

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 8-K

CURRENT REPORT
PURSUANT TO SECTION 13 OR 15(D) OF
THE SECURITIES EXCHANGE ACT OF 1934

Date of report (Date of earliest event reported): February 21, 2023

SELECT ENERGY SERVICES, INC.

(Exact Name of Registrant as Specified in its Charter)

Delaware
(State or Other Jurisdiction
of Incorporation)

001-38066
(Commission
File Number)

81-4561945
(IRS Employer
Identification No.)

1233 West Loop South, Suite 1400
Houston, TX 77027
(Address of Principal Executive Offices)

(713) 235-9500
(Registrant's Telephone Number, including Area Code)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

- Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
- Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
- Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
- Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

Securities registered pursuant to Section 12(b) of the Act:

| <u>Title of each class</u> | <u>Ticker symbol(s)</u> | <u>Name of each exchange on which registered</u> |
|--|-------------------------|--|
| Class A common stock, \$0.01 par value | WTTR | New York Stock Exchange |

Indicate by check mark whether the registrant is an emerging growth company as defined in Rule 405 of the Securities Act of 1933 (§230.405 of this chapter) or Rule 12b-2 of the Securities Exchange Act of 1934 (§240.12b-2 of this chapter).

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Item 2.02 – Results of Operations and Financial Condition.

On February 21, 2023, Select Energy Services, Inc. (the “Company”) issued a press release announcing its financial results for the fourth quarter and year ended December 31, 2022. A copy of the Company’s press release covering such announcement and certain other matters is furnished as Exhibit 99.1 to this Current Report on Form 8-K.

Item 9.01. Financial Statements and Exhibits.

(d) Exhibits.

| <u>Exhibit No.</u> | <u>Description</u> |
|--------------------|--|
| 99.1 | Press Release, dated February 21, 2023. |
| 104 | Cover Page Interactive Data File (embedded within the Inline XBRL document). |

THE INFORMATION FURNISHED UNDER ITEM 2.02 OF THIS CURRENT REPORT, INCLUDING EXHIBIT 99.1 ATTACHED HERETO, SHALL NOT BE DEEMED “FILED” FOR THE PURPOSES OF SECTION 18 OF THE SECURITIES AND EXCHANGE ACT OF 1934, NOR SHALL IT BE DEEMED INCORPORATED BY REFERENCE INTO ANY REGISTRATION STATEMENT OR OTHER FILING PURSUANT TO THE SECURITIES ACT OF 1933, EXCEPT AS OTHERWISE EXPRESSLY STATED IN SUCH FILING.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

Dated: February 21, 2023

SELECT ENERGY SERVICES, INC.

By: /s/ Nick Swyka
Nick Swyka
Senior Vice President and Chief Financial Officer

SELECT ENERGY SERVICES ANNOUNCES CORPORATE REBRANDING INITIATIVE, MULTIPLE NEW ACQUISITIONS AND REPORTS FOURTH QUARTER AND FULL YEAR 2022 FINANCIAL RESULTS AND OPERATIONAL UPDATES

Select Energy Services, Inc. intends to become Select Water Solutions, Inc., further aligning the brand with the Company's vision to be the recognized leader and trusted partner in sustainable water management solutions

Generated revenue of \$1.4 billion for full year 2022 and \$382 million during the fourth quarter of 2022, up 81% annually from 2021 and up 2% sequentially from the third quarter of 2022

Acquired strategic portfolio of Permian Basin water infrastructure, including water gathering, disposal, sourcing, storage and distribution assets from multiple parties

Acquired joint venture interests in certain strategic recycling facilities in the Permian Basin from minority partners

Announced significant new Delaware Basin recycling infrastructure project supported by multiple long-term contracts

HOUSTON, Feb. 21, 2023 /PRNewswire/ -- Select Energy Services, Inc. (NYSE: WTTR) ("Select" or the "Company"), a leading provider of sustainable water and chemical solutions to the energy industry, today announced its intent to rename itself Select Water Solutions, Inc. and its successful completion of multiple water infrastructure acquisitions in the Permian Basin, as well as its financial and operating results for the full year and quarter ended December 31, 2022.

John Schmitz, Chairman of the Board, President and CEO, stated "Over the last couple of years, Select has remained steadfastly focused on a strategy of building and bolstering the core water and chemicals businesses, advancing our technology, sustainability and diversification efforts, and executing on strategic M&A. In recent years, we have closed on a dozen strategic acquisitions, while simultaneously divesting non-core businesses and assets that were not strategic to our vision. During 2022, we grew our revenues by more than 300% relative to our pandemic lows and generated all-time-high levels of net income. We have accomplished this while simultaneously protecting the strength of our balance sheet, returning capital to shareholders and positioning Select for further growth.

"Through both organic development and acquisitions, we have put together one of the largest strategic water infrastructure footprints across the U.S. Through a series of bolt-on asset transactions completed in December 2022 and January 2023, we've further expanded this footprint in recent months, adding a portfolio of strategic pipeline, storage and disposal assets that have been quickly and readily integrated into the extensive recycling infrastructure network we acquired from the previously announced Breakwater acquisition.

