**U.S. Silica Holdings**

**May 30, 2019**
**01:00 PM EDT**

Bob Brackett: Good afternoon. Thank you for attending the session. My name is Bob Brackett. I'm Bernstein's E&P analyst. We are not expecting a fire drill, so in the event you hear an alarm, take it seriously. The primary path to escape is straight out the back, all the way down along the hall. You'll exit onto the elevated part of Park Avenue and you'll await further instructions. In the event that that path is blocked, you will turn to the left, you will take the escalator down, you'll exit onto Lexington Avenue, and again, wait for further instructions.

Let me remind you of the format of this presentation. In a minute Bryan will come up and present perhaps 15 to 25 minutes. After that, we will both adjourn and sit at the chairs to the right. This is your conversation, so we encourage you to use the white cards in front of you, write the questions you want answered. One of my colleagues will collect them. Otherwise, Bryan and I will lead that conversation.

And with that, I will get out of the way, but first I will introduce Bryan Shinn, CEO of U.S. Silica.

Bryan Shinn: Well, thank you very much, Bob. It's always a pleasure to be back here at the Bernstein conference, and I'm really excited to have the opportunity to talk about our company, U.S. Silica. We have a few disclaimers in our deck today, so please pay close attention to those as we talk through the presentation.

So I'm really excited to talk about the transformation that's going on at U.S. Silica. We're a very different company today than we were just a few years ago, and I'll spend most of my presentation in sort of prepared remarks, if you will, going over that. And then it sounds like Bob and I will engage in some interesting conversation after that.

So we'll start off with the transformation that we're right in the middle of here at U.S. Silica, and the short story on the transformation is moving from a company that in the past has gotten the primary share of its revenue and profitability from the oil and gas sand part of our business to a company now that actually gets most of its profitability from our

industrial and logistics businesses. So it's quite a transformation, and we'll talk a bit about that.

The second thing is one of the things behind that transformation is the pipeline of new products and new offerings that we have built for the industrials and logistics side of the business, so we'll talk in some detail about that. Then I'll finish up with capital allocation. That's probably one of the top three questions that we tend to get from investors, so I thought I'd touch on that today.

Before we dive in, just a quick primer on U.S. Silica. We've been around a long time, 119 years this year. Last year was actually the best year ever in the history of the company in terms of profitability. We delivered almost $400 million in EBITDA. Our industrial business is growing dramatically. We have a 22% CAGR in our industrial sector over the last 5 years, and that's against a backdrop of serving essentially GDP growth markets, so we're far outpacing our market growth there.

We're number one or number two in all of the industrial sectors that we serve, and that helps us maintain our profitability. We've increased capacity a lot, doubled oil and gas capacity and actually, total volumes over the last 2 years increased by 83%. So we're growing a lot, and actually nowhere more than in our Sandbox business. If you look in the lower right-hand corner of the slide there, you'll see that that business is up some 700% in the last 2 years.

I would say, though, of all those facts and figures, the most important one is right square in the middle of the chart, and that's where we get our profits from. You'll see that we're now projecting for 2019 that we'll get 75% of our earnings from our industrial and transportation and logistics business, and only 25% from oil and gas profits.

So specifically to the transformation that's going on in the company, we're transforming from a frac sand supplier that happened to have an industrial business, which is I think how most people know us as a company. It's a little bit ironic, though, because for about 109 years we were an industrial company. We did nothing in oil and gas. So in some ways, this transformation to industrial is sort of returning to our roots.

If you look at where we are today, we view ourselves as an industrial-focused performance materials company with last-mile logistics in the oilfield, which we can expand, we believe, to other industries. 75% of our profits will come outside of oil and gas sand, and that's up from just 44% in 2015, so it's pretty rapid progress towards our vision. And this just hasn't happened by chance. We've been having this strategy and pursuing this for the last few years.

And along the way, we've done four really important acquisitions to help us drive towards that. The two biggest ones were acquiring Sandbox in 2016, and last year we acquired EP Minerals, which brought an amazing suite of products--diatomaceous earth and specialty clays--into our portfolio and essentially doubled our industrial business.

Just a quick snapshot of some of the capabilities that we bring. In Sandbox, the trick here is no downtime at the well and be very efficient in delivering a profit out for our energy company customers, and we think we're the best in the business at that. On the industrial

business, it's a bit different. These tend to be long-term, sticky customers. Many of these customers we've been doing business with for 70 or 80 years, and we get a lot of price in this market. It's highly specified, and we do a lot of customization and proprietary products for our customers in this sector.

On the oil and gas sand side, a very different type of market. It's all about being lowest on the cost curve, and we believe we are the lowest-cost supplier in the industry when we look on an ex-works or a delivered cost basis, and we continue to do well in that part of the company, and it's about having the sand where it needs to be, when it needs to be, for the right price. And we think, again, we're the best in the industry at doing that.

