

Target Hospitality Corp.

Second Quarter 2025 Earnings Conference Call

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PRESENTATION

Operator

Good morning, ladies and gentlemen, and welcome to the Target Hospitality Second Quarter 2025 Earnings Call Conference Call. At this time, all lines are in listen-only mode. Following the presentation, we will conduct a question-and-answer session. If at any time during this call you require immediate assistance, please press star zero for the operator. This call is being recorded on Thursday, August 7, 2025.

I would now like to turn the conference over to Mr. Mark Schuck. Please go ahead, sir.

Mark Schuck — Senior Vice President, Investor Relations & Financial Planning, Target Hospitality Corp.

Thank you. Good morning, everyone, and welcome to Target Hospitality's second quarter 2025 earnings call. The press release we issued this morning outlining our second quarter results can be found in the investor section of our website. In addition, a replay of this call will be archived on our website for a limited time.

Please note the cautionary language regarding forward-looking statements contained in the press release. This same language applies to statements made on today's conference call. This call will contain time-sensitive information as well as forward-looking statements, which are only accurate as of today, August 7, 2025. Target Hospitality expressly disclaims any obligation to update or amend the information contained in this conference call to reflect events or circumstances that may arise after today's date, except as required by applicable law. For a complete list of risks and uncertainties that may affect future performance, please refer to Target Hospitality's periodic filings with the SEC.

We will discuss non-GAAP financial measures on today's call. Please refer to the tables in our earnings release posted in the investors section of our website to find a reconciliation of non-GAAP financial measures referenced in today's call and their corresponding GAAP measures.

Leading the call today will be Brad Archer, President and Chief Executive Officer, followed by Jason Vlastic, Chief Financial Officer and Chief Accounting Officer. After their prepared remarks, we will open the call for questions.

I will now like to turn the call over to our Chief Executive Officer, Brad Archer.

Brad Archer — President & Chief Executive Officer, Target Hospitality Corp.

Thanks, Mark. Good morning, everyone, and thank you for joining us on the call today.

We entered 2025 focused on accelerating our strategic growth initiatives and diversifying our contract portfolio. In the first half of this year, we announced two multi-year contracts valued at over \$400 million, supporting a diverse range of customers. These contracts exemplify Target's unique value proposition and our ability to deliver tailored solutions and exceptional services across various end markets. Additionally, we are finalizing contract discussions regarding a multi-year lease and services agreement that supports the rapidly expanding technology infrastructure and data center end market. This agreement will further broaden our diverse end-market reach and contract portfolio.

These achievements have driven significant progress in advancing our growth initiatives, both within Target's existing markets and in developing new growth sectors. Moreover, these diverse markets all benefit from strong long-term growth trends, providing solid platforms to accelerate our strategic

objectives. Our growth pipeline remains strong, supported by a historic domestic investment cycle and rising demand from the government sector. With these strong tailwinds, we continue to focus on maintaining this momentum and advancing our strategic initiatives.

Turning to our segment and specific growth opportunities, our HFS segment continues to benefit from consistent customer demand, as clients value our premium service offerings and network capability. Target's ability to deliver these unmatched solutions is essential for maintaining long-term customer relationships and achieving consistent contract renewal rates exceeding 90%. These factors helped secure a recent multi-year contract extension with one of our largest HFS customers, highlighting a relationship that has lasted over 15 years. This proven operating model is central to Target's success and has served as the blueprint for potential new customers, demonstrating the benefits and unique value propositions of our vertically integrated accommodations platform.

These distinctive capabilities supported the workforce hub contract announced in February along with recent contract modification supporting community enhancements. The increased scope of the contract, which raises the total contract value to approximately \$154 million, exemplifies Target's capacity to develop highly-tailored solutions to meet specific customer needs. These enhancements underscore the importance of this community and we see further opportunities for expanded contract scope and term extensions to support the development of this critical mineral supply chain.

Target's bespoke solutions and unmatched capabilities in developing comprehensive remote workforce communities have supported the advanced contract discussions for our anticipated data center community. This contract further expands Target's end-market reach and creates a new growth sector

supporting the unprecedented growth in AI and data center construction. As we conclude contract discussions, we have started preliminary construction for this highly-customized community and expect to share more details soon.