"I'm also excited to further expand this footprint through a new commercial full lifecycle organic recycling development project in the Delaware Basin, backed by multiple long-term contracts. Additionally, we have continued to develop new and creative chemistry technologies that have grown our market share and helped lead the energy industry transition towards sustainable full lifecycle recycling and reuse solutions. During 2022, Select recycled 174 million barrels of produced water for reuse, or more than 7 billion gallons, with approximately two-thirds coming from fixed facilities and one-third coming from mobile operations. Select's recycling solutions significantly diminish the amount of freshwater demanded by the industry, currently reducing freshwater usage by an amount of water equivalent to that consumed by more than 240,000 Americans for personal consumption per day, according to the Department of the Interior's U.S. Geological Survey.

"At our core, Select is dedicated to our vision to be the recognized leader and trusted partner in sustainable water management solutions. 2022 represented a culmination of sorts for this strategy, as well as a new beginning. Select was initially built to service the energy industry, and I believe we have become a technology leader with uniquely integrated water and chemistry capabilities in the industry. We will remain steadfast in our dedication towards advancing new and sustainable solutions for our customers and other stakeholders that are responsible for producing the fuels needed to provide mobility, the energy needed to power our homes, and the refined products needed to engineer advanced materials and technologies. However, we strongly believe our expertise in sustainable water and chemical solutions has a diverse range of applications beyond the unconventional energy industry as well.

"Accordingly, I'm excited to announce our corporate rebranding initiative. During the first half of 2023, Select intends to become Select Water Solutions, Inc. and will retain our current stock ticker "WTTR" trading on the New York Stock Exchange. We expect the change to become effective shortly after the Company's annual meeting of shareholders. For now, our corporate and financial reporting structures will not change. This rebranding more efficiently aligns our employees and field operations, consolidating more than a dozen brands and DBAs currently operating nationwide, while also simplifying our external communications with our customers. Our organization has experienced tremendous growth in recent years and to better meet the needs of our customers in a rapidly changing market, we've strategically added new products, services, infrastructure and most importantly, talented and capable people. At the most fundamental level, our business is all about creating connections, whether it is about further uniting our teams around integrated water and chemistry, creating sustainable partnerships with our customers, integrating large infrastructure networks or being good stewards for the surrounding communities. This change prepares Select for the future as our business evolves and we assess additional diversification opportunities. Whether it's molecules or pipelines or people, we are all connected by water. I'm very excited about what the future holds for Select and look forward to further executing on this vision through additional profitability growth, shareholder returns and strategic execution throughout 2023 and beyond.

"While the fourth quarter was impacted by integration and weather challenges, ultimately I am very pleased with our overall financial performance over the course of 2022. Supported by our recent acquisitions, advanced chemical technologies, organic infrastructure growth opportunities and our other strategic investments, we expect to see meaningful revenue, EBITDA and net income growth in 2023. Subject to market conditions and the realization of certain projects, we expect to deploy between \$90 and \$130 million of net capex during 2023, with an objective of converting two-thirds of our EBITDA into free cash flow, supported by substantial working capital improvements. I look forward to building upon our 2022 results and significantly expanding our free cash flow generation during 2023. This will provide ample opportunities for incremental growth, while also allowing us to advance our support of committed capital returns for our shareholders," concluded Schmitz.

Full Year 2022 Consolidated Financial Information

Revenue for full year 2022 was \$1.4 billion as compared to \$765 million during full year 2021. Net income for full year 2022 was \$54.9 million as compared to a net loss of \$50.1 million during full year 2021.

For full year 2022, gross profit was \$160.8 million, as compared to \$20.9 million during full year 2021. Total gross margin was 11.6% during full year 2022 as compared to 2.7% during full year 2021. Gross margin before depreciation and amortization ("D&A") for full year 2022 was 19.8% as compared to 14.5% for full year 2021.

Selling, general and administrative expense ("SG&A") during full year 2022 was \$118.9 million as compared to \$83.1 million during full year 2021. SG&A during full year 2022 and 2021 was impacted by non-recurring transaction costs, primarily related to our recent acquisitions, of \$8.7 million and \$5.0 million, respectively.

Adjusted EBITDA was \$194.8 million during full year 2022 as compared to \$50.0 million during full year 2021. Adjusted EBITDA during 2022 was impacted by the deduction of \$13.4 million of non-recurring bargain purchase price gains that benefited net income during the year related to the Company's recent acquisition activity. Additionally, Adjusted EBITDA during full year 2022 was impacted by \$11.7 million of non-recurring transaction costs, \$4.4 million of non-cash losses on asset sales and \$2.3 million in other adjustments. Non-cash compensation expense accounted for an additional \$15.6 million adjustment during full

year 2022. Please refer to the end of this release for reconciliations of gross profit before D&A (non-GAAP measure) to gross profit and of Adjusted EBITDA (non-GAAP measure) to net income (loss).

Fourth Quarter 2022 Consolidated Financial Information

Revenue for the fourth quarter of 2022 was \$381.7 million as compared to \$375.1 million in the third quarter of 2022 and \$255.1 million in the fourth quarter of 2021. Net income for the fourth quarter of 2022 was \$7.6 million as compared to \$24.7 million in the third quarter of 2022 and \$11.2 million in the fourth quarter of 2021.

