Profire Energy, Inc.

Year-End 2018 Earnings Conference Call

March 7, 2019

CORPORATE PARTICIPANTS

Brenton Hatch *President and Chief Executive Officer*

Ryan Oviatt, *Chief Financial Officer*

Cameron Tidball, *Chief Business Development Officer*

CONFERENCE CALL PARTICIPANTS

Rob Brown, *Lake Street Capital Markets, LLC*

James Jang, *Maxim Group*

James McIlree, *Chardan Capital Partners, LLC*

John White, *ROTH Capital Partners, LLC*

Scott A. Billeadeau, *Walrus Partners*

PRESENTATION

Operator:

Good afternoon, everyone, and thank you for participating in today's conference call to discuss Profire Energy's Fiscal 2018 ended December 31, 2018. Joining us today is the President and CEO of Profire Energy, Brenton Hatch, and CFO, Ryan Oviatt.

Before we begin today's call, I'd like to take a moment to read the Company's Safe Harbor statement.

Cautionary Note Regarding Safe Harbor Forward-Looking Statements. Statements made during this call that are not historical are forward-looking statements. This call contains forward-looking statements, including, but not limited to, statements regarding the Company's future business development activities, increase in operating expenses, expansion into international markets, maintaining effective control, the release of new products, offsetting costs with the sale of assets, the expansion into other markets, the new product certifications that will add significant value to the Company, additional capabilities of existing products, the hiring of additional employees, M&A activity, the potential of international markets, future financial performance, and the Company's ability to deliver products to market faster. All such forward-looking statements are subject to uncertainty and changes in circumstances. Forward-looking statements are not guarantees of future results or performance and involve risks, assumptions, and uncertainties that could cause actual events or results to differ materially from the events or results described in, or anticipated by, the forward-looking statements.

Factors that could materially affect such forward-looking statements include certain economic, business, public market and regulatory risks and factors identified in the Company's periodic filings with the Securities and Exchange Commission. All forward-looking statements are made pursuant to the Safe Harbor provisions of the Private Securities Litigation Reform Act of 1995. All forward-looking statements are made only as of this date of this release and the Company assumes no obligation to update forward-looking statements to reflect subsequent events or circumstances, except as required by law. Readers should not place undue reliance to these forward-looking statements.

I would also like to remind everyone that this call is being recorded and it will be available for replay through March 14, 2019 starting later this evening. It will be accessible via the link provided in yesterday's press release as well as on the Company's website at www.profireenergy.com.

Following remarks by Mr. Hatch and Mr. Oviatt, we will open the call to your questions. As a part of the question-and-answer session, Mr.'s Hatch and Oviatt will be joined by Profire Energy's Chief Business Development Officer, Cameron Tidball, Vice President of Operations, Jay Fugal and Vice President of Product Development, Patrick Fisher.

Now, I'd like to turn the conference over to President and Chief Executive Officer of Profire Energy, Mr. Brenton Hatch. Thank you. You may begin.

Brenton Hatch:

Thank you very much. Welcome, everyone, to Profire Energy's Fiscal 2018 Earnings Conference Call.

Twenty-eighteen was a banner year for Profire as we were able to achieve our most profitable year in Company history. This was no small feat as the oil industry experienced unforeseen volatility throughout the year. The price per barrel of oil plummeted in Q4 by over 40% from the mid $70's down to the low $40 range. Despite the drastic drop, 2018 was the second-best revenue year for Profire. With this success, we improved our current products and invested in personnel to better serve our customer base and remain an industry leader.

Revenues were up over 19% to $45.6 million versus the $38.3 million we recorded in 2017. Net income was up 36% from 2017 to $6 million. Our success and profitability is the result of careful planning during the previous years, including lean management practices, enhanced internal controls, and improved sales performance.

Our legacy products continue to perform well and are considered the industry standard in upstream and midstream burner management. In order to better support our customers and sales channels, we hired additional personnel in our Research and Development and Operations departments. The additional hires in R&D provided us the capacity to enhance proprietary products, including flare stack igniters, coils, inline pilots, and fuel trains. Collaboration between our Operations and R&D departments enabled us to enhance the current products and provide more user-friendly and cost-effective solutions to our customers. With the additional engineers, we are now able to simultaneously work on current product enhancements and to develop future products. This level of commitment sets us apart from competitors as we offer a fully-supported and tested product with helpful documentation, including detailed renderings that provide a superior customer experience.