This rapidly growing market is driven by historic domestic investment and long-term growth trends. Since January 2025, more than \$1.2 trillion has been committed to developing and enhancing technology infrastructure to support artificial intelligence and data centers. The scale and remote locations of these projects generate significant demand for comprehensive workforce hospitality solutions. As demonstrated by these recent contracts in advanced discussions, Target's distinctive ability to deliver integrated solutions aligns perfectly with the needs of remote workforce communities. These factors have created one of the most significant commercial growth pipelines we've seen in years. Our reputation as the leading provider of remote hospitality solutions uniquely positions Target to support this rapidly expanding end-market demand. We are excited about these growth opportunities, which we believe establish a vital long-term commercial vertical aligned with Target's strategic growth objectives.

Now moving to the Government segment, the reactivation of our Dilley, Texas assets remain on schedule with community ramp up expected to be completed in September. The successful reopening of this facility highlights the importance of our decision to keep this community prepared to reopen, alongside our partner. Target's ability to quickly mobilize and respond to government demands has established a strong reputation for delivering unmatched solutions across various critical U.S. government immigration initiatives. These qualities form a solid foundation as Target continues to evaluate and pursue additional growth opportunities within the government sector.

With the passage of the 2025 reconciliation bill in July, the U.S. government has allocated \$45 billion towards specific border security initiatives, including expanding assets and bed capacity. These initiatives will require coordination among multiple federal agencies to identify the most effective ways to implement comprehensive operational solutions. Because of the broad scope of these efforts and the resources needed for proper execution, predicting the timing of a specific contract award is difficult; however, we are taking deliberate steps to demonstrate Target's capabilities and believe there are multiple avenues to support these key policy initiatives.

Regarding our West Texas assets, we remain encouraged by ongoing interest from the U.S. government in utilizing this readily-accessible community. We have continued to host site visits with government officials and potential partners, receiving positive feedback. We remain confident in this community's ability to deliver a vital solution aligned with the government's policy objectives.

While actively remarketing our West Texas assets, we are also exploring various strategies to develop innovative solutions that support immigration initiatives beyond Target's current asset portfolio and available beds. Recently we developed and proposed proprietary solutions to help the government urgently expand critical immigration housing infrastructure. These tailored and highly-customized solutions have generated strong interest from government agencies and potential partners. We are optimistic about leveraging these innovative solutions to support their policy objectives.

In summary, the strength of our core accommodations platform and our distinctive capabilities have driven considerable progress toward key strategic goals. We are encouraged by the strongest growth pipeline we've seen in years, supported by an unprecedented domestic investment cycle and increasing

demand within the government sector. We believe these opportunities offer multiple pathways to expand our business portfolio and continue advancing our strategic objectives.

I'll now turn the call over to Jason to discuss our financial results in more detail.

Jason Vlacich —Chief Financial Officer & Chief Accounting Officer, Target Hospitality Corp.

Thank you, Brad.

Second quarter total revenue was approximately \$62 million with adjusted EBITDA of approximately \$4 million. Our government segment generated quarterly revenue of approximately \$7 million. The declines from the previous year were primarily driven by the termination of the PCC contract effective February 21, 2025 and partially by the termination of the South Texas Family Residential Center contract on August 9, 2024. These declines were modestly offset by the reactivation of our Dilley, Texas assets effective March 5, 2025.

As a reminder, this contract is based on fixed monthly revenue regardless of occupancy. It is expected to produce approximately \$30 million in revenue in 2025 with over \$246 million over its expected five-year term. However, as the community progressively reopens, 2025 monthly revenue will align with the reactivation of each neighborhood within the facility. Additionally, this gradual reopening will lead to lower margin contributions through the second and third quarters of 2025 before full reactivation occurs. We expect the community to be fully operational by September of 2025, at which point we will see revenue and margin contributions consistent with the entire 2,400-bed community.

Regarding our West Texas assets, as a reminder, we have decided to keep these assets in a ready state while actively remarketing. This decision, which is similar to our approach with the Dilley assets, will entail carrying costs of about \$2 million to \$3 million per quarter until a new contract is potentially awarded.