For the fourth quarter of 2022, gross profit was \$41.6 million, as compared to \$58.8 million in the third quarter of 2022 and \$17.9 million in the fourth quarter of 2021. Total gross margin was 10.9% in the fourth quarter of 2022 as compared to 15.7% in the third quarter of 2022 and 7.0% in the fourth quarter of 2021. Gross margin before D&A for the fourth quarter of 2022 was 19.0% as compared to 22.8% for the third quarter of 2022 and 16.6% for the fourth quarter of 2021. Gross profit for the fourth quarter of 2022 was impacted by approximately \$8 million of non-ordinary expenses, consisting of approximately \$7 million related to insurance expense and actuarial reserve adjustments, including the impact of recently acquired operations and legacy obligations, and approximately \$1 million of asset write-offs.

SG&A during the fourth quarter of 2022 was \$34.1 million as compared to \$29.8 million during the third quarter of 2022 and \$25.2 million during the fourth quarter of 2021. SG&A during the fourth and third quarters of 2022 and the fourth quarter of 2021 was impacted by non-recurring transaction costs of \$3.9 million, \$0.7 million and \$2.0 million, respectively.

Adjusted EBITDA was \$52.2 million in the fourth quarter of 2022 as compared to \$62.8 million in the third quarter of 2022 and \$26.4 million in the fourth quarter of 2021. Adjusted EBITDA during the fourth quarter of 2022 was impacted by \$4.2 million of non-recurring transaction costs, \$1.3 million of non-cash losses on asset sales, a \$0.4 million reduction in bargain purchase gain adjustment and \$1.3 million in other adjustments. Non-cash compensation expense accounted for an additional \$4.5 million adjustment during the fourth quarter of 2022. Please refer to the end of this release for reconciliations of gross profit before D&A (non-GAAP measure) to gross profit and of Adjusted EBITDA (non-GAAP measure) to net income (loss).

Business Segment Information

The **Water Services** segment generated revenues of \$218.5 million in the fourth quarter of 2022 as compared to \$221.2 million in the third quarter of 2022 and \$140.7 million in the fourth quarter of 2021. Gross margin before D&A for Water Services was 18.5% in the fourth quarter of 2022 as compared to 22.8% in the third quarter of 2022 and 15.4% in the fourth quarter of 2021. Revenues for this segment were impacted by regional weather-related challenges during December and modest seasonal activity reductions by certain customers, offset partially by contributions from acquired Breakwater operations. Segment gross profit during the fourth quarter of 2022 was impacted by lower revenue and approximately \$5.2 million of non-ordinary insurance expense and actuarial reserve adjustments. For the first quarter of 2023, the Company expects to see modestly increased revenue with gross margins before D&A improving by 200–300 basis points, as early January weather challenges are overcome by continuing operational efficiencies.

The **Water Infrastructure** segment generated revenues of \$77.2 million in the fourth quarter of 2022 as compared to \$74.4 million in the third quarter of 2022 and \$46.9 million in the fourth quarter of 2021. Gross margin before D&A for Water Infrastructure was 22.4% in the fourth quarter of 2022 as compared to 27.2% in the third quarter of 2022 and 25.8% in the fourth quarter of 2021. Revenues improved 4% sequentially, with weather-related challenges delaying certain customer activities into the first quarter of 2023 and resulting in incremental weather-related and integration costs. Additionally, segment gross profit during the fourth quarter of 2022 was impacted by approximately \$1.0 million of non-ordinary insurance expense and actuarial reserve adjustments. For the first quarter of 2023, the Company anticipates strong 20-25% revenue growth, with gross margins before D&A in the high-20 to 30 percent range, as full quarter contributions from our recent acquisitions complement our existing base business and organic project execution.

The **Oilfield Chemicals** segment generated revenues of \$86.0 million in the fourth quarter of 2022 as compared to \$79.4 million in the third quarter of 2022 and \$67.5 million in the fourth quarter of 2021. Gross margin before D&A for Oilfield Chemicals was 17.4% in the fourth quarter of 2022 as compared to 18.8% in the third quarter of 2022 and 12.6% in the fourth quarter of 2021. We continue to see strong demand for our proprietary chemical technologies as well as advanced water treatment applications, with revenues outpacing expectations and margins holding relatively steady. For the first quarter of 2023, the Company anticipates relatively stable revenue and margins for the Oilfield Chemicals segment as the segment continues to perform at its recent all-time high-water mark levels.

Cash Flow and Capital Expenditures

Cash flow from operations for the fourth quarter of 2022 was \$35.3 million as compared to \$5.4 million in the third quarter of 2022 and (\$2.4) million in the fourth quarter of 2021.

Net capital expenditures for the fourth quarter of 2022 were \$11.2 million, comprised of \$21.1 million of capital expenditures partially offset by \$9.9 million of cash proceeds from asset sales, including the divestment of underutilized equipment and real estate from recently acquired businesses. Cash flow from operations less net capital expenditures was \$24.2 million during the fourth quarter of 2022.