Along with our legacy products, we saw increased interest in our 3100 system. This past year we achieved a major milestone for this 3100 product line when we received the SIL-2, also called Functional Safety, certification on this product. This involved a significant resource and time commitment to accomplish and the certification is highly regarded in the industry. In addition to the certification, we have added dedicated sales personnel to more effectively support and market the 3100 solutions. We received more orders in 2018 for 3100 projects than ever before and anticipate a continued increase in 2019 as this will be the first full year the product has the additional certifications and a dedicated sales force.

Profire now has a combined 300 years of industry experience. This, coupled with a growing Research and Development team, position us to offer the industry-leading products that our customers have come to rely on.

This past year we invested internally to support sales and our go-to-market strategies to achieve our long-term goals. These goals include an improved international presence. We are developing relationships with distributors that service Asia, South America, and the Middle East. We continue to pursue opportunities in other major oil producing countries globally. We believe these countries provide significant expansion opportunities for both our legacy products and future planned products.

Profire has set itself apart as a technology leader within our industry. Over the years, we have filed for and received patents to protect our investment in our products. The SIL certification contributes to our offering a first-rate engineered product. With the support of current products and development of future products, our customers remain loyal to Profire's suite of offerings. We will continue to invest in ourselves in 2019 to further drive growth and provide a broader sense of support for our five-year growth plan.

Even though we plan to increase our internal investments in 2019, our core strategies have not changed. We remain debt-free and continue to maintain a significant cash reserve which gives us the flexibility to quickly respond to growth opportunities. We believe these strategies will drive further success in 2019.

With that said, I will now turn the time over to Ryan Oviatt, our CFO, to discuss the financial results for 2018. Ryan.

Ryan Oviatt:

Thanks, Brent, and thanks again to everyone joining us today.

Yesterday, after the market close, we filed our 10-K with the SEC and discussed the year's highlights in a press release. As always, both of those documents are available on the Investor section of our website. The transcript of this call will be posted in the coming days.

In 2018, we once again became subject to the internal control audit requirements of Sarbanes Oxley. With this, we focused heavily on improving our internal controls over all financial reporting processes within the Company. These efforts paid off and we are now able to conclude that our internal control environment is operating effectively, which is supported by the internal control effectiveness opinion of our external auditors. This means that we are now able to remove the material weakness disclosures that have been included in our financial reports for the past several years since we were last subject to the internal control audit requirements. This improved internal control environment should provide greater confidence in the financial reports of our Company.

Let's review our financials by looking at the income statement. In the year, we recognized $45.6 million in revenue. As Brent mentioned earlier, this is the second-best revenue generating year in Company history. This represents a 19% increase in revenues year-over-year. This increase is attributed to increased sales as the industry recovered through the first half of the year. During the fourth quarter, we faced significant industry-wide headwinds as the price per barrel of oil unexpectedly dropped over 40%. We have seen oil prices begin to recover recently, but the market remains volatile.

With the increase in revenues, our gross profit increased to $22.9 million from $20.3 million in the previous year. As a percentage of total revenue, gross profit decreased from 52.9% to 50.2%. This decrease is largely due to an increased inventory obsolescence reserve related to the Company's CMS product. If we were to remove the reserve, gross profit would have been approximately 52% of total revenue for the year. With the exception of this reserve adjustment, gross profit margins normally fluctuate each quarter due to product mix changes, direct labor costs, and adjustments in our warranty reserves.

Total operating expenses were approximately $14.9 million, which represents an 11% increase from the previous year. This change is primarily due to increased labor costs, higher sales commissions stemming from the 19% improvement in revenue, and investments in R&D.

Operating expenses for general and administrative increased 12%, R&D increased 14%, and depreciation decreased roughly 5%, as compared to the previous year. The increase in expenses is primarily due to higher labor costs to meet the increase in customer demand and employee retention. R&D expenses increased year-over-year to achieve the SIL certification requirements, to support current product offerings, and for new product development.

Total other income during the period was approximately $625,000, the majority of which was attributable to interest on investments and the sale of fixed assets.

Our net income was $6 million or $0.13 per share, compared to net income of $4.4 million or $0.09 per share in the previous year. Net income is up 36% over the last year making this our most profitable year in Company history.

