U.S. Silica

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Matt Conlan: Well, welcome everybody. Thank you very much for coming to hear U.S. Silica with our fireside chat. U.S. Silica, as I'm sure you all know, is one of the leading frac sand and industrial sand suppliers in the country, which makes them so in the world. And as recently as 2010 in the industrial sand business was more profitable than frac sand, but of course that has changed substantially. And for 2014 the frac sand business is contributing about 80% of contribution margin by 2016. That should be, we estimate, about 85% or great. So we're going to focus mostly on the frac sand industry to which I'm sure you'll all be appreciative.

Today, I have with me Bryan Shinn, the President and CEO of the company. We also have down in the audience Don Merril, the CFO and Mike Lawson the Director of IR and Corporate Development. So thank you very much, Bryan, for being here.

Bryan Shinn: Thanks, Matt.

Matt Conlan: I hope you're enjoying your time in New York in the seasonal flooding period. So I just wanted to start off just asking about your current operations. Then we'll get into the fast changing macro environment.

Bryan Shinn: Okay.

Matt Conlan: In the third quarter U.S. Silica sold frac bed at the run rate of about 7.6 million tons per year. Is that at or above your current capacity because it seems to be a little bit higher than what you stated your capacity to be earlier in the year?

Bryan Shinn: So our current capacity is about plus or minus 8 million tons. So it's about 7 to 7.2 million tons of northern white sand and about 700,000 to 800,000 tons of hickory sand. We purchased a company called Cadre a couple months ago. So they're in the Brady, Texas area so it's the regional sand often referred to as Brady brown sand.

Matt Conlan: Okay, terrific. You're scheduled to add another 6.8 million tons or so over the next couple of years with Pacific coming on in the third quarter of 2015, Fairchild in the second half of '15, and an undisclosed location in Wisconsin with another 3 million later on.

Bryan Shinn: Right.

Matt Conlan: Given the macro environment changes are there any thoughts about delaying or canceling any of those expansion programs?

Bryan Shinn: So at this point, Matt, no. Everything's right on track. We believe that the industry over the next couple of years is going to need that capacity for the new expansions that we have planned this year so 3 million tons for our Fairchild site. And 800,000 tons for an expansion of our Pacific site. We already have a lot of that contracted. So we think that even if there's a bit of a pullback we'll need some of that towards the end of 2015. But certainly need that in 2016 particularly if the industry rebounds from the potential pull back.

And it takes a lot of time to spool these projects up. So at this point we don't have any plans to do anything differently than what we had originally announced. Certainly depending on what happens with market conditions over the next couple of quarters that could change. But at this point, it's sort of steady as she goes on the capacity plan that we've announced back several months ago.

Matt Conlan: Okay, excellent. Now moving onto your contracts, in the third quarter you announced you signed three new take-or-pay contracts. And you were working on some additional contractual opportunities. How has the conversation gone in the last six weeks or so on those further contracts? Have any more been signed? What's the body language you're getting from your customers?

Bryan Shinn: So we've actually added a few more tons under contract and we're working on some other ones. As we speak today, we have two or three contracts that are under negotiation working hard with customers. I think in spite of all the sort of doom and gloom that we hear about in 2015, our customers are taking kind of a longer-term approach. And they realize that they're going to need large volumes of high-quality sand delivered out as close as possible to the wellhead which is really our value proposition.

So we're looking at as I said two or three additional contracts. And working hard with the service companies who are interested in those to see if we can get those inked. Certainly, as part of the process any negotiator is going to use this sort of environment or potentially sort of negative everything coming up around recount declines to try and put pressure on prices and margins. But we go back and forth on that. And I think we'll end up in a good place with the customers.

We've pretty consistently said that our long-term target for margins and we tend to think margins instead of price just because of all the complexities around the pricing of our product. A long-term target for margins is $35 to $37 dollars a ton, contribution margin for oil and gas. And currently we're running somewhere between $40 and $41 dollars, but we realize that that may not be sustainable over the cycles and over the years. So when we look at projects, when we look at contracts we tend to target that $35 to $37 as a long term, sustainable place that we'd like to be.

Matt Conlan: So recent contract discussions up through the third quarter I imagine were above that $35 to $37 margin. Have they come back down into that range yet?

