

# WTTR Earnings Call Transcript

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**Quarter: 3**

Operator: Greetings, and welcome to the Select Water Solutions 2025 Third Quarter Earnings Conference Call. [Operator Instructions] As a reminder, this conference is being recorded. It is now my pleasure to introduce your host, Garrett Williams, VP, Corporate Finance and IR. Thank you. You may begin.

Garrett Williams: Thank you, operator, and good morning, everyone. We appreciate you joining us for Select Water Solutions conference call and webcast to review our financial and operational results for the third quarter of 2025. With me today are John Schmitz, our Founder, Chairman, President and Chief Executive Officer; Chris George, Executive Vice President, Chief Financial Officer; Michael Skarke, Executive Vice President and Chief Operating Officer; and Mike Lyons, Executive Vice President and Chief Strategy and Technology Officer. Before I turn the call over to John, I have a few housekeeping items to cover. A replay of today's call will be available by webcast and accessible from our website at [selectwater.com](http://selectwater.com). There will also be a recorded telephonic replay available until November 19, 2025. The access information for this replay was also included in yesterday's earnings release. Please note that the information reported on this call speaks only as of today, November 5, 2025, and therefore, time-sensitive information may no longer be accurate as of the time of the replay listening or transcript reading. In addition, the comments made by management during this conference call may contain forward-looking statements within the meaning of the United States federal securities law. These forward-looking statements reflect the current views of Select's management. However, various risks, uncertainties and contingencies could cause our actual results, performance or achievements to differ materially from those expressed in the statements made by management. The listener is encouraged to read our Annual Report on Form 10-K, our current reports on Form 8-K as well as our quarterly reports on Form 10-Q to understand those risks, uncertainties and contingencies. Please refer to our earnings announcement released yesterday for reconciliations of non-GAAP financial measures. Now I'd like to turn the call over to John.

John Schmitz: Thanks, Garrett. Good morning, and thank you for joining us. I am pleased to be discussing Select Water Solutions again with you today. During the third quarter of 2025, we advanced key strategic objectives across each of our segments. In Water Infrastructure, we secured incremental contracts to enhance long-term water infrastructure scale and cash flow generation. In Water Services, we continued our consolidation and divestment efforts to drive a focus on long-term margin enhancement and efficiencies. And finally, in Chemical Technologies, we increased our market share gains, driving strong sequential revenue and margin improvement. I'd like to start with some of the key third quarter highlights, then provide an overview of several additional long-term contracts before addressing the forward outlook in more detail. In the third quarter, we maintained steady consolidated margins despite a weaker activity environment, driven by another strong margin quarter for the Water Infrastructure segment and improved Chemical Technologies margins. While general industry activity levels have been down, the produced water challenges our customers face continue to grow, creating the necessity for durable solution from commercial water midstream players. Pore space availability and seismicity-based curtailments remain a concern for traditional disposal solutions, which are driving tailwinds behind the continued demand for Select's recycle first solutions. Accordingly, we continue to advance our end-to-end water midstream offering with new contracts, organic expansion and bolt-on

acquisitions. The Permian Basin remains the most active basin in the industry, but it still lacks the necessary infrastructure and solution to support future operator plans and expected produced water volumes over the coming years without additional development. We continue to scale our infrastructure operations to meet this demand and are proud to be recycling nearly 1 million barrels of water per day in the Permian Basin with the vast majority flowing through our fixed facilities. Every day, these recycling solutions create significant operational efficiencies and economic value for our customers by providing synthetic disposal capacity that alleviates the need for significant produced water volumes to be injected into subsurface reservoirs. We expect to exceed our produced water recycling targets again this year with an active backlog of projects currently under construction, we expect strong growth into 2026 as well. Supporting this future growth, in the third quarter, we signed several new midstream contracts in the Permian Basin to add over 65,000 additional acres under long-term dedication across both Texas and New Mexico. We now have added nearly 800,000 additional acres under dedication during 2025 alone and are highly confident that we will continue to add incremental dedications to this inventory backlog before the end of the year. Something else that I'm very excited about, during the third quarter, we signed a new long-term contract for water transfer, our last mile temporary pipeline and logistics services in the Permian Basin. The existing water infrastructure contracts we signed in the Delaware Basin in the second and third quarter of 2025 paved the way for this expansive water transfer agreement with a key customer. This contract enhances more than 300,000 acres under existing dedication with newly contracted water transfer services alongside existing water recycling, gathering and disposal dedications. I believe this shows the strengths of Select's unique integrated value proposition and our customers' trust in our automated water transfer and logistics services. While produced water gathering, recycling and distribution remains the primary growth driver, we also continue to responsibly grow our Permian disposal capacity to complement this recycling footprint. With ever-growing produced water volumes, the Permian Basin demands comprehensive and flexible water midstream solutions going forward. Our produced water systems incorporate large diameter dual gathering and distribution pipelines that are connected to both centralized recycling and disposal facilities, providing optionality on how we manage produced water for our customers. Disposal is and will continue to be a cornerstone of produced water management, and we will continue to add disposal capacity as needed to balance our overall system. Our growing disposal network operates in unison with our recycling capabilities to provide comprehensive long-term solutions that bring stability and enhanced takeaway assurance for the long-term contracted water inventory volumes of our customers. As our network continues to scale, this optionality will further expand over time and will play a critical role in our long-term beneficial reuse solutions as well. Treated produced water offers a unique and cost-effective starting point for both desalination and mineral extraction and provides enhanced flexibility and capacity [ as an ] alternative disposal outlet. We remain at the forefront of developing these new technologies and scalable solutions and are actively partnering with key customers, regulators, universities and other stakeholders on advancing the framework necessary for these beneficial reuse solutions. Elsewhere on the technology side, we continue to advance our mineral extraction efforts that are very synergistic with our existing water midstream footprint and future beneficial reuse solutions. This includes the recently announced groundbreaking of Texas' first commercial produced water lithium extraction facility in the Haynesville Shale in East Texas. This facility will be funded, designed, constructed and operated by our partner, Mariana Minerals, a leader in domestic critical mineral resource development. This project will leverage Select's extensive produced water gathering pipeline and disposal infrastructure in the Haynesville to source, transport and manage produced water streams critical to the extraction process. For this, Select will receive reoccurring royalty payments. Based on the near-term goal to deliver up to 70,000 barrels per day and expected fixed price contracts, we expect royalty payments of about \$2.5 million per year beginning in early 2027, ramping up to \$5 million per year once the refinery is producing at full efficiency and capacity. With nearly 1.3 million barrels per day of produced water moving through our infrastructure on average during 2025, there remains tremendous mineral extraction potential across Select portfolio, and we expect to grow this royalty-based cash flow over the coming years. To update on some of our other ongoing strategic initiatives, our municipal and industrial project in Colorado is steadily progressing as expected. Additionally, on the peak rental side, demand for our distributed power solution continues to

