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): August 6, 2019

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:

Title of each class	Ticker symbol(s)	Name of each exchange on which registered
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 August 6, 2019, Select Energy Services, Inc. (the "Company") issued a press release announcing its financial results for the second quarter ended June 30, 2019. 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. On August 7, 2019, the Company held a conference call in connection with the financial results. A transcript of the conference call is furnished as Exhibit 99.2 to this Current Report on Form 8-K.

Information Regarding Forward-Looking Statements

The transcript furnished as Exhibit 99.2 contains forward-looking statements within the meaning of the federal securities laws. Such statements are subject to a number of assumptions, risks and uncertainties, many of which are beyond the control of the Company. These risks include, but are not limited to, those identified in the Company's Annual Report on Form 10-K and its other filings with the Securities and Exchange Commission. Investors are cautioned that any such statements are not guarantees of future performance and that actual results or developments may differ materially from those projected in the forward-looking statements. The Company does not undertake any obligation to update such forward-looking statements as a result of new information, future events or otherwise.

Item 9.01. Financial Statements and Exhibits.

(d) Exhibits.

Exhibit No.	Description
99.1	Press Release dated August 6, 2019
99.2	Transcript of second quarter 2019 earnings conference call of Select Energy Services, Inc.

THE INFORMATION FURNISHED UNDER ITEMS 2.02 OF THIS CURRENT REPORT, INCLUDING EXHIBITS 99.1 and 99.2 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: August 7, 2019

SELECT ENERGY SERVICES, INC.

By: /s/ Adam R. Law

Adam R. Law

Senior Vice President, General Counsel & Corporate Secretary

Select Energy Services Reports Second Quarter 2019 Financial Results And Operational Updates

Generated Operating Cash Flow of $38.1 million in the second quarter of 2019

Repaid the remaining $25.0 million of ABL borrowings during the second quarter of 2019, ending the quarter with no bank debt and available liquidity of $263.8 million

Completed the previously announced divestitures of certain non-core assets for year-to-date cash proceeds of $30.1 million

HOUSTON, Aug. 7, 2019 /PRNewswire/ -- Select Energy Services, Inc. (NYSE: WTTR) ("Select" or "the Company"), a leading provider of water management and chemical solutions to the U.S. unconventional oil and gas industry, today announced results for the second quarter ended June 30, 2019.

Revenue for the second quarter of 2019 was $323.9 million as compared to $362.6 million in the first quarter of 2019 and $393.2 million in the second quarter of 2018. Revenue in the second quarter of 2019 was impacted by the divestment of certain non-core operations that contributed an incremental $14.4 million of revenue in the first quarter of 2019 and an incremental $31.6 million in the second quarter of 2018. Net income for the second quarter of 2019 was $8.1 million, which was negatively impacted by several non-recurring charges, largely related to completing the divestment of non-core operations, compared to $1.4 million in the first quarter of 2019 and $25.0 million in the second quarter of 2018.

Gross profit was $39.9 million in the second quarter of 2019 compared to $46.0 million in the first quarter of 2019 and $56.7 million in the second quarter of 2018. Total gross margin for Select was 12.3% in the second quarter of 2019 as compared to 12.7% in the first quarter of 2019 and 14.4% in the second quarter of 2018. Gross margin before depreciation and amortization ("D&A") for the second quarter of 2019 was 21.2% compared to 21.4% for the first quarter of 2019 and 22.2% for the second quarter of 2018.

Adjusted EBITDA was $51.6 million or 15.9% of revenue in the second quarter of 2019 as compared to $53.4 million or 14.7% of revenue in the first quarter of 2019 and $68.2 million or 17.3% of revenue in the second quarter of 2018. 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.

Holli Ladhani, President and CEO, stated, "The team did a good job executing on our strategic objectives during the quarter. Our Northern Delaware Pipeline project is progressing on time and on budget as we continue to advance our additional commercialization discussions. The recently expanded Midland chemicals manufacturing facility hit full stride, leading to improving margins for the Oilfield Chemicals segment, and we completed the divestitures of our non-core operations within the expected range of proceeds. We accomplished all of this while further augmenting a best-in-class balance sheet, concluding the quarter with a net cash balance.

"While 2019 is shaping up to be a tough year for the oilfield services industry, we are taking action to weather the storm. We remain focused on the things we can control, such as costs, customer service, capital discipline, and maintaining a strong balance sheet. Despite pricing pressures that led to a sequential decline in revenue, our consolidated Adjusted EBITDA margins improved in the second quarter. In short, we are adapting to market conditions, and continue to deliver value with more efficiency.

"In addition to our continued focus on costs, we will be judicious in putting additional capital to work this year. Our priorities will be the completion of our Northern Delaware Pipeline project, investing in technology to both advance our service offerings and improve our operational efficiencies as well as investing to maintain our existing asset base. Given current industry conditions, we have revisited our capital budget for 2019, and have reduced it to a range of $120 million to $140 million relative to the range of $140 million to $160 million previously provided. Even after investing in our operations, I remain confident our ongoing business will generate meaningful free cash flow and reiterate our previous unallocated free cash flow expectations."

"I'm also optimistic about our ability to continue to source and execute attractive infrastructure investment opportunities and strategic acquisitions. As we navigate a market that requires ever greater efficiency from service providers, our breadth of capabilities and pristine balance sheet enable us to bring full life cycle solutions to our customers. We also believe our positive net cash position and strong free cash flow generation should provide unique advantages in the current environment," concluded Ladhani.

Business Segment Information

The Water Services segment generated revenues of $202.0 million in the second quarter of 2019, as compared to $220.6 million in the first quarter of 2019 and $234.0 million in the second quarter of 2018. Gross margin before D&A for Water Services was 23.2% in the second quarter of 2019 as compared to 26.1% in the first quarter of 2019 and 24.5% in the second quarter of 2018. The sequential decline in revenue and gross margin before D&A was driven largely by pricing pressures during the quarter.

The Water Infrastructure segment generated revenues of $51.7 million in the second quarter of 2019 as compared to $53.6 million in the first quarter of 2019 and $55.7 million in the second quarter of 2018. The sequential decline in revenues was driven primarily by decreased volumes through the Company's Bakken Pipelines from key customers. Much of these volumes were deferred to the third quarter, and the Company expects activity on these pipelines to increase in the third quarter. Gross margin before D&A for Water Infrastructure was 25.6% in the second quarter of 2019 as compared to 22.7% in the first quarter of 2019 and 32.0% in the second quarter of 2018. The improvement in sequential gross margin before D&A in the second quarter of 2019 was driven primarily by reduced costs in the Northern Delaware infrastructure operations from first quarter seasonal impacts as well as improved profitability in the water sourcing and gathering and disposal operations.

