Energy Services, Inc. - CEO & Director*

We are warm stacking the equipment to take it down to 3. And we are making the changes in our staffing and that type of things that are related to that. We have always been very transparent about what we do, and we are -- we think that the next 3 to 6 months are going to be tough but we'll weather the storm. Don't forget, we were running 2 crews in -- when we went public in 2016 and it's one of those types of situations, we know how to manage through this process. We've done this before. We had to -- as we went through the 2014 to 2016 time frame, they were one of the worst downturns in oilfield services. We were able to build through that. We were able to reduce our debt during that time. And we do it by maintaining the disciplined approach to cost and taking cost out of the system wherever it's -- we're exposed.

Operator

(Operator Instructions) We have the next question, it comes from the line of Praveen Narra of Raymond James.

Praveen Narra - *Raymond James & Associates, Inc., Research Division - Analyst*

I just wanted to come back to Tommy's question on kind of unpacking the infrastructure business. So I guess, if we take out the headwinds or if the headwinds go through just -- I mean the amount of revenues come down. As we go through the remainder of the year, I guess, do we -- should we expect the infrastructure EBITDA to be positive for the second half? Or how do we think about the roll off of those costs?

Mark Layton - *Mammoth Energy Services, Inc. - CFO & Company Secretary*

Praveen, it will take us 3 to 6 months to get through the infrastructure segment. We'll expect to see continuous improvement through the back half of the year and exiting the year with positive EBITDA.

Praveen Narra - *Raymond James & Associates, Inc., Research Division - Analyst*

Okay. That's helpful. And then, I guess, previously you guys had given us the expectation on year-end cash balance. Could you update us on that, given all the changes? I guess, just wondering if there are significant changes there.

Mark Layton - *Mammoth Energy Services, Inc. - CFO & Company Secretary*

No. We fully expect to collect our receivables from PREPA, and we're working closely with PREPA and COR3 to provide them all of the documentation they need in order to request funding from FEMA. So I think one of the overlooked facts is that PREPA's advanced money to us over and above what FEMA has funded PREPA, so they've gone into their liquidity to pay us for the work that we've done. And as I've already mentioned dimension, there's been no question about the quality of the work that was done. We received $42 million in payments in Q2, and we continue to have an open dialogue with PREPA regarding the payment stream.

Arty Straehla - *Mammoth Energy Services, Inc. - CEO & Director*

Yes. Let me expand on that a little bit. You take a look at it from a higher level, we had a contract with PREPA. We did the work at a high level on-time on-budget. And nobody that says we are not going to get paid. We are working closely with PREPA. And Mark and I were on the island 2 weeks ago, we had a meeting with José Ortiz, and we're working through to help each other. We're working with PREPA to get the documentation correctly along with COR3. COR3 is a government appointed -- governor appointed group that stands for the Central Office for Recovery, Reconstruction and Resiliency. And I had dinner with Omar Marrero within the last 45 days who heads that up. We are working closely together to get all of the documentation that we need in order to get paid. PREPA has been a good partner. And we continue to work that process, and we feel good about where we're going to exit from a cash standpoint and where we are at the end of the year.

Operator

I'm showing no further questions at this time. I would now like to turn the call over to Mr. Arty Straehla.

Arty Straehla - *Mammoth Energy Services, Inc. - CEO & Director*

We want to thank everyone for dialing in today. I want to personally thank our team. Without the hard work performed by each of you, Mammoth would not be what it is today. We believe the future is bright for Mammoth and our team members as we intend to strategically develop our service offerings to grow and deliver shareholder value in the years to come. Thank you to our shareholders for your support and interest in our company.

Given the current oilfield market conditions, we are working hard to control cost and transition Mammoth into an industrial company that is less relied on commodity prices and more aligned with the industrial sector. We look forward to seeing many of you at our upcoming conference appearances and speaking with you again in November when we release our third quarter earnings. This concludes our second quarter conference call. Good day.

Operator

Ladies and gentlemen, this concludes today's conference. Thank you for your participation and have a wonderful day. You may all disconnect.