grow and stakeholder engagement remain constructive. We are aiming to establish a distinct path forward for peak before the end of the year. While two very different initiatives, the underlying strategy and message is consistent. We are focused on delivering to our shareholders a streamlined water infrastructure-focused company with more predictable and stable long-term earnings. Ultimately, we have high confidence in what we are building. And even in a lower commodity price environment, our Water Infrastructure segment is demonstrating growth and resilience. We expect Water Infrastructure to grow by 10% in the fourth quarter and more than 20% during 2026. We believe that in a lower commodity price environment, more than ever, our customers will look to us to unlock incremental economics and efficiencies. Large-scale water balancing and recycling is a prime example of the combinations of good stewardship and good economics as it mitigates potential reservoir pressure impacts from produced water injection while also serving as a cost advantage alternative to legacy disposal. In addition to reducing lease operating expenses for our customers, recycling also provides a cheaper source barrel for our operators' completion needs as compared to traditional freshwater supply, thereby also reducing their capital expenditures for new well development. While the current activity environment may present some challenges for more of our completions-oriented offerings in water services and chemical technologies, we believe our market-leading positions in these segments will allow us to outperform the market and continue to generate solid free cash flow to fund our overall growth. In summary, I am pleased with the ongoing advancement of our strategy and the way our organization responds to the challenging environment. One of the key statements and tenets we tell ourselves at Select is that we have to do more with less with better results. The current market environment and our customers effectively demand this from us. But most importantly, we demand it of ourselves every day, and we are committed to delivering that for our stakeholders. Looking ahead, I think the fourth quarter will be a good demonstration of these efforts, and I appreciate the continued dedication of our employees and the ongoing trust and support of our long-term shareholders. With that, I'll hand it over to Chris to speak to our financial results and outlook in a bit more detail. Chris?

Chris George: Thank you, John, and good morning, everyone. In the third quarter, Select exhibited resilience in light of declining activity levels and made steady progress in advancing its strategic objectives. During the third quarter, we achieved another quarter of strong water infrastructure margins, sizable increases in Chemical Technologies revenue and gross profit before D&A; of 13% and 29%, respectively, and cash flow from operating activities of \$72 million, outpacing our adjusted EBITDA. Looking at our third quarter in more detail, Water Infrastructure revenue decreased 2.5% with margins of 53%, modestly below prior quarter levels, but in line with our expectations. The modest reductions were primarily driven by reduced skim oil sales and lower realized oil prices as both disposal and recycling volumes held fairly steady during the quarter. Looking ahead for our Water Infrastructure segment, we anticipate revenue and gross profit growth of approximately 10% in the fourth quarter compared to the third quarter. Furthermore, with our sizable backlog of ongoing construction projects and our latest contract wins, we expect continued growth well into next year, driving more than 20% annual growth in 2026 compared to 2025. We expect to maintain gross margins before D&A; consistently above 50% in both Q4 and throughout 2026 as well. In the Water Services segment, in the third quarter, we saw revenues decrease by approximately 23% sequentially. This decrease was heavily impacted by the divestment of legacy trucking operations associated with the Omni transaction, which closed in early July. This divestment accounted for more than 1/3 of the overall decline with the remainder driven by lower customer activity levels during the quarter. While sizable, this decrease was better than our prior revenue guidance of an expected 25% decline, though our gross margins before D&A; and services of 18% came in slightly below our expectations during the third quarter. We expect the impacts from ongoing lower activity levels and typical fourth quarter seasonality to result in sequential revenue declines of low to mid-single digits in Water Services with margins before D&A; improving to 19% to 20% in the fourth quarter of 2025. Moving on to Chemical Technologies. This segment achieved a sequential revenue increase of 13% during the third quarter, significantly above our guided expectations as ongoing successes with new product development initiatives drove market share gains. Importantly, gross margins before D&A; also materially exceeded our expectations, coming in at 19.9% in the third quarter, resulting in gross profit before D&A; of \$15.2 million, a 29% sequential increase. During the fourth quarter of 2025, we expect steady revenue with gross margins of