The Oilfield Chemicals segment generated revenues of $63.0 million in the second quarter of 2019, as compared to $66.8 million in the first quarter of 2019 and $64.8 million during the second quarter of 2018. Gross margin before D&A for Oilfield Chemicals was 14.2% in the second quarter of 2019 as compared to 10.9% in the first quarter of 2019 and 9.7% in the second quarter of 2018. The segment continues to see strong demand for its friction reducer product lines, with sequential margin growth driven by decreased freight costs as a result of expanding in-basin friction reducer manufacturing and improved inventory management.

The "Other" category, which contains the results of non-core operations that were in the process of being divested and wound down, generated revenues of $7.2 million in the second quarter of 2019, down from $21.6 million in the first quarter of 2019 and $38.8 million in the second quarter of 2018. The "Other" category contributed gross loss before D&A of ($0.3) million in the second quarter of 2019 as compared to gross profit of $0.6 million in the first quarter of 2019 and $5.6 million in the second quarter of 2018. With the divestments and wind down of the remaining non-core operations completed during the second quarter, these revenues and gross profit contributions should be immaterial moving forward.

Select's consolidated Adjusted EBITDA during the quarter includes $8.3 million of adjustments primarily related to non-recurring and non-cash items from the divestments of portions of non-core businesses, including $7.3 million of loss on sales of subsidiaries and other assets, primarily associated with the sale of the remaining Canadian operations, $0.4 million of asset impairments related to Canada, $0.4 million of transaction costs, and $0.2 million of lease abandonment costs largely related to the former Affirm operations. Non-cash compensation expense accounted for an additional $4.1 million adjustment and foreign currency gains related to Canadian operations produced a net impact of ($0.1) million.

Cash Flow and Balance Sheet

Cash flow from operations for the second quarter of 2019 was $38.1 million. Capital expenditures for the second quarter of 2019 were $17.9 million, net of ordinary course asset sales of $3.1 million. This figure includes approximately $9.0 million of capital expenditures related to ongoing development activities in the Northern Delaware Basin. Cash flow from operations less cash flow from investing activities was $33.7 million during the second quarter. Cash flow from investing activities includes non-ordinary course net proceeds of approximately $13.5 million during the second quarter of 2019 related to divestment activities.

Total liquidity was $263.8 million as of June 30, 2019, as compared to $221.9 million as of December 31, 2018. Following the repayment of $25.0 million of borrowings during the second quarter, the Company had no remaining outstanding borrowings under the Company's revolving credit facility as of June 30, 2019, compared to $45.0 million as of December 31, 2018. As of June 30, 2019, the Company had approximately $240.0 million of available borrowing capacity under its revolving credit facility, after giving effect to $16.4 million of outstanding letters of credit. Total cash and cash equivalents were $23.8 million at June 30, 2019 as compared to $17.2 million at December 31, 2018.

Conference Call

Select has scheduled a conference call on Wednesday, August 7, 2019 at 10:00 a.m. Eastern time / 9:00 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 http://investors.selectenergyservices.com/events-and-presentations. A telephonic replay of the conference call will be available through August 21, 2019 and may be accessed by calling 201-612-7415 using passcode 13692088#. 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 Energy Services, Inc. ("Select") is a leading provider of total water management and chemical solutions to the unconventional oil and gas industry in the United States. Select provides for the sourcing and transfer of water, both by permanent pipeline and temporary hose, prior to its use in the drilling and completion activities associated with hydraulic fracturing, as well as complementary water-related services that support oil and gas well completion and production activities, including containment, monitoring, treatment and recycling, flowback, hauling, gathering and disposal. Select, under its Rockwater Energy Solutions brand, develops and manufactures a full suite of specialty chemicals used in the well completion process and production chemicals used to enhance performance over the producing life of a well. Select currently provides services to exploration and production companies and oilfield service companies operating in all the major shale and producing basins in the United States. For more information, please visit Select's website, http://www.selectenergyservices.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 "expect," "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. Factors that could materially impact such forward-looking statements include, but are not limited to, the factors discussed or referenced in the "Risk Factors" section of our Annual Report on Form 10-K for the year ended December 31, 2018 and in any subsequently filed quarterly reports on Form 10-Q or current reports on Form 8-K. 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.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2019	2018	2019	2018
Revenue				
Water services	$ 202,011	$ 233,954	$ 422,606	$ 452,184
Water infrastructure	51,710	55,727	105,326	109,784
Oilfield chemicals	63,001	64,807	129,830	128,437
Other	7,165	38,759	28,771	79,237
Total revenue	323,887	393,247	686,533	769,642
Costs of revenue				
Water services	155,151	176,571	318,272	341,201
Water infrastructure	38,456	37,884	79,886	77,980
Oilfield chemicals	54,051	58,500	113,578	115,584
Other	7,447	33,119	28,500	68,873
Depreciation and amortization	28,843	30,445	60,361	61,327
Total costs of revenue	283,948	336,519	600,597	664,965
Gross profit	39,939	56,728	85,936	104,677
Operating expenses				
Selling, general and administrative	27,297	26,871	59,673	52,552
Depreciation and amortization	906	807	1,906	1,348
Impairment of goodwill	—	—	4,396	—
Impairment of property and equipment	374	2,282	893	2,282
Impairment of cost-method investment	—	—	—	2,000
Lease abandonment costs	183	1,973	1,256	3,097
Total operating expenses	28,760	31,933	68,124	61,279
Income from operations	11,179	24,795	17,812	43,398
Other income (expense)				
(Losses) gains on sales of property and equipment, net	(1,709)	2,056	(6,200)	1,502
Interest expense, net	(839)	(1,342)	(1,932)	(2,493)
Foreign currency gain (loss), net	67	(340)	327	(740)

Other expense income, net	(59)	4	210	100
Income before income tax expense	8,639	25,173	10,217	41,767
Income tax expense	(571)	(150)	(749)	(612)
Net income	8,068	25,023	9,468	41,155
Less: net income attributable to noncontrolling interests	(1,868)	(8,060)	(2,133)	(14,093)
Net income attributable to Select Energy Services, Inc.	$ 6,200	$ 16,963	$ 7,335	$ 27,062
Net income per share attributable to common stockholders:				
Class A—Basic	$ 0.08	$ 0.24	$ 0.09	$ 0.40
Class A-2—Basic	$ —	$ —	$ —	$ 0.40
Class B—Basic	$ —	$ —	$ —	$ —
Net income per share attributable to common stockholders:				
Class A—Diluted	$ 0.08	$ 0.24	$ 0.09	$ 0.39
Class A-2—Diluted	$ —	$ —	$ —	$ 0.39
Class B—Diluted	$ —	$ —	$ —	$ —