Let's talk a bit about the industrial business and talk about logistics as well. We have a really impressive pipeline of new products, about $200 million worth of contribution margin on an annualized basis, that's in our industrial pipeline right now. And we're doing a lot of things that no one else in our industry does. So we'll take some of our base products and we'll put specialty coatings on them, we'll heat-treat them, we'll grind them, we'll separate them into certain size distributions that are specific to customer needs. So we basically have kind of a performance materials type of set of offerings. And that's really where we're going when we look at all these opportunities that we have in the pipeline.

On the logistics side, it's a real transformation here as well. We believe that we've got the leading offering into last-mile logistics for the oilfield in terms of sand. We started out a few years ago when we bought Sandbox with 0% market share, basically, and we now have 25% share. So that means all the sand that's being used in the oilfields everywhere across the U.S., 25% of that is now flowing through a Sandbox system. And our plan there is to continue penetrating that market, and on top of that, we think we can bring additional products out to the well, so water, chemicals, et cetera. But this system also can be used in other verticals, so think agriculture or chemicals--there's all kinds of things you can transport with this containerized system.

And one of the things that we're going to do to help facilitate that growth is run our oil and gas sand business, kind of the traditional business, more in a run for cash mode. So that business has been a cash consumer over the last few years as we've built out capacity. Now it's going to turn to be a cash generator. And the cash that we generate from that business will go towards building out the Sandbox business.

A bit on capital allocation as we wrap up here. I think the first point is you have to have some capital to allocate, and we have a lot of growth opportunities. You see some examples on this slide. So Sandbox will continue to grow market share, and we'll expand horizontally in the oilfield and into new verticals. As I said before, we have that pipeline of high-margin industrial products, which I think is going to pay off very well as we look out over a 3- to 5-year time horizon. In the industrial business, we get regular price increases.

And then on top of that, we'll continue to do bolt-on acquisitions like we did last year, for example. We bought a former ceramics manufacturing plant from Carbo Ceramics, and we've turned that into an industrial facility to make products for a variety of industrial markets. So it's not for oil and gas anymore. We can use the equipment there with some

small modifications to do more in the industrial business. So that's the kind of bolt-on acquisition that we like. It's low cost and highly accretive.

In terms of the cash flow itself, I think there's generally three areas that we're targeting. The first is continuing to maintain our operations. And for an operation with the size and scale that we have, most people are surprised with the low amount of maintenance CapEx that we need. We have about 30 mine sites around the U.S., and typically it costs about $1 million a year in maintenance CapEx to maintain those mines. So maintenance CapEx, we'd expect to be $25 million to $30 million a year.

In the middle of the chart, you'll see the investing in profitable growth piece, which is very important. It's what we've been doing, I think, very successfully over the last several years. We have a number of attractive growth projects, all of which have very high ROICs. Our target is 20% or greater, and I don't think we've approved a single project in the last--gee, I can't even remember how long--that they didn't meet that hurdle rate. So all the projects that we're looking at are very attractive, and we'll continue to fund those projects as appropriate.

And as we think about generating free cash flow for other uses, we like the flexibility that that gives us to either pay down debt or to return cash directly to shareholders in the form of a dividend or share repurchases. And I think we've demonstrated that we're willing to make those allocations. For example, from the end of 2017 through 2018, we repurchased almost $175 million of our shares. So we've demonstrated in the recent past that we'll allocate funds to that category, and I think we'll do that in the future as well.

So what does it all look like over the next 3 to 5 years? I think we'll see the oil and gas sand business in terms of profitability be relatively flat. I believe that that market is definitely stabilizing. We're seeing pricing stabilize, we're seeing volumes stabilize, and we're seeing some competitors who tried to start up mines in West Texas actually have to shut those mines down or curtail production there because there's been an equilibrium reached. So I feel like that's a healthy thing for the oil and gas sand part of our portfolio. And as I said before, that sort of mission of that business will be to generate cash. So I think stability is increasing, and we'll generate a lot of cash from that business.

Sandbox will grow substantially over the next few years. We expect double-digit growth in profitability there, and I think we'll see that business be very stable as well, given the dynamics there. The industrial business ISP, I think, will grow dramatically. We have many, many opportunities there--again, double-digit annual growth. We'll be investing in that new pipeline of products, products that I talked about and some bolt-on acquisitions to help that. But those end-use markets and those customers in that business is extremely stable.

So one of the things you should take away from this is that over time, I think the volatility in our earnings is going to be dampened down. I think the stability is going to increase substantially as we grow Sandbox and the industrial business disproportionately. And of course, on top of that, we've got the sort of cherry on top with the bolt-on M&A. So substantial growth ahead for us, and we feel very good about the prospects for the business.

So just to wrap up here, we've been through this transformation over the last couple of years, very focused on growing in industrials and logistics. I think we're putting the points on the board there to the point where 75% of our earnings this year will come outside of oil and gas sand, which is kind of how we're known in the industry, as part of the oilfield services group of companies. But the reality is we're going to get the vast majority of our earnings out of things that are not particularly related to oilfield sand as we go forward. We have the high-margin products which we're really excited about, and I think we've done a very good job over the last few years of appropriately allocating our capital out.

