BAD Q1 2017 update

1. BAD disclosure
2. BAD incentives
3. BAD answers

BAD DISCLOSURE

Why didn't they warn us?

❑Blamed 1Q:17 Miss on Weak **January** But Chose Not to Call Out on **March 20th** Q4:16 Earnings Call

- *Why Not Pre-Announce or Highlight Any of The Fuel Cost, Wage or R&M Expense Deleverage?*
  - *Did They Even Know What Costs Would Be?*
  - *Was Mgmt. Aware of Consensus for 1Q:17?*

	Consensus	Actual	Surprise
EPS	0.32	0.10	-69%
Revenue	112	102	-9%
EBITDA	25.7	17.7	-31%

Source: Bloomberg

❑**Are There Appropriate Policies & Procedures in Place**?

- *Management Didn't Read Forward Looking Statements on Q4:16 Call*

- *On Q1:17 Call the Forward Looking Statements Cite "General Economic Stuff"!*

Is going on the road with a day left in the Q Selective Disclosure?

- **BAD management went on the road to speak to investors with a day left in the quarter?**
- **CFO CITED SELECTIVE DISCLOSURE AS REASON FOR NOT SPEAKING W/ BARRON'S**

November 14th Earnings Call:

Jon Jung, Analyst

…**there was a negative article in Barron's two weeks ago. And in it, they said that they were trying to schedule an interview to respond to questions** about receivables and some accounting for vehicles and they indicated that they weren't able to accomplish that and the end result was somewhat negative article. Wondering if you could comment on that and give us any ideas if you're going to perhaps reschedule it, try to correct some of the -- what I view as misconceptions in the Barron's article?

Gerald Schiefelbein, Vice President and Chief Financial Officer

Yeah. **So they called us during our quiet period when we really aren't supposed to be talking to the market, I'm very careful about it**. And many of the questions, they are not the ones written up in the article but many of the questions they sent me ahead of time, had to do with revenues per truck. So **they were trying to get a quick inside look at Q3 before you guys got a look at it**. So I told them it's better not for us to have that conversation, but invited him to call me right after today and he chose to publish ahead of calling me back. So I won't speculate on what is real incentive is, but obviously didn't want to get the answers to the questions we published.

BAD INCENTIVES

Q1 Margins Are Down Materially & Mgmt. Walks Away from LT Target?...

- Higher wages, repair and maintenance and fuel expenses were vaguely highlighted as drivers of margin degradation
- …but when asked to quantify these factors on call, CEO chose not to "get into that granularity…there is probably some competitive information there."

- **Did Mgmt. Walk Away from Long Term Margin Target?**
  - **Q4:16 MD&A: Target 28-29% EBITDA Margins; (page 4)**
  - **Q1:17 MD&A: Attractive Adjusted EBITDA Margins (page 4)**

	Qtr. Ended	
	Mar-16	**Mar-17**
Revenues	88.2	101.8
EBITDA	19.6	19.9
% Chg Y/Y		*1.3%*
% EBITDA Margin	*22.2%*	*19.5%*

…And Free Cash Flow is Negative…

	Qtr. Ended	
	Mar-16	Mar-17
A) Cash Flow from Operating Activities	16.2	17.8
B) Purchase of PP&E	(4.4)	(17.8)
C) Interest Paid in Financing Activities	(2.6)	(2.4)
Free Cash Flow (A + B + C)	9.2	(2.4)

…And Rate Pressure is Severe…

Q1:17 MD&A Commentary on Rates & Competition:

- "While market opportunity is growing, **we continue to see rate pressure in these (oil & gas driven) regions driven by lower hydrovac industry utilization**."

- **"The Eastern Canada market continues to be very competitive** and rate pressures have resulted in Badger passing on some business at low profitability…**We expect the Eastern Canada market will continue to be competitive**, and we are positioning the region to be as efficient as possible."

- "In addition, direct costs as a percent of revenue was also higher **due to rate pressure in certain markets**."

- "Wade will focus on improving the operational effectiveness and efficiencies of Badger's Canadian operations which is important **given the level of competition across the Canadian market**."

- "The decline is largely due to the **increased cost of fuel as well as overall rate pressure in Western Canada**."

- "…**a competitive US market for commercial (CDL) licensed drivers**."

So Why Ramp the Truck Build?

Declining Margins + **Negative FCF** + **Lower Utilization in Oil & Gas Regions Coupled with Very Competitive Market** ≠ **Massive Truck Ramp**

From Q1:17 MD&A (Page 3)
Badger is **increasing the annual build rate to be between 100 and 160 units, versus the range of 70 to 100 provided with our 2016 Annual Report**. Badger continues to expect to retire 40 to 50 trucks in 2017.

From Q1:17 Earnings Call
Gavin Fairweather, Analyst
…on the build rate…curious for a sense of the data points seeing that gave you the confidence to increase that build rate there?