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

	June 30, 2019 (unaudited)	December 31, 2018
Assets		
Current assets		
Cash and cash equivalents	$ 23,818	$ 17,237
Accounts receivable trade, net of allowance for doubtful accounts of $4,921 and $5,329, respectively	324,918	341,711
Accounts receivable, related parties	3,105	1,119
Inventories	39,952	44,992
Prepaid expenses and other current assets	29,435	27,093
Total current assets	421,228	432,152
Property and equipment	1,069,496	1,114,378
Accumulated depreciation	(603,191)	(611,530)
Property and equipment held-for-sale, net	1,906	—
Total property and equipment, net	468,211	502,848
Right-of-use assets	75,302	—
Goodwill	266,934	273,801
Other intangible assets, net	142,438	148,377
Other assets	3,064	3,427
Total assets	$ 1,377,177	$ 1,360,605
Liabilities and Equity		
Current liabilities		
Accounts payable	$ 53,107	$ 53,847
Accrued accounts payable	43,311	62,536
Accounts payable and accrued expenses, related parties	3,417	5,056
Accrued salaries and benefits	16,734	22,113
Accrued insurance	15,799	14,849
Sales tax payable	1,282	5,820
Accrued expenses and other current liabilities	10,615	14,560
Current operating lease liabilities	19,553	—
Current portion of finance lease obligations	421	938
Total current liabilities	164,239	179,719
Long-term operating lease liabilities	75,169	16,752
Other long-term liabilities	10,921	8,361
Long-term debt	—	45,000
Total liabilities	250,329	249,832
Commitments and contingencies		
Class A common stock, $0.01 par value; 350,000,000 shares authorized; 80,176,078 and 78,956,555 shares issued and outstanding as of June 30, 2019 and December 31, 2018, respectively	802	790
Class A-2 common stock, $0.01 par value; 40,000,000 shares authorized, no shares issued or outstanding as of June 30, 2019 and December 31, 2018	—	—
Class B common stock, $0.01 par value; 150,000,000 shares authorized; 26,026,843 shares issued and outstanding as of June 30, 2019 and December 31, 2018	260	260
Preferred stock, $0.01 par value; 50,000,000 shares authorized and no shares issued and outstanding as of June 30, 2019 and December 31, 2018	—	—
Additional paid-in capital	821,968	813,599
Retained earnings	25,988	18,653
Accumulated other comprehensive deficit	(380)	(368)
Total stockholders' equity	848,638	832,934
Noncontrolling interests	278,210	277,839
Total equity	1,126,848	1,110,773
Total liabilities and equity	$ 1,377,177	$ 1,360,605

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

	Six months ended June 30,	
	2019	2018
Cash flows from operating activities		
Net income	$ 9,468	$ 41,155
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation and amortization	62,267	62,675
Net loss (gain) on disposal of property and equipment	2,794	(1,503)
Bad debt expense	1,312	876
Amortization of debt issuance costs	344	344
Inventory write-down	209	394
Equity-based compensation	8,308	5,465
Impairment of goodwill	4,396	—
Impairment of property and equipment	893	2,282
Impairment of cost-method investment	—	2,000
Loss on divestitures	3,406	—
Other operating items, net	(178)	(103)
Changes in operating assets and liabilities		
Accounts receivable	3,346	(46,057)
Prepaid expenses and other assets	1,245	(17,848)
Accounts payable and accrued liabilities	(23,075)	14,625
Net cash provided by operating activities	74,735	64,305
Cash flows from investing activities		
Working capital settlement	691	—
Proceeds received from divestitures	25,259	—
Purchase of property and equipment	(57,513)	(63,050)
Proceeds received from sale of property and equipment	10,507	3,953
Net cash used in investing activities	(21,056)	(59,097)
Cash flows from financing activities		
Borrowings from revolving line of credit	5,000	25,000
Payments on long-term debt	(50,000)	(20,000)
Payments of finance lease obligations	(549)	(1,029)
Proceeds from share issuance	56	431
Distributions to noncontrolling interests, net	(225)	(280)
Repurchase of common stock	(1,516)	(657)
Net cash (used in) provided by financing activities	(47,234)	3,465
Effect of exchange rate changes on cash	136	(146)
Net increase in cash and cash equivalents	6,581	8,527
Cash and cash equivalents, beginning of period	17,237	2,774
Cash and cash equivalents, end of period	$ 23,818	$ 11,301
Supplemental cash flow disclosure:		
Cash paid for interest	$ 2,024	$ 1,959
Cash paid (refunds received) for income taxes	$ 204	$ (1,188)

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 GAAP. We define EBITDA as net income, plus interest expense, taxes and depreciation & 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/(minus) non-cash losses/(gains) 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 any inventory write-downs. 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 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. For further discussion, please see "Item 6. Selected Financial Data" in our Annual Report on Form 10-K for the year ended December 31, 2018.

The following tables present 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,		
	June 30, 2019	March 31, 2019	June 30, 2018
		(unaudited) (in thousands)	
Net income	$ 8,068	$ 1,400	$ 25,023
Interest expense	839	1,093	1,342
Income tax expense	571	178	150
Depreciation and amortization	29,749	32,518	31,252
EBITDA	39,227	35,189	57,767
Impairment of goodwill	—	4,396	—
Impairment of property and equipment	374	519	2,282
Lease abandonment costs	183	1,073	1,973
Non-recurring severance expenses	—	1,680	—
Non-recurring transaction costs	412	662	2,481
Non-cash compensation expenses	4,129	4,179	2,984
Non-cash loss on sale of assets or subsidiaries	7,314	5,906	249
Foreign currency (gain) loss	(67)	(260)	340
Inventory write-down	—	75	128
Adjusted EBITDA	$ 51,572	$ 53,419	$ 68,204