And with that, happy to take questions and move to a discussion mode here.

Bob Brackett: Yes, fantastic. Please join me, and again, audience, you're welcome to ask questions. You can ask them out loud; you can write them down and pass them to me. I'll start.

If you think about it, for every barrel of shale oil you want, there's about 10 tons of sand you need before you can ever get that barrel. So you're the front end of where the market is going. Where do you see oil macro going? You have sort of a unique perspective on that. Do you think, going forward, oil prices are more or less volatile than they are today?

Bryan Shinn: It's a great question, Bob. And as I step back and think about where we are today, somewhere around 10.5 million barrels of shale production per day here in the U.S. and where we're likely to head, most of the energy company CEOs that I talk to and other people in the industry that I really respect believe that we'll continue to climb up to 11 million, 11.5 million, 12 million barrels a day. And to your point, there's a lot of sand that needs to be consumed to make that all work. And on top of that, we're seeing the decline curves steeper than ever. So long story short, energy companies are going to have to invest even more and complete more wells to just keep up with production, let alone meet that sort of 12 million or 12.5 million barrels a day.

I think we'll see a tremendous increase in the demand for sand proppant in the industry, and I believe ultimately that oil prices have to stabilize and rebalance. We've all seen what happened with OPEC's maneuvering back in 2014 and the results of that. And I think just pure economics will dictate for Saudi's budget and some of the other countries that the numbers have to come up, and I think will eventually stabilize. And I see a bright future ahead for North American shale, quite honestly.

Bob Brackett: And if you think about the drivers of sand demand, it's well count, which you've just illustrated. It tends to be the lateral length of those wells and sort of the sand per foot, the intensity of that completion.

Bryan Shinn: Correct.

Bob Brackett: Talk to the other two--kind of trends in lateral length and trends in intensity.

Bryan Shinn: So we continue to see lateral length increasing, and I think probably the biggest trend is the intensity. So we definitely see that. We're to the point now where leading-edge wells are 12 million, 13 million, 14 million tons of sand--or, sorry, 1,000 tons of sand per well. Just to put it in perspective, a well that uses 10,000 tons of sand, that's a mile-long train, a

unit train of sand. So if you've ever sat at a railroad crossing and watched a mile-long train go by, you kind of have a sense of the volumes that we're talking about here, and that's just for one completion.

Bob Brackett: And then, and I want to spend time--I don't want to spend too much time on oil and gas, because as you illustrated, it's the smallest part of the business.

Bryan Shinn: Do we still have that in our portfolio? I'm not sure. I think we do.

Bob Brackett: Well, there's a question. Well, let's talk about the portfolio. Is the portfolio right for U.S. Silica? To what extent would you be so punished by a misperception or a misevaluation of one of your business lines that that business line might belong to somebody else?

Bryan Shinn: So I think we need to do what's right for the company in terms of generating earnings. We've invested a lot in our oil and gas sand portfolio. I like the asset that we have, and I'm counting on that generating a substantial amount of cash over the next several years to help fund a lot of the other things that we want to do. There's tens of millions of dollars per year worth of EBITDA in those businesses, and so I like that part of the portfolio, and we don't have any intentions at this point to do anything different structurally with the portfolio.

Bob Brackett: And arguably, the market price for an asset might be heavily discounted anyway. It might be more valuable sitting inside.

Bryan Shinn: Yes.

Bob Brackett: And if we talk, just moving to Sandbox, container ships have been around forever, containerized trucks have been around forever. Containerized sand moving from, if you were driving around the Permian 4 years ago, you'd see a whole bunch of silos. Now it's an equal mix, and we're moving toward containerized sand in the majority. Can you talk about why it took the industry so long to get there? And then specifically, what are the intellectual property barriers that Sandbox has that makes it a better business?

Bryan Shinn: I think in terms of why it took so long, it's just a paradigm shift. It's not intuitively obvious why it's better to put sand in containers. But the big breakthrough there is the trucking time and the demurrage that's associated with delivering that container. You reduce truck time, driver time and demurrage by about 40%, four-zero percent, versus the traditional method of using pneumatic trucks. So that, I think, was the key that really unlocked the market when customers figured that out as we demonstrated that to them and they experienced it for themselves. Now all of a sudden with that big cost savings, there's an opportunity, and people are willing to try something different.

We still sort of run into some customers who don't want anything but silos on their sites. And they tend to focus more, I think, on what was as opposed to where the market is going, and I think we're going to see a migration over time towards containerized solutions.