Cash flow used in investing activities during the fourth quarter of 2022 included \$12.6 million of outflows for acquisitions and other equity investments. Cash flows from financing activities included \$22.0 million of cash consideration to purchase certain joint venture minority interests, \$16.0 million of net borrowings on our sustainability-linked credit facility, \$6.0 million of dividends paid, \$3.3 million to settle acquired debts, and \$2.2 million of other net outflows.

Balance Sheet and Capital Structure

Total cash and cash equivalents were \$7.3 million as of December 31, 2022 as compared to \$13.2 million as of September 30, 2022. The Company had \$16.0 million of borrowings outstanding under its sustainability-linked credit facility as of December 31, 2022 and no borrowings outstanding under its sustainability-linked credit facility or its prior credit facility as of September 30, 2022 and December 31, 2021, respectively.

As of December 31, 2022 and September 30, 2022, the borrowing base under the sustainability-linked credit facility was \$245.0 million and \$254.4 million, respectively. The Company had available borrowing capacity under its sustainability-linked credit facility as of December 31, 2022 and September 30, 2022, of approximately \$206.1 million and \$231.5 million, respectively, after giving effect to \$22.9 million of outstanding letters of credit as of both December 31, 2022 and September 30, 2022.

Total liquidity was \$213.4 million as of December 31, 2022, as compared to \$244.7 million as of September 30, 2022. The Company had 101,096,360 weighted average shares of Class A common stock outstanding and 16,221,101 weighted average shares of Class B common stock outstanding during the fourth quarter of 2022.

Permian Basin Infrastructure Acquisitions

During December 2022 and January 2023, Select completed a series of transactions in the Midland Basin area of the Permian Basin for total consideration of approximately \$44 million, including \$36 million of cash consideration and approximately 900,000 shares of Select Class A common stock. During December 2022, Select closed on the acquisition of two joint venture interests in certain produced water recycling facilities in Howard County, Texas for cash and stock consideration. These acquisitions complete the buyout of all minority partner interests in certain recycling facilities that Select owned and operated following the acquisition of Breakwater, which previously closed in November 2022.

Additionally, Select acquired approximately 35 miles of gathering and distribution pipelines, 3.5 million barrels of water storage, approximately 120 brackish source water wells and 25,000 barrels per day of permitted disposal capacity. In conjunction with the acquisitions, Select initiated the construction of additional pipeline connections to interconnect the acquired assets to existing Select facilities. This will provide significant optionality long-term and expand the scope and reach of our operations across a broader acreage footprint in the core of the Midland Basin.

Delaware Basin Recycling Project

Select has entered into a 10-year agreement with a public independent operator in the Northern Delaware Basin, whereby Select will build a produced water recycling facility capable of recycling 100,000 barrels per day of produced water with 1.5 million barrels of treated produced water storage capacity. Select also plans to construct approximately 5 miles of large diameter pipeline to distribute treated produced water to pad sites throughout the operator's acreage footprint. The project is supported by a 10-year acreage dedication under which the operator has agreed to purchase from Select's recycling facility all recycled completions water required for its operations within the dedicated area. The dedication covers approximately 18,000 acres in the Northern Delaware Basin with an additional right-of-first-offer to construct produced water recycling and processing infrastructure on an additional approximately 10,000 acres in Lea County, New Mexico.

In conjunction with the recycling agreement, Select has also entered into a long term produced water takeaway agreement with a downstream and logistics company in the vicinity of the planned recycling facility. Select will connect via pipeline from the recycling facility to the downstream and logistics company's existing infrastructure to further supplement the operator's drilling and completion activities and associated water demand in the area. The total project cost is estimated between \$10 – \$11 million and the Company expects the recycling facility and associated infrastructure to be built and fully operational by year-end 2023.

Breakwater & Cypress Acquisitions

As previously announced, on November 1, 2022, Select completed the acquisition of Breakwater Energy Partners, LLC through a stock-for-stock transaction and the acquisition of a portfolio of water gathering pipeline and disposal assets in the Bakken Shale from Cypress Environmental Services, LLC. In connection with the closings, Select issued a total of approximately 10.1 million shares of Select Class A common stock and repaid or assumed approximately \$12.6 million of outstanding indebtedness and other obligations, subject to customary post-closing adjustments.

Conference Call

Select has scheduled a conference call on Wednesday, February 22, 2023 at 11:00 a.m. Eastern time / 10:00 a.m. Central time. Please dial 201-389-0872 and ask for the Select Energy Services call at least 10 minutes prior to the start time of the call, or listen to the call live over the Internet by logging on to the website at the address <https://investors.selectenergy.com/events-presentations/current>. A telephonic replay of the conference call will be available through March 8, 2023, and may be accessed by calling 201-612-7415 using passcode 13736020#. A webcast archive will also be available at the link above shortly after the call and will be accessible for approximately 90 days.

About Select Energy Services, Inc.

Select is a leading provider of sustainable water and chemical solutions to the energy industry. These solutions are supported by the Company's critical water infrastructure assets, chemical manufacturing and water treatment and recycling capabilities. As a leader in sustainable water and chemical solutions, Select places the utmost importance on safe, environmentally responsible management of oilfield water throughout the lifecycle of a well. Additionally, Select believes that responsibly managing water resources throughout its operations to help conserve and protect the environment is paramount to the continued success of the Company. For more information, please visit Select's website, <https://www.selectenergy.com/>.