Bryan Shinn: Well, certainly there's some downward pressure from the service companies. You wouldn't be a good procurement person if you weren't using the forecast of rate count reductions to try and get a better price, right? And so it's not surprising that we enter into those discussions. But there's a lot more to it than that, and it's not just about the price. In some cases it's about the service we provide and different things we can do to add value for the service companies as opposed to just giving them price reductions.

Matt Conlan: Okay, great. And how much of your capacity in 2015 and ’16 is left up on contracts? And are those all take or pay, or are there opportunities for the customers to whittle down their commitments?

Bryan Shinn: So historically we‘ve tried to stay between 50% and 70% of our volume under long-term contract. And the reason we picked those numbers is that if we’re less than 50% contracted it tends to introduce a lot of logistics inefficiencies, i.e. we’re not sure where the customer’s going to be buying because it’s a lot of spot sales. And so we might get a little more price in that, but we tend to give that back in terms of a logistic inefficiencies.

On the top end of it 70%, if we get too much more contracted then that then we lose the ability to get additional margin for spot sales. So I think 50% to 70%. Actually coming into ’15 right now we’re probably going to be north of 70%, probably closer to 80%. And that’s somewhat an artifact of some of the recent contract discussions and contracts they’ve got signed. It was usually some version of the customer saying that they would be glad to purchase additional volumes from our new Greenfield sites. But they needed some volumes in the short term because the market was so short, right?

So it kind of has taken us a little bit above the 70%. And actually given all the potential sort of turmoil that’s being talked about in the market and rig-count pullbacks. I feel pretty good coming into 2015 with 80% of our volume already under long-term contract.

Matt Conlan: Good, and are those all take or pay?

Bryan Shinn: They’re all take or pay.

Matt Conlan: Okay, great. And the pricing on those it’s my impression that pricing on long-term contracts even through 2014 announcements were below where the spot market was. Is that (inaudible)?

Bryan Shinn: A little bit below, but not that much off of where we’ve been performing in the $39 to $41 a ton range.

Matt Conlan: Okay, great. Let’s turn to the overall market, and U.S. Silica I believe has the best market information on supply and demand. A little shout out to Brad Casper (ph) who I think has been excellent in developing your internal models. And since there is a lot of controversy over just the basics of the size of the US frac sand market, what does U.S. Silica estimate the 2014 market was? And how much do you think supply is going to grow in 2015?

Bryan Shinn: So in terms of demand I think the market for ’14 is around 65 million tons plus or minus. And as we looked at 2015 our original expectation was that demand would grow about 25% to 30%, and there was actually some upside on top of that depending on how fast some of the energy companies adopted these new more profit intensive wells.

So that’s kind of our base case. Against that we saw supply growing about 20% so demand up 30%, supply growing 20%. Our base forecast was for 2015 to be a pretty tight year. And the market to continue to be short.

Obviously, as we see potential pullbacks in rate count throughout the year in ’15, the demand side will decrease a bit, right? And depending on what the shape of that curve looks like in terms of the pullback it’s hard to tell exactly what it would be. But our base

forecast now is probably for maybe more like 10% growth year on year in terms of demand.

And also when you look at the supply that's coming online even though I said 20%, that's what's on line by the end of the year. So if you kind of average that throughout the year what we're competing against is more like a 10% increase in supply.

So plus or minus we think the market still stays relatively balanced. It could be a little bit long by the end of the year when all this new capacity comes online. If rigs haven't rebounded a bit, but through most of the year we expect that the market to still be pretty tight in terms of supply and demand.

Matt Conlan: Okay, terrific. So as we break down the baseline demand growth which you would estimate at 25% to 30%. It seems the majority of that increase was in sand intensity per well.

Bryan Shinn: Correct.

Matt Conlan: So that has a — what kind of well count increase would you have in there, in that space (ph).

Bryan Shinn: So the well count was pretty small. I mean most of it was through the sand intensity. It was more stages and more sand per stage. The well count was maybe 5%, something like that. It wasn't a lot.

Matt Conlan: Okay, so even with a 10% or even 15% decrease in well counts, you'd still expect overall sand demand to be up year over year?

Bryan Shinn: Correct.

Matt Conlan: OK, great. Now let me ask you as we're hearing some EMP (ph) companies high grading their geology where they're going to drill, height, grading, their completion methodologies. Is that a positive or a negative for profits demand per well?