Turning to our HFS and all other segments, these segments delivered quarterly revenue of approximately \$39 million. The scale of our HFS segment enables us to offer premium solutions across our network while maintaining substantial asset utilization in a competitive market. We will continue to balance network optimization with demand while identifying opportunities to enhance efficiencies and margin contribution.

Moving on to the expanding workforce hospitality solutions segment, or WHS, this segment, which includes our workforce hub contract, generated approximately \$15 million in revenue in the second quarter, primarily related to construction activity. As announced today, the critical nature of this contract led to recent modifications and scope expansion, increasing its total contract value from \$140 million to approximately \$154 million. These community enhancements will lead to additional construction activity in 2025 and shift some previously expected services revenue into 2026. With the scope expansion, we now expect most construction revenue to be recognized in the third and fourth quarters of this year, with construction materially complete by the end of 2025. As we finish construction, we anticipate increased services revenue starting in 2026 and continuing through 2027. The scope expansion and contract modifications highlight the vital role of the workforce hub and the project's success and we see potential for further scope expansions and contract extensions. This demonstrates the advantages of our vertically-

integrated hospitality solutions and our ability to create long-term revenue streams supporting large-scale remote operations.

Recurring corporate expenses for the quarter were approximately \$10 million. As we progress through the year, we will continue exploring ways to optimize our cost structure and enhance margin contributions.

Total capital spending for the quarter was approximately \$6 million, primarily focused on enhancing asset capabilities within the government segment, aligned with our strategic growth initiatives.

During the first half of 2025, Target's business fundamentals and durable operating model supported strong cash conversion, resulting in over \$15 million of cash flows from operations. These fundamentals are reflected in the strength of our balance sheet and our ability to maintain substantial financial flexibility through prudent capital management. We ended the quarter with \$19 million in cash and a net leverage ratio of 0.1x.

As of August 1st, we have no outstanding borrowings under the Company's \$175 million revolving credit facility, providing total available liquidity of over \$190 million, including approximately \$23 million in cash. This robust liquidity position further enhances our financial flexibility as we evaluate a strong pipeline of growth opportunities.

This momentum and positive operating environment, along with the expanded scope of the workforce hub contract, support our raised outlook for 2025, which now includes total revenue of \$310 million to \$320 million and adjusted EBITDA of \$50 million to \$60 million. This raised outlook reflects a

15% increase in the midpoint revenue and a 6% increase in the midpoint adjusted EBITDA compared to our previous outlook.

Target is well positioned with a flexible operating model and an optimized balance sheet as we continue to evaluate a robust growth pipeline, which we believe offers the greatest opportunity to accelerate value creation for our shareholders. Importantly, as we pursue these opportunities, we will stay focused on maintaining the strong financial profile we've built while optimizing margin contribution through our efficient operating structure.

With that, I will hand it back to Brad for closing remarks.

Brad Archer — President & Chief Executive Officer, Target Hospitality Corp.

Thanks, Jason.

In the first half of 2025 we have made significant progress towards achieving key elements of our strategic priorities, focused on expanding and diversifying our business portfolio. We announced two multi-year contracts serving diverse end markets and are finalizing contract discussions supporting the rapidly growing AI and data center end markets. Additionally, we see clear opportunities to enhance our growing contract portfolio with expanded service offerings and term extensions.

We remain focused on maintaining this momentum as we evaluate our strongest growth pipeline in many years, comprising both commercial and government end markets. Importantly, this pipeline is supported by an unprecedented domestic investment cycle and continued strong demand in the government sector. We are excited about these opportunities, underpinned by robust market

fundamentals and secular momentum. We believe that our distinctive capabilities and unparalleled solutions position us well as we actively pursue these strategic growth initiatives designed to provide exceptional value to our shareholders.

Thank you for joining us on the call today, and again, we appreciate your interest in Target Hospitality. We will now open the call for questions.

Q & A

Operator

Thank you. Ladies and gentlemen, we will now begin the question-and-answer session. Should you have a question, please press the star followed by the one on your touchtone phone. You will hear a prompt that your hand has been raised. Should you wish to decline from the polling process, please press the star followed by the two. If you are using a speakerphone, please lift the handset before pressing any keys. One moment please for your first question.