Cautionary Statement Regarding Forward-Looking Statements

All statements in this communication other than statements of historical facts are forward-looking statements which contain our current expectations about our future results. We have attempted to identify any forward-looking statements by using words such as "could," "believe," "anticipate," "expect," "intend," "project," "will," "estimate" and other similar expressions. Although we believe that the expectations reflected, and the assumptions or bases underlying our forward-looking statements are reasonable, we can give no assurance that such expectations will prove to be correct. Such statements are not guarantees of future performance or events and are subject to known and unknown risks and uncertainties that could cause our actual results, events or financial positions to differ materially from those included within or implied by such forward-looking statements. These risks and uncertainties include the risks that the benefits contemplated from our recent acquisitions may not be realized, the ability of Select to successfully integrate the acquired businesses' operations, including Breakwater's employees, and realize anticipated synergies and cost savings and the potential impact of the consummation of the acquisitions on relationships, including with employees, suppliers, customers, competitors and creditors. Factors that could materially impact such forward-looking statements include, but are not limited to: the global macroeconomic uncertainty related to the Russia-Ukraine war; actions by the members of OPEC+ with respect to oil production levels and announcements of potential changes in such levels, including the ability of the OPEC+ countries to agree on and comply with supply limitations; the severity and duration of world health events, including the COVID-19 pandemic, which had a negative impact on our business; the level of capital spending and access to capital markets by oil and gas companies, trends and volatility in oil and gas prices, and our ability to manage through such volatility; and other factors discussed or referenced in the "Risk Factors" section of our most recent Annual Report on Form 10-K and those set forth from time to time in our other filings with the SEC. Investors should not place undue reliance on our forward-looking statements. Any forward-looking statement speaks only as of the date on which such statement is made, and we undertake no obligation to publicly update or revise any forward-looking statement, whether as a result of new information, future events, changed circumstances or otherwise, unless required by law.

WTTR-EI

SELECT ENERGY SERVICES, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
(unaudited)
(in thousands, except share and per share data)

| | Three months ended | | | Twelve months ended | |
|-------------------------------|--------------------|--------------------|-------------------|---------------------|-------------------|
| | December 31, 2022 | September 30, 2022 | December 31, 2021 | December 31, 2022 | December 31, 2021 |
| Revenue | | | | | |
| Water Services | \$ 218,524 | \$ 221,243 | \$ 140,727 | \$ 799,369 | \$ 394,075 |
| Water Infrastructure | 77,178 | 74,396 | 46,873 | 270,412 | 154,789 |
| Oilfield Chemicals | 85,974 | 79,433 | 67,528 | 317,639 | 215,756 |
| Total revenue | 381,676 | 375,072 | 255,128 | 1,387,420 | 764,620 |
| Costs of revenue | | | | | |
| Water Services | 178,146 | 170,845 | 118,994 | 644,097 | 346,730 |
| Water Infrastructure | 59,899 | 54,197 | 34,757 | 203,413 | 115,887 |
| Oilfield Chemicals | 70,978 | 64,519 | 59,012 | 265,648 | 191,115 |
| Other | — | (1) | — | — | — |
| Depreciation and amortization | 31,082 | 26,672 | 24,456 | 113,507 | 90,028 |

| | | | | | |
|--|----------|-----------|----------|-----------|-------------|
| Total costs of revenue | 340,105 | 316,232 | 237,219 | 1,226,665 | 743,760 |
| Gross profit | 41,571 | 58,840 | 17,909 | 160,755 | 20,860 |
| Operating expenses | | | | | |
| Selling, general and administrative | 34,143 | 29,782 | 25,248 | 118,935 | 83,076 |
| Depreciation and amortization | 573 | 543 | 595 | 2,209 | 2,430 |
| Lease abandonment costs | 113 | 83 | 414 | 449 | 894 |
| Total operating expenses | 34,829 | 30,408 | 26,257 | 121,593 | 86,400 |
| Income (loss) from operations | 6,742 | 28,432 | (8,348) | 39,162 | (65,540) |
| Other income (expense) | | | | | |
| Gain (loss) on sales of property and equipment and divestitures, net | 287 | (479) | (147) | 2,192 | (2,068) |
| Interest expense, net | (870) | (616) | (457) | (2,700) | (1,711) |
| Foreign currency gain (loss), net | 1 | (6) | 1 | (8) | 2 |
| Bargain purchase gain | (416) | (3,273) | 18,985 | 13,352 | 18,985 |
| Other | 2,449 | 1,153 | 1,629 | 4,726 | 673 |
| Income (loss) before income tax (expense) benefit | 8,193 | 25,211 | 11,663 | 56,724 | (49,659) |
| Income tax expense | (285) | (276) | (358) | (957) | (147) |
| Equity in losses of unconsolidated entities | (337) | (218) | (150) | (913) | (279) |
| Net income (loss) | 7,571 | 24,717 | 11,155 | 54,854 | (50,085) |
| Less: net (income) loss attributable to noncontrolling interests | 78 | (3,393) | (1,662) | (6,576) | 7,860 |
| Net income (loss) attributable to Select Energy Services, Inc. | \$ 7,649 | \$ 21,324 | \$ 9,493 | \$ 48,278 | \$ (42,225) |