Now let's look at the balance sheet.

Cash and liquid investments totaled $22.6 million as compared to $24.3 million at the end of 2017. In 2018, we purchased more than $4 million of Profire stock and concluded a land purchase for a new facility in Canada. We believe the investment in a new facility for our Canadian employees, and in particular our Research and Development staff, will improve efficiency and productivity. We also plan to offset some of the building costs with the sale of our current building.

Inventory levels increased to $9.7 million from $6.4 million at the end of 2017. We increased inventory levels during the first three quarters of the year, but were able to reduce them during the fourth quarter. The overall increase is a result of the industry-wide trend for longer lead times on certain items. Our Operations team continues to work proactively with vendors to ensure timely delivery and to eliminate single-source items where possible. The inventory on hand allows us to respond quickly to customer demands, which over the years has distinguished Profire from its competition.

Our accounts receivable collections remain strong and the balance of accounts over 90 days old was only 9% of total accounts receivable compared to 13% at the end of 2017.

With improved controls and lean management practices in place, we plan to strategically invest throughout 2019 to achieve our long-term goals and five-year growth plan. We plan to invest in current products, next-gen product development, international expansion, M&A activity, and other areas that we believe will add significant growth potential and opportunity.

With that, thanks, and I'll send it back to you, Brent.

Brenton Hatch:

Thanks, Ryan. Throughout the year we focused not only on cost management, but started to invest internally to build for the future. We've made additional key hires in our R&D, Service, and Sales departments. We made these hires in order to augment our efforts to provide superior products and unparalleled customer experience. We keep updated on industry trends such as drilling, gathering, and treating strategies to ensure that our products provide the technology needed to improve efficiencies and safety.

Profire has an impressive history of employee retention. We have employees who have been here since our earliest days and many who have celebrated 10- and five-year anniversaries with us. Mr. Patrick Fisher, a 10-year Profire veteran, has just recently been appointed as the Company's Vice President of Product Development. In this role, he will lead Profire's efforts in technology, innovation, and further automation of this and other industries.

This past year we improved the technology in our ancillary products, including valve technologies and fuel trains controlled by our burner management systems. These changes also improved our manufacturing process which cut down production times for these products.

The oil and gas industry experienced a drastic dip at the end of 2018 as the price per barrel of oil dropped significantly. This drop has led to ongoing market volatility and uncertainty for 2019. Our customers are reporting that they believe the industry will level off in the first half of 2019 and will improve in the second half. Almost universally, our customers anticipate 2020 being a stellar year for our industry. Our internal investments this year are focused on increasing revenues in the future. This spending, in addition to normal business expenses, will include expansion of the 3100 sales team, increased R&D spending to develop new products, international market expansion, and research and appraisal of M&A opportunities. We anticipate that this will be an approximate 20% increase in operating expenses from 2018 to 2019.

We believe that in spite of present market volatility, the future of Profire is exciting. We believe the enabling of our five-year growth plan requires these investments in 2019. We anticipate realizing the returns on these investments throughout the next three to five years.

Throughout 2018, we investigated over 20 individual companies that were potential merger or acquisition opportunities. Of those companies, we are currently evaluating three companies in a more in-depth way to see if any of them fit our acquisition strategy. We realize that not all mergers and acquisitions are successful, and we are taking precautions and performing extensive due diligence. Our acquisition strategy remains focused on finding organizations that provide complementary product, improve product development, add additional industry expertise and expanded market share, and leverage our customer relationships.

In addition to our potential M&A investments, we will increase the support of our R&D department. The Functional Safety certification, or SIL, that we received last year will not only apply to our 3100 product line, but to other future products as well. Due to this certification, the products we are developing are engineered to a higher level and tested to a more rigid standard which will improve product performance.

Our teams are working on a next-gen burner management system, as well as improvements to other existing products. These additions are part of our expanding Profire suite of products that are being developed with customer feedback. Last year, we announced that we purchased land for a new facility in Alberta, Canada. We have started construction and plan to complete the building in Q3 of 2019. The building will provide better working conditions for our engineers and our Canadian staff.

Our core values and strategies focus on technology, innovation, cost management and maintaining a strong balance sheet. We believe these values enable our five-year growth strategy.

I want to thank all Profire team members for their dedication to Profire's success.