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

	Three months ended,		
	June 30, 2019	March 31, 2019	June 30, 2018
		(unaudited) (in thousands)	
Gross profit by segment			
Water services	$ 25,837	$ 36,212	$ 38,435
Water infrastructure	7,181	6,097	12,624
Oilfield chemicals	7,203	4,849	3,484
Other	(282)	(1,161)	2,185
As reported gross profit	39,939	45,997	56,728
Plus depreciation and amortization			
Water services	21,023	21,262	18,948
Water infrastructure	6,073	6,089	5,219
Oilfield chemicals	1,747	2,453	2,823
Other	—	1,714	3,455
Total depreciation and amortization	28,843	31,518	30,445
Gross profit before D&A	$ 68,782	$ 77,515	$ 87,173
Gross Profit before D&A by segment			
Water services	46,860	57,474	57,383
Water infrastructure	13,254	12,186	17,843
Oilfield chemicals	8,950	7,302	6,307
Other	(282)	553	5,640
Total gross profit before D&A	$ 68,782	$ 77,515	$ 87,173
Gross Margin before D&A by segment			
Water services	23.2%	26.1%	24.5%
Water infrastructure	25.6%	22.7%	32.0%
Oilfield chemicals	14.2%	10.9%	9.7%
Other	(3.9)%	2.6%	14.6%
Total gross margin before D&A	21.2%	21.4%	22.2%

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Exhibit 99.2

THOMSON REUTERS

FINAL TRANSCRIPT

Q2 2019 Select Energy Services Inc Earnings Call

EVENT DATE/TIME: AUGUST 07, 2019 / 2:00PM GMT

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CORPORATE PARTICIPANTS

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Holli C. Ladhani *Select Energy Services, Inc. - President, CEO & Director*
Nicholas L. Swyka *Select Energy Services, Inc. - CFO & Senior VP*

CONFERENCE CALL PARTICIPANTS

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Thomas Allen Moll *Stephens Inc., Research Division - Research Analyst*
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PRESENTATION

Operator
Greetings. Welcome to Select Energy Services second quarter earnings conference call. (Operator Instructions) As a reminder, this conference is being recorded.

It's now my pleasure to introduce your host, Chris George, Vice President, Investor Relations and Treasurer. Thank you. Mr. George, you may begin.

Chris George ***Select Energy Services, Inc. - VP of IR & Treasurer***
Thank you, operator, and good morning, everyone. We appreciate you joining us for the Select Energy Services Conference Call and Webcast to review our 2019 Second Quarter Results. With me today are John Schmitz, our Executive Chairman; Holli Ladhani, our President and Chief Executive Officer; and Nick Swyka, Senior Vice President and Chief Financial Officer.

Before I turn the call over, I have a few housekeeping items to cover. A replay of today's call will be available by webcast and accessible from our website at selectenergyservices.com. There will also be a recorded telephonic replay available until August 21, 2019. The access information for this replay was also included in yesterday's earnings release. Please note that the information reported on this call speaks only as of today, August 7, 2019, and therefore, time-sensitive information may no longer be accurate as of the time of the replay or transcript reading.

In addition, the comments made by management during this conference call may contain forward-looking statements within the meaning of the United States federal securities laws. These forward-looking statements reflect the current views of Select's management. However, various risks, uncertainties and contingencies could cause our actual results, performance or achievements to differ materially from those expressed in the statements made by management.

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The listener is encouraged to read our annual report on Form 10-K for the year ended December 31, 2018, our subsequent quarterly reports on Form 10-Q and our current reports on Form 8-K to understand those risks, uncertainties and contingencies. Also, please refer to our second quarter earnings announcement released yesterday for reconciliations of non-GAAP financial measures.

And now I would like to turn the call over to our President and CEO, Holli Ladhani.

Holli C. Ladhani ***Select Energy Services, Inc. - President, CEO & Director***
Thanks, Chris. Good morning, everyone, and thank you for joining us today. The second quarter certainly had its macro challenges, with WTI prices swinging from the high $60s to the low $60s during the quarter as well as uncertainty around geopolitical and economic tension. This sort of volatility clearly presents challenges for our customers and ourselves.

And looking at activity levels for the quarter, continued operational efficiencies are allowing customers to drill and complete more wells with the same or less equipment. Early third-party indications point to modestly flat to increasing completions activity, though our own internal frac fleet tracking data indicates a modest sequential reduction in the number of active fleets alongside the 6% decline in rig count through the quarter. Our customers remain focused on prioritizing cash flow and are committed to living within their capital budgets. While operational efficiencies are decreasing certain costs for our customers, they continue to focus heavily on return on assets, with pricing concessions and service companies being a component of that.

The broader service space began experiencing lease pricing pressures in the back half of last year, which continued into the first quarter of this year. While we haven't experienced much in the way of pricing pressures over that time frame, we did begin to see our first meaningful impact during the second quarter, primarily in our Water Services segment. We believe we'll continue to receive a premium for our services, but we weren't able to stave off the general negative pricing trends that's been accumulating since the third quarter of last year.

Additionally, there were some unusual competitive dynamics in certain areas that also impacted our revenue during the quarter. For example, in the MidCon, which makes up approximately 15% of our Water Services revenue, rig count declined 20% in Q2, and completions activity slowed meaningfully. Another part of this was driven by activity pauses during the quarter, following some of the recent major E&P consolidation in the region. This rapid downward market pressure led to some drastic pricing behavior from a number of financially distressed local competitors, and we elected to forgo participating in a number of recent bid processes for smaller operators rather than pursue value-destructed tenders. We see many of these smaller competitors struggle to provide the quality of service or scale necessary to compete in the current market environment, and a number of transfer and flowback providers and have recently exited the basin or shut down operations entirely.

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In response to some of this market behavior, we actually had a major operator in the basin proactively request a 1-year agreement with us for water transfer services to ensure that they would have Select's team and technology supporting them over the next year as quality supply gets tighter.

Given the recent pricing pressures in general, and the likely activity declines in the fourth quarter, we've been prioritizing contract duration and have had some success recently negotiating over a dozen longer-term service agreements with the term of at least 1 year. Avoiding downtime between completions as well as periods of uncertain utilization allows us to make a more competitive offer to the customer that creates value for both sides.

Additionally, we're having continued success and are experiencing clear market demand for our differentiated automated technology solutions, which provides operational efficiencies to both us and our customer.

While the recent pricing headwinds resulted in sequential declines in revenue, I was pleased with the team's ability to continue to improve our operational efficiency and aggressively manage our costs. This allowed us to continue to generate meaningful free cash flow during the second quarter and to improve our adjusted EBITDA margin over the first quarter. We'll continue to stay laser-focused on adjusting our cost structure in real time to match margin -- market activity levels.

Shifting gears to cash flow. We're confident we'll continue to generate free cash flow over the second half of the year and reiterate our target of unallocated free cash flow for 2019 of $65 million to $80 million, prior to any divesture proceeds. After considering these sales proceeds, this range is $95 million to $110 million.