And to your question around intellectual property, we actually have about 60 patents issued around the Sandbox system. And it's everything from the interior design of a box,

the angles of the walls and how they're sloped to let the sand flow out at the appropriate rate to the design of the gates to we actually have a patent on the process of filling up the container at a transload and taking it out to a well site. So very broad coverage. I really like our intellectual property portfolio, and we're in several litigations at this point, defending that intellectual property. And consistently, over and over again, it's been upheld and validated in many cases.

So I feel good about that. I think it gives us a competitive barrier in some ways, but that's not going to be what really lets us win in that market. The win is providing the service. And what the energy companies increasingly care about is no disruption, no downtime. And the Sandbox system provides, in almost every case, essentially zero nonproductive time or downtime at the well site. And that's key as our energy company customers move to more of a factory model for drilling and completions.

Bob Brackett: Talk about the types of customers that were early adopters of the system versus those that would come later.

Bryan Shinn: So the early adopters were service companies. Quite honestly, when we bought the company, almost all the customers were service company customers. And over time, as energy companies have come in and chosen to self-source consumables like sand and chemicals and things like that, I think we were like the solution from central casting on how they could do that, because we provide turnkey service. Not only do we provide the transportation, but we have our own employees onsite, operating part of the frac equipment that lets the sand go into the blender hopper, which starts the whole process. So it's a turnkey process, we have our own people, best in class in terms of safety. And as long as we can do all that and decrease the downtime on a well site--essentially make it zero--it's a great value proposition.

Bob Brackett: And the early adopters on the E&P side were privates, they were some of the smarter publics, they integrated this?

Bryan Shinn: It's a mix, really. I think today we probably sell 60% of our Sandbox systems through energy companies, so it's definitely trending more in that direction. And it's a mix. It was across multiple basins. Some companies that, if I told you the names, you'd say, "Yeah, I could see them doing it." Others, you'd say, "Oh, my God, you got those guys to switch?" So it's kind of all over the map, honestly.

Bob Brackett: And if we think about competitive barriers, which has a--well, let's go back to--what's the total addressable market? Is there a day where effectively all sand is--it is purely a logistics business, it's all containerized? Is that where the industry goes? Clearly, it seems the unit economics would drive it forward.

Bryan Shinn: I feel like they'll, if you think about the market share today, we have about 25%, and it's growing. I think we'll get 50% or more. I'm not sure exactly where that balance is, but there are some traditionalists out there that still like their silos. So who knows? It's maybe 60/40, 70/30, but I feel like containers are going to win the kind of war of market share, if you will.

And I was talking to our President of Sandbox the other day, and between the two of us, we couldn't remember an energy company customer who seriously tried our system and then went back to silos. And we're taking share from silos today. So I feel like we're on the upward trajectory here. How much can we penetrate? Look, I don't know, but it feels to me like getting to 35% or 40% share, for sure, should be a pretty short putt.

Bob Brackett: And then within if containerized systems are the majority of that delivery, can you command the majority of that pie, or do you worry about competition, ways to get around it, intellectual property, ways to design systems that are something similar but--?

Bryan Shinn: There are several competitors who tried to design around our systems, but we have such a comprehensive patent portfolio, it's very difficult. So unless there's a completely new invention that no one's thought of at this point, I see it hard for someone to design around us. And more and more, we're getting embedded in with the energy companies' value chains. And we're low cost, we've got excellent safety, we're delivering zero NPT, and we're already doing it. Why would you switch to the competition? So I think we win on the competitive merits over time. It's backed up by all of our intellectual property, but we're not counting on that to be the thing that saves the day.

Bob Brackett: And then if we go to the third business line, on the industrial side, where do you have that greater intellectual property? Is it Sandbox or is it kind of the ISP business?

Bryan Shinn: So we have more patents at this point, actually, in the Sandbox business. But with many of the new products that we're launching, we do have patents on the industrial side as well. So I think you'll see our portfolio grow there. A lot of specialty and niche kind of solutions, very high-end products that make profitability of $200, $300, $400 or $500 a ton versus just selling sand, where you might make $20 or $30 a ton or something like that. So very profitable, very sticky.

And we're taking a very different approach to our industrial business than all our competitors. Most of our competitors look at our existing market space, i.e., selling sand, and they're sort of fighting for share within that space. We do that, too, but we're looking at it much more broadly to not-in-kind products. And many of the things we have in our pipeline compete against products that are not sand. They're something else. So now all of a sudden you've drastically increased the value pools that you can fish in, if you will, for profitability. And I think that's going to serve us very well over the next several years.

And the customers on the industrial side of the business are very different than oil and gas. They sign contracts, and when they sign those contracts, it actually is a real contract that they live up to, one; and two, they're just more forward-thinking. They're looking many years out, and they're willing to make investments. We have customers that are willing to give us capital to build out our facilities, maybe add a coating line or make some change to our process to make this special product that they want. And when we invest there, there's a much higher degree of confidence that there's going to be stability and a return profile that you can really, really count on. And of course, it's why businesses that look like that get higher multiples. And most of the industrial kind of businesses that we aspire to replicate are 10, 11, 12 times EBITDA multiple, and I think that's where we're trying to take the company.

