



Flotek Industries

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FLOTEK ANNOUNCES THIRD QUARTER 2019 RESULTS

--- Ended Quarter in Solid Financial Position, Including \$107 Million in Cash and No Debt ---

HOUSTON, November 11, 2019 -- Flotek Industries, Inc. ("Flotek" or the "Company") (NYSE: FTK) today announced results for the three months ended September 30, 2019. As the results of the Company's Consumer and Industrial Chemistry Technologies ("CICT") segment are presented as discontinued operations for all periods, the financial discussion and comparisons substantially relate to Flotek's continuing operations, or its Energy Chemistry Technologies ("ECT") segment.

Third Quarter and Recent Highlights

- Generated revenue of \$21.9 million, a net loss from continuing operations of \$11.2 million and an adjusted earnings before interest, taxes, depreciation and amortization ("adjusted EBITDA") loss of \$8.1 million, in comparison to revenue of \$34.7 million, a net loss from continuing operations of \$13.0 million and an adjusted EBITDA loss of \$9.6 million for the second quarter of 2019.
- Revenue and results for the third quarter were directly impacted by a continued volatile macro-environment for U.S. onshore drilling and completion activity and the transition in Flotek's sales force, partially offset by Flotek's previously announced cost reduction efforts.
- Reduced operating and corporate general administrative expenses from the second quarter, including benefiting from cost-cutting initiatives that were implemented in mid-July. Flotek has also identified and executed on more than \$3.5 million of additional annualized cost reductions in the fourth quarter that are primarily related to operating expenses. During 2019, the Company has executed on a series of cost-cutting initiatives that reduce Flotek's annual fixed cash costs by approximately \$30 million across the enterprise.
- Identified and began to implement strategies to drive greater profitability through order-to-cash efficiencies, including process enhancements to sales, manufacturing, supply chain and logistics. While the full process transformation is scheduled for completion by the end of the fourth quarter, Flotek currently estimates these targeted improvements could reduce operating expenses by more than \$5 million on annualized basis.
- The Company's Strategic Capital Committee continues to evaluate alternatives for the optimal allocation of the net proceeds from the sale of Florida Chemical Company, LLC to Archer-Daniels-Midland Company (the "Transaction") in the first quarter of 2019.

Adjusted EBITDA is a Non-GAAP financial measure and is described and reconciled to the closest GAAP measure in the attached tables at the end of this release.

Elizabeth Wilkinson, Flotek's Chief Financial Officer, commented, "Supporting our drive to achieve long-term profitability, we have made significant progress during 2019 in optimizing our cost structure and these efforts will continue. We have also identified further operational changes that improve the effectiveness and efficiency of our sales, manufacturing, supply chain and logistics processes and will lower our breakeven revenue level by more than 10%, even in the current operating environment. In addition to these efforts, we remain extremely focused on leveraging our enhanced sales team and are increasingly engaging with operators of scale that are seeking to deploy reservoir-centric chemistries to improve their asset productivity."

Third Quarter 2019 Financial Results

For the three months ended September 30, 2019, Flotek reported revenue of \$21.9 million versus \$34.7 million for the second quarter and \$53.7 million for the same period in 2018. Primarily impacting sequential revenue was the previously discussed environment for U.S. land oil and gas development operations.

Flotek reported a loss from continuing operations for the three months ended September 30, 2019 of \$11.2 million, or \$0.19 loss per diluted share, compared to a loss of \$13.0 million, or \$0.22 loss per diluted share, for the second quarter, and a loss of \$4.8 million, or \$0.08 loss per diluted share, in the same period of 2018.

Adjusted net loss from continuing operations for the three months ended September 30, 2019 was \$10.7 million, or \$0.18 per diluted share, versus \$12.3 million, or \$0.21 per diluted share, for the second quarter, and \$4.4 million, or \$0.08 per diluted share, in the same period of 2018. (See the Reconciliation of Non-GAAP Items and Non-Cash Items Impacting Earnings at the conclusion of this release.)