Thank you and we will now open up the call to questions. Operator, would you please provide the appropriate instructions so we can get the Q&A started?

Operator:

Great. Thank you. At this time, we will be conducting a question-and-answer session. If you'd like to ask a question, please press star, one on your telephone keypad. A confirmation tone will indicate your line is in the question queue. You may press star, two if you'd like to remove your question from the queue. For participants using speaker equipment, it may be necessary to pick up your handset before pressing the star keys. One moment, please, while we poll for questions.

Our first question here is from Rob Brown from Lake Street Capital Markets. Please go ahead.

Ryan Oviatt:

Hey Rob.

Brenton Hatch:

Hello Mr. Brown.

Rob Brown:

Thanks for taking my call. First, you talked about your long-term growth targets here you're heading toward with your investments, but could you remind us again what those targets are?

Brenton Hatch:

Mr. CFO, what are our financial targets?

Ryan Oviatt:

Well, overall, what we've communicated—and thanks, Rob, for asking the question—is that in a five-year horizon, we believe that we will be able to grow our revenues to double essentially where they are now. We have a number of organic opportunities that we've described and talked about and that Brent has mentioned just moments ago that all come into play there, and those include the international markets, new product development, the 3100, CMS, and the other things that we have going on, so that's essentially the five-year growth plan that we've put out there and that we're working towards is making the decisions today and investing now so that we can enable the doubling of our revenue over a five-year timeframe.

Brenton Hatch:

I will add to that, as well as those things that Ryan mentioned, we believe that that will allow—our organic growth will allow those things to happen. In addition to that, of course, as I mentioned previously, M&A certainly is something we're considering. We're not desperate to do it, but we do have a significant piece of cash available to us to act fairly quickly if we find something that truly is accretive to what we're presently doing, so that would be in addition to this organic growth that we anticipate taking us to that level.

Rob Brown:

Okay. Thank you. That's a good overview, and then in terms of your dedicated sales force, the 3100, where are you at today and where do you see that going in terms of maybe number of sales reps, or how does that organization look over the next year or so?

Brenton Hatch:

Terrific question, actually. We decided last year that we were going to expand that team from the senior person that was working on that, and it sounded really very difficult to find just the right person, so we've been actively working hard at that. We have added one more person to that, and he's terrific, has already brought products—or projects to us, and so we're very excited about that, but included in this anticipated extra spend this year, this investment—internal investment, we are anticipating finding—and we haven't attached a number to it, but as we find the kinds of capable people we're searching for, we will add two or three to that team, or more if we find that there is a market for it, but we are doing—we are very aggressive in terms of trying to find just the right people for that.

Rob Brown:

Okay, good, and then, Ryan, I think you mentioned an inventory adjustment, but what was the inventory adjustment in Q4 and what would the gross margins have sort of been had there been the normal gross margins without that adjustment?

Ryan Oviatt:

Yes. Great question, Rob. As you're aware, the accounting rules require us to take a look at our assets, and in particular inventory, every quarter, and we do a review for slow-moving inventory. It's no surprise that our CMS inventory has been slow-moving over the last four years, so as we took a hard look at that this year with the auditors, we determined that the historical rate of sales for CMS didn't fully justify keeping the large quantity of CMS inventory that we currently have on hand; at least keeping it at full value, so as a result of those, and going through the technical accounting rules and requirements, we determined that we needed to take a sizable reserve for that CMS product.

Had we not taken that reserve, or if we were to remove that one-time adjustment, the margins in the financials would have been very consistent with what they were in prior quarters. Gross margin, net margin, and EBITDA margin would have all been very, very similar, but in relation to that we determined that, based on the track record so far with CMS, it was time that we needed to take that adjustment. It doesn't mean that we're walking away from CMS or that we're getting rid of that inventory. It's still there. It's still usable. Its technology is good. It's just a function of the track record and what the accounting requirements have for us, and in relation to that, 2018, even though CMS was less than 1% of total revenue, it was double the revenue in—for CMS in 2018 was double what we saw in 2017, so we are still seeing improvements there.

If we look at the pipeline that we've got so far for 2019, we could see two or three times the revenue that we saw in 2018, so things are moving, but it is moving at a slow pace, and ultimately that current slow pace just doesn't justify keeping the inventory on the books at full value, which is why we took that reserve.

Rob Brown:

Okay, great. Thank you for all that color. I'll turn it over.