Bob Brackett: And if we think about the challenge with the shale revolution is people argue that all of the economic rent has accrued from the service side to the upstream side. Is that a fair characterization?

Bryan Shinn: Well, I think there's definitely been some margin compression within the oilfield services sector. And I feel like it's a little more complicated than that. I think what happened in 2015 and '16 with the downturn really forced the energy companies to take a hard look at where their breakeven points needed to be for kind of long-term success. And as a result of that, there's been a big challenge to everybody in the supply chain to think about how we take cost out. And there's no better example of that than sand. In the old days, everyone wanted northern white sand, and then they said, "Well, we could use regional sand," and then in the downturn they said, "Well, let's try this local stuff that's right out there in the Permian." And many operators found that it was good enough.

And I think we've seen that all throughout the industry. And I don't feel like it was driven by any sort of nefarious plan from the energy companies. It was more just a matter of survival. And we look at it, particularly in the Sandbox side as well as sand, is how can we help the energy companies be successful? How can we help our service company customers be successful? And if they're successful and we can help take out cost for everybody like we can do with Sandbox, that just helps us all as an industry, honestly.

Bob Brackett: One of the problems I have in the E&P sector is lack of discipline, E&Ps being their own worst enemies in terms of behaving in a disciplined way. What about discipline in specifically the sand market? Are you surprised by the lack of discipline and the opening up of low-quality, poorly thought-out capacity? And do you think that improves over time? What does it take to get that industry to behave rationally?

Bryan Shinn: So it's fascinating. It's hard to sort of top-down curtail investment in something. I think it almost has to come bottom-up, and we're starting to see that in the sand industry right now. So for example, we've had all these mines built out in the Permian. Well, guess what? There's too much sand in the Permian, and so two or three of those mines have shut down and others have curtailed production. So the high-cost guys have come offline with capacity. And it's not unlike what happened in northern white in, say, in '15 and '16. There was a cost curve for the industry, and the high-cost guys shut down as prices came down.

So I think the industry, in that respect, behaves pretty rationally in terms of vis a vis the supply curve. But everybody always has stars in their eyes around a perceived sort of opportunity in the market. And I think this industry has a history, the oilfield industry has a history of sort of overshooting to one side or the other. It's going to be tough to sort of wrangle that in. But in this case with the sand specifically, the money's dried up for new sand mines right now, and private equity's not investing, and nobody's putting their personal wealth behind a new sand mine. So I feel like we've kind of reached a stable point here, and let's see if people learn their lessons going forward.

But I think it's also up to some of us who are more disciplined in the industry to partner up with the right companies and sign the right kind of contracts. We signed a 15-year contract with Pioneer for 2 million tons a year out of our largest new mine site in the Permian. And so that volume's gone. Nobody else can compete for that. We have that,

and I don't think that's going to change. So I think we can do some things structurally like that to discourage people from coming in, as you said, and just building suboptimal mines and just throwing capital at something.

Bob Brackett: Ideally, what fraction of your sand sales would you want under long-term contracts?

Bryan Shinn: I think, given the market conditions today, 70% to 80%. Typically through history, we've said 50% to 60%. But just given sort of the uncertainty that we've seen in the recent past, I think we're looking for a higher percentage under contract. But it's not just the contracts or signing a contract, it's who did you sign it with? If you sign it with an energy company, it's probably more stable than if you sign it with a service company, and it's more stable for sure if you sign it with a small service company. So you have to look at who your counterparty is and how is that contract structured. Is it really a contract?

We actually signed several contracts where customers gave us cash upfront. And essentially, they were paying their nonperformance penalty upfront, and they only got that cash back if they bought sand from us. So those are the kind of contracts I like. I feel like you can underwrite those, you can invest in those contracts. And we've seen those hold up extremely well as new capacity has come online.

Bob Brackett: And then, too, and then I want to move into the portfolio and how you think about growth assets. But two questions around sand. There have been debates around crush strength and there have been debates around grain size, and so when we talk about crush strength, the conventional wisdom had been stronger sand, higher crush strength yields better results. The transition from sort of northern white to local Texas sand sort of upended that view, yet you're starting to see perhaps a return to higher-quality sands? Is that a real trend? Do you think that persists?

Bryan Shinn: It's a great question. So not to sort of bore everybody with too much of the details, but if you look at a northern white sand and crush strength, like 10,000 psi is a good number, so say 10K is the number, the Permian sands are a small step down. You'll find 7K and 8K sands there, and I think most energy companies that I've talked to say that's probably good enough. Now where we get into trouble is when you start going to the Eagle Ford, for example, the sands there are 3K to 4K, and that's where we're starting to see energy companies who thought they could use that local sand as well get some early returns from well results that don't look so good. And some of them have come to us sort of quietly and said, "We want to go back to northern white sand." So that's where we're starting to see that pendulum swing back just a bit.