Earnings Before Interest, Taxes, Depreciation and Amortization (“EBITDA”) for the three months ended September 30, 2019 was a loss of \$9.9 million compared to a loss of \$11.7 million for the second quarter, and a loss of \$2.2 million for the same period in 2018. (See the Reconciliation of Non-GAAP Items and Non-Cash Items Impacting Earnings at the conclusion of this release.)

Adjusted EBITDA for the three months ended September 30, 2019 was a loss of \$8.1 million versus a loss of \$9.6 million for the second quarter and a positive \$0.5 million for the same period in 2018. Contributing to the decreased loss from the second quarter were lower operating expenses as a percent of revenue primarily due to the Company’s cost reduction efforts, including improved logistics efficiencies and lower personnel expenses. Management believes that adjusted EBITDA provides useful information to investors to better assess and understand operating performance and cash flows. (See the Reconciliation of Non-GAAP Items and Non-Cash Items Impacting Earnings at the conclusion of this release.)

Balance Sheet and Liquidity

As of September 30, 2019, the Company had cash and equivalents of \$107.0 million as compared to \$97.5 million at June 30, 2019. Significantly contributing to the sequential quarterly net increase in cash and equivalents was a decrease in net accounts receivable, with a days sales outstanding of 70 days at the end of the third quarter compared to 85 days as of June 30, 2019. In addition, as scheduled, Flotek collected \$3.3 million of the indemnity escrow established at the closing of the Transaction earlier this year and managed its inventory balances to a slightly lower level. At September 30, 2019, the Company had no outstanding debt and \$12.5 million in escrowed funds on the balance sheet, reflecting both the Company’s estimate of its claim to the post-closing adjustment working capital escrow and the remaining balance of the indemnity escrow related to the Transaction.

Outlook

John Chisholm, Flotek’s Chief Executive Officer, concluded, “2019 has clearly been challenging for substantially all oilfield service providers with U.S. onshore operations as E&P companies strive to operate within cash flow and generate attractive returns for their shareholders. The result has been an intense focus on drilling and completion costs by operators as they execute their extensive well inventory development programs. In this environment, oilfield service providers have been under pressure to lower costs, while providing E&Ps superior offerings and technical differentiation.

“We have responded by transitioning our business into a reservoir-centric chemistry services company that partners with our clients to increase asset productivity. The Company is taking a number of proactive measures to enhance its offerings along with its operations and sales capabilities. As E&Ps face increasing complexity surrounding well spacing and optimized completions variables, Flotek is working alongside its clients’ subsurface teams to validate the positive impact that fluid chemistries tailored for the reservoir have in increasing hydrocarbon recovery and enhancing the total cost of ownership of their assets. We look forward to continuing our close collaboration with our clients as they seek differentiated and cost-effective solutions for their complex technical challenges.”

Conference Call Details

Flotek will host a conference call on Tuesday, November 12, at 9:00 AM CT (10:00 AM ET) to discuss its operating results for the three months ended September 30, 2019. To participate in the call, participants should dial 844-835-9986 approximately five minutes prior to the start of the call. The call can also be accessed from Flotek's website at www.flotekind.com. In addition, the Company has updated its corporate presentation, which is also available on its website.

About Flotek Industries, Inc.

Flotek develops and delivers prescriptive, reservoir-centric chemistry technologies to oil and gas clients designed to address every challenge in the lifecycle of the reservoir and maximize recovery in both new and mature fields. Flotek's inspired chemists draw from the power of bio-derived solvents to deliver solutions that enhance energy production. Flotek serves major and independent energy producers and oilfield service companies, both domestic and international. Flotek Industries, Inc. is a publicly traded company headquartered in Houston, Texas, and its common shares are traded on the New York Stock Exchange under the ticker symbol "FTK." For additional information, please visit Flotek's website at www.flotekind.com.

Forward-Looking Statements

Certain statements set forth in this Press Release constitute forward-looking statements (within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934) regarding Flotek Industries, Inc.'s business, financial condition, results of operations and prospects. Words such as expects, anticipates, intends, plans, believes, seeks, estimates and similar expressions or variations of such words are intended to identify forward-looking statements, but are not the exclusive means of identifying forward-looking statements in this Press Release.

