



# Acquisition of JP3

Maximizing Value of the Full Hydrocarbon Stream with Real-Time Data and Analytics

*May 18, 2020*

# Forward Looking Statements

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# Compelling Acquisition Rationale

- Adds high growth business with proven technology platform that supports digital transformation in the energy industry
- Clear runway into \$1 billion addressable market with significant international opportunity, utilizing Flotek's global reach
- JP3 delivers strong value for customers, with the automation of real-time analysis driving increased profitability for customers even in a weak oil market
- Significant downstream distribution opportunity highlighted by JP3's and Phillips 66's recent joint marketing agreement
- Creates opportunity for recurring revenue at high margins, with JP3's continued transition to a DaaS business model
- Diversifies Flotek's business across all segments of the hydrocarbon value chain, while enhancing existing chemistry applications and broadening its customer reach across the midstream and downstream sectors

# Transaction Summary

## Transaction Details

- Equity purchase of 100% ownership of JP3 Measurement, LLC, from private investors
- Closed on Monday, May 18, 2020
- \$25.0 million cash
- 11.5 million shares of Flotek stock<sup>1</sup>
- \$5.0 million cash earnout potential<sup>2</sup>
- Assumption of \$1.3 million in debt

## JP3 Financial Highlights

- High-growth business with expanding recurring revenue opportunities
- Addressable market of \$1 billion annually in US alone; with significant international opportunity
- Platform technology that reshapes the economics of hydrocarbon production, blending, processing and trading
- Revenue CAGR of 58% over past four years with over sixty oil and gas customers, transitioning from traditional equipment sales to Data as a Service (DaaS) model
- Accelerated growth enabled by Flotek's liquidity, industry relationships and international market access

1. Subject to lock-up provision until 12/31/2020

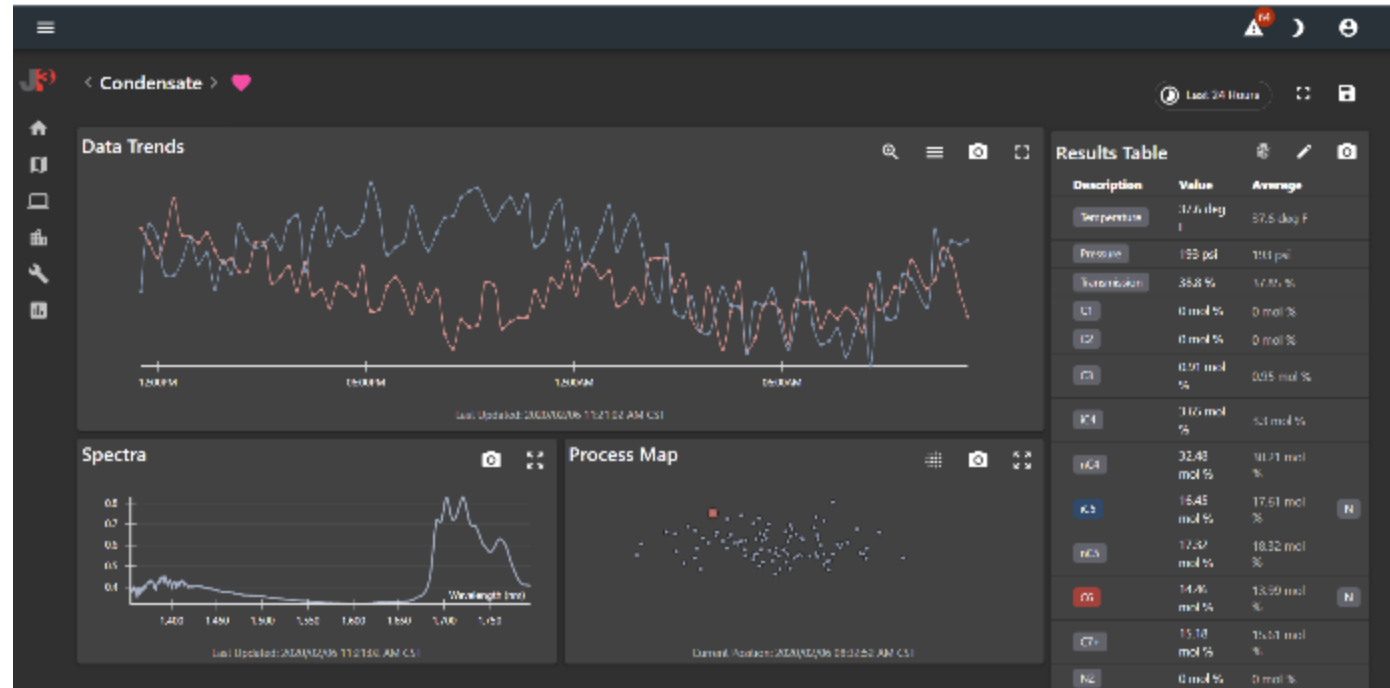
2. \$2.5MM in the event Company's common stock reaches \$2/share based on a volume-weighted average price within 5 years of closing; additional \$2.5MM in the event Company's common stock reaches \$3/share based on a volume-weighted average price within 5 years of closing

