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July 20, 2018
Alma Investment Group
Equity Research

SELECT ENERGY SERVICES, INC (NYSE: WTTR)

Select Energy Services, Inc is a leading provider of total water management and chemical solutions to the fracking industry in North America. Their main business consists of supplying water to rigs, where it will be pressurised into shale underground and draw oil. The company has an extensive network of pipelines and hoses, has excusive rights to many water sources, and has developed strong relationships with both Oil and Gas companies. They are a market leader in a growing industry.

Thesis: Select Energy has a strong business, a wide moat, and is poised take advantage of the industry's explosive growth.

In recent years, remarkable advancements have been made in the fracking industry - in the past 6 years alone, oil production has more than doubled in the United States, almost entirely due to fracking. These advancements have not only increased the number of rigs producing oil but have also drastically increased the amount of water necessary to extract the oil. In fact, over 6.5x as much water is needed per rig compared to 2009. Select Energy is the largest supplier of water and, due to their extensive infrastructure and water supply, they may be the only company able to take advantage of the fracking industry's explosive growth.

In the water supply industry, the main barrier to entry are the permits and access rights to disparate sources of water, and the associated transportation rights-of-way. These are increasingly difficult to obtain due to stricter environmental and regulatory conditions, yet WTTR has systematically assembled a nationwide footprint of water and easement rights that is now effectively impossible to replicate. Thus, they have an incredibly strong moat.

Due to Select Energy's strong growth potential, low commodity risk, and wide moat, we believe that they have exceptionally strong business fundamentals. These fundamentals will likely allow them to prosper greatly in the near future.

Recommendation

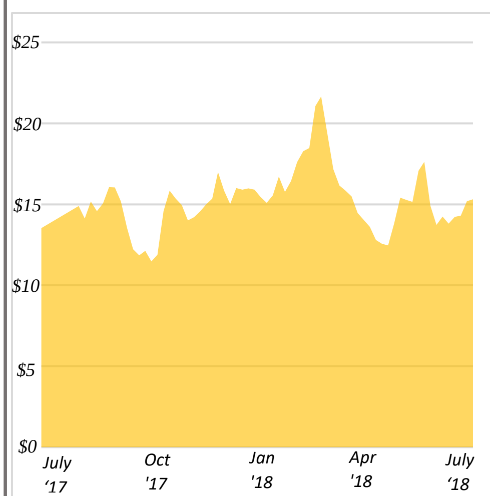
Alma Investment Group is confident that Select Energy Services, Inc is undervalued by the market and is a BUY. The company has attractive future cash flows and strong moat that protects future growth. As a result, we will be adding the company to our portfolio.

Valuation

Rating	**Outperform**
Price (July 20, '18)	$15.10
Target Price	$25.39
Total Return	68.14%

** Target Price is for 12 months*

Company Financials

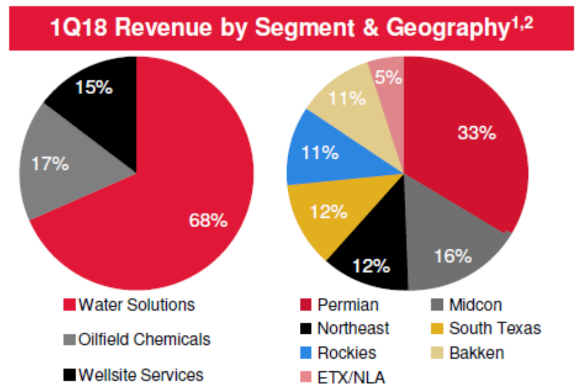


52-Week Price Range	$	11.50 – 21.96
Market Cap	$	1.62B
Enterprise Value	$	1.60B
Revenue	$	692.50M
Shares Outstanding	$	66.26M
P/E		46.92
Blended P/E		11.3
Blended EV/EBITDA		5.4

BUSINESS OVERVIEW & FUNDAMENTALS

Select Energy Services Ltd is a water service provider to oil and gas companies. Their main business segment, water solutions, consists of sourcing water from lakes and rivers, transporting the water to oil rigs, and disposing of the water. The company has recently completed a series of acquisitions, the most significant of which being the Rockwater Energy Solutions, Inc merger. Rockwater provided fluid management services and environmental solutions to oil and gas companies, and the acquisition allows Select Energy to provide a more comprehensive water management service. Rockwater had roughly the same market capitalization as Select Energy, and the merger allowed the company to effectively double in size. With these companies combined operations, they now focus on a variety of segments within the oil and gas industry, which can be narrowed down to three operating segments: Water Solutions, Oilfield Chemicals, and Wellsite Services.

1 - Water Solutions



Source: Company Presentation

Water Solutions is the company's main revenue generator, accounting for 68% of sales. It is operated primarily under the subsidiary, Select LLC, and provides water-related services to oil and natural gas producers. These services include: the sourcing of water, the transfer of the water the wellsite, the containment of fluids, measurement and monitoring of water, the filtering and treatment of fluids, well testing, fluid recycling, and flowback and produced formation of water. Of these, the most important to Select Energy's business is Water Sourcing and Water Transfer.

- *Water sourcing* – Through a portfolio of contracts and permits from regulatory bodies, corporations, and individual landowners, WTTR has secured rights to approximately 1.5 billion barrels of water annually from hundreds of sources. They have large scale sources through Missouri, Navasota, Ohio, Rio Grande, Sabine, San Antonio and Washita Rivers. In addition, the company has three government permits that allow them to withdraw up to 100 million barrels of water annually from the Missouri River and Lake Sakakawea in North Dakota. These contracts are extremely valuable due to their increased difficulty to obtain. For example, in Lake Sakakawea new permits will not be granted within 25 miles of an intake location, and multiple environmental and regulatory conditions must also be met.

- *Water Transfer* – The water transfer service line provides high-volume water transfer through both permanent pipeline systems and temporary hose systems. In total, Select Energy has approximately 110 miles of operational underground pipeline, 1,400 miles of lay-flat hose and 1,000 high-rate water transfer pumps. In combination with the company's network of water sources this is their greatest asset. These pipelines and hoses go through private property, and the rights-of-way are often difficult to get, further widening the company's moat. The water transfer service line also gives us confidence in the company's management. The company is constantly investing in pipelines, proving that they are forward looking.

The Water Containment, Water Treatment and Recycling, Well Testing and Flowback, Fluid Hauling, and Fluid Disposal are also integral parts of the company's operation. They provide necessary services that compliment the sourcing and transfer of water, allowing the company to provide a comprehensive service to their customers.