So I think what you'll find is that it will end up somewhere in the middle. It's not going to be all northern white, it's not going to be all local sand. It will be sort of basin by basin. Permian, I think that will be self-supply for 100 mesh. There's not enough 40/70 in the Permian, so that will be sort of quote-unquote "imported" into the Permian from elsewhere, northern white and et cetera.

But the other basins, it's going to be sort of hit or miss. A lot of them will have to be northern white because there is no reasonable local sand there, and the Eagle Ford will probably be this balance, where some operators who have less concerns around quality

will pump anything, and others say, "No, that's not good enough, and we want to go back to northern white."

Bob Brackett: And there have been, moving back to the grain size or mesh, as you mentioned, historically there had been some intermediate size grains that were used to hold open fractures. Some of the leading E&Ps have moved toward finer and finer, the 100 mesh, and achieved potentially better results. After all these--more fractures accesses more oil rather than a few large fractures. You have mentioned there's an oversupply of 100 mesh in the Permian, but maybe that medium grain size is undersupplied? What do you see operators choosing on those grain sizes? What do the best operators do?

Bryan Shinn: So it all depends on the well design, obviously, but if you look at the split in most of the mines in the Permian, it's about 80% 100 mesh, 20% 40/70. Some mines actually have no 40/70; some have a little bit more than the 20. I would say if the operators could get it, they'd probably want a 50/50 blend. But we're probably, 30% of the total volumes that they'd like to be 40/70, and then I think what will kind of set how much ultimately comes in is how much does it cost to bring that 40/70 in. And some operators will say, "I don't care. I want 40/70." The others will say, "No, that's too expensive. I'll just use 100 mesh instead and live with the results."

Bob Brackett; And so then if we come back to the portfolio, you mentioned sustaining CapEx is quite--if I think of the uses of cash flow or the uses of EBITDA, you're going to use sustaining CapEx in your oil and gas business, and then how do you balance growth through acquisitions against returning cash to shareholders when you look at your share price? And you must think it's clearly undervalued.

Bryan Shinn: I think we just have to be opportunistic, and it's hard to sort of deal with hypotheticals. You have to look and see what's going on at the time. And so let's, for example, look at the very end of 2018 when our stock price took a dive down to $10.00 or $11.00. And we had some other opportunities on the table, but we looked at that and said, "Boy, we can take some of the cash we have and buy back 3 million or 4 million shares right now." And it was sort of neck and neck with other opportunities that we had. But that was a sure thing. You know what you're going to get there, and the growth, there's always some uncertainty. So we went ahead and pulled the trigger on that.

So I think it just depends on the facts and circumstances, but we like to take a balanced approach to that. I think we do have a bias for investing in growth projects, for sure, especially on the industrial side of the business, where it feels like there's much less uncertainty, given that maybe projects come with guaranteed contracts from blue-chip, long-term customers, people we've done business with for 50 years. So that feels pretty much as close to a sure thing as you'll get in any kind of a business contract. So we'll pick and choose and try to make the right decisions, given kind of all the facts at the time.

Bob Brackett: When you talk to investors, what do they want to see from you in terms of that uses of cash?

Bryan Shinn: So I would say that one of the things we're hearing more and more from investors is, "You should buy back some of your debt." So I would say we haven't heard a lot of that in the past, and probably it's because we're talking to more investors outside of the

oilfield, more sort of generalists or industrial-focused investors, and so the debt issue is coming up more and more. "How much debt do you have, and shouldn't you be buying down some of that?" So I think that's another potential use of cash. We haven't done any of that in the past, but given the kind of cash flow we expect to generate over the next few years, I think that that comes into play.

Bob Brackett: And do you target it specific net debt to EBITDA, or how do you think about the right level of debt?

Bryan Shinn: It's a great question. So today we're about 4 times on a gross basis. Me personally, I'd like to get down to maybe 3 times, 2.5 to 3 times, over time. I'm not uncomfortable with where we are at 4, given our mix. If we were all oilfield like the old days, I'd feel a little bit uncomfortable around that, perhaps. But given the sort of industrial nature of our portfolio and looking back literally over decades, the cash flow to that part of the business has turned off, we have plenty of ability to service that debt. But I think it would be nice to get it down at least one turn from where it is today.

Bob Brackett: Arguably, you're a 119-year-old company. You've gone through some cycles. That net debt to EBITDA has gotten worse in the past and you've managed through that cycle.

Bryan Shinn: Right.

Bob Brackett: But yes, from a generalist perspective, that's a pretty high debt level.

Bryan Shinn: Correct.

Bob Brackett: And would you just retire debt when the maturity comes due, or would you be more proactive?

Bryan Shinn: So our debt doesn't come due until 2025, so it's one chunk, so we have quite a long time to make decisions around that. But I think there's a chance that we could be out in the market in the next couple of years, buying back pieces of that debt. There's no reason not to as we look at the allocation scheme that we talked about earlier.