Your first question comes from Scott Schneeberger from Oppenheimer. Please go ahead.

Daniel — Analyst, Oppenheimer

Good morning, guys. It's Daniel on for Scott. Thank you for taking our questions. I just want to start on West Texas first. I mean you mentioned site visits. How should we think about the steps from here, how those discussions could progress, and the potential for this contract to be comparable to prior contracts at that site?

Mark Schuck — Senior Vice President, Investor Relations & Financial Planning, Target Hospitality Corp.

Hey, Daniel. This is Mark. So the question was just on West Texas timeline and the opportunities there?

Daniel — Analyst, Oppenheimer

Yes, correct.

Brad Archer — President & Chief Executive Officer, Target Hospitality Corp.

Concerning the government. Yeah. Sorry, Dan. We couldn't quite hear you. So, look, timeline is still consistent with what we said, right? We know that the reconciliation budget has been passed, but right now we're not seeing that money flow, right? What we do know is we're having some very good discussions continually with the government. We also have been told we're on their acquisition list, right? So, as that starts, those funds start to flow. We don't know exactly where in line we're at, but we still feel very good on that facility as far as being leased and reactivated, right? Nothing has changed in that. We continue to have different parts of the government out to view the property, take a look, and continue positive statements around that. So we still feel really good about that as we get in the back half of the year.

Daniel — Analyst, Oppenheimer

Got it. Thank you. And then on the data center opportunity, how should we think about the...? I mean we will get the economic details eventually, but how should we think about the structure there? Could that be comparable to the workforce hub contract? And it sounds like the timing is imminent to that, but any more color you can provide there?

Jason Vlacich —Chief Financial Officer & Chief Accounting Officer, Target Hospitality Corp.

Sure. This is Jason. Won't get into too much details, we hope to release more details for you in the near term, but I will say on this deal it'll be a bit different than the workforce hub contract because we're going to own the assets. And I would say the margin on that typically is a bit higher than a services-only contract. So this is a lease and services agreement, not dissimilar to the Dilley structure.

Brad Archer — President & Chief Executive Officer, Target Hospitality Corp.

Daniel, let me just add a little bit more to that and give you a little bit more color on this. But we are, you know, we're waiting on the final contract. What we do have is an early works contract where we're doing some work on the site. So I will tell you this is imminent as far as this happening fairly quickly and starting to fully mobilize on that site. But I think at a higher level, I think it's probably a good time, you know, we've talked about the data centers the past couple of quarters and this is really starting to ramp up. It has the ability to be what we would say is a game changer for our company. It's kind of a perfect storm when you look at what's happening in that business. Aside from all the capital spend that's already committed, and weekly more continues to be committed, right, but if you look across the U.S., these are

going in everywhere. Not everyone can or not every project fits the Target Hospitality mold, but more and more continue to fit that.

What's happening is, in a lot of these local communities, they're being voted down, right? They're taking on so much power, so much water, it's massive amounts of people coming into the town over a three-, four-, five-, six-, seven-year period on the construction cycle, right? So these developers are being forced out into more and more remote locations. These developers are fighting each other over labor. Labor is very hard to get. So, when I talk about a perfect storm, it's exactly what we went through in my history in this business where there's these huge booms, right, and lots of money being committed and it's in these remote areas where we come in and help in that. We deliver the housing, we deliver the services, we help them retain and attract the workforce, because it's very competitive.

So we've got our first one under contract, which we'll finalize very soon, and many more in the pipeline, but I'm not sure we've talked about the scale of this like I'm telling you today. It's massive. Our pipeline continues to fill up. Yes, we need to close some of them, but we have some near term and some longer term that we're working on. And again, very excited internally because of the things it can do for us. And it's exactly what we've done over the years in the oil and gas, in the mining, but on a much larger scale.

Daniel — Analyst, Oppenheimer

Got it. Excellent comments. Thank you so much.

Operator

Thank you. As a reminder, if you wish to ask a question, please press star one. And your next question comes from Stephen Gengaro from Stifel. Please go ahead.