Bryan Shinn: So I think we'll continue to see the profit demand increase. If you look at the sort of curves out there that people are working down, it used to be that you'd put maybe 2,000 tons of sand down a well. Today we see the average moving toward 5,000 or 6,000 tons, and the leading edge folks are putting 10,000 to 12,000 tons per well. So that's kind of the backdrop.

And certainly as they do this sort of high grading as you said we're hearing energy companies talk about moving dollars from drilling to completions. And a lot of that is going to be to put additional profit down hole. So I think there's probably a tailwind in terms of profit per well there.

And if you think about it, think about what tools the energy companies have today to improve the IRRs of their wells against a backdrop of falling WTI. One of those tools is to put more sand down the well, and we're not talking about a major investment. Literally a couple hundred thousand dollars per well of additional sand can have a dramatic impact on the IRRs and obviously the EURs of the wells.

Matt Conlan: Okay. And this is a parenthetical, I heard one of maybe not one of your customers but a fracer describe earlier in the day that they were looking for substantial savings from the proppant side of the business. But the actual sand price was a very small component of

that. It was much more about the logistics of transportation and storage that they'd had to pay very expensive third-party fees for. So it was just a parenthetical.

So if we do have a softening of the market where supply outpaces demand growth going forward. How does that play out in the marketplace is Silica on the front lines as who gets grabbed (ph) out of the marketplace, or are there lesser suppliers who get hurt first?

Bryan Shinn: So if you look at the market today about 65% of the supply that we have of the northern white sand is low cost like U.S. Silica. The other 35% is either moderate or high cost. And usually those moderate or high-cost folks are the smaller operators, maybe one mine, two mines, no logistics capabilities. And as you said just a minute ago with your something parenthetical there's tremendous cost in logistics particularly at the trucking from the transloads out to the well.

So I think the kind of value proposition that U.S. Silica has puts us right at the forefront of who customers want to do business with. And if you look back over the last couple of years we've taken two points of share from the competition last year. We took two points this year. I think next year we're going to continue to take share, Matt. And it's because we have the high velocity sort of massive transload footprint running a large number of unit trains that allows us to turn our product very quickly and reduce those logistics costs.

And interestingly enough we're working with a couple of our customers to look at how do we take cost out across the chain. And when you do the math there's massive logistics costs there that you can save. I think it's on the order of hundreds of millions of dollars of cost that could be taken out. And a lot of our customers are very interested to work on that. So I think we'll spend more time in 2015 working with our customers on those type of initiatives.

And you know it could be something simple like making sure that you load every truck as quickly as possible. We have loading times now down to five or six minutes for a truck. And what that means for our customer is they pay less demurrage on that truck. And the demurrage cost for trucking is a huge cost to the service company.

So the things like that that we can do that don't cost us a lot, but have big value for our customers. And those are the places that we're focused. And some of this wasn't our idea. The customers saw some of these things and so they're coming to us, and asking us to help them in a partnership way trying to take costs out of the chain. And so I think we'll be very successful in that. And it'll just enable us to continue to get closer with our customers and to take share.

Matt Conlan: Excellent, so since we're already on that logistics topic. What percentage of your total frac sand sales currently are being sold in basin?

Bryan Shinn: It's about 65% to 70% today. Just two or three years ago it was 5% to 10%. So over the last two or three years we've built up a massive logistics network. And that's really been the key to our success. It's one of the main reasons that we've been able to take share serving customers as close as possible to the wellhead. That's what they want.

Matt Conlan: Now are you near the upper limit yet or do you think a year from now you'll be even higher?

Bryan Shinn: I think you sort of reach a limit. There's some customers that want to buy a percentage of their products using their own logistics network. So if you're a Halliburton or a

Slumber J you've invested money already in silos and rail cars and other things along the chain. So there's probably an upper limit of maybe 75% or 80%. We still see 20% of the customers that want to manage their own logistics.

Matt Conlan: Okay, and you think they'll continue to want to do that even though you've proven that you can do it for them?

Bryan Shinn: Well, look we're not the only ones that have capabilities out there. And certainly the larger companies believe that they have great capabilities also. But I think at some point you kind of reach just a theoretical maximum. Customers want to have more direct control over a certain percentage of their product for their own reasons sometimes.