18% to 20% as continued market share gains and product mix contribute to notable outperformance versus the expected activity levels in the key markets and regions we serve. On a consolidated basis, SG&A; increased to \$42 million during the third quarter, driven primarily by severance and deal costs, including from the Omni transaction and ongoing peak efforts. We expect SG&A; to return to approximately \$40 million in the fourth quarter, and we will continue to look for opportunities to reassess the cost structure of the business in conjunction with the ongoing rationalization efforts in Water Services. Altogether, adjusted EBITDA came in at just under \$60 million during the third quarter of 2025, at the high end of our previous guidance. For the fourth quarter of 2025, we expect consolidated adjusted EBITDA to grow to \$60 million to \$64 million as strong sequential growth in the Water Infrastructure segment is expected to more than offset typical fourth quarter seasonality. I'll now hit on a few below-the-line items and cash flow details before we wrap up. Looking at our other costs for the third quarter, D&A; increased approximately \$2 million in Q3 to approximately \$45 million. With the continued build-out of our growth capital projects, we expect D&A; to increase in Q4 to approximately \$46 million to \$48 million. Interest expense should remain relatively steady, and our book tax rate applied to pretax operating income should stay in the low 20% range with cash taxes on the year remaining consistent with prior guidance of \$10 million or less. Given recent federal legislation, we would expect our cash tax obligations to remain relatively muted across the next couple of years as well. On the cash flow side, cash flow from operations of \$72 million meaningfully exceeded our adjusted EBITDA for a second consecutive quarter as we continue to improve our working capital profile. Growth CapEx increased to \$95 million during Q3, primarily in support of contracted infrastructure growth projects, resulting in negative free cash flow of \$19 million in the third quarter. We also incurred \$35 million of cash outflows for acquisitions in the quarter related primarily to the Omni transaction as well as the acquisition of other disposal assets in the Permian and Northeast regions to strategically support our market-leading recycling and disposal networks in those basins. For several quarters in a row, we have seen our large backlog of water infrastructure opportunities materialize into actionable contracts. Following the recent project wins and continued pace of development, we are modestly increasing our 2025 net CapEx guidance range to \$250 million to \$275 million, up \$25 million since the prior update. While near-term cash flow is expected to be impacted by elevated growth CapEx spend associated with our new contracted infrastructure growth projects, we maintain a very healthy balance sheet overall. We are well underway in executing our strategic commitment to streamline our overall business and deliver to our shareholders an industry-leading water infrastructure and midstream growth platform comprised of strong free cash flowing assets while upholding our commitment to a low leverage balance sheet. We maintain our expectation of \$50 million to \$60 million of annual CapEx going towards ongoing maintenance and margin improvement initiatives in the near-term, although this could come down over time with additional services rationalization. Absent the ongoing sizable growth capital outlays, we have a very maintenance-light capital model. Our operating assets have significant free cash flow generating capabilities and flexibility to manage maintenance spend in accordance with market conditions without impacting our overall operational performance. In summary, we advanced our strategic initiatives in the third quarter and remain confident in our overall strategic outlook. We are proud to have positioned the company with strong liquidity, resilient earnings and growing contract coverage, and we look forward to continuing to deliver on our strategy. With that, I'll hand it over to the operator for any questions. Operator?

Operator: [Operator Instructions] [Technical Difficulty]

Unknown Analyst: Congrats on a nice result and continuing to advance the ball on contracting water infrastructure. John, I think we all pretty well know kind of your strategy around the infrastructure side with what you're doing in recycling, building out the networks and kind of controlling the water. And you mentioned -- I think both you and Chris mentioned adding some disposal capacity this quarter and something you'll do going forward just to support what you're doing. I'm curious how you feel like you're positioned there versus -- obviously, there's a lot more water volume coming out of the Permian than you can recycle. So maybe spend a minute on how you think about disposal.

John Schmitz: Well, I guess the first thing to say about it is it's the thing we continue to be -- to say is we always want to do our best to make an optionality of recycle first. We think it's the best economics to our customers. It's a very good profile for profitability for us. But we have to backstop that network,

those volumes with that relief and that relief is that disposal, [ Jim ], that you're asking about. As I think about it, and we continue to find it, I mean, we announced and have continued to get exposure to and find opportunities to buy what I would call stranded assets. So as we put these networks together and you get an ability to hook one piece of pipe or one storage, one recycling to other pipes and storage, you go across asset bases that we have been able to buy and those are stranded disposals. And that disposal comes to us in the network to fit within the equation of water balancing in a big way. And that has showed up and continues to show up, and we expect it to continue to be an opportunity for us as this network gets built out, Jim.

Unknown Analyst: Appreciate that, John. And the other kind of exciting thing, I think, or at least really interesting is the mineral extraction and you kind of mentioned beneficial reuse and you guys are working on that. Maybe just talk about kind of what inning you're in, in the beneficial reuse and maybe what is the opportunity set of beneficial reuse and mineral extraction over the next 5 years, just kind of thinking about how this compounds the growth in water infrastructure.

John Schmitz: Sure. I'll let Mike Lyons and Michael Skarke throw in here. But logically, with the announcement of what we did in East Texas, extremely excited to be able to spread that across more volumes that are in our control in our networks. And then the beneficial reuse our partnership with regulators or universities or upstream major players, we're very excited about taking a piece of that water and repurposing it. But Mike, please, I'll turn it to you.