# JP3 Platform Technology Providing Real-Time Data & Analytics to the Full Hydrocarbon Stream

JP3 Leverages Cutting-Edge Optical Technology and Real-Time Data & Analytics Platforms to Maximize the Value of Oil, Natural Gas and Refined Fuels

## JP3 Mission

- Since 2012, the company has provided real-time analysis of the composition and physical properties of the hydrocarbon streams for its clients
- Platform applications serve production, transportation, process, refining and sales, enabling customers to radically improve their operational efficiencies, reduce costs and maximize profitability



# The Need for Real-Time Data in the Modern Age of Oil & Gas Digitalization

## One Technology Platform – Wide Range of Applications



### Upstream

#### Example:

Low-cost, real-time analysis of crude's value at the wellhead enables new contract pricing structures between producer and refiner based on actual composition rather than outdated API Gravity proxy



### Midstream

#### Example:

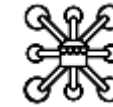
Gas process plants running Automated Process Control systems require real-time liquids composition for plant balancing and give-away reduction



### Downstream

#### Example:

Refineries can custom-blend crudes from multiple day tanks or supply pipelines to craft optimized feedstock in real time instead of running blind



### Distribution

#### Example:

Refined fuel terminals and pipelines can be optimized to reduce or eliminate transmix of fuels in common pipelines and significantly increase profits

## Current Industry Use Cases

- Well pad separation units (gas and liquid)
- Vapor recovery units
- Compressor fuel gas
- Liquid and gas allocations/NGL custody transfers
- Stabilizers
- Truck offloading
- Stabilization (crude, condensate)
- Pipelines (products, interfaces)
- Gas plants and fractionation plants
- Gas pipelines
- Crude Distillation Unit
- Terminals (Refined fuels, NGLs)
- Pipelines (refined fuels, purity products)
- Gasoline blending (vapor pressure, butane)
- NGL blending (ethane/propane)
- Heater Treaters
- Truck loading
- Terminals (crude, NGL, condensate)
- Blending (crude, NGLs)
- Refinery crude supply
- Crude blending