Bob Brackett: And how do you ensure that business development, when you're looking at a new business line, how do you make that process robust and you don't end up with failed acquisitions?

Bryan Shinn: That's a really good question. We've done a number of acquisitions, and I think we've--we have it down to a fine science at this point. We haven't had anything that we've acquired that I would sort of put in that failed acquisition bucket, because we have a rigorous process. For everything we've acquired, there's probably five deals each that we've walked away from. We've literally walked away from 30 to 40 deals. Some of them, we went way down the road, found something we didn't like, and we just stopped. We're a very disciplined team. Our Board is very disciplined. We think these things through quite carefully. And look, and nobody's perfect. I'm not saying that you couldn't make a mistake somewhere, but boy, we put a lot of rigor into it and have very fine-tuned processes to screen things along the way. And if we don't meet certain hurdles or if we see certain things, we're out. That's it.

Bob Brackett: And to what level does M&A revolve around those three business lines? Do you have a preference, or are you agnostic to the business line you would bolt on, or is it just then simply rate of return based, or do you skew based on desire to be more industrial focused?

Bryan Shinn: So I would say that we're definitely focused more on the industrial and the logistics side. I can't see at this point us doing more on the oilfield proppants in terms of bolt-on acquisitions. We have so many opportunities outside of that, i.e., the industrial and the logistics space, that that's pretty much where we're focused right now.

Bob Brackett: And that sort of coincides with the returns you might expect, given the lack of barriers on the oil and gas sand side.

Bryan Shinn: Correct.

Bob Brackett: What about insourcing? One of the things that the E&P sector has taken a lot of credit for, and maybe rightfully so and maybe exaggerated, has been the unbundling of oilfield services, and that includes anywhere from unbundling specific parts to insourcing sand. Do you worry about--are we past that tipping point where E&Ps are insourcing sand and now are net outsourcers of sand?

Bryan Shinn: So we really haven't seen a lot of that recently in my conversations with energy companies and a number of other folks in the industry. I just don't see a lot of that. People who've tried that, be they service companies or energy companies, typically it's just not worked out very well.

So you look, for example, there were a number of mines in the Boca, Texas, area. We had one, Pioneer had one, some of our competitors had one. Those mines are all shut down now. So an energy company who invested in that mine, it might have been good for a while, but as my needs change, why do I want to have that sort of fixed asset when there's a class of companies out there like ourselves who, it's our business to sort of balance all that. And as long we have reasonable prices and reasonable margin expectations and provide good service, I don't think it makes a lot of sense for the energy companies to make that big investment, plus they have better uses for their capital. They're trying to get every dollar they can directed towards drilling and completing wells. So I just haven't sensed a lot of energy, no pun intended, on their side to do that.

Bob Brackett: Talk about Sandbox moving from, say, you mentioned there are other adjacent business lines. It's a logistics business.

Bryan Shinn: Right.

Bob Brackett: What else can that Sandbox technology bring to or from the well site that makes sense?

Bryan Shinn: So if you start out in the oilfield, you think about all the things that have to get out to the well site. The two most notable would be, say, water and chemicals, so they're obvious containerized delivery opportunities. And in the well, it's not just water out, but then

there's things that come back out of the well that flow back, produced water and those type of things. So I think there's opportunities in and around that.

But more than just the oilfield, there's a lot of opportunities, we believe, out in a number of other industries, where you cannot do complete logistics for the industry, but look at kind of niche solutions where having a containerized solution gives you a tremendous advantage versus having to put up a big storage tank, or if it's a liquid or moving something by railcar because locations change all the time and it's unpredictable and things like that.

So we have our eyes on a number of different ideas there that we think we can expand out to. And when you start looking at the profitability of Sandbox just in the oilfield with what we have today, and you imagine we're going to grow the share for sand, and then you start doing one of these other things, like chemicals or water, and that's maybe just as profitable or more so if it's water, for example--boy, pretty soon you've tripled the size of Sandbox, just in the oilfield. And then we have these other verticals that we haven't even touched yet. So I feel like there's tremendous upside for Sandbox, and we have a lot of things that we're looking at. Hopefully, by the end of the year, we'll roll out our next application for the Sandbox system.

Bob Brackett: Is that around--what about disaster relief as a use for Sandbox?

Bryan Shinn: Literally, it's endless. So one of the founders of Sandbox I had dinner with a couple of months ago, he said, "You know, what you guys should be doing is transporting shrimp from the Gulf of Mexico to Louisiana, and you can just fill the boxes up with water and have a big shrimp boil once you get there." So there's lots of ideas out there. I'm not sure that one's going to make the cut, but literally, you sit with a whiteboard with 10 smart people in the room, and you fill up the whiteboard in about 3 minutes with ideas of things that we could do. So lots of opportunities for Sandbox.