Michael Lyons: Yeah. Thanks. So I think, Jim, the big win for us here is we spent a lot of -- we spent the last couple of years really digging in and characterizing our portfolio. And so we're really glad to seeing it pay off. And this is a commercial scale facility. So I mean, we're in the early innings of creating revenue around this, but I think we're farther along in that from a technical perspective and making sure that these projects make sense commercially. We cast a pretty wide net to find partners who are good operators, who are well capitalized, have a competitive advantage and are committed, quite frankly, to moving beyond pilot scale because none of this means anything to us unless we can make money on it. And so the -- our water infrastructure networks, particularly recycling is what is so attractive to these partners, and it's what is going to create this value. And so we have -- we do have concrete plans in place to monetize the rest of the portfolio as well. And of course, we'll continue to share that as they are put in motion. We like to talk about the stuff that's happening, not just talk about plans. And so I think we are clear on how this particular project will ramp, but you should expect to see more. And I think, Michael, on the desal side, if you want to say a few words, but I think recycling there provides a great starting point as well.

Michael Skarke: No, sure. I appreciate it. So Jim, on that point, we are looking to monetize the expansive network we have in New Mexico by providing traditional disposal in that way, we can be a recycling first provider, but still really monetize our position and make sure we solve the total water problem with traditional disposal. As we look forward, there's issues with in-basin disposal, there's distant disposal and there's beneficial reuse, and we think it's going to be all of the above. So there's not going to be one answer to the proverbial water that's going to come in the Delaware Basin and the Permian more broadly. So we continue to work with strategic partners, like John mentioned, operator partners, universities and others on beneficial reuse solutions. We think this is coming. We've had some success at different levels and hope to have an announcement at some point in the future when we're further along in the process.

Operator: The next question is from Bobby Brooks from Northland Capital Markets.

Robert Brooks: So Chemical Technologies was a bright spot. Sales up 13% sequentially, the 20% margin, and that was versus a mid-single -- the guide of a mid-single-digit decline and 15% to 17% margins. I know, Chris, you had mentioned share wins via new products was kind of the drivers of strength. But I was just curious if we could hear a little bit more, like was the new products, the entire driver of market share gains? And do you think you can keep -- you can maintain those market share gains? And maybe just discuss why those new products saw such strong adoption?

Chris George: Yeah. No, I appreciate the question, Bobby. Obviously, we were very, very excited to see the performance of the segment during the quarter here in -- the Chemical products, the R&D; side, we've got a very strong technology team. And I think one of the core drivers is the continued advancement of efficiency that John mentioned from our customers. That comes in a number of

different ways. In some ways, it's extending lateral wellbore lengths. In some ways, it's trying to decrease the number of days on pad and increase that overall efficiency. But at the end of the day, all of those things translate into, I would say, new technical requirements around chemical products as well. The type of chemistry required to get out to the end of a 4-mile wellbore lateral as well as the type of chemistry required to push through a simul, trimal or quad frac, all of that translates into, I would say, advancing technical requirements, particularly when integrated with produced water and recycled produced water. And I think that works really well in our favor when we're talking about the scale of our recycling capabilities here and the technical experience we have on managing that water resource as well. So those are some of the primary drivers here. And I think that as we continue to look forward, we think that the recent success is going to continue, and we're proud of the team's ability to continue to progress those products in line with the market demand around efficiency.

Robert Brooks: Got it. That makes sense. And if we think about the kind of soft guide you've given of greater than 20% growth for water infrastructure next year, which is up from the 20% growth on the 2Q call you mentioned. Could you just break down maybe how much of that is going to be coming from the dozen or dozen plus new infrastructure projects you've announced this year versus how much of it is higher utilization on existing assets?

Chris George: That's a very good question. It's definitely a combination of both. As we've conveyed previously, we generally look to underwrite these projects with a core anchor tenant customer and commercialize as they come online with additional contracted counterparties and interruptible volumes as well to balance the system effectively. Given the pace at which new projects are coming online over the fourth quarter through the -- really the first three quarters of next year now, we think it's going to be a steady cadence of both new projects coming online as well as the commercialization of the investments we've made over the course of '25. So it's going to be a mix of both. I would say there should be a steady cadence of growth throughout the year next year. And with the new projects we added online this quarter, that's adding capital backlog for us well into the third quarter of next year.

Robert Brooks: Got it. And then just on the lithium extraction news from the inter-quarter press release put out. Obviously, really exciting. But I was just curious to maybe get a sense of how many more opportunities you feel like you have across your portfolio? It seems like you've kind of been in some deeper discussions. Just was hoping to get any additional color on how to think about the opportunity set there.

Chris George: Yeah. As we mentioned, obviously, we've got well north of 1 million barrels of water moving through our infrastructure every day, and that's going to continue to grow as we look forward into next year, like we talked about. We've spent a good bit of time looking at the content and the quality of the water and the minerals across the full portfolio. We've got leading positions in many basins here. But Mike, maybe hit on some of the more specific opportunities that are prioritized.