Matt Conlan: Okay, so if 65% to 70% of your sand is being sold in basin, what percentage of those in basin sales is being transported via unit train?

Bryan Shinn: So we have about this year 25% of our sales being done by unit trains. And I think next year we'll get up around 40% to 45%. And to just put that in perspective, I'm not sure if everybody here today really understands what a unit train is. It's an express train of sand that runs directly from our mine site right out to our storage location. Unloads the sand very quickly, and then turns around and comes back.

And so the engine never gets unhooked from this 100 car train of sand. And what that means is we can turn a train in about six to seven days. So it leaves our mine site, six to seven days later it comes back empty to be refilled. If you compare that to the old way of shipping, so called manifest way which most of our competitors still do. It takes six to seven weeks to turn a train, right?

So think about that, six to seven days for U.S. Silica, six or seven weeks for many of our competitors. And the practical implication of that is let's say this glass was a 10,000 ton silo out in the basin. We can turn that silo four or five times a month. Put 40,000 or 50,000 tons of flow of sand through that silo out to the wellhead. Our competitors over here that don't have that capability can maybe turn it once, 8,000 to 10,000 tons. So if you're Slumber J or Halliburton, you're any of the service companies running these monster fracs with sand, you have to get tremendous flow or velocity through the network.

One of the things I always encourage folks to do if they want to learn more about this is ask more questions. And we'll see a lot of our competitors out there that have a map of North America with kind of dots on the map representing their transloads. But you have to kind of dig a little bit deeper and say what's your velocity? What are your turns through your transloads? And so all networks are not created equal.

And I think the network we've put together is one of the best in the industry, and we manage it extremely well. And it's a real competitive weapon for us both in the boom times and even in the downturn perhaps more so. So it's a tremendous tool that we can use to grow the business. And I think it's one of the reasons that we've continued to take share.

Matt Conlan: Well, it seems like you're going to be expanding that network over the next year or two. We know that you're increasing the capacity at San Antonio.

Bryan Shinn: Right.

Matt Conlan: Has the Permian Basis facility opened up yet in Odessa?

Bryan Shinn: In the next month or two it'll open up, yes.

Matt Conlan: And where else are you targeting? Have you disclosed where you're going to be (inaudible).

Bryan Shinn: We haven't disclosed where, but we have another six to ten sites on the drawing board. And the reality is we've sort of changed our whole approach to bringing capacity online. Two or three years ago when we 'd talk about new capacity and I still see some of our competitors thinking this way, they just talk about the mine site. But now when we authorize a capital project for a new mine site we also add into that all the transload capital, right?

So we'll add another $20 or $25 million onto the project to make sure that we can build out the transloads. And we sort of if you will burden the economics of the project with all those logistics costs. So we're tending to think about it in a packaged deal if you will, a much more holistic way than we have in the past. And just that mindset change within the company you can't build capacity without building the transload. It's served us very well.

Matt Conlan: Okay, terrific. So each one of those transload facilities is $15 million or so?

Bryan Shinn: That's a good rule of thumb, $10 to $15 million depending on the size of it. The interesting thing is when we talk to some of our competitors, especially the smaller folks who'd like to do this, there's a lot more to it than just building the physical silo. You also have to front a lot of working capital, right? So you think about how much inventory is now in the chain between your mine site so what's on rail, what's out physically in the silo, and all that is valued not at the $20 a ton manufacturing cost, but maybe at $80 or $90 a ton because you have to pay the railroads.

And you have to pay them at 15 days by the way. So there's a big cash investment not just in the facilities but in building up all that inventory. And I think we've invested I don't know tens of millions of dollars over the last couple years just in that working capital inventory out in the chain. And once again it's something that's difficult to replicate for some of the smaller folks.

Matt Conlan: Okay, terrific. Let's turn now to completion designs. We've talked about how clearly the pace is that companies are using more sand per well. How does this affect and what are you seeing in other proppant demand scenarios. Resin-coated sand, you have a small resin coated volumes facility. How is that progressing? Is that going up? Going down? Is it being cannibalized by the raw sand?