Brenton Hatch:

Thanks, Rob.

Operator:

Our next question is from James Jang from Maxim Group. Please go ahead.

Brenton Hatch:

Mr. Jang.

James Jang:

Hey. Good afternoon, guys.

Brenton Hatch:

Hi sir.

James Jang:

A couple of questions here. First off, going back to the R&D and increasing R&D, would you be open to partnering with some larger international players for some cross-selling or sharing of technologies?

Brenton Hatch:

We're open to anything that we think would be accretive to us, not only financially, but to our product development, our business development strategies, and so yes. Of course, we'd be very cautious and make sure that we didn't get swallowed by some partner, but of course, we would look for opportunities like that, internationally especially.

James Jang:

Okay, great, and there's about $1.3 million remaining on the share purchase plan. Have you had any discussions to kind of expand that at all?

Ryan Oviatt:

Actually, to clarify that, James, as of the end of 2018, there was $1.3 million remaining, but we've also disclosed in the subsequent events footnote, I believe, that we've actually fully used that up to this point, so we've spent all of that already, and in light of these other opportunities that we've been talking about, areas that we're spending, we haven't added more funds to the share repurchase program just yet, but that is absolutely something that we talk about and we could easily do.

Brenton Hatch:

As of this morning, there seems to be a real bargain out there for us to invest in.

James Jang:

Yes. I mean, it doesn't—I mean, you guys, you've been profitable. You grew top line by 19% this year. It doesn't seem the market's giving you any credit for what you've been able to do, and it's frustrating when you're pretty much hitting your targets and the stock has not moved in the right direction, so going back to that, would you look to institute some type of dividend program to kind of return value to shareholders more near-term?

Brenton Hatch:

Well, to your previous comment, there was a lot of head nodding going on here in this room. We do believe that. As far as dividends go, I know everyone is just sitting here waiting for my answer to that. We have had people on Wall Street forever who suggested that that was a great strategy. We've had others who said that the minute we did that they'd be long gone, and everyone in between. We certainly have considered that, James, but not in a serious way at this point.

We feel there's some great potential for growth here, and we don't want to send a signal to The Street that we're—we've kind of used up our growth potential and that we're looking at just cash flowing through the next numbers of years, because we don't feel that way at all. We're very reticent to do that at this point. Are we against that forever? Not necessarily, if it became obvious that that would be a good move, but at the present time, James, I don't think we will be entertaining that.

James Jang:

Okay, and Ryan, so I don't know if I heard this correctly, but did you say that 2019 could have a—could increase revenues 100% over '18 revenues?

Ryan Oviatt:

Let me clarify. You did not hear that correctly.

James Jang:

Okay. I knew I missed something there, so.

Ryan Oviatt:

The portion of revenue that I was specifically speaking to was CMS revenue, which, again, in 2018 was less than 1% of our total revenue, but with our pipeline of CMS products and what we—the good opportunities that we're still working on right now, we could see that CMS revenue two or three times greater than what it was in 2018, but again, we're talking about small figures here and multiplying those.

James Jang:

How does that go into—because I know there are a couple of friends out there that are cutting cap ex spends or keeping them flat, and there's some larger players that said they might look to increase cap ex spend, so where would CMS fit in? Would it be for some of the larger upstream guys, or smaller? I mean how do you guys see your pipeline there?

Brenton Hatch:

Cam, could we ask you to address that since you're so actively involved in the sales end of things?

Cameron Tidball:

Yes, you bet. Right now, our CMS pipeline, as Ryan mentioned, 2018, it was pretty widespread. We dealt with some midstream companies. We're dealing with some upstream companies. Your comment is, is it smaller producers or larger. It's both. We've got both that are interested in the pipeline for 2019 and what's budgeted are—we do have some midstream operations who have it in (inaudible), and then some others who are major E&Ps who are planning to trial and move ahead, so it's a combination thereof, very similar to how we started with BMS. It starts with some little, some big, and then hopefully we see the value that we see in it. If they see it, then we believe that they'll proceed forward.

James Jang:

Okay, great, and Cam, so since you're so closely tied to this, the sales of CMS, is this really done at the field level or from the C-suite?