# JP3 data solution overcomes limitations of traditional technologies

Previous Technologies		JP3 Verax Edge Analyzers and Viper Cloud Solutions
<ul style="list-style-type: none"> <li>Environmental risks due to extracting samples required for each analysis</li> <li>Lack of visibility into actual GHG emissions</li> </ul>	<p style="text-align: center;"><b>Environmental</b></p> <p style="text-align: center;">➡</p>	<ul style="list-style-type: none"> <li>Zero emissions by design</li> <li>Opportunity to quantify GHG emissions</li> </ul>
<ul style="list-style-type: none"> <li>Safety concerns with gas being brought to analyzer or liquids needing vaporization</li> </ul>	<p style="text-align: center;"><b>Safety</b></p> <p style="text-align: center;">➡</p>	<ul style="list-style-type: none"> <li>Inherently safe edge systems, liquids and gases remain in native state</li> <li>Equipment can be run at spec limits without danger</li> </ul>
<ul style="list-style-type: none"> <li>High operating expenses due to carrier gases, calibration samples and expensive shelters</li> </ul>	<p style="text-align: center;"><b>Cost</b></p> <p style="text-align: center;">➡</p>	<ul style="list-style-type: none"> <li>Lower operating costs due to fully solid-state analyzer systems that require no consumables</li> </ul>
<ul style="list-style-type: none"> <li>Remote monitoring and detection difficult, often requiring secondary systems for communications</li> </ul>	<p style="text-align: center;"><b>Convenience</b></p> <p style="text-align: center;">➡</p>	<ul style="list-style-type: none"> <li>Built-in remote communications deliver data 24/7 to anywhere in the world</li> </ul>
<ul style="list-style-type: none"> <li>Lack of real-time feedback means lost profits due to inability to approach specification limits</li> </ul>	<p style="text-align: center;"><b>Speed</b></p> <p style="text-align: center;">➡</p>	<ul style="list-style-type: none"> <li>Analyses and data refreshed every 15 seconds or faster for high-precision control</li> <li>Maximization of profits</li> </ul>
<ul style="list-style-type: none"> <li>Lack of real-time feedback means lost profits due to inability to approach specification limits</li> </ul>	<p style="text-align: center;"><b>Analytics</b></p> <p style="text-align: center;">➡</p>	<ul style="list-style-type: none"> <li>Real-time online Viper monitoring system allows user-friendly access to historical activity, current status and analytical insights into future process trends</li> <li>Optimal efficiency</li> </ul>

# JP3: Differentiated Data Solutions

## Cost Benefits Accruing to Customers

- Integrated Systems-based Approach
- Remote Access – Reduces Monitoring Cost
- Heightened Operational Efficiency

## Factors Driving Rapid Industry Adoption

- Actionable Analytics Driving Increased Profitability
- Regulatory Tailwinds from New Industry Standards
- Easily Adoptable Platform technology

## Formidable Barriers to Entry

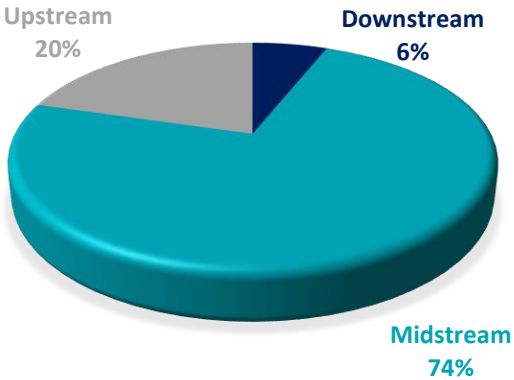
- Buy-in from top tier industry players
- Industry-leading Data Library
- Intellectual Property and Trade Secret Protection



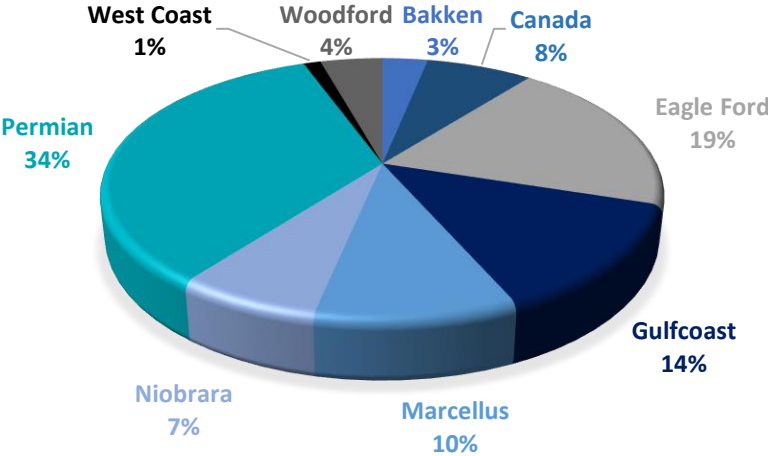
# High Value Proposition for Clients Has Driven Adoption of JP3 Data Platform