The water solutions industry is highly fragmented, with main competitors typically being smaller or mid-sized private service providers that operate on a narrow geographic range. Select Energy adds value by delivering the highest-quality services and equipment possible, coupled with superior operating efficiency.

2 - Oilfield Chemicals

The Oil Chemical's segment is the company's second largest revenue generator, accounting for 17% of sales. It is operated under the subsidiary, Rockwater LLC, and develops, manufactures, and provides a full suite of chemicals utilized in hydraulic fracturing, stimulation, cementing and well completion. The chemicals enhance the performance of underperforming wells and reduce production costs.

Compared to Water Solutions, competition in this segment is more pronounced, as projects are awarded on a bid basis with lower barriers to entry.

3 – Wellsite Services

The Wellsite Services segment provides workforce accommodations and surface rental equipment that support a variety of oil operations. Services include fully furnished and maintained office and living quarters, crane and logistics services, sand supply, and fluid supply. This segment accounts for approximately 15% of revenue.

Management

Holli C. Ladhani CPA – President, Chief Executive Officer, and Director

Holli Ladhani was the former president and CEO of Rockwater Energy Solutions, Inc. and after the aquisition of Rockwater in November 2017, she became President, CEO, and Director of Select Energy Services, Inc. She has extensive experience in the industry, as she was a former leader (President, CEO, CFO, Chairman, etc.) of many different energy companies. In addition, she is currently a Director at Noble Energy Inc.

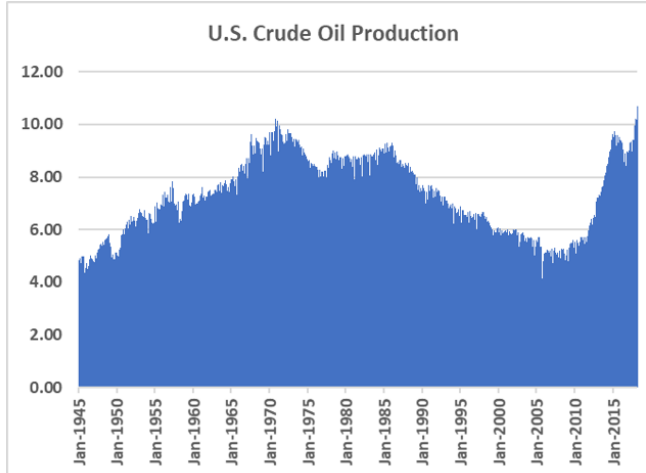
On March 13-14, Ladhani purchased 29,388 shares on the open market at an average cost of $13.87, which speaks to her confidence in the share's performance. Around the same time, director Alan Burnett also purchased 2,500 shares at $14.14.

John Schmitz – Executive Chairman and Founder

Previous to the Rockwater acquisition, John Schmitz served as the Chairman and CEO of Select Energy Service for 10 years. He has an impressive history of founding successful business in the oil and gas sector, as he has founded three successful energy companies. He is a board member on Forum Energy Technologies, Inc., President of B-29 Investments, President of Crestview Partners, and current Board member of Forum Energy Technologies, Inc.

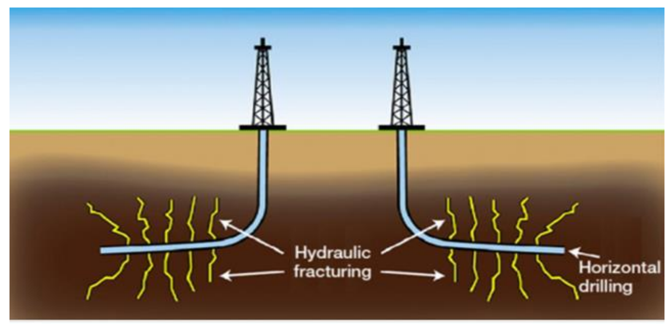
INDUSTRY ANALYSIS

Recent advancements in fracking have enabled crude oil to be extracted from shale on a highly economic basis. These advancements have reversed a 40-year decline in crude oil production and have allowed the US to re-emerge as a global energy superpower, second only to Saudi Arabia in annual output. More economic extraction methods have made more regions profitable to develop in and have drastically increased the amount of oil available to mine. The fracking business is now an important driver of national significance and it is poised to continue its strong growth in the future.



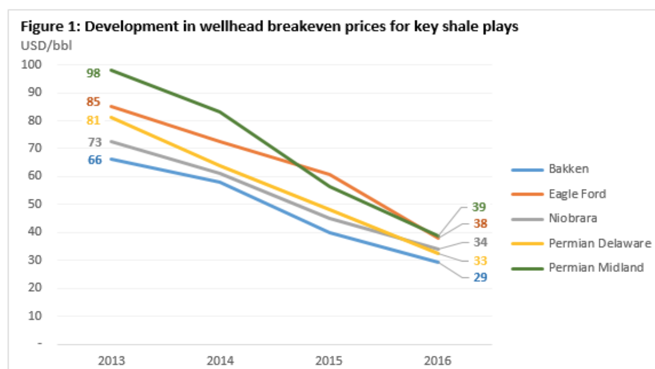
Source: U.S. Energy Information Administration

The fracking process involves blasting sand, water, and some specialty chemicals through wells at extremely high pressures. This mixture cracks shale rock and allows oil rigs to extract crude oil that was previously unreachable. Recently, oil wells have become increasingly long and horizontal – typically reaching about 2 miles in length. This development means that significantly more water is necessary to crack the shale rock. In fact, since 2009, over 6.5x the water is necessary per rig.



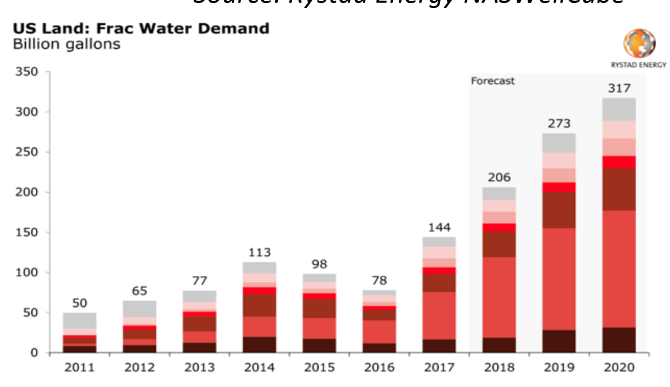
Source: Oil and Gas Logistics

The improved efficiency has significantly lowered the breakeven price for fracking and, as a result, has significantly increased the profits of fracking. Over the last five years, the breakeven price necessary to expand development has declined from an average of $66-98/barrel to just $29-39 today. These profits have encouraged more rigs to be built and have lead to exponential growth in the United States, where oil-rich shale is abundant. The Permian Basin alone is estimated to have 60-70 billion barrels of recoverable oil, making it the second biggest reserve in the world, second only to Saudi Arabia's Ghawar Field. Much of this oil was previously not economical to drill, however due to the drop in breakeven price, development has drastically increased. The economic and geopolitical significance of this cannot be understated.