Michael Lyons: Yeah. I think coming on the heels of this, I think next year, you'll start to see some more tangible progress around our recycling facilities. And I think if you put 2030 as a goal out there, I think this total business can be somewhere in \$10 million to \$15 million of margin contribution. And I think what's unique about it is often our partners are serving a very unique role for the offtakers. They're essentially a natural hedge with domestic lithium or iodine. So they're valued in the market. Often the contracts that we are signing LOIs around or signing commercial contracts around our partners are signing can be fixed price and fixed volume in nature. So these royalty streams are obviously -- they're 100% margin and they're stable. So we think it's a really unique, low-risk, repeatable, predictable cash flow stream to add to the business. And it's because of our infrastructure networks and our high concentrations of water that we can -- that we are uniquely positioned to be able to deliver this kind of business and this kind of value to our partners. So I hope that answers your question, Bobby.

Robert Brooks: Definitely does.

Operator: The next question is from Don Crist from Johnson Rice.

Donald Crist: I wanted to start out by just asking a kind of more detailed question about how you're building out the Northern Delaware infrastructure. And as I appreciate it, your infrastructure is kind of built out to where with the flip of a valve, you can move between recycling and disposal. And the genesis of my question is, how does that kind of play out when you're talking to potential customers on acreage dedication and whatnot? And how does that factor into contracts going forward? Does that

give you a leg up over some of your competitors?

John Schmitz: Yeah. Thank you for the question, Don. And you're exactly right. So we started our infrastructure in Lea County really in 2025. We've been expanding it into Eddy County. And in '26, we're going to be connecting our expansive systems in Lea County and Eddy County. They're all dual pipeline kind of large diameter systems, so we can move water in both directions in large quantities at high rate to really maximize optionality and expansion opportunities. And this is in an area where completion water is scarce and where production water has a hard time finding disposal because the state of New Mexico is not permitting more disposal. You're undercapacity, you have all the seismicity and pore space issues that are becoming more and more talked about. So the fact that we have large diameter dual pipes and significant storage in place is really critical in solving the solution. And where I think it gives us a leg up is we're able to take the water from the operator. They have a need to get rid of that water, and we can take it. And we're recycling first. We said that first to everyone, and that's well known. And the reason we're recycling first is we think it's a better economic model for us and for our customers. And so we do better when they do better. So it really is kind of a true win-win. But to the extent that we can't recycle it across a very vast system spanning most of Lea and Eddy County, then we'll flip it to disposal. And that way, there's the surety that we can continue to take their water and be that commercial backstop and fully monetize the contract and the assets we put in the ground.

Donald Crist: I do appreciate that color, and it seems like you do have a leg up over some that are just disposing of water, not recycling. Kind of along those lines on the disposal side, are you only disposing of water in New Mexico or do you have kind of pore space outside of New Mexico into Texas where you can move water if and when that becomes necessary?

John Schmitz: We have disposal operations and pore space in both New Mexico and Texas. So we do have that optionality that you're alluding to Don.

Donald Crist: Okay. And one final question for me. On the Haynesville, what kind of discussions are you having as we kind of move into kind of the back half of '26? I mean all of us energy analysts believe that there's going to be a whole lot more gas drilling, particularly in the Haynesville? And kind of what are you hearing on the customer front in that regard?

Chris George: Yeah, that's a great question, Don. I think certainly, in the current market environment, there's definitely a strong optimism around the bull case on the gas side of the market. The LNG demand that's going to continue to ramp is very well suited for first volumes out to come out of the Haynesville. As we've mentioned before, we're the largest commercial disposal provider in both the Haynesville and in the Northeast in the Marcellus Utica. And so we're very well-positioned to capitalize on any advancing activity growth in either of those basins. But I think in particular, in the Haynesville, you're going to see that first initial ramp to support that outlook. And I think we're well-suited to satisfy that demand. But more importantly, many of our customers are already looking forward in terms of how they're going to meet not only their activity development cadence that they're planning for, but some of their obligations that are in place for that LNG offtake.

John Schmitz: And we're in the middle of those discussions with kind of the market-leading position of disposal in the Haynesville. We're a part of those, and we've seen some strengthening in the Haynesville this year where other basins have seen some softness. And most of the research analysts or like yourself are getting more bullish on gas, and we're seeing that through the lens of our customers when we look into 2026.

Operator: The next question is from Scott Gruber from Citigroup.

Scott Gruber: I want to touch on the review that you're undertaking on the opportunity set in distributed power for your Peak business. What type of end markets are you contemplating? What type of assets could be required? Just some color on the potential growth avenues for Peak that you're contemplating, that would be great.

Chris George: Yeah. Good question, Scott. So obviously, as we mentioned, that process is underway, and we'll certainly update you guys as we get further along here, but certainly looking to have a path forward by the end of the year. But we continue to see demand growth for those solutions, both on the nat gas generation side as well as the battery storage side. We've continued to add to the backlog of the capital program there. And effectively, every unit we get delivered goes out, many of which under contract. And we've seen that both in support of Select infrastructure build-out in New Mexico as well as

commercial counterparties on a number of different outlets. But John, do you want to speak to it?

John Schmitz: Sure. Yeah. So on the market and what we are targeting, First of all, Select has been in this business a long time. It was on distributed power. It was diesel generated, and it was primarily in fairly large scale into the drilling and completion support. That's where that mechanism is. So the footprint that we have to support that is already in place. What we have now took advantage of and start to develop is applying battery storage along with that distributed power and what you can do with peak powers and the clean application of electricity into certain pieces of equipment because of that battery system. That's going really well. And then we also want to bridge with the same MSAs that we have in place for long periods of time that customer that we were doing business with on the drilling and completion side, we now are doing business with them on the production side. And a lot of that is the distributing natural gas generations that we're putting in place for production facilities, which is way longer-term application for that piece of equipment. And we also believe that even though it's a larger power consumption, that battery solution will fit into that application in the production side as well. So that's the targeted position that we are executing on today.