- Strong customer base of over 60 clients across all segments of the market and including many of the market leaders in the midstream and downstream spaces
- Transitioning from traditional equipment sales to DaaS revenue model

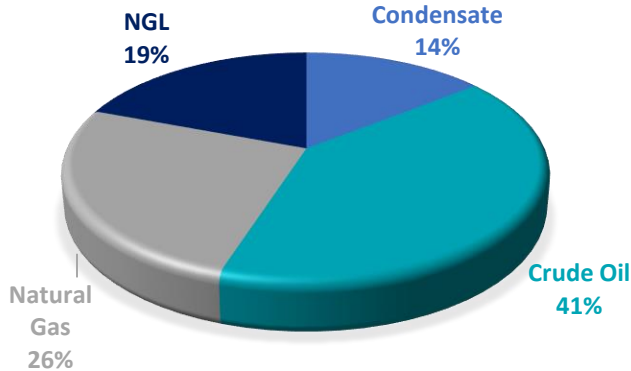
Sector By Lifetime Sales



Region By Readpoint



Fluid Category By Readpoint



# JP3: Significant Market Opportunity

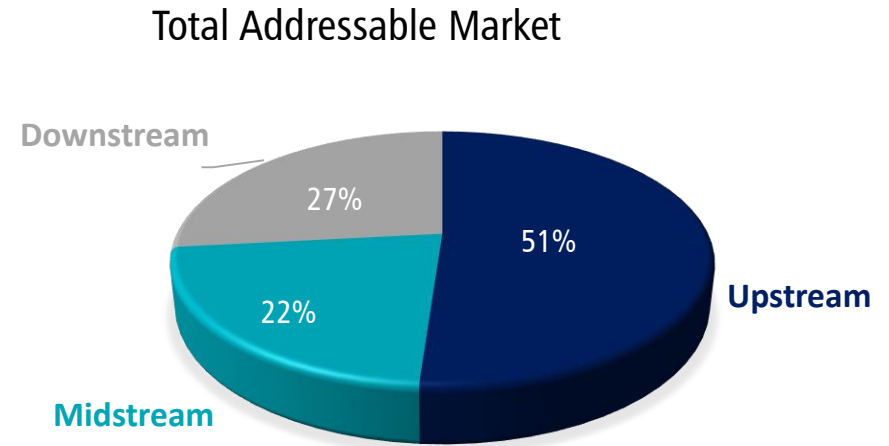
~\$1 Billion Annual Recurring Revenue  
US Addressable Market

## Global Market

Based on existing deployment of traditional equipment global, international markets present tremendous revenue opportunity.

## Executing on Plan

- Flotek's growth capital accelerates deployment of global sales force
- Upstream opportunity enables by real-time secure data at the edge, and visualization and analytics in the cloud
- JP3 Solutions can be readily deployed to any industry segment, we can easily adapt to where the market need is
- Flotek + JP3 can expand the hydrocarbon value chain back to the reservoir – optimizing the quantity and quality of injected chemicals at the wellhead to produce the highest value hydrocarbons from wellhead to the refinery and the product's final destination



Source: JP3 Internal Data

# JP3 Announces Joint Data Service Solution with Phillips 66 to Reduce Transmix Generation

Solution Yields ~50% reduction in transmix  
Dramatic increase in annual profits per site