Source: Rystad Energy NASWellCube

The increased number of rigs paired with the increased amount of water necessary per rig has created a ripe environment for water supply companies like Select Energy to prosper. The demand for water is increasing substantially, from 78 billion gallons in 2016 to an expected 317 billion



Source: Rystad Energy ShaleIntel

gallons in 2020 – a more than four-fold increase in demand. Select Energy is the company who is poised to prosper the most from the growth.

The competition that Select Energy faces in their water supply business is highly fragmented. In fact, in the company's 10k, they don't mention a single company that is a serious competitor, and no other water supply companies are public. To further their lead on the competition, Select Energy has been reinvesting much of their capital gains into developing infrastructure – one such initiative is to invest an additional $50-60 million to create a permanent pipeline infrastructure in the Permian Basin. They are also developing strong relationships that allow them to source, transport, and sell water on a scale that is essentially unmatchable.

The newest development in fracking, multi-well pads, are significantly more complex than single-well pads and require considerably more resources to run. A multi-well pad can use up to 250 million gallons of water, compared to 25 million gallons that a single-well pad will typically use. Such projects are likely beyond the capacity of many smaller water service providers and create an even wider moat for WTTR.

A main driver that encourages well development (and the resulting water usage) is the price and future price of oil and gas. On the futures market, oil and gas is $66/barrel, which demonstrates that prices are expected to remain strong for the foreseeable future as it is well above the breakeven price for shale plays.

CATALYSTS

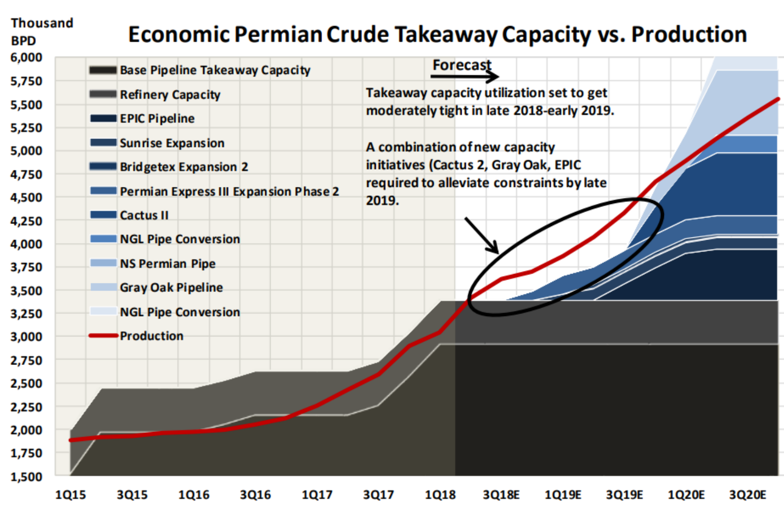
Q2 Earnings Report – improved margins

Select Energy Services will report Q2 earnings on August 9th, and the results may provide a catalyst to the market. In it's Q1 conference call, the company emphasized its focus on improving margins and how they are working aggressively to reduce their accounts receivable turnover (which is currently at 97 days – nearly double the industry average of 54). If they were able to reduce accounts receivable to 54 days, they would generate $180 million cash –nearly 9% of the company's market value. Although the company has indicated that this progress will likely not occur until quarter 3, any downward movement would be very beneficial. They also mentioned that they negotiated higher prices with their customers. These factors could improve the Q2 earnings to above expected and provide a catalyst that increases the stock price.

Private Equity Sell-off

From May 18 to June 15, shares of Select Energy Services have declined from $17.58 to $13.72. Some attribute this drop to how the production capacity of oil has outpaced the distribution capacity in some areas of the United States. After all, if oil producers are unable to sell the oil they extract, then there will likely be a decline in production.

This chart by Raymond James clearly demonstrates that production (the red line) is well above the take-away capacity of the pipe-lines. It is also clear, however, that the pipeline capacity is expanding



Source: Raymond James

quickly and will soon be able to handle oil production. Thus, over the two years when production exceeds outflow, analysts estimate that Permian fracking will decline by roughly 6%.

Since Permian fracking activity accounts for about one third of Select Energy's revenue, this would equate to a 2% drop in revenue. Clearly, this scenario would be a massive overreaction by the market. A more likely scenario is a private equity sell-off.

White Deer Energy is a small, energy-focused, private equity investment firm that invested in Select Energy in 2008. It has an intended ten-year life, and intends on selling their portfolio companies and returning funds to investors by the tenth year. As of May 15, White Deer held 4.489 million shares in their fund, and on May 16, WTTR filed a statement with the SEC registering approximately 50 million shares for sale – nearly half of the company's 106 million shares outstanding. Approximately 50 million shares are held by its biggest three investors: Crestview, SCF Partners, and White Deer. While the majority of these shares will not be sold, many factors indicate that White Deer has sold their shares their shares: the fund has reached it's 10 year life, Select Energy is now public (making the shares easy to sell), and White Deer has no board representation.

Other aspects further prove that this is a likely scenario: trading volume increased from a daily average volume of 579 thousand shares to 838 thousand shares – a 45% increase; prices have fallen in predictable increments, indicating a sell-off; and trading volume peaked at nearly 2.79M shares on May 22. Trading returned to normal volumes of around 600k afterwards, so this spike could indicate the last of the sell-off. The private equity sell-off is the most likely explanation for the stock's drop in price, and the market may soon see a correction to it's previous high of $17.

RISKS

1) Decline of Oil and Gas prices

When oil and gas prices decline, it severely reduces the growth of the industry, the amount that they are willing to spend on input costs (such as water). In 2014 the industry experienced a significant decline in oil price and most of WTTR's customers reduced exploration, development, and production activities through 2015 and 2016. As a result, Select Energy was forced to reduce their prices in order to keep their business. Recently, spending has increased, however if oil and gas prices decline again customers may cancel or curtail their spending on water services.