Bob Brackett: If we come back to the oil patch, if I compare or contrast chemicals with water, chemicals, quite logical, there's no second choice. Chemicals move by truck to the well site. With water, water can move--well, water moves away from the well site often with gathering systems, so you're competing with pipelines. Can you compete on an economic basis that way?

Bryan Shinn: So I think, again, you have to target the solution. So where there's pipelines sort of to and from, you'll never compete with that. But there's a lot of places where there aren't pipelines, and they're using truck systems today, kind of in both directions, but particularly things that are coming out of the well and have to be disposed, for example. That feels like an interesting opportunity, more so than trying to compete with freshwater pipelines or something.

So I think we'll be smart about that. But even a niche kind of solution in the oilfield, just given the volumes associated with that, it's massively profitable, potentially.

Bob Brackett: And then are there any questions from the audience? Yes, please.

Unidentified Participant: (inaudible – microphone inaccessible)

Bryan Shinn: Right. So I think there's, if you look at the capacity reductions, that there's a couple of different categories. There are some of the folks who are really high on the cost curve that have sort of shut down forever. They've disassembled parts of their mines and their plants and they've sold the equipment. So I think those folks are never coming back.

Then you have kind of the next tier, who might be the swing producer if things really come back strong. But I think we'd have to see a pretty big uptick in pricing for that group to come back online. They haven't taken everything apart yet, but if you run a mine, and let's say you can't start the whole mine up, you're only running it at, I don't know, 25% or 30% capacity to start, those tons are very expensive. So the pricing would have to get up a lot, because you've got a lot of cash costs to restart that mine. You have to go rehire everybody, you have to rebuild stockpiles and do a lot of things. So I think it's relatively unlikely.

Then there's the third category of folks like us, who we never shut anything down specifically. We just went from three shifts to four, maybe worked 5 days a week or something like that and we put some incremental labor back in and we're able to bump our capacity back up. So that's the smallest bucket of capacity, but the one that's easiest to come back online.

So you put all that together, and I think there's probably a few million tons of capacity that could come back online relatively easily, but to get the next chunk that went off, we'd really have to see a big increase in pricing, which, look, at the end of the day if that happens, fantastic. If they can stay online, that's just a big pricing umbrella for the rest of us who are further down the cost curve. Prices are going up for everybody, so it wouldn't be the worst thing, quite honestly. Yes, sir?

Unidentified Participant: (inaudible – microphone inaccessible)

Bryan Shinn: So on the sand side, we have multiple contracts. We're approximately 70% to 75% contracted in the Permian--actually, probably a little bit more than that specifically in the Permian. And those contracts typically, I'd say on average, have another 2 to 2.5 years to run, and many of those contracts are the ones I spoke about earlier, where we got a prepayment from customers who we're actually holding a customer's money on our balance sheet. So we feel pretty good about those.

In terms of ramping up, that to me is more of a Sandbox question, in a way. As we try to increase share and we're going to continue to build out the equipment, I think we'll go as fast or as slow as the sort of share penetration takes us. There will be some point where if it really goes fast, we won't have enough cash, enough capital to sort of live within cash flow, and so we'll have to make some tough decisions there. But we haven't hit that point yet.

Unidentified Participant: (inaudible – microphone inaccessible)

Bryan Shinn: So in the traditional sort of sand business, for example, it's people like Owens Illinois, Owens Corning, all the big glass manufacturers we supply. Sherman Williams is a big customer in paints and coatings. It's customers like that. With the acquisition of EP

Minerals, we added a lot of additional customers, and there's a lot of sort of brand-name people that you'd recognize there. We filter with our diatomaceous earth almost all the high-end wine that gets made. Heineken's a big customer. Anybody in the food industry that's making a liquid food product uses our product as a filtration.

But we've significantly increased the number of customers. We have about 15,000 customers now across the business, and only 100 of those are the oil and gas customers. So the vast majority of our customers are outside of oil and gas. And particularly with the EP Minerals acquisition, they brought up a huge international component as well, so we have customers everywhere around the world right now, sales teams positioned literally everywhere around the world also. So that gives us another opportunity to sort of co-sell some of our industrial or traditional industrial products, silica-based and other products through that same network.

Unidentified Participant: (inaudible – microphone inaccessible)

Bryan Shinn: In the Permian. So the average well is about 7,000 tons right now, 7,100 tons in the industry. That would be about 0.7 mile, so 10,000 cars in a train equal a mile right now. So we do see a lot of wells in the Permian at 10,000 and above in terms of sand demand.

Unidentified Participant: (inaudible – microphone inaccessible)

Bob Brackett: A 2-mile wells needs roughly--?

Bryan Shinn: Yes, so a 2-mile well would need a mile-long train of sand.

Bob Brackett: Which points at the density. That's kind of a stunning--

Bryan Shinn: It's amazing, right?

Bob Brackett: It indicates we've hit the end of our session. I appreciate, of course, you for joining, and the audience as well. Thank you.

Bryan Shinn: Thank you very much.