Stephen Gengaro — Analyst, Stifel

Thanks. Good morning, everybody. Brad, if I could ask, when you think about these data center contracts as sort of the duration, because when I think about oil and gas, it's kind of this great network approach, right, where you have people moving around but you house them for someone like Halliburton over time [inaudible]. Is this more like a permanent multi-year facility where workers will be in the same spot for years or is this kind of more of a shorter-term network approach with kind of just a lot of demand out there that will continue to fill beds?

Brad Archer — President & Chief Executive Officer, Target Hospitality Corp.

It's your first statement, right? A large amount of workforce in one location for many years. If you see some of these that they're doing, that they're putting out in the press, first they need the power and they need the water, right? And then what they say is we've got a build-out of seven years. We're going to start with two, they get those leased and they continually build another two, another four, as they get the commitment, very similar to the gas when they build a pipeline, right? They get the commitments and they continue to fill it. But these are longer term, right, and huge multibillion-dollar projects in that one location where we're a very small part of the spend but a huge critical piece of making success for them, right, and staying on budget and staying on timeline. Without us in some of these locations, especially with this first one, they just couldn't get the job done. And we're just seeing more and more of these going

remote, getting closer to the power storage, closer to the water storage, being forced out of the bigger cities, and it fits right in our wheelhouse on these.

Stephen Gengaro — Analyst, Stifel

Thank you. And if I could tie that into the oil and gas business for a second, when we think about, you know, clearly drilling and completion activity is weak. It looks like there's some level of maybe a bit lower norm for a while as OPEC works through excess capacity and rigs and completion activity is much more efficient so there's less people out there. Are you, like what's the source of beds for the data centers? Is it taking from the oil and gas network? Is it incremental CapEx? Is it a combination of both? Is it Pecos [inaudible]...? How do we think about the beds?

Brad Archer — President & Chief Executive Officer, Target Hospitality Corp.

Yeah, it's the same way we've always thought about it in our business, right? We look at any excess capacity and try to utilize that first, right? We wouldn't be, if you will, mothballing the oil and gas side of the business. It's a great business, we have to have a certain number of rooms out there, but we do have some excess capacity out there that's not being used that we would first utilize on the data center.

Secondly, we would look in the open market to buy, right, and then we would look to build new. What I would tell you, and look, the amount of work that's out there, that's on our radar, would absolutely in the future have us buying new product. In short, the amount of work in our pipeline that is very real and actionable and if we get a few of these we would absolutely have to go and buy, because they're

massive, and it's all over the U.S., right? So we would run out of equipment. That's a high-class problem, a good one, we're okay with that, right, and we have the capital structure to make that happen.

Jason Vlacich — Chief Financial Officer & Chief Accounting Officer, Target Hospitality Corp.

And that'll all be built into the economics of that opportunity as appropriate.

Brad Archer — President & Chief Executive Officer, Target Hospitality Corp.

And great counterparties on these. Huge companies, right?

Stephen Gengaro — Analyst, Stifel

Okay. Thank you. And just one quick follow on. Back in, I don't know, 2019, I think the numbers that we were using was about \$50,000 per bed. Is that still a reasonable number given the inflationary environment, et cetera, if you do need to ultimately add capacity or is it too early to tell?

Brad Archer — President & Chief Executive Officer, Target Hospitality Corp.

I haven't seen anything stay the same price since 2019 after COVID and everything, so I would tell you that probably goes up. But where that's at, we're not going to divulge kind of where we're at on a cost right now per bed, but what I would lean back into is what Jason said. What it will be is rolled into our economics. Whether that's \$50,000, \$60,000, \$70,000 room, we're going to make sure that the economics work and more so kind of how our HFS and that type of stuff looks, higher economics than what you're seeing on an LAC project for sure, right?

Stephen Gengaro — Analyst, Stifel

Great. I appreciate the color, Brad. Thank you.

Operator

Thank you. And next question comes from Greg Gibas from North Securities. Please go ahead.

Greg Gibas — Analyst, Northland Securities

Great. Good morning, Brad and Jason. Nice to hear that near finalization of the data center community contract. Wanted to follow up there in terms of like how competitive the bidding was for that contract and maybe the key factors that led them to select Target.

Brad Archer — President & Chief Executive Officer, Target Hospitality Corp.