Scott Gruber: All right. Interesting opportunity. As you think about deploying capital into the business? Obviously, there's some competition for capital within the portfolio given the growth opportunities on the produced water side and into recycling assets. Just how would you frame up that competition for capital within the portfolio across all these growth opportunities?

John Schmitz: Yeah. So I mean, we are very focused on water infrastructures and contracted and our position in these networks and water balancing, real value-add long-term contractual, high gross margin, very good profile returns. We believe that thesis fits into the franchise of Peak with their distributed, electrical and battery storage. But it is a different thesis than what's inside of Select, and we are very focused on making sure that both of it is answered. And that is the process that Chris talked about earlier when we first started to answer your question.

Chris George: To kind of put a bow on that, Scott, I mean, at the end of the day, we think it's a great growth opportunity set within Peak and the distributed power side, but we don't want it to limit or compete for capital on the water infrastructure side where our primary growth opportunity set lies, and that's the reason we're undertaking the process to ensure that it has the ability to capitalize on its own market opportunity in the correct way within the portfolio.

Scott Gruber: And the others in the expanding in the power space have used their balance sheet to amplify growth and get in the queue for assets. Just how do you think about using the balance sheet on the power side? Would you limit yourself in that regard or would you put it to work?

Chris George: Yeah. It's a good question. To date, it has not been a limitation for us. But obviously, the pace and the opportunity set at which that can grow is going to be, I would say, determined by the outcome of the undergoing review process we're taking. And so I think part of the outcome there is going to drive the pace at which capital can drive that growth as well. So to the extent that the opportunity set comes at us differently or faster, we'll make that assessment. But our primary is to ensure that it has its own capital availability that's going to support that growth profile outside of the scope of the water business.

John Schmitz: I think one thing to point out is a lot of the companies that are -- have high growth capital profiles going into the distributed power business, they're businesses that they're transforming from is not the same profile as our water infrastructure. Our Water Infrastructure business is a very good, stable capital return, high gross profit, long-term contracts in a space that we are a value-add and recycle first profile. So we're very focused to make sure that we protect that and capitalize it properly. But at the same time, we do recognize that, that distributed power and battery business has the same type of thesis in the profile of returns and long-term relationship to production facilities or compression facilities or water transfer facilities in an area that it's very valuable to the customer and to us of being able to use natural gas or peak power battery application.

Operator: The next question is from Derek Podhaizer from Piper Sandler.

Derek Podhaizer: Just wanted to ask a question about the water transfer and logistics service contract that you announced. You talked about water infrastructure paved the way to secure this new contract. So maybe just talk to us about the strength of this integrated approach that you have between infrastructure and services and how it's a differentiating factor for you versus your peers?

Michael Skarke: Sure. No, thanks for the question, Derek. So I mean Water Transfer is part of our Water Services business, and it's traditionally a call-out service. So the fact that we can get a multiyear contract for all of the water transfer services is new and unique and something that, as John mentioned, we're particularly excited about. It was enabled by our water infrastructure contracts and the success we've had executing with that operator. I mean, without that, the contract would not have been available. And just because of that execution, the operator was happy to expand the scope of our relationship into that full custody and water [ delivered to ] location, which I think is reflective of the position we have on water transfer. So we're the largest water transfer provider. We have automation capabilities and an asset base that is second to none. And with produced water jobs becoming more complex, longer, more highly engineered and the environmental sensitivities around that, I think we were a logical choice for this operator to really expand the scope of our relationship. And as we kind of look specifically to the New Mexico, but more broadly, across our asset base, I think other operators will see it similarly and that you have a best-in-class water transfer provider who can provide care and custody of that barrel all the way to location at a fair market rate and reduce the liability and any uncertainties. And so we're hopeful we can continue to leverage that strength and that synergistic relationship.

John Schmitz: Yeah. I think it's a great question, but it really does completely fit within the value add to both our company and our customers from water infrastructure, large containment to delivery to job site. And we put together a Control Center that I want Mike Lyons to talk about a little bit because it really tells you why these things could work. It work together and bring a lot of value throughout the system. So Mike, you might walk through our efforts with the automation.

Michael Lyons: Yeah, sure enough. So we call it the [ ROC ]. It's our Remote Operating Center. It's staffed 24/7, covers all of our assets across all Lower 48 -- so every disposal well, every treatment facility and any active water transfer jobs are monitored by folks that often have worked in the field now are essentially board operators, and we have 2-way communication and monitoring of every job. And that allows us to sense and interpret and find leaks often before they happen to prevent that leak. And as Michael was saying, I mean, the full care and custody of the barrel is of critical importance. And as we are still deploying a lot of layflat hose and doing a lot of water transfer, often 50, 60, 70 jobs at a time, that is a critical part of how we operate now. And as we become, I would say, more focused and majority focused on infrastructure, we're putting hundreds of miles of pipe in the ground, and we have to be able to check and monitor and look after every foot of that network. And that is a big priority for our operating partners knowing that, that water is safe and contained. And it's also, for us, a big value unlock because the network optimization piece of that as you build a bigger and bigger network, we can create value that others can't. It's because we watch the barrel every second of every day.