Although forward-looking statements in this Press Release reflect the good faith judgment of management, such statements can only be based on facts and factors currently known to management. Consequently, forward-looking statements are inherently subject to risks and uncertainties, and actual results and outcomes may differ materially from the results and outcomes discussed in the forward-looking statements. Factors that could cause or contribute to such differences in results and outcomes include, but are not limited to, demand for oil and natural gas drilling services in the areas and markets in which the Company operates, competition, obsolescence of products and services, the Company's ability to obtain financing to support its operations, environmental and other casualty risks, and the impact of government regulation.

Further information about the risks and uncertainties that may impact the Company are set forth in the Company's most recent filings on Form 10-K (including without limitation in the "Risk Factors" Section), and in the Company's other SEC filings and publicly available documents. Readers are urged not to place undue reliance on these forward-looking statements, which speak only as of the date of this Press Release. The Company undertakes no obligation to revise or update any forward-looking statements in order to reflect any event or circumstance that may arise after the date of this Press Release.

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Flotek Industries, Inc.
Unaudited Condensed Consolidated Balance Sheets
(in thousands, except share data)

	<u>September 30, 2019</u>	<u>December 31, 2018</u>
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 106,994	\$ 3,044
Restricted cash	663	—
Accounts receivable, net of allowance for doubtful accounts of \$1,520 and \$1,190 at September 30, 2019 and December 31, 2018, respectively	15,014	37,047
Inventories, net	24,333	27,289
Income taxes receivable	313	3,161
Assets held for sale	—	118,470
Other current assets	19,181	5,771
Total current assets	<u>166,498</u>	<u>194,782</u>
Property and equipment, net	41,180	45,485
Operating lease right-of-use assets	17,625	—
Deferred tax assets, net	476	18,663
Other intangible assets, net	23,578	26,827
Other long-term assets	—	126
TOTAL ASSETS	<u>\$ 249,357</u>	<u>\$ 285,883</u>
LIABILITIES AND STOCKHOLDERS' & EQUITY		
Current liabilities:		
Accounts payable	\$ 10,578	\$ 15,011
Accrued liabilities	7,797	10,335
Income taxes payable	276	—
Interest payable	—	8
Liabilities held for sale	—	9,174
Current portion of lease liabilities	762	—
Long-term debt, classified as current	—	49,731
Total current liabilities	<u>19,413</u>	<u>84,259</u>
Long-term operating lease liabilities	17,945	—
Long-term finance lease liabilities	172	—
Deferred tax liabilities, net	116	—
Total liabilities	<u>37,646</u>	<u>84,259</u>
Commitments and contingencies		
Stockholders' & Equity:		
Preferred stock, \$0.0001 par value, 100,000 shares authorized; no shares issued and outstanding	—	—
Common stock, \$0.0001 par value, 80,000,000 shares authorized; 63,038,397 shares issued and 58,909,280 shares outstanding at September 30, 2019; 62,162,875 shares issued and 57,342,279 shares outstanding at December 31, 2018	6	6
Additional paid-in capital	346,392	343,536
Accumulated other comprehensive loss	(962)	(1,116)
Retained earnings (accumulated deficit)	(100,281)	(107,565)
Treasury stock, at cost 4,129,117 and 3,770,224 shares at September 30, 2019 and December 31, 2018, respectively	(33,444)	(33,237)
	<u>211,711</u>	<u>201,624</u>
	<u>\$ 249,357</u>	<u>\$ 285,883</u>

Flotek Industries, Inc.
Unaudited Condensed Consolidated Statements of Operations
(in thousands, except per share data)