Bryan Shinn: So if you look at the three types of proppant that we see in the industry today: raw sand, resin-coated sand, and ceramics. And historically we've seen a breakdown in terms of volume 80/10/10. So 80% raw sand, 10% resin coated, 10% ceramics. I think what we see is that there's a bit of a move away from ceramics kind of at the top end. Maybe they're losing a bit of market share. The reality is it's such small volumes as an industry it doesn't really impact us very much.

On the resin coated side we've seen I think a bit of a shift. When we got into that business a couple of years ago our assumption was that we would sell resin-coated sand mostly as a primary proppant, right? And so that's a product that is what's called a pre-cured product. So when you apply the resin to the sand it's already sort of cooked and hardened, right?

So it's a primary proppant. What we're actually seeing is that the big demand for resin-coated sand today is for flow back prevention. And so that's a different kind of coating. It's what's called a curable coating.

So think about it as kind of taking your steak out of the oven rare and letting it finish cooking by itself to be fully done. So the proppant that we put on there, or sorry the coating is not fully polymerized. And so a big portion of what we're selling today is that. And actually we're doing quite well. I think we've got our facility now about 50% sold out on resin-coated sand.

And we're actually signing our first contracts for resin-coated sand. So it's being very well received by the market. And I expect it will continue to grow that in 2015. There's a large demand for this flow back prevention type of resin across all the basins. The primary proppant resins tend to be just in the high temperature, hot basins. But flow back is kind of an individual phenomenon that we see across all the basins. So anyway long story short, resin is doing very well.

Matt Conlan: So that partially cured flow back resin sounds like its being used in a complimentary fashion rather than a competitive fashion to the raw sand increases.

Bryan Shinn: Correct. For us it's sort of a plus one. So what they'll do is pump the primary proppant, let's say it's raw sand. And then at the very end of the job they tail in with this curable resin. And it kind of flows in. It's the last piece of proppant between the proppant pack and the well bore. And under the heat and the pressure of the well it finishes curing and it kind of locks in. And it keeps all the sand, the primary proppant, out in the cracks and the fissures and it doesn't let it flow back into the well bore.

Matt Conlan: Now the raw sand seems to have clearly taken market share from ceramics during 2014. This may be getting a little bit checking your crystal ball here, but do you think that's just a function of where the experimentation in well completion design is in 2014? Or do you see that as a sustainable trend?

Bryan Shinn: Look, I feel like it's a sustainable trend and I've been in a lot of industries in my career. There are a few truisms across all industries but one of the things I've found is that whenever customers move from a high value unused (ph) product to a lower value unused product and they get acceptable results they almost never go back, right? So I don't think anybody's trying to use more ceramics in wells. It feels like they've gotten really successful results with raw sand. And it seems like that's the way to go in the future.

Matt Conlan: Okay, great. Now we know organically you're on target to add a 3 million ton site in 2016. And your long-term plans have an additional 3 million tons added essentially every year in a fairly regular fashion. At what point might we see that acquisitions become a more competitive opportunity for you compared to organic growth?

Bryan Shinn: It's a great question, Matt, and I think it's particularly appropriate given the potential to see somewhat of a downturn in the industry in 2015. And I think if you look back over the history of this industry when there's been slowdowns or downturns folks that are well positioned like us have the opportunity I think to see more acquisitions become available.

So I think in 2015 there could be some interesting opportunities. So we have a great balance sheet, very low net debt, lots of opportunities for us there. And so I think we'll

continue to see more acquisitions in our industry. I think we'll see consolidation quite honestly. And a lot of that's going to be driven by market forces.

As I was talking earlier you have to have this massive logistics network now to be really successful. So it's hard to do that as a single mine player or a smaller competitor. So I think that's in some way is going to force people to either invest a lot and get bigger, or decide that they need to get out. So it wouldn't surprise me to see more opportunities in the future for acquisitions.

Matt Conlan: It seems that there's a big impediment towards consolidation over the last year and a half is that they're just nowhere near price competitive with organic growth. Have you seen any that have come down to competitive pricing?

Bryan Shinn: So I think there's some that the pricing might look a little steep on the sticker. But when you plug it into our network for example and look at the synergies that we can get from it. We can be extremely accretive, so those are the type of things that we're looking at. I also believe that there's still some people that are out of line with valuations. And I think that will likely come down given what might happen in 2015.