Yeah, look, I would tell you it was they checked our numbers, right, but when you look at the scale of some of these, the ability to move fast when you're talking billion-dollar projects that they're building, we become, again, a small piece of the spend. So it doesn't come down to saving a few bucks on a room. They look at can you get the job done? Can you help us retain and attract the workforce that we need? So it's not so much a price point, right, which is exactly what we like. It's can you get it done? Can you deliver what you said you're going to deliver on time? And that's really where this went. Was it competitive? Sure. They're always competitive. But this wasn't a price-driven exercise. And we're not seeing a lot of price-driven exercises, because we have many more of these that we're looking at.

Greg Gibas — Analyst, Northland Securities

Great. That's very helpful and good to hear. Wondering if I could get a little bit more color on kind of the puts and takes relative to the updated guidance. I know not a big change, but you mentioned the positive momentum, positive environment, and then some changes to the workforce hub contract. Just wondering what's changed regarding what's implied in the updated guidance ranges?

Jason Vlacich — Chief Financial Officer & Chief Accounting Officer, Target Hospitality Corp.

Yeah, so the two main drivers of the guidance update, the lead driver on the revenue side for sure is the workforce hub contract expansion, so now the total contract value has increased from \$140 million to \$154 million driven by construction activity. So that construction activity has expanded. We still anticipate the construction activity to be completed this year. Timing has shifted a little bit. But that's sort of the main driver behind the guidance, particularly on the revenue side, and then we also had that PCC Contract wrap-up settlement as well that played into the guidance. Those are the two primary drivers behind the outlook increase.

Brad Archer — President & Chief Executive Officer, Target Hospitality Corp.

And Greg, I don't jump in on Jason here, but again, this quarter, a little bit of noise, right, that, ah, I'll say this, it kind of cleans itself up as we move through the year and get into 2026 as well. So not really much to pay attention to as far as the noise here. It's kind of a tale of two stories, right? We've seen where this was going, we kind of predicted this, other than the timing, but the project got a lot larger, right? We're happy to move that to the right for the customer and help them, but the project continues to grow. And then our numbers get better as we roll through the year, especially as we add new projects.

Greg Gibas — Analyst, Northland Securities

Very helpful. Appreciate it, guys. And then if I could just follow up on West Texas assets, I'm not sure if there's that much more you can share there, but how would you maybe characterize the interest from the government agencies relative to last quarter, if that's changed at all?

Brad Archer — President & Chief Executive Officer, Target Hospitality Corp.

It has not waned at all, right? Still very high. And to be honest, it's gotten a little higher because they got their budget approved, right? So there's more firm discussions about what they're trying to do. But I will tell you, the government, and this is not a knock, they just have so much that they're trying to do, right? And we know they've got the money. And I think some folks thought, well, they got the money, they'll start writing checks the next day. That's just not how it works. It takes time for it to get appropriated, for it to flow out the doors, so we think we start to see that in the back half of the year.

What hasn't changed is their need for at least 100,000 beds, right? So they have to add a lot of beds in that and we are still squarely in the mix there, not only on our West Texas assets. And I'm going to take this time, you know, we mentioned the proprietary facility that we've built. The government's came and inspected it. The name of that is SecureFlex.[sp.] That's the trademark name of this. It's a great product. The government's excited about it. It gives us another optionality with them that they've looked at and we've quoted on some new builds for them for part of this 100,000-room expansion that they're trying to do or to get to 100,000 rooms. So we think this new product really helps us as we continue to move forward, not only with the federal, but if the state needs it as well. So, some good stuff going on in the government aside from just the West Texas asset. Lots of opportunity out there.

Greg Gibas — Analyst, Northland Securities

Yeah. That's great to hear. Thanks very much, guys.

Operator

Thank you. There are no further questions at this time. Mr. Brad Archer, you may proceed with your conference.

Brad Archer — President & Chief Executive Officer, Target Hospitality Corp.

Thanks for joining us on the call today and we look forward to talking to you next quarter. I'll turn the call back over.

Operator

Thank you. Ladies and gentlemen, this does conclude your conference call for today. We thank you very much for your participation. You may now disconnect your lines. Have a great day.