The price of oil and gas is influenced by a variety of economic and political factors - too many to list, and this subjects the industry to more risks. This being said, prices are expected to remain strong. This is shown through the futures market, which is currently pricing oil and gas at $66/barrel – well above the breakeven price to run a well.

2) Increased Legislative and Regulatory Initiatives

While hydraulic fracturing in Alberta and British Columbia, Canada has been occurring for decades, due to concerns over environmental impacts including water usage, wastewater disposal and contamination, and induced seismicity, Alberta and British Columbia regulatory groups continue to conduct ongoing review of rules and regulations of the industry.

Increased regulation and attention given to the hydraulic fracturing process could lead to greater opposition to oil and gas production activities using hydraulic fracturing techniques. Additional legislation would likely lead to increased operating costs in the production of oil and gas, which would directly affect Select Energy's business.

VALUATION

COMPARABLES COMPANY ANALYSIS

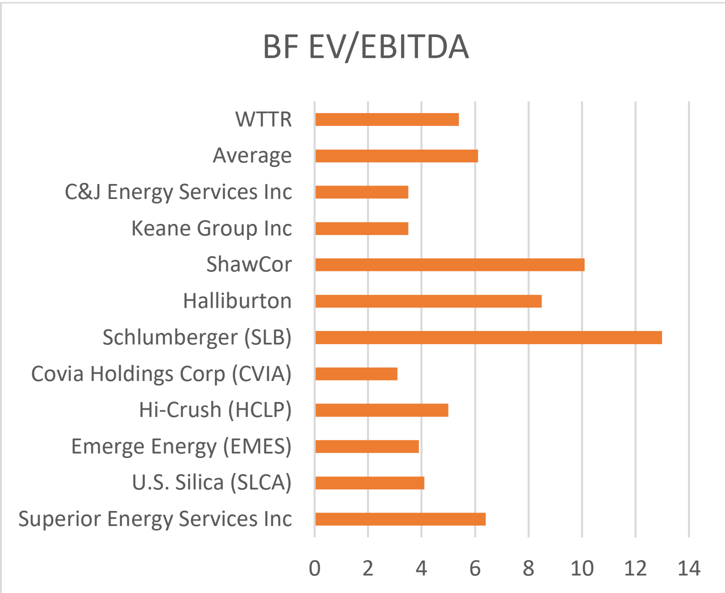
Select Energy is unique, as it is the only water service provider that is public and, as a result, there are no directly comparable companies. The most commonly compared companies are frac sand supply business because they are the other main ingredient in fracking and are subject to many of the same risks and catalysts. However, sand supply is a very different business. Sand is a commodity, and the only real barrier to entry is capital. Therefore, if sand becomes overly profitable, more players will enter the market and the price will fall. Water is very much different in this sense.

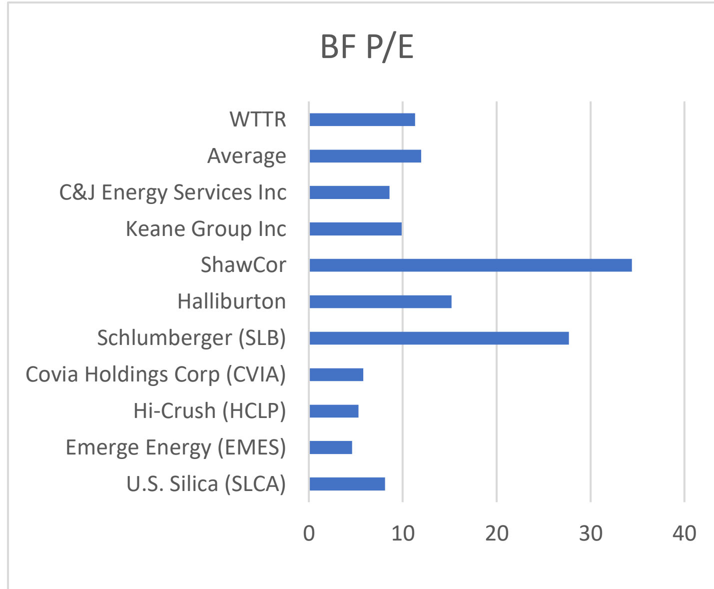
At surface level water appears to be a commodity much like sand - after all, all water is the same. However, it is different in the sense that a company cannot simply enter the market if they have the capital to set up shop. Instead, the main barriers to entry are the rights to water sources and the ability to transfer the water from the source to the oil rig. Select Energy has established a nationwide infrastructure of water sources and transportation that allows them to source millions of gallons of water to wells, that is effectively impossible to replicate due to increasing legislation. Therefore, WTTR's multiple should reflect both the moat that they have established through their nationwide infrastructure, the reduced commodity exposure, and the fast-growing industry that they are set to capitalize on. In fact, due to the increasing amount of water needed per rig, and the growing number of rigs in the united states, Select Energy is the only water supply company that is poised to take advantage of the growth.

Still, frac sand companies are adequate comparable, and will be used in the valuation. U.S. Silica (SCLA), Emerge Energy (EMES), Hi-Crush (HCLP), and Covia Holdings Corp (CVIA) will all be analyzed.