While we value our strong debt-free balance sheet and the flexibility it provides, we continue to actively evaluate incremental investment opportunities. Executing long-lived infrastructure investments and highly productive core areas remains a compelling opportunity for us, and one where we hope to be active in the coming quarters. With the potential uncertainty around the back half of the year and some of the pricing challenges we're seeing, we had reevaluated the likely near-term returns of uncertain shorter cycle Water Services investments, leading us to lower annual CapEx forecast to $120 million to $140 million, from our previous $140 million to $160 million range.

And finally, while it's been a top seller's market for traditional services companies, I'm also pleased that we were able to wrap up the divestiture of our non-core Wellsite Services operations during the quarter. We received approximately $14 million of additional proceeds during the second quarter, resulting in total year-to-date proceeds of just over $30 million, which is subject to customary post-closing adjustments. These sales proceeds contributed to the paydown of the remaining outstanding balance of our ABL facility, which stands undrawn at the end of the quarter. We don't expect any further material divestitures in the near term and look forward to continue to create value with our remaining water and chemical businesses.

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Looking ahead, we do see continued headwinds facing the sector in the second half of the year, as operators likely look to reduce activity levels to stay in line with their remaining budgets. As such, we expect our performance in the third quarter to look much like the second quarter overall. However, as we get to the fourth quarter, we're preparing for more significant impacts as we expect operations to slow due to seasonal factors, such as budget exhaustion and holidays. That said, we continue to feel good about our leading position in the marketplace and believe that with our pristine balance sheet, we're well positioned to manage through the current market environment and take advantage of opportunities recent market dislocations will ultimately generate.

With that, I'll hand it over to Nick to walk through our second quarter financial performance in more detail.

Nicholas L. Swyka ***Select Energy Services, Inc. - CFO & Senior VP***
Thank you, Holli, and good morning, everyone. Our free cash flow generation of $20 million in the second quarter pre-divestitures, or $34 million including divestitures, enabled us to repay the entirety of our remaining credit facility balance and exit the quarter with a solid $24 million net cash position. Our debt paydowns have totaled $45 million year-to-date and $80 million over the trailing 12 months. Our fortified balance sheet provides us with unmatched flexibility and optionality as we evaluate new investments, especially those pertaining to infrastructure development as well as potential returns to shareholders.

In addition to retiring our debt and building cash, we funded $18 million of net CapEx during the quarter, about $9 million of which was tied to the Northern Delaware fixed infrastructure project with no associated revenue during the quarter. Our expectations of a $40 million budget for this project with a fourth quarter start date remained unchanged.

While we believe current oil prices provide our customers with an attractive return on their investment, there's no question that they're exercising capital discipline. Given this, we regularly reevaluate every line item in our CapEx plan and adjust accordingly when conditions change. With price pressures in certain areas of our business, we'll be delaying or forgoing orders for some equipment for which we had initially budgeted until return profiles are justified.

Lowering our CapEx targets to $120 million to $140 million for the year enables us to still make our large infrastructure investments, comprehensively maintain our asset base and continue investing in automation and other margin-enhancing and targeted growth efforts in our Water Services business, all while hitting our existing cash flow targets.

Moving to our quarterly results. Revenue for the quarter declined by $39 million or $24 million after adjusting for the impact of the sale of non-core operations. However, taking decisive action to protect and grow our margin is fundamental to our business strategy regardless of what part of the market cycle we're in. While this revenue total did not meet our expectations, we quickly and aggressively manage our costs and, when combined with the continued benefits of our recent investments in technology, we were able to improve our adjusted EBITDA margins by 1.2 percentage points quarter-over-quarter. In line with this revenue reduction, we also reduced our cost of sales by 10%, and SG&A by 16%, much of which, again, was favorably affected by the divestitures, in addition to our cost control efforts.

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Total revenue for the quarter of $324 million includes $7.2 million from businesses divested during the quarter, and we don't expect that revenue to recur in any material fashion. The sales processes also led to a number of noncash and nonrecurring charges, totaling $8.3 million during the second quarter, which comprise the majority of our EBITDA addbacks this quarter. We do not currently expect those charges to repeat next quarter.

As I move on to discussing our segment results, I'd note that we have posted a presentation to the IR section of our website, also containing a detailed table of our 2018 quarterly results realigned with our new segments, which you might find helpful given the recent resegmentation. Though completions activity appears to have modestly increased quarter-over-quarter, frac efficiency and pricing trends proved to be a stronger headwind. Water Services revenues decreased 8% sequentially to $202 million in the second quarter from $221 million in the first quarter. Segment generated gross profit before depreciation and amortization at $47 million in the second quarter compared to $57 million in the first quarter, reflecting a decline on the segment gross margin from 26% to 23%. Given the pricing pressures Holli discussed, the current competitive environment should stay vigorous through the second half of the year, with margins unlikely to improve.

The Water Infrastructure segment posted revenues of $51 million for the second quarter, declining from $54 million in the first. Gross profit before D&A, however, increased from $12 million to $13 million quarter-on-quarter, due to the absence of some Q1 seasonal costs along with our focused cost management efforts. Gross margin of 26% for the quarter, while a meaningful improvement from Q1, remains a little below the high-20% we're targeting, as several planned pipeline volume sales of our high-margin Bakken pipelines were deferred into the third quarter. However, we forecast margins closer to 30% following the startup of the New Mexico Pipeline system heading into 2020.

While revenues for Oilfield Chemicals segment also modestly declined from $67 million to $63 million, the segment generated additional gross profit before D&A of $2 million during the first quarter for a total of $9 million. The 3 percentage point margin improvement to 14% was driven by continued optimization of our Midland and basin production facility, leading to lower freight cost and continued expansion of our proprietary friction reducer product lines. We believe we can maintain margins in the low- to mid-teens in the second half.

Corporate and Other segments, which don't anticipate, will continue to generate significant revenue beyond the second quarter, produced revenue of $7 million, down from $22 million in Q1 and contributed slightly negative gross profit before D&A versus $1 million of positive contribution in Q1. The variance is attributable to the impact of divestments.

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As previously noted, we've paid down the outstanding balance of our ABL and wrote a net cash position of $24 million at June 30, with an expectation that we'll generate additional free cash flow in the second half of the year. Over the next few quarters, as we consider our options with the unallocated cash flow, we will continue to focus on higher returns, long-lived investments that we are uniquely prepared to exploit as our highest and best use of capital, and we'll build some level of cash on the balance sheet in the short term to accumulate dry powder for these opportunities. We are continuing to evaluate a number of investment alternatives and look forward to sharing more details on future calls.

We'll also be evaluating additional returns to shareholders given that further debt reductions are no longer a priority, and we have effectively prefunded the capital required to complete the previously announced New Mexico infrastructure project. Our philosophy in that regard remains the same, that we will prioritize returns to shareholders out of cash flow versus borrowing.