Net income (loss) per share attributable to common stockholders:

| | | | | | |
|---------------|---------|---------|---------|---------|-----------|
| Class A—Basic | \$ 0.08 | \$ 0.23 | \$ 0.11 | \$ 0.51 | \$ (0.48) |
| Class B—Basic | \$ — | \$ — | \$ — | \$ — | \$ — |

Net income (loss) per share attributable to common stockholders:

| | | | | | |
|-----------------|---------|---------|---------|---------|-----------|
| Class A—Diluted | \$ 0.07 | \$ 0.22 | \$ 0.10 | \$ 0.50 | \$ (0.48) |
| Class B—Diluted | \$ — | \$ — | \$ — | \$ — | \$ — |

SELECT ENERGY SERVICES, INC.
CONSOLIDATED BALANCE SHEETS
(in thousands, except share data)

| | As of December 31, | |
|---|---------------------------|-------------------|
| | 2022 | 2021 |
| Assets | | |
| Current assets | | |
| Cash and cash equivalents | \$ 7,322 | \$ 85,801 |
| Accounts receivable trade, net of allowance for credit losses of \$4,918 and \$4,401, respectively | 429,983 | 232,824 |
| Accounts receivable, related parties | 5,087 | 219 |
| Inventories | 41,164 | 44,456 |
| Prepaid expenses and other current assets | 34,380 | 31,486 |
| Total current assets | 517,936 | 394,786 |
| Property and equipment | 1,084,005 | 943,515 |
| Accumulated depreciation | (584,451) | (551,727) |
| Total property and equipment, net | 499,554 | 391,788 |
| Right-of-use assets, net | 47,662 | 47,732 |
| Other intangible assets, net | 138,800 | 108,472 |
| Other long-term assets, net | 18,901 | 7,414 |
| Total assets | \$ 1,222,853 | \$ 950,192 |
| Liabilities and Equity | | |
| Current liabilities | | |
| Accounts payable | \$ 61,539 | \$ 36,049 |
| Accrued accounts payable | 67,462 | 52,051 |
| Accounts payable and accrued expenses, related parties | 3,305 | 1,939 |
| Accrued salaries and benefits | 28,686 | 22,233 |
| Accrued insurance | 26,180 | 13,408 |
| Sales tax payable | 3,056 | 2,706 |
| Accrued expenses and other current liabilities | 23,292 | 19,544 |
| Current operating lease liabilities | 17,751 | 13,997 |
| Current portion of finance lease obligations | 19 | 113 |
| Total current liabilities | 231,290 | 162,040 |
| Long-term operating lease liabilities | 46,388 | 53,198 |
| Long-term debt | 16,000 | — |
| Other long-term liabilities | 45,447 | 39,780 |
| Total liabilities | 339,125 | 255,018 |
| Commitments and contingencies | | |
| Class A common stock, \$0.01 par value; 350,000,000 shares authorized and 109,389,528 shares issued and outstanding as of December 31, 2022; 350,000,000 shares authorized and 94,172,920 shares issued and outstanding as of December 31, 2021 | 1,094 | 942 |
| Class A-2 common stock, \$0.01 par value; 40,000,000 shares authorized; no shares issued or outstanding as of December 31, 2022 and December 31, 2021 | — | — |
| Class B common stock, \$0.01 par value; 150,000,000 shares authorized and 16,221,101 shares issued and outstanding as of December 31, 2022 and December 31, 2021 | 162 | 162 |

Preferred stock, \$0.01 par value; 50,000,000 shares authorized; no shares issued and outstanding as of December 31, 2022 and December 31, 2021

| | | |
|-------------------------------------|---------------------|-------------------|
| Additional paid-in capital | 1,075,915 | 950,464 |
| Accumulated deficit | (311,194) | (359,472) |
| Total stockholders' equity | 765,977 | 592,096 |
| Noncontrolling interests | 117,751 | 103,078 |
| Total equity | 883,728 | 695,174 |
| Total liabilities and equity | \$ 1,222,853 | \$ 950,192 |

SELECT ENERGY SERVICES, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(unaudited)
(in thousands)