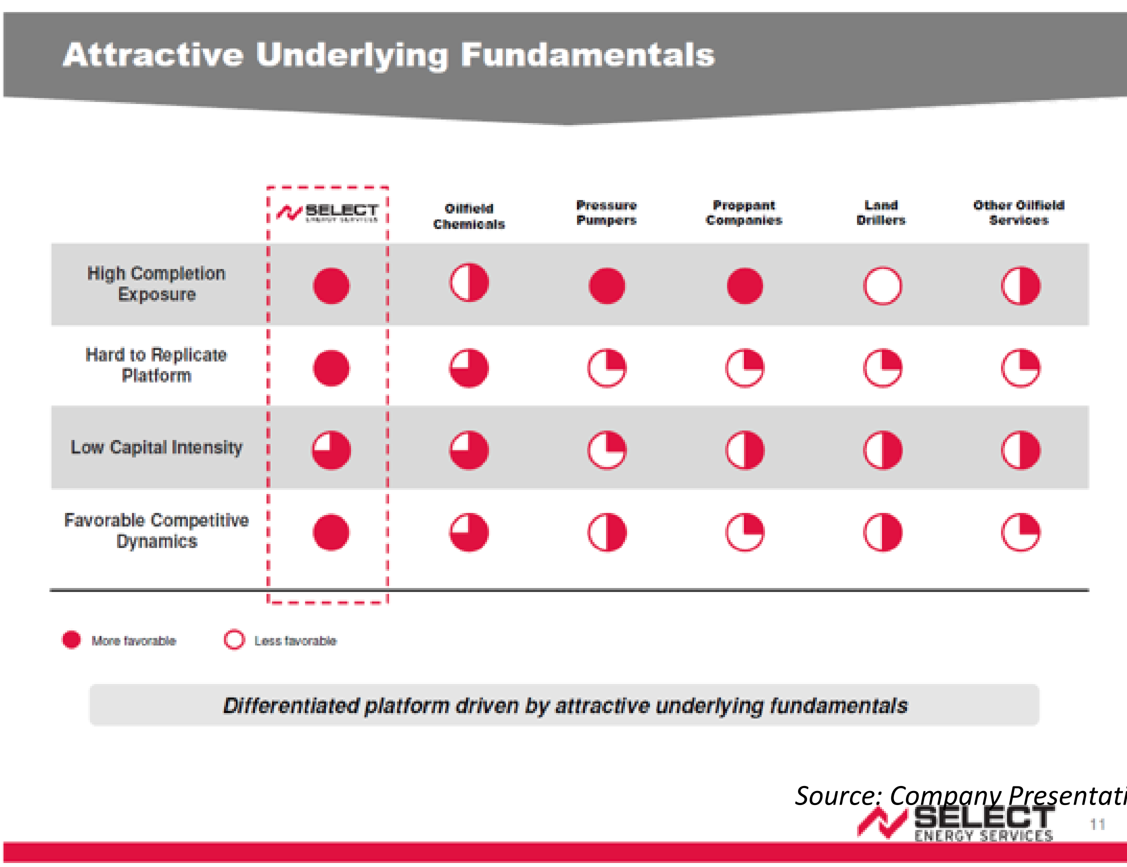
Other comparable companies include an oilfield chemical company, ShawCor; a land drilling company, Superior Energy Services; well completion companies Keane Group and C&J Energy Services; and large-cap oilfield service providers Schumberer and Halliburton.

Many of these companies have undergone recent mergers or acquisitions, and the current multiples are skewed as a result. As such, the blended forward P/E and EV/EBITDA will be used in the valuation.





In the investor's presentation (seen below), the company described Select Energy on four metrics – High completion exposure, hard to replicate platform, low capital intensity, and favorable competitive dynamics. Select Energy Services is a winner on all four metrics and the shares deserve a valuation multiple at the top end of the range. In fact, WTTR has a much better long-term business model—meaning faster growth, less cyclical, and better margins than top performing sand companies like Schlumberger or Halliburton and should trade at a superior multiple.



Source: Company Presentation

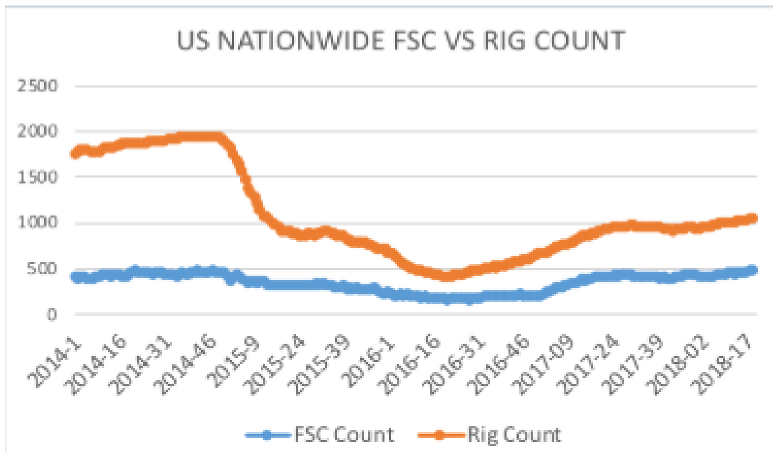
Astonishingly, WTTR sells even below the average multiple of the frac sand producers, who carry the most commodity exposure of all the subsectors.

Clearly, the company should command a higher multiple due to its reduced commodity risk, increased barriers to entry, and position to capitalize on fracking growth. An intrinsic value of $25.39 would give it a PE near the top of the scale, which is more realistic due to the company's security and growth potential.

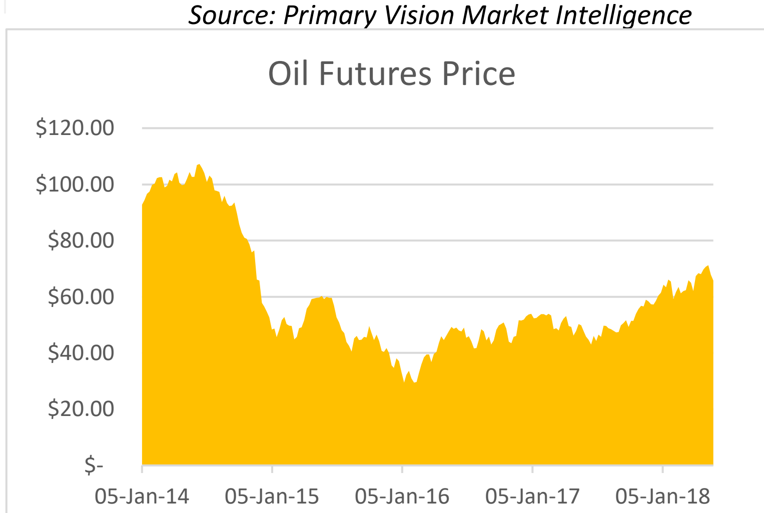
DISCOUNTED CASH FLOWS ANALYSIS

Revenue Forecasts

In the company's Q1 conference call, they mentioned that they track revenue internally against frac counts. Both rig counts and frac count (which measures the total fracking done) are growing rapidly and have a strong outlook moving forward. Again, the frac count is highly dependant on the price of oil, but this too has a positive outlook.



Source: Primary Vision Market Intelligence



Revenue forecasts are based largely on the estimated forward frac count, the expected price of oil, and the percentage of this growth that Select Energy will be able to take advantage of.

Oil expectations are strong, so frac count will continue to increase, and Select Energy will get an increasingly large slice of the pie due to the company's permanent infrastructures, extensive water rights, and access to funding, they will likely be the company that prospers the most from fracking advancements.

Because of these factors, we expect that revenues will sustain high growth of 15% for 5 years before leveling off at 4%. Note that the initial 130% increase in revenue is due to the Rockwater merger.