With that, I'll hand it back to Holli for some concluding remarks.

Holli C. Ladhani ***Select Energy Services, Inc. - President, CEO & Director***
Thanks, Nick. To wrap up, Select sits here today with a stronger balance sheet than it's ever had. With the free cash flow we expect to generate and our debt-free balance sheet, we expect our financial strength and flexibility to only improve in the coming months, which is important given the volatility that we expect in the market in the coming quarters. Our balance sheet's a real asset and will provide us the flexibility to consider value-enhancing investment options while others are on the sidelines.

This company was built over the last 10-plus years with the dedication to disciplined growth and always with our customers in mind, which leads us to innovate and provide solutions for our customers. Our discipline will ensure we deliver accretive transactions, but only when the timing is right, positioning us to deliver consistent long-term shareholder value. So while we can't control market sentiment and behavior, we'll remain focused on the things we can control: costs, customer service, capital discipline and maintaining a strong balance sheet.

With that, I'll turn it back over to the operator, and we'll take your questions. Operator?

QUESTIONS AND ANSWERS

Operator
(Operator Instructions) Our first question is from Kurt Hallead with RBC Capital Markets.

Kurt Kevin Hallead ***RBC Capital Markets, LLC, Research Division - Co-Head of Global Energy Research and Analyst***
I appreciate the color and commentary and the update on your perspectives on the market dynamics at play. As we look forward, I know you provided the guidance there around the third quarter kind of being flat with second quarter, and the expectation that the fourth quarter is kind of planning for, the prospect of the fourth quarter is going to drop relative to the third. When we look at the individual pieces of the business, I guess, I was just trying to calibrate in this context, it would seem to me that the Infrastructure and Chemicals business will probably continue to have some perspective kind of growth dynamics on revenue. So your swing factor, as you head into the fourth quarter of the year, looks like it's probably going to be on the Water Services front. Can you help me calibrate that and calibrate your thoughts with us? That would be great.

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Holli C. Ladhani ***Select Energy Services, Inc. - President, CEO & Director***
Yes, Kurt, I think you actually summarized it well. As we step back and we think about our customer base, the operators being 55% of the way through their capital budgets for the year, we certainly don't expect them to increase those budgets. And given that we view Q3 as being fairly flat to Q2 activity-wise, that does leave us a soft Q4. And so that's at least how we're going to plan for the business. But it does differ by segment, starting with infrastructure, to your point. We had -- our revenues were down in Q2 because of some of the activity levels, the utilization of the Bakken pipeline system, which we're already seeing the recovery in that here in Q3. Actually, July was one of the highest months we've had this year. So we feel good about infrastructure and the momentum there, and you saw, we increased our margins in that business, so pricing is more stable. A similar story, of course, with chemicals, and stable pricing and solid margins with the revenue, I think, opportunities there being similar to just the general market outlook.

And then there's Water Services, where we'll have our -- probably our most significant challenges, which is always difficult to manage in these volatile the markets, but one of the things that we're laser-focused on is going to be around managing the cost structure, staying ahead of those changes, and given that we have such a high portion of our cost structure is variable, that positions us pretty well to be able to manage that.

And the other thing that we've been working on, while it doesn't completely eliminate the exposure by any means, though we had some good success in entering into some longer-term arrangements with our customers who lock in work. So we're certainly going to be very disciplined and focused on operations and execution, but we also think that there are a few other things out there that will help us in what's going to be a fairly tough back half of the year.

Kurt Kevin Hallead ***RBC Capital Markets, LLC, Research Division - Co-Head of Global Energy Research and Analyst***

Great, I appreciate that. And in your prepared commentary, you referenced having some discussion for kind of 1-year type contracts with the customer base. Kind of -- the commentary you had about pricing pressure was generally under the end impression that given your size and scale and oil companies desiring to work with companies with your service quality and everything else, that pricing was less of an issue, potentially, in that Water Services business. But can you kind of help us kind of connect the dots here? So you had some pricing pressure, but then you talked about signing some longer-term contracts. And I might not have picked up on some of the nuance there. Can help me out on that?

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Holli C. Ladhani ***Select Energy Services, Inc. - President, CEO & Director***
Sure. Yes, and one thing I'd note is that the pricing pressure on the space started third quarter of last year and hit people pretty hard in Q4 and Q1. And we're worried we're going back, and Kurt, I think that is because of the technology we bring to bear, the quality of the service we provide and the types of customers that we work with. But Q2, obviously, proved that we aren't completely immune to it. Those forces did eventually catch up with us. But as you might imagine, some of these larger customers that want to ensure that they have access to the quality of the service that a company like Select can provide, they're interested in entering into some of these longer-term arrangements. What we're starting to see in the competitive landscape is that, it's not large numbers by any means, but it's a handful here and there of water transfer companies, of well testing companies that have gotten to a point of distress that they're pulling out of market. And our customers see that and they want to ensure that they have the right support, going forward, and that has enabled us to have some of these conversations. And as I mentioned in the prepared remarks, when we can plan ahead, looking out a year with our customers, it allows us to be a lot more efficient. So even though we were able to maybe provide them a better price, our margins can be very similar just because we're managing our cost structure better. So it really can be one of those win-win situations.

Operator
Our next question is from Tom Curran with B. Riley FBR.

Thomas Patrick Curran ***B. Riley FBR, Inc., Research Division - Senior VP & Equity Analyst***
Holli, for Water Services, how much has pricing declined from its 2018 peak, whether you want to look at it on a weighted-average basis for whatever quarter peaked in to 2Q, or from the monthly high to the current month, however you want to define it? And then how does that pricing drop for ongoing pressures in the Permian compared to the rest of the basins you operate in?

Holli C. Ladhani ***Select Energy Services, Inc. - President, CEO & Director***
Sure. So we don't have -- I'll say something specific and technical that I can give a spreadsheet, but I would tell you, on pricing, we're probably high single digits of a pricing reduction since the peak. And one thing that we'll have to keep in mind is that, that's sort of Q2, to say, Q3-ish of last year pricing environment, Q2, Q3 of last year. And one thing is that the pricing degradation for us was building up over the quarter of Q2. So we'll have a bit more flow-through when you get a full quarter of that in Water Services in Q3, but that's where we have line of sight to some cost initiatives that are going to hopefully help us protect or defend those margins.