Paul Vanderberg, President and Chief Executive Officer
…what we've seen is the improvement in our RPT…less and less trucks that are expected to move…**there is very long lead times to get chassis**, the chassis lead time is expanded, it's out in the five-month range now…back last summer, it would have been in the five-week range…it really forces us to think ahead. So all those factors are part of it…

Jeff Fetterly, Analyst
In terms of the build program and your return expectations…historically 30,000 RPT has been a trigger point for Badger, your incentive compensation is obviously triggered off of 30,000 RPT as well. How do you think about the returns on those incremental units and accelerating the build program now versus at some point in the future when you get towards 30,000?

Paul Vanderberg, President and Chief Executive Officer
…we are obviously looking ahead a little bit on the historical reported RPT, as we work our build rate and we talked about some of the lead times on chassis and -- and those type of factors that have to figure in. But I think it would be a safe takeaway to say, we're fairly optimistic about our build rate, and our ability to put them to work at good monthly revenue figures with improved figures from what we've seen historically.

60 to 110 Net Truck Adds – A Range You Could Drive a Truck Through?

Incentive Mis-Alignment? Truck Growth May Aid Mgmt. Comp

- Why Increase Truck Builds in an Over-Supplied, Highly Competitive Market Where Badger is Suffering from Expense Deleverage?

  - **50% of Performance Share Plan** Comp Based on EBITDA / Common Share Targets
  - **24% of Mgmt. Discretionary Annual Cash Incentive Bonus** Based on EBITDA Targets

- **Delaying Maintenance Spend & Driving EBITDA via New Truck Builds May Aid Management Incentive Comp But is it in the Best Interests of Shareholders?**

BAD ANSWERS

Is New Management Weak?!

- CFO Provides Conflicting, Confusing Answers on 1Q:17 Earnings Call
  - *Says chassis go into work in process so doesn't get capitalized yet have a line that is explicitly called hydrovacs and work in process in capex and later in call says chassis are capitalized!*
  - *Says trucks now more expensive to build but MD&A states build costs haven't increased!*
  - *Says capitalize overhead but omits how much and what liberties take in capitalization!*

GERALD SCHIEFELBEIN IS NOT A CPA, NOT AN ACCOUNTANT

Does Badger CFO Know What Capital Spend vs. Expense Means? Or is He Confused Because of a Change in Recognition of Work in Process in Q1:17? Or Did He Just Make a Mistake?

Gavin Fairweather, Analyst

And then just lastly on the CapEx in the quarter was a little bit higher than what I was expecting given 23 trucks that were produced, I'm sure FX was a piece of that curious whether you being kind of stocking up on some of those chassis just in anticipation of the build or whether there was other factors that play there?

Gerald Schiefelbein, Vice President and Chief Financial Officer

Yes. Well, so the chassis going to work in process, so you shouldn't see that in the capital spend. And then, so I think we're just seeing the increase in the truck build there mostly.

Brian Pow, Analyst

Okay. And then, I just wanted to clarify some comments just on your CapEx. If we do a sort of simple math of the 23 added in Q1 and you declared in your MD&A that you spent just under 15 million that sort of works out to 650 a truck. So, Gerry had said that -- that didn't include your chassis, but your --

Brian Pow, Analyst

It does include chassis then?

Paul Vanderberg, President and Chief Executive Officer & Gerald Schiefelbein, Vice President and Chief Financial Officer

(Multiple Speakers) **That includes the chassis.**

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Has There Been a Change in Capex Accounting?

- Q1:17 Disclosure Includes Hydrovacs and Related Work in Process in Capex Line, But Q1:16 Doesn't
  - **What is and related work in process?**
  - **How much work in process was capitalized in Q1:17 & Q1:16, respectively?**
  - **How much does it cost to build a truck?**
  - **What other items are capitalized?**
  - **Why doesn't Q1:16 reported capex match in the respective disclosures?**

(All amounts are $000's)	Three Months Ended March 31,	
Capital expenditures	2017	2016
Hydrovac trucks and related work in process	14,920	4,130
Other vehicles and trailers	2,480	192
Buildings	-	-
Other	386	102
Total Capital Expenditures	**17,786**	**4,424**

	Three months ended March 31,	
Growth capital expenditures	**2016**	**2015**
Hydrovac trucks	-	14,257
Other vehicles and trailers	151	1,014
Buildings	-	841
Other	99	19
Total growth capital expenditures	**250**	**16,131**
Maintenance capital expenditures		
Hydrovac trucks	4,129	5,582
Other vehicles and trailers	42	276
Buildings	-	-
Other	4	-
Total maintenance capital expenditures	**4,175**	**5,858**
Purchase of property, plant and equipment	**4,425**	**21,989**

Are Margins Reverting Back or Not?