Cost of Revenue

The company's most significant challenges are labor and equipment costs; however, the company is working diligently to reduce both of these costs. To reduce labour costs, the company is shifting their focus on implementing automation technologies across the equipment fleet. The labour force is currently expanding at a rate of 50 to 100 new employees per month, but with the automation the company can sustain growth without adding to the net headcount. This will have a positive impact on the company's long-run COGS.

In the short run, the company has improved cost controls, sales efforts, and operational visibility. These initiatives have increased gross margins by 25% since last quarter.

Looking forward, we expect that COGS will remain low due to these initiatives, despite the growth of the company.

Historically, the cost of revenue has hovered around 87-92% of revenue, however this figure is better when oil prices are higher. Due to the cost reductions and attractive future prospects, we expect the cost of revenue to be roughly 86% of revenue.

Capital Expenditure

To reduce equipment costs, the company is working to lower rental costs by purchasing their own equipment. Roughly half of the company's CapEx is split between machine maintenance and machine purchases. This expense will rise in future as the company shifts towards more automation.

Terminal Value

The terminal value is based off of a 4% growth rate after 5 years of higher growth. This is a conservative estimate, as WTTR's moat and fracking expansion could allow them to grow at a significantly higher rate.

Weighted Average Cost of Capital

The company is financed mostly by equity, with 94.5% of their capital structure being common shares. Using the capital asset pricing model, these shares have a cost of 12.7%. The remaining 4.5% is financed with debt, which yields and after-tax rate of 4%. Combining these measures gives a weighted average cost of capital of 12.3%.

RECOMMENDATION

Select Energy is in a quickly expanding industry and many factors are indicating that it is undervalued: shares declined to a value attractive enough to incite insiders to purchase stock; the company has a strong balance sheet with very little debt; they have built a strong moat that is effectively impossible to replicate; and the industry is growing exceptionally fast. Select Energy has strong fundamentals and is poised to take advantage of the growth.

Aggregating both the Comparable Companies Valuation and the Discounted Cash Flows analysis produces a target price of $25.39, and we believe that the stock price should near this figure within the next 12 months.

INCOME STATEMENT

	2015A	2016A	AQ1 2017	AQ2 2017	AQ3 2017	AQ4 2017	2017A	AQ1 2018	Projected Annual Forecast 2018P	2019P	2020P	2021P	2022P
Revenue	**535.577**	**302.399**	***99.925***	***134.449***	***153.88***	***304.237***	**692.491**	***376.395***	**1592.729**	**1831.639**	**2106.384**	**2422.342**	**2785.694**
Cost of Revenue	523.332	346.527	*100.167*	*122.195*	*134.371*	*277.978*	634.711	*328.446*	1353.82	1556.893	1790.427	2058.991	2367.839
Gross Profit	**12.245**	**-44.128**	***-0.242***	***12.254***	***19.509***	***26.259***	**57.78**	***47.949***	**238.9094**	**274.7458**	**315.9577**	**363.3513**	**417.854**
Other Operating Revenue	0	0	*0*	*0*	*0*	*0*	0	*0*	0	0	0	0	0
Operating Expenses	81.018	254.845	*12.266*	*24.163*	*17.052*	*34.298*	87.779	*29.346*	122.336	140.6864	161.7894	186.0578	213.9664
Operating Income or Losses	-68.773	-298.973	*-12.508*	*-11.909*	*2.457*	*-8.039*	-29.999	*18.603*	116.5734	134.0594	154.1683	177.2936	203.8876
Foreign Exchange Losses (Gains)	0	0	*0*	*0*	*0*	*-0.281*	-0.281	*0.4*	0	0	0	0	0
Net Non-Operating Losses (Gains)	12.796	15.499	*-0.334*	*-1.281*	*0.158*	*7.717*	6.26	*1.609*	5.762605	6.626996	7.621045	8.764202	10.07883
Pretax Income	**-81.569**	**-314.472**	***-12.174***	***-10.628***	***2.299***	***-15.475***	**-35.978**	***16.594***	**126.5628**	**145.6718**	**167.6565**	**192.9424**	**222.0233**
Income Tax Expense (Benefit)	0.324	-0.524	*0.106*	*-0.138*	*-0.294*	*-0.525*	-0.851	*0.462*	38.22	43.95	67.4	77.52	89.16
Income Before XO Items	-81.893	-313.948	*-12.28*	*-10.49*	*2.593*	*-14.95*	-35.127	*16.132*	88.34284	101.7218	100.2565	115.4224	132.8633
Extraordinary Loss Net of Tax	-0.021	0	*0*	*0*	*0*	*0*	0	*0*	0	0	0	0	0
Minority/Non Controlling Interests (Credits)	-0.981	-6.424	*-8.108*	*-6.274*	*1.369*	*-5.298*	-18.311	*6.033*	0	0	0	0	0
Net Income/Net Profit (Losses)	**-80.891**	**-307.524**	***-4.172***	***-4.216***	***1.224***	***-9.652***	**-16.816**	***10.099***	**88.34284**	**101.7218**	**100.2565**	**115.4224**	**132.8633**

CASH FLOW STATEMENT

	2015A	**2016A**	**2017A**	Projected Annual Forecast **2018P**	**2019P**	**2020P**	2021P	**2022P**
Net Income	-80.891	-307.524	-16.816	88.34284	101.7218	100.2565	115.4224	132.8633
Depreciation & Amortization	107.712	97.107	103.449	111.4911	128.2147	147.4469	169.564	194.9985
Other Non-Cash Adjustments	22.704	196.689	-9.336	0	0	0	0	0
Changes in Non-Cash Capital	102.474	18.859	-80.816	0	0	0	0	
Cash From Operations	**151.999**	**5.131**	**-2.899**	199.8339	229.9365	247.7034	284.9864	327.8618
Disposal of Fixed Assets	14.143	9.335	7.479	0	0	0	0	0
Capital Expenditures	-54.076	-36.29	-98.722	-94.8	-113.8	-102.4	-117.8	-135.4
Other Investing Activities	1.23	0	-65.488	0	0	0	0	0
Cash From Investing Activities	**-38.703**	**-26.955**	**-156.731**	-94.8	-113.8	-102.4	-117.8	-135.4
Dividends Paid	0	0	0	0	0	0	0	0
Change in Short-Term Borrowings	0	0	0	0	0	0	0	0
Increase in Long-Term Borrowings	5	27.5	109	0	0	0	0	0
Decrease in Long-term Borrowings	-107	-298	-111	0	0	0	0	0
Increase in Capital Stocks	0	297.248	0	0	0	0	0	0
Other Financing Activities	-5.273	18.812	124.363	0	0	0	0	0
Cash from Financing Activities	**-107.273**	**45.56**	**122.363**	0	0	0	0	0