	Three Months Ended			Nine Months Ended	
	9/30/2019	9/30/2018	6/30/2019	9/30/2019	9/30/2018
Revenue	\$ 21,879	\$ 53,709	\$ 34,692	\$ 99,827	\$ 134,324
Costs and expenses:					
Operating expenses (excluding depreciation and amortization)	23,689	45,647	38,306	106,593	117,848
Corporate general and administrative	5,685	7,476	6,054	19,020	24,634
Depreciation and amortization	2,058	2,259	2,119	6,437	6,935
Research and development	2,297	2,350	2,076	6,657	8,054
(Gain)/loss on disposal of long-lived assets	3	57	(4)	1,096	119
Impairment of goodwill	—	—	—	—	37,180
Total costs and expenses	<u>33,732</u>	<u>57,789</u>	<u>48,551</u>	<u>139,803</u>	<u>194,770</u>
Loss from operations	<u>(11,853)</u>	<u>(4,080)</u>	<u>(13,859)</u>	<u>(39,976)</u>	<u>(60,446)</u>
Other (expense) income:					
Interest expense	(1)	(746)	(16)	(2,014)	(1,902)
Loss on sale of business	—	(360)	—	—	(360)
Loss on write-down of assets held for sale	—	—	—	—	(2,580)
Other income (expense), net	436	10	693	1,236	(2,599)
Total other expense	<u>435</u>	<u>(1,096)</u>	<u>677</u>	<u>(778)</u>	<u>(7,441)</u>
Loss before income taxes	<u>(11,418)</u>	<u>(5,176)</u>	<u>(13,182)</u>	<u>(40,754)</u>	<u>(67,887)</u>
Income tax benefit (expense)	191	333	192	1,157	(15,545)
Loss from continuing operations	<u>(11,227)</u>	<u>(4,843)</u>	<u>(12,990)</u>	<u>(39,597)</u>	<u>(83,432)</u>
Income (loss) from discontinued operations, net of tax	117	911	(1,608)	46,881	4,176
Net income (loss)	<u>(11,110)</u>	<u>(3,932)</u>	<u>(14,598)</u>	<u>7,284</u>	<u>(79,256)</u>
Net income attributable to noncontrolling interests	—	—	—	—	357
Net income (loss) attributable to Flotek Industries, Inc. (Flotek)	<u>\$ (11,110)</u>	<u>\$ (3,932)</u>	<u>\$ (14,598)</u>	<u>\$ 7,284</u>	<u>\$ (78,899)</u>
Amounts attributable to Flotek shareholders:					
Loss from continuing operations	\$ (11,227)	\$ (4,843)	\$ (12,990)	\$ (39,597)	\$ (83,075)
Income (loss) from discontinued operations, net of tax	117	911	(1,608)	46,881	4,176
Net income (loss) attributable to Flotek	<u>\$ (11,110)</u>	<u>\$ (3,932)</u>	<u>\$ (14,598)</u>	<u>\$ 7,284</u>	<u>\$ (78,899)</u>
Basic earnings (loss) per common share:					
Continuing operations	\$ (0.19)	\$ (0.08)	\$ (0.22)	\$ (0.67)	\$ (1.44)
Discontinued operations, net of tax	-	0.02	(0.03)	0.80	0.07
Basic earnings (loss) per common share	<u>\$ (0.19)</u>	<u>\$ (0.06)</u>	<u>\$ (0.25)</u>	<u>\$ 0.13</u>	<u>\$ (1.37)</u>
Diluted earnings (loss) per common share:					
Continuing operations	\$ (0.19)	\$ (0.08)	\$ (0.22)	\$ (0.67)	\$ (1.44)
Discontinued operations, net of tax	-	0.02	(0.03)	0.80	0.07
Diluted earnings (loss) per common share	<u>\$ (0.19)</u>	<u>\$ (0.06)</u>	<u>\$ (0.25)</u>	<u>\$ 0.13</u>	<u>\$ (1.37)</u>
Weighted average common shares:					
Weighted average common shares used in computing basic earnings (loss) per common share	59,004	58,319	58,608	58,725	57,820
Weighted average common shares used in computing diluted earnings (loss) per common share	59,004	53,319	58,608	58,725	57,820

Flotek Industries, Inc.
Unaudited Condensed Consolidated Statements of Cash Flows
(in thousands)