And if you look at who's likely to have the most difficult time competing in a tougher environment it's the folks that don't have the logistics networks, the smaller folks just by the nature of it. So perhaps that encourages them to get more realistic in terms of what their business is actually worth.

Matt Conlan: Okay, terrific. Now in the public sphere you have a few competitors who are MLPs.

Bryan Shinn: Right.

Matt Conlan: Clearly you have a problem with your legacy operations, they're intermingled with non-qualified industrial operations. As you grow more your frac sand operations, more frac sand exclusive mines, how deeply have you looked into the potential of forming a MLP with those newer properties?

Bryan Shinn: I think the notion of an MLP is attractive for a couple of reasons. One is that if you just look at how the market values those companies with the tax-free nature of their earnings. Typically there's a two turn valuation difference between the MLPs in our space and U.S. Silica. But perhaps more importantly if you really believe the industry is going to consolidate and consolidate in a meaningful way, one of the things you'd love to have is an MLP to help with acquisition currency, right?

So I think there's opportunities to consider that. I would say that I'm not excited about taking the whole company and making a MLP out of it. I don't think that would make a lot of sense. But certainly having a MLP that's owned by the C-Corp. There's some structures out there like that. That's the kind of thing that you might think about. But we're still a long ways off from that.

I would say that we're perhaps a bit more interested in that than we might have been a couple of years ago just because as you said we have all these new sort of purpose built sites now that are not fully depreciated that are easier to drop into an MLP. So there's a couple drivers there, and it's something that we'll continue to look at, Matt.

Matt Conlan: Okay, terrific. And we only have a few minutes left so let's turn to our gratuitous question on the industrial sand products. You instituted some pricing increases, announced the pricing increases around Niger (ph). It didn't look like they really showed

up in the third quarter as per ton profits fell, or maybe you have other mix issues going on there. What's your outlook for the ISP business? Should we expect that those pricing increases drive margins higher?

Bryan Shinn: So we actually did see the positive benefits. In the industrial business you have to look at it kind of on a year-on-year comparison, right? So if you look back compared to the third quarter of last year prices were actually up 11%. So we did see that read through. We have different mixes of products that we sell at different times of the year. Some are more or less profitable. Things like golf course sands are not extremely profitable, but we tend to sell those in the warmer weather months. And so there's some seasonality to it.

But I'm really excited about our industrial business. It doesn't get a lot of airplay, but if you look at how this business operates we have this tremendous, very stable core of industrial applications. Many of which are into housing and automotive, but across kind of a wide-range of industries it's kind of a GDP growth business.

And what we're doing is layering on top of that a number of new specialty and performance products and applications. We actually just launched a new product a month or two ago the antimicrobial coating on our sand products for the water treatment industry. So you'll see things like that coming.

We have a portfolio of 37 new products in the pipeline today. And some of those are products that might generate a million or $2 million of EBITDA. Some of them could be $10, $15, $20 million, right? So I think there's meaningful EBITDA growth for the industrial business.

But just to temper enthusiasm around that a little bit. It's also new products, market penetration, taking share from (inaudible) competition. So it's not like oil and gas where sort of if you build it they will come, right?

So it'll take a little bit longer. But I think over a five to ten year horizon we're going to remake the industrial business to be a much stronger, it's already pretty strong, a much stronger and faster growing Enterprise.

Matt Conlan: Terrific. That runs through the questions I had, but we have a few minutes left for some questions from the floor.

Unidentified Audience Member: Can you just talk a little bit about the permitting process, like the regulations and how difficult or how easy it is to do that?

Bryan Shinn: Sure, so when we permit a new mine site, open a new mine site typically it's an 18 to 24 month process start to finish. And if you look at what it takes to be successful with a mine site say in Wisconsin where most of the new sites are going up. It takes approximately a thousand acres of land. And we look for sites that are only on Class 1 railroad. So we don't like trucking steps.

And then the third piece to your question was in a township that will let you permit the mine site. And it's interesting in Wisconsin, as with many of the locales around the country, the critical mining permit called the Conditional Use Permit is granted by the local township or local city, right?

So typically what we find in Wisconsin is perhaps a small town with 10,000 or 20,000 people with a town council there. And it's the town council that needs to grant that

permit. And so we have to go through a process and introduce ourselves, talk about who U.S. Silica is, what we want to do, and educate folks in some cases around the difference between how we operate and perhaps what they've heard about the mining industry. I think it's an important competitive advantage for us.