Derek Podhaizer: Got it. That's all very helpful color. And then maybe just on the Water Services, maybe the margin profile here. So I'm just trying to think about how we should think about these margins moving into 2026. So obviously, they came down quite a bit. Maybe talk to us about that. I'm not sure if that was related to the recent divestiture within the segment. Top line is coming down in the fourth quarter, margins are improving. So if I think about 2026, do you expect to get back above that 20% level, same levels that we saw in the first three quarters of 2024?

Chris George: Yeah. It's a great question, Derek. And obviously, with the rationalization efforts we've undertaken in Water Services, a fundamental part of that initiative is margin improvement over time. We've been able to continue to improve the consolidated gross margins with the continued growth in Water Infrastructure, great outcome in growing the margin profile in chemicals. And so obviously, we have not yet executed on that in services, but that remains the, I would say, the #1 priority for that segment. We've got a market-leading position across generally everything we do in that segment. And so we've got, I think, a lot of opportunity to pull that margin profile up over time as we've divested and rationalized out of some of the more commoditized lower-margin operations. And what we were just talking about in terms of the integrated water services contract with Water Infrastructure is a great example of how we can add efficiencies that benefits not only the customer but benefits us as well. If we can integrate that last mile logistics with our infrastructure, that's generally going to help save our -- save money for our customers, and it's going to improve the margin profile of our operations as well in

Water Services. But the short answer is we very much believe that segment needs to get back into the mid-20s in the near- to medium-term to generate an appropriate return on its capital. It's already generating a good free cash flow profile for us. And anything we can do to move that margin profile up over the next year or two is going to continue to benefit that cash flow profile.

Operator: The next question is from Derrick Whitfield from Texas Capital.

Derrick Whitfield: I wanted to start with the M&A; environment. In the release, you guys are highlighting the success you're having with strategic infrastructure acquisitions during the quarter. As I think about the upstream sector, less M&A; tends to occur in the \$60 per barrel or lower price environment. Having said that and understanding that E&P-owned; assets could transact in a lower price environment, how would you guys characterize the A&D; environment for water infrastructure at present?

John Schmitz: Yeah. So Derrick, this is John. I would characterize it as -- as you put networks together and you find assets that fit that network, as a standalone, that asset earnings profile is considerably less than if you can incorporate that into a large network and move water and water balancing to a new level of application with the intensity that's happening in the marketplace right now. We continue to find that. We continue to find either stranded assets or assets that as we put networks together, get more acreage under dedication, build more pipe, build more storage that the value of bringing those assets into that network is real. Even to the level that now some of the commercial agreements that the team has put together and negotiated, some of the operators that we're getting under contract in those negotiations actually give us some of their assets to bring in that network. And we think there's going to be more of it. Some of it in one-off single assets and some of it potentially in large networks that fit together and can be utilized as well as customers' assets that are way underutilized because they were built for single application. That application is long past and this piece of pipe that goes from one area to another area can be incorporated and it's fully underutilized. So we think there's real value in that market to continue to build this out. Michael, you got any addition?

Michael Skarke: What I would say, Derrick, is we're looking at smaller accretive acquisitions off of our expansive network. And that's very different than kind of new projects or large organic step-outs. And so what John is highlighting is whether it's replacement CapEx or an acquisition, if we can tie it into a larger system, it becomes very attractive to us. And you've seen us do a fair bit of that this year. And I think that we will continue to look for those opportunities going into next year.

Derrick Whitfield: Makes sense. And for my follow-up, I wanted to focus on the competitive landscape in the Delaware. During the quarter, you guys achieved exceptional success with signing new contracts. How would you characterize the competitive landscape post ARIS being acquired by WES and the opportunity you see to continue your third quarter momentum into 2026?

Michael Skarke: Yeah. So I mean, water is a hot topic, and the market is getting more competitive. We're aware of all of the people out there and what they're doing. We understand their strengths and weaknesses in their value proposition and how it fits with ours. I mean, fortunately, we're, as I mentioned, recycling first provider, and that's got a superior economic model. And we think that's going to keep us to be very competitive in this market, kind of regardless of what happens. The system we built out, I mean, we were fairly early in building out a robust system across Lea and Eddy County, and that's helped us become the market-leader in total water management in the Northern Delaware. And so I think that's going to be a real value add and something that will be attractive to our customers regardless of their consolidation and help us be competitive in the market regardless of what our competitors are doing.

Operator: The next question is from Jeff Robertson from Water Tower Research.

Jeffrey Robertson: If I could go back to the beneficial reuse concepts. John or Michael, if you think about commercializing beneficial reuse, is that an arrangement between Select and the upstream customer who's putting water into your system or is it an arrangement between Select and a downstream customer, excuse me, who's taking water for beneficial reuse?

Michael Skarke: I think -- I mean, it's a market that hasn't fully formed, Jeff. And so we're going to have to see the way it plays out. I suspect overtime it will be both. But I can tell you that initially, my belief is it's going to be a direct relationship between Select or someone like Select and an operator partner.

Chris George: I would add that ultimately, the first stage of that, that Michael is referencing, that's really alternative disposal. So finding a way to treat that barrel to a usable quality to discharge back into the

environment as a form of alternative synthetic disposal or alternative disposal outside of typical injection. That's going to be the first one. Longer term, those barrels do have a recognizable value in the marketplace that could go into other non-oil and gas markets. And I think that's where you're going with it, Jeff. And obviously, to the extent we get there, that's obviously alternative or additional revenue potential. And it also provides the ability to solve water challenges in other markets as well. So the industry could be a net added contributor to the water supply chain versus a consumer. So that's ultimately where we think it goes long-term. But obviously, it's going to probably have a staged trajectory over the next couple of years.