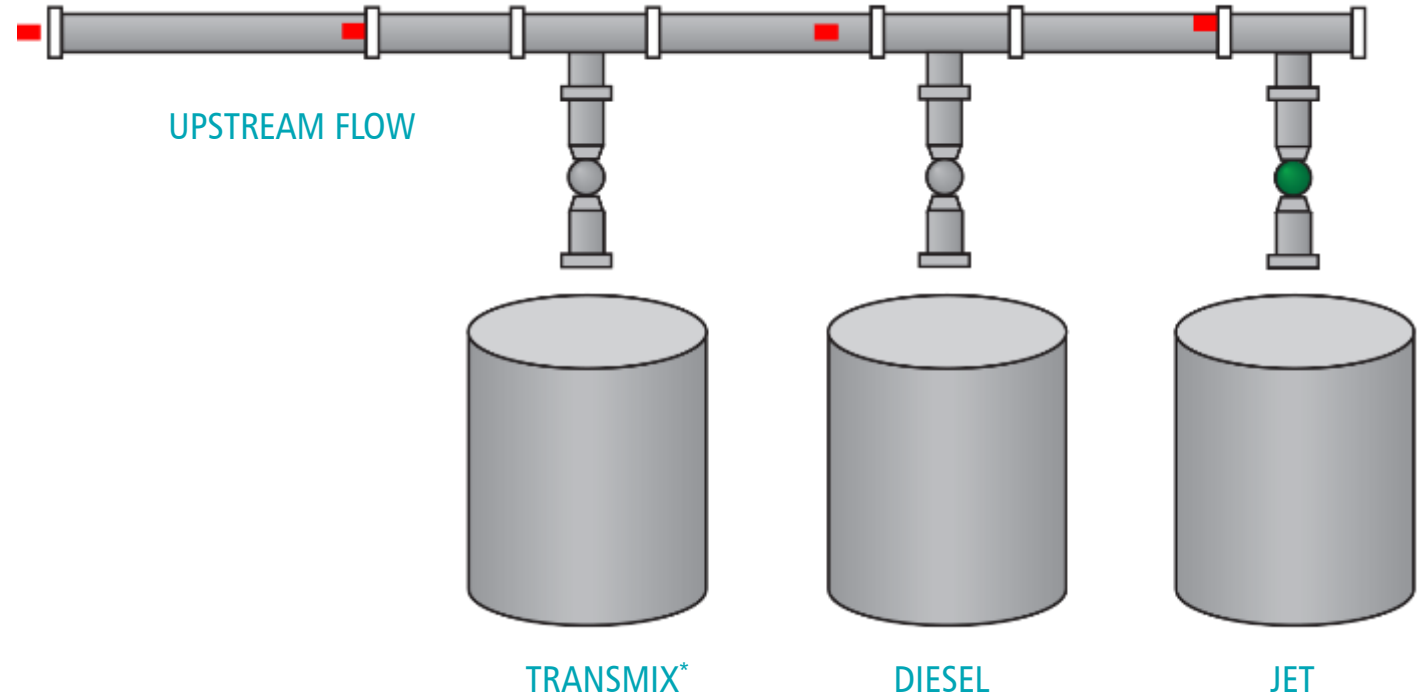
*"By combining JP3's revolutionary real-time analysis capabilities and data systems with Phillips 66 Pipeline's midstream process knowledge, Industry-wide transmix losses could be reduced by as much as 50%."*

- Press Release May 13, 2020

\* **"transmix"** –the interface transportation mixture which occur when natural mixing happens between adjacent batches of different fuels being shipped in a common pipeline.