BALANCE SHEET

								Projected Annual Forcast				
ASSETS	**2015A**	**2016A**	*Q1 2017A*	*Q2 2017A*	*Q3 2017A*	**2017A**	** Q1 2018A*	**2018P**	**2019P**	**2020P**	**2021P**	**2022P**
Cash & Near Cash Items	16.31	40.04	*8.05*	*52.78*	*42.39*	2.77	*6.12*	6.12	6.12	6.12	6.12	6.12
Accounts & Notes Receivable	79.48	75.89	*103.18*	*129.54*	*148.37*	373.63	*407.05*	336.24	336.24	353.05	388.36	446.61
Inventories	0.70	1.00	*0.94*	*0.69*	*0.85*	44.60	*44.50*	46.83	49.41	52.12	54.73	60.15
Other Current Assets	10.63	7.72	*5.96*	*8.17*	*13.93*	25.51	*27.50*	27.50	27.50	27.50	27.50	27.50
Total Current Assets	107.12	124.66	*118.13*	*191.18*	*205.55*	446.52	*485.17*	416.69	419.26	438.79	476.70	540.38
Gross Fixed Assets	736.42	739.39	*756.12*	*789.92*	*815.00*	1035.00	*1051.97*	1258.41	1388.92	1510.56	1650.44	1811.31
Accumulated Depreciation	367.73	490.52	*500.54*	*519.08*	*535.46*	560.89	*578.22*	689.49	706.21	725.45	747.56	773.00
Net Fixed Assets	368.69	248.87	*255.58*	*270.84*	*279.55*	474.11	*473.75*	568.92	682.70	785.11	902.88	1038.31
Other Long-Term Assets	174.44	31.54	*67.40*	*66.58*	*67.66*	435.74	*432.09*	432.09	432.09	432.09	432.09	432.09
Total Long-Term Assets	543.13	280.41	*322.99*	*337.42*	*347.20*	909.85	*905.84*	1001.01	1114.80	1217.20	1334.97	1470.40
Total Assets	**650.25**	**405.07**	***441.12***	***528.60***	***552.75***	**1356.37**	***1391.01***	**1417.70**	**1534.06**	**1656.00**	**1811.67**	**2010.78**
LIABILITIES												
Accounts Payable	9.75	10.80	*13.01*	*12.12*	*11.75*	52.58	*62.42*	60.49	69.56	80.00	92.00	105.80
Short-Term Borrowings	22.31	0.00	*0.00*	*0.00*	*0.00*	1.97	*1.97*	1.97	0.00	0.00	0.00	0.00
Other Short-Term Liabilities	33.50	35.59	*40.48*	*42.86*	*60.56*	130.65	*140.43*	140.43	140.43	140.43	140.43	140.43
Total Current Liabilities	65.55	46.38	*53.49*	*54.98*	*72.31*	185.19	*202.84*	202.88	209.99	220.42	232.42	246.22
Long-Term Borrowings	245.34	0.00	*34.00*	*0.00*	*0.00*	75.00	*75.00*	75.00	75.00	75.00	75.00	75.00
Other Long-Term Liabilities	11.58	23.97	*25.05*	*24.76*	*26.11*	32.81	*31.90*	31.90	31.90	31.90	31.90	31.90
Total Long-Term Liabilities	256.92	23.97	*59.05*	*24.76*	*26.11*	107.81	*106.90*	106.90	106.90	106.90	106.90	106.90
Total Liabilities	**322.47**	**70.36**	***112.54***	***79.74***	***98.42***	**293.00**	***309.74***	**309.78**	**316.89**	**327.32**	**339.32**	**353.12**
SHAREHOLDER EQUITY												
Minority Interest	10.62	221.99	*217.31*	*253.31*	*255.69*	406.72	*412.03*	412.03	412.03	412.03	412.03	412.03
Share Capital & APIC	0.00	113.76	*116.48*	*204.98*	*206.85*	674.20	*676.96*	676.96	676.96	676.96	676.96	676.96
Retained Earnings & Other Equity	317.15	-1.04	*-5.22*	*-9.43*	*-8.21*	-17.56	*-7.72*	18.94	128.19	239.69	383.37	568.67
Total Equity	**327.78**	**334.71**	***328.57***	***448.87***	***454.33***	**1063.37**	***1081.27***	**1107.92**	**1217.17**	**1328.67**	**1472.35**	**1657.66**
Total Liabilities & Equity	**650.25**	**405.07**	***441.12***	***528.60***	***552.75***	**1356.37**	***1391.01***	**1417.70**	**1534.06**	**1656.00**	**1811.67**	**2010.78**

*** 2017A and 2018Q1 are the only quarters that are post-Rockwater merger**

Created by:
Jasper Deasey, COO

July 20, 2018
Alma Investment Group
Equity Research

DISCOUNTED CASH FLOW ANALYSIS

SELECT OPERATING DATA

$mm				Projected Annual Forecast				
	2015A	2016A	2017A	2018P	2019P	2020P	2021P	2022P
Revenue	$535.6	$302.4	$692.5	*$1,592.7*	*$1,831.6*	*$2,106.4*	*$2,422.3*	*$2,785.7*
Revenue Growth Rate (%)				*130.0%*	*15.0%*	*15.0%*	*15.0%*	*15.0%*
EBITDA	$39.9	$113.4	$74.1	*$238.9*	*$274.7*	*$316.0*	*$363.4*	*$417.9*
EBITDA Margin (%)				*15.0%*	*15.0%*	*15.0%*	*15.0%*	*15.0%*
								66.18
EBIT	(67.8)	16.3	(29.3)	*$127.4*	*$146.5*	*$168.5*	*$193.8*	*$222.9*
EBIT Margin (%)				*8.0%*	*8.0%*	*8.0%*	*8.0%*	*8.0%*
Depreciation & Amortization	$107.7	$97.1	$103.4	*$111.5*	*$128.2*	*$147.4*	*$169.6*	*$195.0*
D&A as a % of revenue				*7.0%*	*7.0%*	*7.0%*	*7.0%*	*7.0%*