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So we still think low-20s for this year is going to be the right margin expectation for Water Services. We still think, long term, high-20s is where that business should and will get to. But the other aspect is, from a basin perspective, interestingly enough, the Permian one is absolutely competitive. It's not necessarily the most competitive, and that was one of the other points I wanted to highlight and mentioned briefly in the prepared remarks. You look at a region like the MidCon where you had some of your large operators and merger negotiations, discussions, that created some pauses and their cadence of completions. And then you've had other issues with some of your smaller private or public operators in that region. And so you saw completion activities decline more quickly there than other regions, and so we actually saw more pricing impact and again, chose to not participate in some of those tenders just because we felt like we would not actually be able to generate returns on our equipment and putting it to use there, so we passed on that, which is one of the things that impacted our revenue, is that pricing, not only kind of the pricing impact reduced the margin that you own, but just outright revenue when you pass on jobs like that.

But I would say, the MidCon was the most competitive. As we look forward, I think in other regions that we'll have -- may behave slightly differently is going to be the Northeast, that gassier region, as we go through the back half of the year, I suspect it'll become more and more competitive as well.

Thomas Patrick Curran ***B. Riley FBR, Inc., Research Division - Senior VP & Equity Analyst***

That's helpful. And then sticking with Water Services, just a 2-part question. First, when it comes to the technology investments and efficiency initiatives, you've been implementing to structurally improved profitability there. How many remaining basis points of margin expansion might you be able to realize? And are you counting on that remaining increase to counteract whatever further pricing degradation you might experience over the second half? And then specifically for water transfer, how high a percentage of your revenue for the transfer might we end up seeing these 1-year contracts ultimately account for?

Holli C. Ladhani ***Select Energy Services, Inc. - President, CEO & Director***

Yes. We'll have to get back to you on that second one, Tom. We haven't actually targeted a specific percentage that we'd like to get there, but it's probably that time that we need to start thinking through that. As you know, there are pros and cons because you don't want to have too much locked up under pricing that's at a point in the cycle that's relatively low. So we're going to want to leave a fair amount of stock out there. But I haven't done the math of where we are. But I would tell you that we would expect to continue to add to some of those. As we think about our ability to protect our margin through our investments, there's a near-term impact and there's a long-term impact, right? And as you think to the longer term, to hit that high-20s margin, gross margin for this business, that will take the investments in the technology. So we think that again, high-20s is the long-term expectation. I think here in the near term, protecting the margin and defending what we have is really what's on our plate. And technology will absolutely be a part of that.

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Operator
(Operator Instructions) Our next question is from Tommy Moll with Stephens Inc.

Thomas Allen Moll ***Stephens Inc., Research Division - Research Analyst***
I wanted to start on infrastructure, where it sounds like the investment pipeline is still fairly robust. One of the things you called out in the release was the potential for acquisitions. And I wondered if you could comment there? Should we interpret that more as acquisitions of assets versus, say, operating companies or cash flows? Or is this more signaling the potential for consolidation of various players in the market?

Holli C. Ladhani ***Select Energy Services, Inc. - President, CEO & Director***
Sure. If we think about the larger consolidation question, I feel like our scale and scope that we have today, the basins that we touch, the services that we offer, the customers that we serve, large-scale consolidation, it may not be the best path forward for us. So we're more focused on tuck-ins and acquisitions that will add a technology or advance us in some way that helps to continue to differentiate our services. And so I don't want to overstate. We're always in the market. We're always looking for these things. I just think that -- and markets like this, the dislocation that gets created creates opportunities. And so we'll certainly continue to be active and looking. And if we find the right value-enhancing proposition and it's an accretive transaction and it's the right time, the good news is we'll be in a position to actually execute on it. But that -- so that includes our services business. It's also in the infrastructure side, that's really -- we also feel like more of an organic approach today. We could find that there's some small single-operator systems that could be acquisition targets where those assets are worth more in our hands than someone else's.

Thomas Allen Moll ***Stephens Inc., Research Division - Research Analyst***
Makes sense. And as a follow-up, I wanted to talk about margins for Chemicals. It looks like the benefits of your new facility are hitting the model now and should continue too in the next quarter based on the guidance that you gave us. If we think about longer term, is there -- do you think there's more room to run for chemicals margins? Or should we think about 2Q, 3Q as fully realizing the benefit of the investments that you made?

Holli C. Ladhani ***Select Energy Services, Inc. - President, CEO & Director***
Yes. If you think about how we improve margins in the Chemicals business, it can go into multiple buckets. One was absolutely around shifting and increasing our manufacturing capacity of our proprietary FRs, friction reducers there in Midland, giving out transportation costs and the efficiency that the team gains there was one big area. And I would say, we're starting to feel like we've captured the majority -- vast majority of that opportunity. But when you look at some of other improvement in the margin that's because there's other initiatives the team has been executing on and finding ways to invest in our complete manufacturing capability, sometimes it's larger vessel size, sometimes it's how you manage your inventory. It's a fairly good list of opportunities that they've been taking away at, and there are more, less to be done on that front. And then sort of the third bucket that I think about in opportunities is just your product mix. And that's another area that the team has had some success, and moving higher volumes of some of our higher-margin product lines.

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So that also continues to be an opportunity, going forward. But I think for the near term, what we're going -- we've had fairly stable pricing and we think that, that will continue to be the landscape for us over the back half of this year. But the way we look at it is low- to mid-teens margins for that business, for the back half of this year is what we're working towards. And I think the longer term, looking to 2020 and beyond, there are probably some opportunities to continue, I'll say, eke that out. You're not going to move it up to 20%, but I think that there's a bit more there that we can continue to deliver on.

Operator
Our next question is from Sean Meakim with JPMorgan.

Sean Christopher Meakim ***JP Morgan Chase & Co, Research Division - Senior Equity Research Analyst***
Holli, on the infrastructure segment, I'm just curious to learn a little bit more about what drove the shortfall in the Bakken? I think some of the perceived value of those assets was the consistency of their contracted volumes, but maybe I was a little bit misplaced. Are you seeing E&Ps manage activity into quarter end? Does that explain maybe the contrast that we saw in the second quarter versus July? And does that leave any risk as you think about exiting 3Q and into 4Q?

Holli C. Ladhani ***Select Energy Services, Inc. - President, CEO & Director***

Yes. And just stepping back, when you think about the structure of the contracts up in the Bakken, there are areas of mutual interests. So the way that works on the water side is that there's defined acreage. And if our customer is completing a well in that acreage, then the water is going to be supplied by us, and the price for that water and the delivered cost for that water is already established.