Cameron Tidball:

Definitely not the C-suite. We've seen it from the field level, but a lot of the time it gets to the production engineers, the optimization specialists, and automation departments. We've seen the most success come when we get in with automation departments, which is right in line with our current sales staff. It's people they meet with often, but it definitely doesn't go up to the C-suite. C-suite likes to stay with sexy drilling and large numbers up there.

James Jang:

Okay. Got you. Okay, and one final one. It seems spacing is going to be key to drilling in '19. With farther spacing, do you see that as a negative for Profire in '19?

Cameron Tidball:

Brent, do you want me to take that one?

Brenton Hatch:

Yes, you probably should, because I'm not sure I know the answer to it.

Cameron Tidball:

Well, spacing was—well, it's been a big, hot topic of conversation. Two thousand seventeen, your majors all said we're going to kill it in '18 with spacing. We've figured out how close we can be and our—we're going to be able to get more out of every well, and now you're reading, well, that's not really the case. It's not as easy as they thought. They probably overstated it for the most part. Some of the majors who have figured it out well are Chevron, so I'd look to them to be one of the companies that's copied, but for the most part, yes, if tight spacing, if mega-pad construction continues it's going to change how Profire has to—there'll be less heaters, potentially.

However, that being said, they haven't figured it out, and as these mega-pads come on, we totally have seen already, well, they still require a large amount of automation. They still require a large amount of Profire product, and it just centralizes it, so it's going to be a—I think another evolution year, and we didn't hear them at the end of '18 speaking at how great they were at tight spacing and their laterals anymore, so they're going to be investing in that, and again, that's where your sea levels really focus because that's where they're saving on real estate and land permits, etc.

James Jang:

Okay. Well, and with the spacing—so let's say now spacing goes to, let's say 600 feet. Would that be better for the 3100 at all?

Cameron Tidball:

It could be, yes. More and more companies look to getting product or automation away from the actual danger zones, as we call it, so it could be. We have seen, again, as was mentioned in the presentation or script today in the call, 3100 has seen some very nice gains throughout the years. People say, hey, you know what? I can see this automation requirement or the ability to grow in the future, I can see that in the 3100, so we're attracting some good gains in the midstream space, as well as upstream, and so definitely could. We could see it going there, for sure.

James Jang:

Okay. All right. Thanks for the color, guys.

Brenton Hatch:

Well, Thank you, James. Good to talk to you.

Operator:

Our next question is from Jim McIlree from Chardan Capital. Please go ahead.

Brenton Hatch:

Mr. McIlree, how are you, sir?

James McIlree:

I'm well. Thank you.

Brenton Hatch:

I'm glad.

James McIlree:

Hope you're doing good as well. Just a couple of follow-on questions. I think earlier you were talking about the five-year plan. I was a little bit confused as to whether or not doubling revenues is organically a goal, or if it's doubling organic and acquisitions you'll get to doubling.

Brenton Hatch:

We believe that we can do it organically if we expand with new products, if we hit the international markets appropriately, if we keep expanding the 3100, and even the CMS we have still great hopes for. We think that we can do that, Jim. The M&A would be in addition to that, and we feel that would only help us accomplish that goal, maybe even a little sooner than what we had originally projected.

James McIlree:

All right. Understood, and the increased spending this year. I think, Ryan, you said 20%, which would be about $3 million, and I believe you mentioned four areas where that would be spent; expand the 3100 sales, new R&D, international, and M&A activities. Can you kind of a size that $3 million increase? Fifty percent goes to R&D and the other guys get the rest of the 50%, or it's equally divided, or just—I'm not looking for exact numbers, just trying to get some--a feel for where that incremental is going most.

Ryan Oviatt:

Yes, certainly. I can give a little bit of flavor there. Obviously not going down to the dollar, but roughly 50% of that we think is going to be invested in our 3100 sales force and support team, and then also our international team, so collectively there about 50% of that cost. Twenty five percent we believe is going to go through the product development R&D group, and then, say, 10% to 15% could be on M&A support activities, and then a little bit of other support throughout the organization, so in doing that we're really focusing those dollars in areas that drive future growth, and obviously the product development is maybe a little bit longer horizon on that revenue growth than the active sales and service teams in the 3100 and international areas, but that's a rough idea of spending.

James McIlree:

Okay, great. Thanks for that, and then my final question is, I was hoping that you could indicate for the 3100, approximately how—what percent of sales that was in 2018 versus 2017, and what it could be in 2019.