	<u>Nine Months Ended</u>	
	<u>9/30/2019</u>	<u>9/30/2018</u>
Cash flows from operating activities:		
Net income (loss) attributable to Flotek Industries, Inc. (Flotek)	\$ 7,284	\$ (78,899)
Income from discontinued operations, net of tax	46,881	4,176
Loss from continuing operations	(39,597)	(83,075)
Adjustments to reconcile loss from continuing operations to net cash (used in) operating activities:		
Depreciation and amortization	6,437	6,935
Amortization of deferred financing costs	1,428	294
Provision for doubtful accounts	426	176
Provision for excess and obsolete inventory	-	1,817
Impairment of goodwill	-	37,180
Loss on sale of business	-	360
Loss on write-down of assets held for sale	-	2,580
Loss on disposal of long-lived assets	1,096	119
Non-cash lease expense	813	-
Stock compensation expense	2,829	6,594
Deferred income tax provision	17,983	15,358
Reduction in tax benefit related to share-based awards	24	312
Changes in current assets and liabilities:		
Restricted cash	(663)	-
Accounts receivable, net	21,629	(10,392)
Inventories, net	3,000	(1,490)
Income taxes receivable	2,853	58
Other current assets	(14,974)	1,759
Accounts payable	(4,434)	5,672
Accrued liabilities	(13,122)	(9,001)
Income taxes payable	595	-
Interest payable	(8)	(37)
Net cash (used in) operating activities	<u>(13,685)</u>	<u>(24,781)</u>
Cash flows from investing activities:		
Capital expenditures	(1,869)	(3,965)
Proceeds from sales of businesses	169,722	1,665
Proceeds from sale of assets	234	361
Purchase of patents and other intangible assets	(590)	(1,466)
Net cash (used in) provided by investing activities	<u>167,497</u>	<u>(3,405)</u>
Cash flows from financing activities:		
Borrowings on revolving credit facility	42,984	213,612
Repayments on revolving credit facility	(92,715)	(188,160)
Debt issuance costs	-	(98)
Purchase of treasury stock related to share-based awards	(207)	(91)
Proceeds from sale of common stock	7	341
Payments for finance leases	51	-
Loss from noncontrolling interest	-	(357)
Net cash (used in) provided by financing activities	<u>(49,880)</u>	<u>25,247</u>
Discontinued operations:		
Net cash (used in) provided by operating activities	(321)	880
Net cash (used in) provided by investing activities	337	(630)
Net cash flows provided by discontinued operations	<u>16</u>	<u>250</u>
Effect of changes in exchange rates on cash and cash equivalents	<u>2</u>	<u>(66)</u>
Net increase (decrease) in cash and cash equivalents	103,950	(2,755)
Cash and cash equivalents at the beginning of period	<u>3,044</u>	<u>4,584</u>
Cash and cash equivalents at the end of period	\$ 106,994	\$ 1,829

Flotek Industries, Inc.
Unaudited Reconciliation of Non-GAAP Items and Non-Cash Items Impacting Earnings
(in thousands, except per share data)

GAAP Loss from Continuing Operations and Reconciliation to Adjusted Net Loss (Non-GAAP)

	Three Months Ended			Nine Months Ended	
	<u>9/30/2019</u>	<u>9/30/2018</u>	<u>6/30/2019</u>	<u>9/30/2019</u>	<u>9/30/2018</u>
Loss from Continuing Operations (GAAP)	\$ (11,227)	\$ (4,843)	\$ (12,990)	\$ (39,597)	\$ (83,432)
Select Items Impacting Earnings, net of tax	525	412	729	4,619	34,066
Adjusted Net Loss (Non-GAAP)	<u>\$ (10,702)</u>	<u>\$ (4,431)</u>	<u>\$ (12,261)</u>	<u>\$ (34,978)</u>	<u>\$ (49,366)</u>
Weighted Average Shares Outstanding (Fully Diluted)	59,004	58,319	58,608	58,725	57,820
Adjusted Loss Per Share (Fully Diluted)	<u>\$ (0.18)</u>	<u>\$ (0.08)</u>	<u>\$ (0.21)</u>	<u>\$ (0.60)</u>	<u>\$ (0.85)</u>