Select Balance Sheet And Other Data

$mm				Projected Annual Forecast				
Cash	$16.3	$40.0	$2.8	*2.8*	*2.8*	*2.8*	*2.8*	*2.8*
Accounts Receivable	79.5	75.9	373.6	*336.2*	*336.2*	*353.1*	*388.4*	*446.6*
Inventories	0.7	1.0	44.6	*46.8*	*49.4*	*52.1*	*54.7*	*60.1*
Prepaid Expenses	10.4	7.6	17.8	*21.3*	*25.3*	*29.2*	*33.0*	*38.1*
Accounts Payable	$9.7	$10.8	$52.6	*$60.5*	*$69.6*	*$80.0*	*$92.0*	*$105.8*
Accrued Expenses	33.4	34.9	114.9	*132.1*	*152.0*	*174.7*	*201.0*	*231.1*
Debt	245.3	0.0	75.0	*75.0*	*75.0*	*75.0*	*75.0*	*75.0*
CapEx	368.7	248.9	474.1	*568.9*	*682.7*	*785.1*	*902.9*	*1,038.3*
Accounts Receivable Growth (%)				*(10.0%)*	*0.0%*	*5.0%*	*10.0%*	*15.0%*
Inventories Growth (%)				*5.0%*	*5.5%*	*5.5%*	*5.0%*	*9.9%*
Prepaid Expenses Growth (%)				*19.6%*	*18.7%*	*15.6%*	*13.0%*	*15.3%*
Accounts Payable Growth (%)				*15.0%*	*15.0%*	*15.0%*	*15.0%*	*15.0%*
Accrued Expenses Growth (%)				*15.0%*	*15.0%*	*15.0%*	*15.0%*	*15.0%*
Capital Expenditures Growth (%)				*20.0%*	*20.0%*	*15.0%*	*15.0%*	*15.0%*

Free Cash Flow Buildup

$mm				Projected Annual Forecast				
Period				1	2	3	4	5
Total Revenues	$535.6	$302.4	$692.5	$1,592.7	$1,831.6	$2,106.4	$2,422.3	$2,785.7
EBITDA	39.9	113.4	74.1	238.9	274.7	316.0	363.4	417.9
EBIT	(67.8)	16.3	(29.3)	127.4	146.5	168.5	193.8	222.9
Tax rate	**(0.5%)**	**3.2%**	**(2.9%)**	**30.0%**	**30.0%**	**40.0%**	**40.0%**	**40.0%**
EBIAT	**($68.1)**	**$15.8**	**($30.2)**	**$89.2**	**$102.6**	**$101.1**	**$116.3**	**$133.7**
Depreciation & Amortization	107.7	97.1	103.4	111.5	128.2	147.4	169.6	195.0
Accounts receivable				37.4	0.0	(16.8)	(35.3)	(58.3)
Inventories				(2.2)	(2.6)	(2.7)	(2.6)	(5.4)
Prepaid expenses				(3.5)	(4.0)	(3.9)	(3.8)	(5.1)
Accounts payable				7.9	9.1	10.4	12.0	13.8
Accrued expenses				17.2	19.8	22.8	26.2	30.1
Capital expenditures				(94.8)	(113.8)	(102.4)	(117.8)	(135.4)
Unlevered free cash flows				**$162.6**	**$139.3**	**$155.9**	**$164.6**	**$168.5**
Discount Rate *(WACC)*	12.3%	12.3%	12.3%	*12.3%*	*12.3%*	*12.3%*	*12.3%*	*12.3%*
Present value of free cash flows				$144.8	$110.5	$110.1	$103.5	$94.4
Sum of present values of FCFs		**$563.5**						

SECURITY DATA

Valuation Date:	2018-07-20
Share Price on Valuation Date:	$15.10
Diluted Shares Outstanding *(mm)*	66.2

Terminal Value

Growth in perpetuity method:	
Long term growth rate	4.0%
WACC	12.3%
Free cash flow (t+1)	175.2
Terminal Value	2,116.5
Present Value of Terminal Value	**$1,186.0**

WACC

Share Price	$15.10
Shares Outstanding	66.2
After-tax Cost of Debt	4.0%
Equity	
Capital Asset Pricing Model	
Risk-Free Rate	2%
Expected US Market Return	10%
Beta	1.273
Cost of Equity	12.6734%
Cost of Equity	12.7%
Total Debt ($)	$ 75.00
Total Equity ($)	$ 1,578.60
Total Capital	**$1,653.6**
Debt Weighting	4.5%
Equity Weighting	95.5%
WACC =	**12.3%**

Enterprise Value to Equity Value

Enterprise Value	$1,749.5
Less: Net debt	72.2
Equity Value	**$1,677.3**
Diluted Shares Outstanding	66.2
Equity Value Per Share	**$25.34**

Comparable Company Analysis

Companies	Cash	Debt + Preferred	Market Cap	Enterprise Value	BF P/E	BF EV/EBITDA
WTTR	**6.1**	**75**	**1578.6**	**1647.4**	**11.3**	**5.4**
Frac Sand Companies						
U.S. Silica (SLCA)	329.5	511.5	1854.1	2036.2	8.1	4.1
Emerge Energy (EMES)	8.7	203.8	226.35	421.4	4.6	3.9
Hi-Crush (HCLP)	10.1	196.1	1224.2	1410.3	5.3	5
Covia Holdings Corp (CVIA)	284.3	416.7	2078.7	2211.1	5.8	3.1
Average	*158.15*	*332.025*	*1345.8375*	*1519.75*	*5.95*	*4.025*
Large Cap Oilfield Service Providers						
Schlumberger (SLB)	5089	18618	90984.2	114925.8	27.7	13
Halliburton	2058	10891	36388.1	45221.1	15.2	8.5
Average	*3573.5*	*14754.5*	*63686.15*	*80073.45*	*21.45*	*10.75*
Oilfield Chemical Companies						
ShawCor	248.4	271.4	1838.4	1861.4	34.4	10.1
Land Drilling Companies						
Superior Energy Services Inc	90.4	1281.3	1480.7	2671.6	N/A	6.4
Well Completion Companies						
Keane Group Inc	95.9	282.6	1358.1	1545.3	9.9	3.5
C&J Energy Services Inc	88	0	1461.7	1373.7	8.6	3.5
Average	830.23	3267.24	13889.455	17367.79	13.28889	6.11
Total Average	**919.3057**	**3650.083214**	**15671.0423**	**19591.87786**	**13.19915**	**6.241785714**

Disclaimer

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