| | Three months ended | | | Twelve months ended | |
|---|----------------------|-----------------------|----------------------|----------------------|----------------------|
| | December 31, 2022 | September 30, 2022 | December 31, 2021 | December 31, 2022 | December 31, 2021 |
| Cash flows from operating activities | | | | | |
| Net income (loss) | \$ 7,571 | \$ 24,717 | \$ 11,155 | \$ 54,854 | \$ (50,085) |
| Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities | | | | | |
| Depreciation and amortization | 31,655 | 27,215 | 25,051 | 115,716 | 92,458 |
| (Gain) loss on disposal of property and equipment and divestitures | (287) | 479 | 147 | (2,192) | 2,068 |
| Equity in losses of unconsolidated entities | 337 | 218 | 150 | 913 | 279 |
| Bad debt (recovery) expense | (68) | 828 | 512 | 2,023 | (139) |
| Amortization of debt issuance costs | 122 | 122 | 172 | 661 | 688 |
| Inventory adjustments | (125) | (801) | 100 | (737) | 239 |
| Equity-based compensation | 4,547 | 3,804 | 3,221 | 15,570 | 9,469 |
| Bargain purchase gain | 416 | 3,273 | (18,985) | (13,352) | (18,985) |
| Unrealized (gain) loss on short-term investment | — | (40) | 638 | — | 2,044 |
| Other operating items, net | (1,279) | (232) | (1,486) | (1,989) | (1,795) |
| Changes in operating assets and liabilities | | | | | |
| Accounts receivable | (20,789) | (51,815) | (47,618) | (162,257) | (80,127) |
| Prepaid expenses and other assets | 1,464 | (5,820) | (4,824) | 1,264 | (15,108) |
| Accounts payable and accrued liabilities | 11,774 | 3,413 | 29,415 | 22,757 | 42,746 |
| Net cash provided by (used in) operating activities | 35,338 | 5,361 | (2,352) | 33,231 | (16,248) |
| Cash flows from investing activities | | | | | |
| Proceeds from sale of securities | — | — | 730 | — | 730 |
| Purchase of property and equipment | (21,069) | (19,839) | (10,069) | (71,884) | (39,994) |
| Investment in note receivable | — | — | — | — | (1,101) |
| Purchase of equity method investments | (900) | (2,500) | — | (7,667) | (2,200) |
| Collection of note receivable | — | — | 167 | 184 | 167 |
| Distribution from cost method investment | — | — | 60 | 60 | 180 |
| Acquisitions and divestitures | (11,671) | 984 | (16,096) | (5,259) | (34,740) |
| Proceeds received from sales of property and equipment | 9,887 | 3,750 | 6,011 | 31,320 | 12,502 |
| Net cash used in investing activities | (23,753) | (17,605) | (19,197) | (53,246) | (64,456) |
| Cash flows from financing activities | | | | | |
| Borrowings from revolving line of credit | 61,000 | 52,000 | — | 143,000 | — |
| Payments on revolving line of credit | (45,000) | (52,000) | — | (127,000) | — |
| Payments on long-term debt | (3,295) | — | — | (22,075) | — |
| Payments of finance lease obligations | (4) | (5) | (82) | (112) | (320) |
| Payment of debt issuance costs | — | — | — | (2,144) | — |
| Dividends paid | (6,020) | — | — | (6,020) | — |
| Proceeds from share issuance | 18 | 10 | 15 | 53 | 58 |
| Purchase of noncontrolling interests | (22,000) | — | — | (22,000) | — |
| Distributions to noncontrolling interests | (1,943) | — | — | (1,943) | (1,074) |
| Repurchase of common stock | (243) | (272) | — | (20,210) | (1,206) |
| Net cash used in financing activities | (17,487) | (267) | (67) | (58,451) | (2,542) |
| Effect of exchange rate changes on cash | 2 | (9) | 4 | (13) | 8 |
| Net decrease in cash and cash equivalents | (5,900) | (12,520) | (21,612) | (78,479) | (83,238) |
| Cash and cash equivalents, beginning of period | 13,222 | 25,742 | 107,413 | 85,801 | 169,039 |
| Cash and cash equivalents, end of period | \$ 7,322 | \$ 13,222 | \$ 85,801 | \$ 7,322 | \$ 85,801 |

Comparison of Non-GAAP Financial Measures

EBITDA, Adjusted EBITDA, gross profit before depreciation and amortization (D&A) and gross margin before D&A are not financial measures presented in accordance with accounting principles generally accepted in the U.S. ("GAAP"). We define EBITDA as net income (loss), plus interest expense, income taxes and depreciation and amortization. We define Adjusted EBITDA as EBITDA plus/(minus) loss/(income) from discontinued operations, plus any impairment charges or asset write-offs pursuant to GAAP, plus non-cash losses on the sale of assets or subsidiaries, non-recurring compensation expense, non-cash compensation expense, and non-recurring or unusual expenses or charges, including severance expenses, transaction costs, or facilities-related exit and disposal-related expenditures, plus/(minus) foreign currency losses/(gains) and plus/(minus) losses/(gains) on unconsolidated entities less bargain purchase gains from business combinations. We define gross profit before D&A as revenue less cost of revenue, excluding cost of sales D&A expense. We define gross margin before D&A as gross profit before D&A divided by revenue. EBITDA, Adjusted EBITDA, gross profit before D&A and gross margin before D&A are supplemental non-GAAP financial measures that we believe provide useful information to external users of our financial statements, such as industry analysts, investors, lenders and rating agencies because it allows them to compare our operating performance on a consistent basis across periods by removing the effects of our capital structure (such as varying levels of interest expense), asset base (such as depreciation and amortization) and non-recurring items outside

the control of our management team. We present EBITDA, Adjusted EBITDA, gross profit before D&A and gross margin before D&A because we believe they provide useful information regarding the factors and trends affecting our business in addition to measures calculated under GAAP.