John Schmitz: I'll let Mike talk a little bit about it. But actually, it's very interesting. We're actually finding our customers that could be on both sides of your question. They have produced water as a waste stream. It actually is an area that they need water for other operations and we can put beneficial reuse application to work to convert a portion of that waste stream and replace freshwater sources they're using in their other operations. But Mike, you?

Michael Lyons: Yeah. I think John is referencing, I think, a couple of current real opportunities that we're chasing. And in both of those, we've worked very hard with our operator partners to find the right spots to apply this. And typically, the right spot will be an area where there is some waste heat available, where there is disposal or our own disposal or recycling solutions to take the concentrated brine, but then a natural home for the clean water. It could be as a part of a chemical process in one example, it could be part of a cooling water need. All these systems require water and water is increasingly hard to come by, especially at the quality spec that you need for industrial and chemical applications. So I think -- and it is easier from a regulatory standpoint because that water can be used by an industrial or chemical customer out of the gates. So those are the right now opportunities that we are chasing. Of course, we'll say more on them as they become commercially solidified. But we continue to even find opportunities where it's a chemical plant, a data center, gas plant, like these are the kind of customers that we're actively engaging in. And then beyond that, as you think about land application, whether it's for irrigation or direct into -- on to land for tributary release, et cetera, I think those are the longer puts, but those are the puts that the industry needs to make, and we're playing actively in that space to make sure water quality specs are clear to make sure that we're aligned with regulators. It's a big material shift for the industry, but it's a high priority, and it's absolutely a long-term goal to achieve that scale, and it fits exactly within our company and our networks. So I think we're very uniquely positioned in this space.

Jeffrey Robertson: I go back to the Haynesville. I think, Chris, you and Michael talked about it, but you've talked about increasing utilization on your existing assets there in the past. At what point do you -- or are you starting to see opportunities for new growth projects in that basin over, say, '26, '27 type timeframe?

Chris George: Yes. We -- Jeff, we had some growth opportunities when gas was higher a couple of years ago, and then it's cooled off the last two years, and those conversations have started back up with the outlook that we discussed earlier today. I mean we have a pipeline gathering and distribution system that can't be replicated, leading to the market-leading position in that basin. And so we're logically the first conversation when operators are looking to expand their platform, the drilling completion schedule and looking to manage that water. And so those conversations are being had. We are talking about expanding our network, and it's a good time to be the market leader in the Haynesville.

Operator: The next question is from John Daniel from Daniel Energy Partners.

John Daniel: Thanks for keeping the call going. I want to dig a bit deeper into Don's earlier question. But I guess -- and it's a 2-part question. Just how much more incremental infrastructure do you think the Western Haynesville is going to require? And then second, when we look at recent Select press releases, there are all sorts of awards and contracts for Permian projects. I'm just curious, do you think when we read your press releases 12 to 18 months from now, we're going to see a similar level of contracts awards in Haynesville development -- Western Haynesville development?

Michael Skarke: I'll maybe start on it, John. I think that the Haynesville has obviously seen a lot of consolidation and I would say, acreage shuffling and positioning here over the last couple of years. And I think that you're going to continue to see folks try and figure out what the opportunity set looks like to

continue to expand out from what was historically the Tier 1 acreage and the more mature parts of the basin into other areas that I think are proving to be expansively economically viable. So I think there's definitely going to be continued application of need. I think that the benefit of our existing asset footprint is the challenges that are undertaken on disposal in Louisiana. And as you move Westward, that gets it into our network efficiently and into our system. I think the Western Haynesville is definitely underdeveloped compared to some of the other areas. And so it's going to have an additional need and ultimately an expansion effect on water as well.

Chris George: And maybe, John, to address the second half of your question just more broadly. So as I look at the press releases, I think back on the press releases from this year, we've been more successful than I thought we would be coming into the year, particularly given that it's been a flat to down year. So I'm really excited about the success we've had. Obviously, we can't continue to have this level of success indefinitely. I mean, there's a point where that rolls. Our backlog is still strong. We still announce some deals on a quarterly basis, seemingly every quarter. But at some point, that is going to roll and the CapEx will curtail materially and then the cash flow flips. And so it's still a little unclear exactly what month or quarter that happens. But this -- the excitement we have right now with aggressively chasing the really intrinsic value proposition we have around recycling and building that out to support total water management disposal. I mean, there is a finite window there.

Michael Lyons: One thing I would maybe add is as that asset footprint gets developed and you move from those large greenfield chunky build-out footprint projects and get into the brownfield development opportunity set and the economics continue to improve over time as you benefit from that invested capital profile. So we're already fairly mature in that investment in that traditional Haynesville area. And so I would say the return profile of incremental capital deployed in the basin is going to be very attractive compared to greenfield development.

Operator: This now concludes our question-and-answer session. I would like to turn the floor back over to John Schmitz for closing comments.

John Schmitz: Yes. Thanks, everyone, for joining the call. We appreciate your continued support and interest in learning more about Select Water Solutions. We look forward to speaking to you again next quarter. Thank you.

Operator: This concludes today's teleconference. You may disconnect your lines at this time. Thank you for your participation.