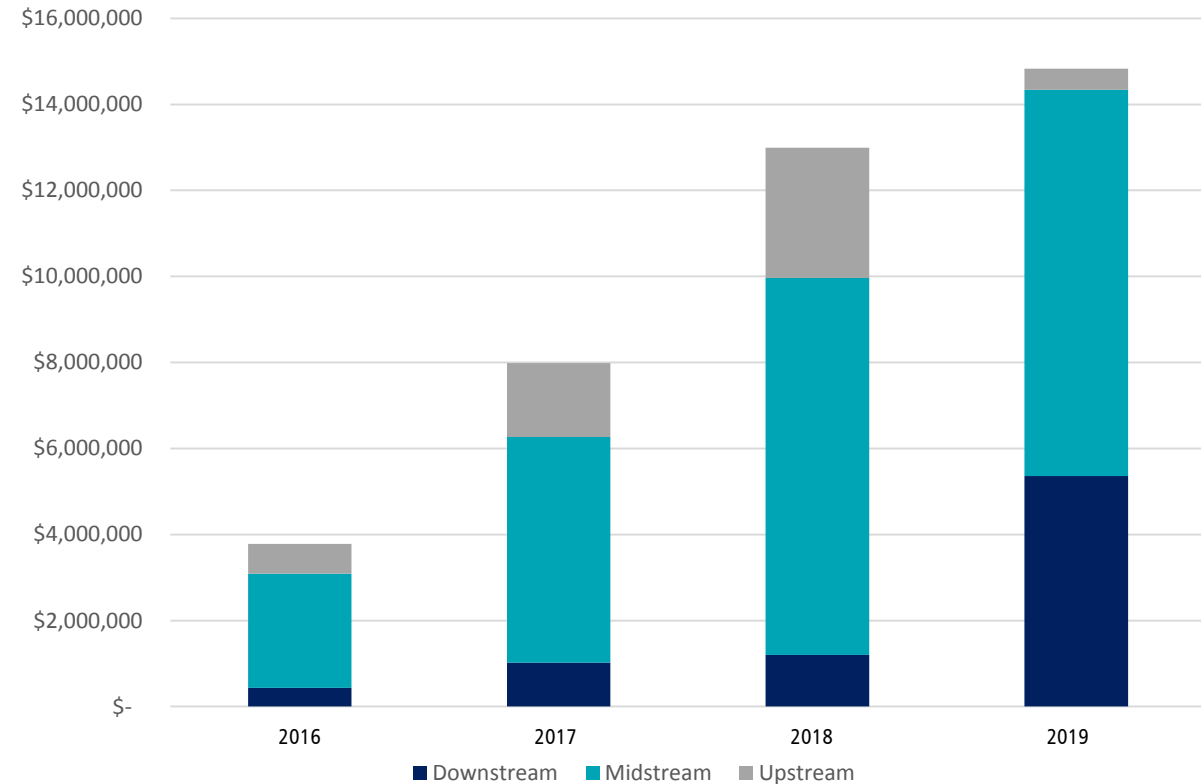
Refined Fuels Joint Sales and Marketing Agreement



# JP3: Double Digit Growth with Strong, Historical Margins

- **Revenue CAGR of 58%** over past four years with over sixty oil and gas customers, transitioning from traditional equipment sales to Data as a Service (DaaS) model

JP3 Revenue by Segment



# Flotek + JP3: A Strong Future Together

## Positioned for accelerated growth

- JP3 provides significant full-stream value creation with recurring revenue growth model
- Flotek has liquidity to support and accelerate that growth

## Shared vision in data and technology advancing energy applications

- JP3's data enables a new dimension to this vision by measuring the injected chemistry's effectiveness
- Flotek's innovative chemistries increase the ultimate recovery of reserves. And the reach and power of JP3's data goes far beyond that

## Complementary customer bases that will grow and enhance relationships

- JP3's technology will enhance Flotek's chemistry applications
- Flotek's global reach provides significant international opportunity

## Enables higher revenues and increased profitability for customers

- JP3's automation of real-time analysis drives increased profitability for customers even in a weak oil market
- Flotek's chemistry expertise and applications are complementary assets