Net income (loss) is the GAAP measure most directly comparable to EBITDA and Adjusted EBITDA. Gross profit is the GAAP measure most directly comparable to gross profit before D&A. Our non-GAAP financial measures should not be considered as alternatives to the most directly comparable GAAP financial measure. Each of these non-GAAP financial measures has important limitations as an analytical tool due to exclusion of some but not all items that affect the most directly comparable GAAP financial measures. You should not consider EBITDA, Adjusted EBITDA or gross profit before D&A in isolation or as substitutes for an analysis of our results as reported under GAAP. Because EBITDA, Adjusted EBITDA and gross profit before D&A may be defined differently by other companies in our industry, our definitions of these non-GAAP financial measures may not be comparable to similarly titled measures of other companies, thereby diminishing their utility.

The following table presents a reconciliation of EBITDA and Adjusted EBITDA to our net income (loss), which is the most directly comparable GAAP measure for the periods presented:

| | Three months ended, | | | Year Ended December 31, | |
|---|-------------------------------|--------------------|-------------------|-------------------------------|-------------|
| | December 31, 2022 | September 30, 2022 | December 31, 2021 | 2022 | 2021 |
| | (unaudited) (in thousands) | | | (unaudited) (in thousands) | |
| Net income (loss) | \$ 7,571 | \$ 24,717 | \$ 11,155 | \$ 54,854 | \$ (50,085) |
| Interest expense, net | 870 | 616 | 457 | 2,700 | 1,711 |
| Income tax expense | 285 | 276 | 358 | 957 | 147 |
| Depreciation and amortization | 31,655 | 27,215 | 25,051 | 115,716 | 92,458 |
| EBITDA | 40,381 | 52,824 | 37,021 | 174,227 | 44,231 |
| Bargain purchase gain | 416 | 3,273 | (18,985) | (13,352) | (18,985) |
| Non-cash loss on sale of assets or subsidiaries | 1,259 | 1,608 | 1,560 | 4,400 | 4,596 |
| Non-recurring severance expenses | — | — | — | — | 3,225 |
| Non-cash compensation expenses | 4,547 | 3,804 | 3,221 | 15,570 | 9,469 |
| Non-recurring transaction costs | 4,211 | 965 | 2,386 | 11,672 | 5,656 |
| Lease abandonment costs | 113 | 83 | 414 | 449 | 894 |
| Non-recurring change in vacation policy | 918 | — | — | 918 | — |
| Other non-recurring charges | — | — | 608 | — | 608 |
| Equity in losses of unconsolidated entities | 337 | 218 | 150 | 913 | 279 |
| Foreign currency (gain) loss, net | (1) | 6 | (1) | 8 | (2) |
| Adjusted EBITDA | \$ 52,181 | \$ 62,781 | \$ 26,374 | \$ 194,805 | \$ 49,971 |

The following table presents a reconciliation of gross profit before D&A to total gross profit (loss), which is the most directly comparable GAAP measure, and a calculation of gross margin before D&A for the periods presented:

| | Three months ended, | | | Year Ended December 31 | |
|-------------------------------------|-------------------------------|--------------------|-------------------|-------------------------------|------------|
| | December 31, 2022 | September 30, 2022 | December 31, 2021 | 2022 | 2021 |
| | (unaudited) (in thousands) | | | (unaudited) (in thousands) | |
| Gross profit (loss) by segment | | | | | |
| Water services | \$ 20,479 | \$ 33,471 | \$ 7,047 | \$ 87,516 | \$ (6,432) |
| Water infrastructure | 7,892 | 12,728 | 4,720 | 30,272 | 11,945 |
| Oilfield chemicals | 13,200 | 12,640 | 6,142 | 42,967 | 15,347 |
| Other | — | 1 | — | — | — |
| As reported gross profit | 41,571 | 58,840 | 17,909 | 160,755 | 20,860 |
| Plus depreciation and amortization | | | | | |
| Water services | 19,899 | 16,927 | 14,686 | 67,756 | 53,777 |
| Water infrastructure | 9,387 | 7,471 | 7,396 | 36,727 | 26,957 |
| Oilfield chemicals | 1,796 | 2,274 | 2,374 | 9,024 | 9,294 |
| Total depreciation and amortization | 31,082 | 26,672 | 24,456 | 113,507 | 90,028 |
| Gross profit before D&A | \$ 72,653 | \$ 85,512 | \$ 42,365 | \$ 274,262 | \$ 110,888 |
| Gross profit before D&A by segment | | | | | |
| Water services | 40,378 | 50,398 | 21,733 | 155,272 | 47,345 |
| Water infrastructure | 17,279 | 20,199 | 12,116 | 66,999 | 38,902 |
| Oilfield chemicals | 14,996 | 14,914 | 8,516 | 51,991 | 24,641 |
| Other | — | 1 | — | — | — |
| Total gross profit before D&A | \$ 72,653 | \$ 85,512 | \$ 42,365 | \$ 274,262 | \$ 110,888 |
| Gross margin before D&A by segment | | | | | |
| Water services | 18.5 % | 22.8 % | 15.4 % | 19.4 % | 12.0 % |
| Water infrastructure | 22.4 % | 27.2 % | 25.8 % | 24.8 % | 25.1 % |
| Oilfield chemicals | 17.4 % | 18.8 % | 12.6 % | 16.4 % | 11.4 % |
| Other | n/a | n/a | n/a | n/a | n/a |
| Total gross margin before D&A | 19.0 % | 22.8 % | 16.6 % | 19.8 % | 14.5 % |

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