- *CEO on Q1:17 Earnings Call:*

…as we **exited the quarter, our expense run rates were back in line with what we saw in the previous year.**

- *Page 2 of Q1:17 MD&A:*

In particular, higher hourly wages and benefits, repair and maintenance and fuel expenses mostly offset the benefit of higher revenues in the quarter…**Badger exited the quarter with these expenses in a similar run rate to last year's rates as a percent of revenue**.

- *Page 2 of Q1:17 MD&A*

Badger estimates that **there is approximately an 18 month experience curve for new managers**, during which they progress in mastering all aspects of local operations including human resources, sales, scheduling, fleet, operating expense management and collections. Expense management improves with management tenure, and **Badger expects that this pattern of improving expense management with tenure will continue into the future**.

SO WHICH ONE IS IT?

DOES MGMT. THINK THE AVG. INVESTOR IS STUPID?

Are Truck Costs Rising or Not? Is Mgmt. Just Clueless?

- *CFO on Q1:17 Earnings Call:*

…our current truck is a little bit higher cost than historically been.

- *Page 7 of Q1:17 MD&A*

As a result, the cost to build the units has not increased over costs incurred in 2016.

SO WHICH ONE IS IT?

DOES MGMT. THINK THE AVG. INVESTOR IS STUPID?

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Is it Conservative to Change or No Longer Disclose Capex Methodology?

Q1:17 Earnings Call: Jeff Fetterly, Analyst
Right. In the R&M side, were all of those expenses capital or expensed or were they -- or any of that capitalized?

Paul Vanderberg, President and Chief Executive Officer
No.

Gerald Schiefelbein, Vice President and Chief Financial Officer
…those were all expensed, Jeff. **We don't capitalize very aggressively in fact, it is unaggressively.**

Paul Vanderberg, President and Chief Executive Officer
Yes**, it's a very conservative accounting treatment** especially on the engine rebuilds and things like that, which I understand other companies in the industry have a process of capitalizing.

Maintenance Capex - 1Q:17

Not Defined

Maintenance Capex - 4Q:16

Not Defined

Maintenance Capex - 3Q:16 (MD&A)

"Maintenance capital expenditures" are any amounts incurred during a reporting period to keep the Company's productive capacity at the existing level. Productive capacity is the hydrovac fleet, support vehicles and other capital assets required to maintain the existing business. The amount will fluctuate from period-to-period depending on the number of new build hydrovac units relative to the number of units retired from the fleet or the replacement of other assets. Costs incurred to repair hydrovac units are expensed as incurred because the repairs do not extend the life of the hydrovac unit.

Maintenance Capex - 2Q:16 (Earnings Release)

"Maintenance capital expenditures" are any amounts incurred during a reporting period to keep the Company's productive capacity at the existing level. Productive capacity is the hydrovac fleet, support vehicles and other capital assets required to maintain the existing business. The amount will fluctuate from period-to-period depending on the number of new build hydrovac units relative to the number of units retired from the fleet or the replacement of other assets. Costs incurred to repair hydrovac units are expensed as incurred because the repairs do not extend the life of the hydrovac unit.

Maintenance Capex - 1Q:16 (Earnings Release)

"Maintenance capital expenditures" are any amounts incurred during a reporting period to keep the Company's daylighting fleet at the same number of units, plus any other capital expenditures required to maintain the capacities of the existing business. The amount will fluctuate period-to-period depending on the number of units retired from the fleet.

Growth Capex - 1Q:17

Not Defined

Growth Capex - 4Q:16

Not Defined

Growth Capex - 3Q:16 (MD&A)

"Growth capital expenditures" are capital expenditures that are intended to improve Badger's efficiency, productivity or overall capacity and thereby allow Badger to expand overall activity and/or access new markets. They generally represent any new build daylighting units that represent a net addition to the daylighting fleet or other assets. Growth capital expenditures exclude acquisitions.

Growth Capex - 2Q:16 (Earnings Release)

"Growth capital expenditures" are capital expenditures that are intended to improve Badger's efficiency, productivity or overall capacity and thereby allow Badger to expand overall activity and/or access new markets. They generally represent any new build daylighting units that represent a net addition to the daylighting fleet or other assets. Growth capital expenditures exclude acquisitions.

Growth Capex - 1Q:16 (Earnings Release)

"Growth capital expenditures" are capital expenditures that are intended to improve Badger's efficiency, productivity or overall capacity and thereby allow Badger to expand overall activity and/or access new markets. They generally represent any net additions to the daylighting fleet or other assets. Growth capital expenditures exclude acquisitions.

NO LONGER DISCLOSE CAPEX METHDOLOGY; WAS ANY R&M SPEND HISTORICALLY CAPITALIZED?

Blow the whistle!

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