But it's a multi-month process. It can take six to nine months just to go through that, answer all the questions, have the town hall meetings. Walk around and knock on doors, talk to citizens, what does it mean to have a mine site next to you, those kind of things. And we take that very seriously and spend a lot of time doing that.

And I'm proud to say that in the 115 year history of the company we've never been denied a mining permit. So we have a pretty good track record of working with our communities and take that aspect of our business very seriously. But it's a great question. Thank you.

Matt Conlan: Any other questions? Well, I do have one more then. Oh, there we go.

Unidentified Audience Member: Do any of your competitors have the coated sands as you described awhile ago?

Bryan Shinn: They do. There are several other companies out there that make coated sands, resin-coated sand. We're fairly new to the industry so in terms of capacity we only have a small part of the industry's resin-coated sand capacity. There are others that are much bigger than us. But actually I think for us that sort of fits. I think resin-coated sand is a complimentary part of our business. And it's nice added profit. There's others that that's kind of the main revenue generating component of their business. So there's all kinds of different structures in the industry.

Unidentified Audience Member: Can you talk about how your contract structure is similar or different from your other public competitors as well as the private competitors? Just in reference to your 80% contracts for 2015.

Bryan Shinn: So look it's hard to know exactly how others contracts are structured. In some cases as people went public they had to file their contracts, some redacted version. So we see that. We hear things out there.

I guess our approach to contracts in oil and gas is we like multi-year contracts so they're typically three to five year contracts. They're typically fixed pricing and fixed volume although in the last round of take-or-pay contracts, these are actually our third-generation contracts.

We started to put in more specific provisions that they give customers some flexibility. So I'll give you an example. A typical provision might be we'll let customers buy 15% less volume in a year, but as a result of that it triggers a clause that adds a year on the end of the contract or something like that, right? So we've found over time it's better to have some specific things prenegotiated if one party or the other doesn't live up to their commitments or can't what happens, right?

So that's typically how our contracts are set up. They're as I said fixed pricing. There's usually some escalators in there related to our input costs. So natural gas is a big input cost for us and there's some other contracts that have CPI or PPI type escalators to them. But it's typically fixed volume, by grade, by year.

Unidentified Audience Member: Your customers have had a pretty rapid growth, or a pretty strong growth rate in their capital expenditure plans over the last couple of years where you saw some very

good growth. When you talk about bringing on new mines, new supply, those are long-lived assets. Looking at your three to five year business plan, what do you see for your customers spending over the next three to five years?

Bryan Shinn: So I think the spending on sand as a percentage of say the well costs will continue to go up. It's relatively low today. So if you look at a typical say maybe $8 million completion cost for a well, the sand is a few hundreds of thousands of dollars of that maybe $300,000 or something. We're seeing the energy companies who by the way are not our direct customers. So our customers are the service companies Slumber J, Halliburton, and obviously their customers are the energy companies.

But we see the energy companies making the decision to spend double or triple on proppant because they get such a positive economic tradeoff for that. And we think that's going to continue into the foreseeable future. And the reason for that is that only today about 20% to 25% of the wells in the country are being completed with this new sort of high-density of proppant regime. So to say it another way there's another 70% or 75% that aren't. And so we think those will migrate to that regime over time.

But at the same time sort of on top of that migration curve is the leading edge. And so we're actually seeing leading edge customers put 10,000 to 12,000 tons of sand down a well to complete it. And to put that into context that's a unit train of sand about a mile long. So if you've ever sat at a railroad crossing and counted the railroad cars think about 100 cars going in front of you all full of sand just for one well.

So there's this tremendous kind of secular trend that I think will continue to increase the spend per well. It's a massively positive economic tradeoff for the energy companies. And if you listen to any of the energy company earnings calls in Q3, you couldn't even listen to a call without them talking about the additional sand and the IRR increases, the EURs and all that. So we feel pretty confident that that's a trend that's here to stay. We're not aware of anybody who's trying to use less sand per well.

Matt Conlan: Well, that's terrific. We're now out of time, but we thank you very much for coming and joining us at the Wells Fargo Energy Conference.

Bryan Shinn: Thanks, Matt, a pleasure as always.