Select Items Impacting Earnings

Severance and Retirement	658	105	356	2,735	227
Shareholder-Related Activities	4	-	71	656	-
Operations Related Contract Termination	-	-	500	-	-
Inventory Write-down	-	-	-	-	1,000
Impairment of Goodwill	-	-	-	-	37,180
Deferred Financing Costs	-	-	-	1,360	-
Loss on Sale of Business	-	360	-	-	360
Loss on Write-down of Assets Held for Sale	-	-	-	-	2,580
Loss (Gain) on Disposal of Assets	3	57	(4)	1,096	119
Discontinuation of Corporate Projects	-	-	-	-	1,220
Expenses Relating to Closing of Business Venture	-	-	-	-	436
Total Select Items	<u>\$ 665</u>	<u>\$ 522</u>	<u>\$ 923</u>	<u>\$ 5,847</u>	<u>\$ 43,122</u>
Less income tax effect (21%)	(140)	(110)	(194)	(1,228)	(9,056)
Select Items Impacting Earnings, net of tax	<u>\$ 525</u>	<u>\$ 412</u>	<u>\$ 729</u>	<u>\$ 4,619</u>	<u>\$ 34,066</u>

* Management believes that adjusted Net Income for the three and nine months ended September 30, 2019 and September 30, 2018, and the three months ended June 30, 2019, is useful to investors to assess and understand operating performance, especially when comparing those results with previous and subsequent periods. Management views the expenses noted above to be outside of the Company's normal operating results. Management analyzes operating results without the impact of the above items as an indicator of performance, to identify underlying trends in the business and cash flow from continuing operations, and to establish operational goals.

Flotek Industries, Inc.
Unaudited Reconciliation of Non-GAAP Items and Non-Cash Items Impacting Earnings
(in thousands)

GAAP Loss from Continuing Operations and Reconciliation to Adjusted EBITDA (Non-GAAP)

	Three Months Ended			Nine Months Ended	
	<u>9/30/2019</u>	<u>9/30/2018</u>	<u>6/30/2019</u>	<u>9/30/2019</u>	<u>9/30/2018</u>
Loss from Continuing Operations (GAAP)	\$ (11,227)	\$ (4,843)	\$ (12,990)	\$ (39,597)	\$ (83,432)
Interest Expense	1	746	16	2,014	1,902
Interest Income	(571)	(53)	(685)	(1,483)	(288)
Income Tax Benefit Expense	(191)	(333)	(192)	(1,157)	15,545
Depreciation and Amortization	2,058	2,259	2,119	6,437	6,935
EBITDA (Non-GAAP)	<u>\$ (9,930)</u>	<u>\$ (2,224)</u>	<u>\$ (11,732)</u>	<u>\$ (33,786)</u>	<u>\$ (59,338)</u>
Stock Compensation Expense	1,160	2,185	1,213	2,829	6,594
Severance and Retirement	658	105	356	2,735	227
Shareholder-Related Activities	4	-	71	656	-
Operations Related Contract Termination	-	-	500	-	-
Inventory Write-down	-	-	-	-	1,000
Impairment of Goodwill	-	-	-	-	37,180
Loss on Sale of Business	-	360	-	-	360
Loss on Write-down of Assets Held for Sale	-	-	-	-	2,580
Loss (Gain) on Disposal of Assets	3	57	(4)	1,096	119
Discontinuation of Corporate Projects	-	-	-	-	1,220
Expenses Relating to Closing of Business Venture	-	-	-	-	436
Adjusted EBITDA (Non-GAAP)	<u>\$ (8,105)</u>	<u>\$ 483</u>	<u>\$ (9,596)</u>	<u>\$ (26,470)</u>	<u>\$ (9,622)</u>

* Management believes that adjusted EBITDA for the three and nine months ended September 30, 2019 and September 30, 2018, and the three months ended June 30, 2019, is useful to investors to assess and understand operating performance, especially when comparing those results with previous and subsequent periods. Management views the expenses noted above to be outside of the Company's normal operating results. Management analyzes operating results without the impact of the above items as an indicator of performance, to identify underlying trends in the business and cash flow from continuing operations, and to establish operational goals.

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