But if the activity moves outside of that AMI, that is where there's no longer a commitment to buy water from us. It doesn't mean that we wouldn't be able to serve. But what generally happens is when the water is within -- the completions activity is within a certain distance of our pipeline, we're going to be the most economic solution anyway. But what we found is there were a few months there that the activity moved away from our pipeline, and that's what caused that reduced utilization there in the second quarter. We're already seeing the activity is back. I think as I mentioned just a little bit ago, July was almost right at -- it was almost tied with our highest month of utilization on the line. So I'd say, back to normal operating conditions. And based on working with our customers and looking at their development programs over the back half of the year, we feel very good about Q3 and line of sight and visibility. And then Q4, as well, should continue to be a normal quarter for us.

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Sean Christopher Meakim ***JP Morgan Chase & Co, Research Division - Senior Equity Research Analyst***
Got it. That's helpful context, I appreciate that. Staying in infrastructure then. You mentioned CapEx tied to the Delaware projects, and so everything's on schedule. But are the costs that you're also incurring through the income statement, that you don't have any associated revenue? I'm just curious because that can maybe suggest that the gap between where you are today versus the expected 30% target once the Delaware comes online may not be as wide as it looks at first glance?

Holli C. Ladhani ***Select Energy Services, Inc. - President, CEO & Director***
Yes. There's not a lot of costs right now that's being charged to the P&L. The vast majority of what we're spending there in New Mexico is around the actual capital that's being capitalized. But certainly what we're going to find is that as we bring that facility up and online in the back half of this year, where we already have some spots sales negotiated, it's not going to be at its full efficiency. So we'll have some, I'll say, startup costs associated with that, and we'll expect it to be to its full-blown operating, I'll say, efficiency in 2020. But what we're finding is that, when you look at the margin progression over the course of the year, the first quarter, we had had, more than anything, some seasonal costs as part of our New Mexico system, not this very pipeline but our general infrastructure that we already had in place there that did not occur -- reoccur in Q2, and we don't expect to reoccur. So that was a big part of the margin uplift from Q1 to Q2, and we think that there's some other efficiencies that we'll continue to bring to that particular segment. But even though the New Mexico system won't be, I'll say, firing on all cylinders from an efficiency perspective in Q4, it will still be at a higher margin than some of the other parts of that segment that will help pull the total segment results up to the high -- what we're we'll be expecting to be the high-20s.

Operator
Our next question is from Ian McPherson with Simmons & Co.

Ian MacPherson ***Simmons & Company International, Research Division - MD & Senior Research Analyst of Oil Service***
I'm sorry if my line dropped a minute, so if I missed this, I apologize. I was just looking, thinking about the revenue pressure for Water Services from Q2 into Q3, I guess we're contemplating a modest decline in the completions activity for your fleet tracker. Have we seen most of the pricing hit already in Q2, or we should expect further averaging down of the pricing [glib] that would also result in something I'm contemplating, perhaps 5% to 10% sequential revenue compression for Water Services? Is that a good way to think about it?

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Holli C. Ladhani ***Select Energy Services, Inc. - President, CEO & Director***
Yes. I think, really, Ian, one of the things that -- we think that activity levels will be relatively flat Q3 relative to Q2. We will have a full quarter of pricing compression in Q3 relative to Q2, so that would, in isolation, have an impact on revenue. But we feel like there's some other areas that we're going to be able to take some market share where we're maybe underrepresented today. And that -- the balance of all that is to -- certainly, our objective is to be able to maintain our revenue in the Water Services business as well.

Ian MacPherson ***Simmons & Company International, Research Division - MD & Senior Research Analyst of Oil Service***
Okay. That's a helpful clarification then. There had been some questions already regarding the volume of these long-term contracts that you referenced, the scale of them. I also wanted to just understand, when we think about near term 23-ish-percent margins, longer-term, aspiring to get back into the high-20s, where would you say the embedded margins for these longer-term contracts are falling within that spectrum?

Holli C. Ladhani ***Select Energy Services, Inc. - President, CEO & Director***
They're probably going to be -- they're different from region to region, service line to service line. But what I would say is that they're going to be supportive of moving us towards that ultimate goal versus pinning us down to where we sit today with current pricing.

Operator
Our next question is from Michael Urban with Seaport Global.

Scott McCrery ***Seaport Global Securities LLC, Research Division - Equity Associate Analyst***
This is Scott McCrery standing in for Mike Urban. Oilfield Chemicals revenue has been fairly steady over the last few quarters in comparison to some of the other ones. As we enter 2020, are there opportunities to increase the top line in this segment? Or is that still more of a margin improvement story?

Holli C. Ladhani ***Select Energy Services, Inc. - President, CEO & Director***
I think it's both, actually. Again, as we just talked to some of the ways you can increase the margin. But on the top line, we're still, from a market share perspective, there's more that we can penetrate. And that's certainly the team's goal and objective. And so not only is the Chemicals business going to be correlated to well completion, we can actually grow that business through taking more market share.

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Scott McCrery ***Seaport Global Securities LLC, Research Division - Equity Associate Analyst***

Okay. Great. And then as a follow-up, just in terms of returning value to shareholders, the company seems to have a pretty stable, or increasingly stable free cash flow profile. When you're looking at returning value to shareholders, how do you look at deciding whether to use a buyback versus a dividend?

Nicholas L. Swyka ***Select Energy Services, Inc. - CFO & Senior VP***

Yes, Scott. So, overall, in the returns of shareholders here, that does become a more elevated priority now that we do have the net cash position. We've retired all our debt. Obviously, we want to err on the side of having more optionality versus an efficient capital structure on any given day. But as far as the mechanism on how we return that value to shareholders, I think we want to stay pretty agnostic and understand what it is our shareholders prefer, and what drives the ultimate value of the stock. I think that in the near term for 2019, I don't believe a dividend likely will be on the table. So we'll probably lean more towards the share buybacks. But as we go into 2020, that's certainly something we'll evaluate and listen to feedback and understand what our infrastructure investment priorities are and what's the best program to fit around that for shareholder returns.

Operator

Thank you. This concludes the Q&A portion of our call. I would like to turn the call back over to Holli for closing comments.

Holli C. Ladhani ***Select Energy Services, Inc. - President, CEO & Director***

Thanks. Just quickly, before we drop off today, I want to leave you with a final couple of thoughts of the things that we're going to be focused on before on we're back on a call with you guys. It's pretty simple. We're going to stay focused on serving our customers, we're going to run a disciplined business, which obviously means managing our costs, and we're ready to focus on continuing to deliver that cash flow, and we'll be judicious in how we allocate it. So thanks for joining us today.

Operator

Ladies and gentlemen, thank you for your participation. This does conclude today's teleconference. You may disconnect your lines and have a wonderful day.

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