Brenton Hatch:

You want to do that, Ryan?

Ryan Oviatt:

As CFO, and the fact that I always live in the past, I'll give you the numbers for the past and I'll let Cam give you the numbers for the future, but in 2018 it was around 4% of total revenue, which is similar, and maybe even a little bit ahead of 2017, but the key thing to remember there is that we spent a lot of effort in 2018 working on the SIL certification, and then once we had that certification, in doing the field trials and validating that product in the field, so essentially—originally we had hoped, or probably expected, to see more of a growth in the 3100 product line this year—or sorry, in 2018 than what we realized, but because of the importance of that SIL certification and the process for that, that's kind of where it had an influence or we held back a little bit on some of those opportunities, but we would expect to see a big change going forward in 2019 because now this will be the first year where we have an expanded sales force and we have the proper certifications that gets us into the areas we want to be in midstream and downstream that we couldn't get to without it, so with that I'll let Cam add a little color and—on the 2019 outlook.

Cameron Tidball:

Yes, so for 2019, we really have already seen the pipeline of opportunities is significantly higher than '18, and that—it all makes sense because you kind of rally and then you build that pool. In 2018 we had several major end users specify that Profire 3100 is what will go on all their new equipment. We've seen this in the Northeast, in places in the Permian Basin, South Texas, Colorado. We also see as we get to projects or applications where combustors especially are now becoming—more and more of them are dual piloted systems, which 3100 is a perfect application for that, so we expect, as Ryan said, to have very strong growth. We've hired, as has been mentioned, a new sales professional who has experience in the midstream world and these more difficult—I wouldn't call them difficult, but more sophisticated applications, and so 2019 looks promising.

James McIlree:

All right. That's great. Thanks a lot, guys. Good luck with everything.

Brenton Hatch:

Thank you, Jim.

Ryan Oviatt:

Good to talk to you.

Operator:

Our next question is from John White from ROTH Capital. Please go ahead.

Brenton Hatch:

Mr. White.

John White:

Yes. Good morning. I'm proud of my other colleagues on the call. I think they've drug more numbers out of you than on any other call we've had.

Brenton Hatch:

Yes (inaudible). Ryan's going soft. That's what's happening.

John White:

No. Congratulations on a good year. I know the fourth quarter was kind of rough, but seriously, all my questions have been answered except in 2019, for the 3100 marketing effort, is it firm plans to hire two to three people, or is that on an opportunistic basis?

Brenton Hatch:

No, it's pretty firm. The problem is, as I alluded to earlier, John, is that we can't always—we don't want to grab just anybody who says that they will go sell. We want people who know the space, who know that part of the industry, who have contacts, and it's hard to find the perfect people, but we are looking and we are entertaining some opportunities there in this next while, so we do anticipate seeing those numbers like we have the two now. We could easily see them double this year, and we'd like to even do a little bit more if we can find the right people, so for sure this is pretty serious stuff.

John White:

Glad to hear it and thanks for your time.

Brenton Hatch:

Thank you. Good to talk.

Operator:

As a reminder, it's star, one if you'd like to ask a question, and our next question here is from Scott Billeadeau from Walrus Partners. Please go ahead.

Scott A. Billeadeau:

Good morning, Scott.

Scott A. Billeadeau:

How are you? Can you hear me?

Brenton Hatch:

Oh, yes. We can hear you loud and clear.

Scott A. Billeadeau:

Good. Yes. No, I think pretty much all my questions have been answered too, so I appreciate the other guys doing a lot of work for me. Just, I guess on—just a quick question. I know CMS isn't a big thing, but is there dedicated sales staff to that, or is it a kind of one or two people? Maybe just a quick update on that and that's all I need.

Brenton Hatch:

Cameron?

Cameron Tidball:

Yes. Currently we don't have a dedicated CMS-only salesperson because if we—we did a vast research project to see, are we getting to the right people under our current sales staff, and we believe although there is some deviation in some companies where it's split apart, for the most part it is the right people we're talking to. We do, however, still—we have a posting out to consider and we budgeted for a CMS salesperson to try, especially in the South Texas, West Texas area where we've seen some success and we believe there's opportunity, but for the most part we believe our team, supported by our product manager who is the expert on it, we have it covered. It's just one of these things where we're going to have to—we've got to get one of these majors to roll on it and then we think others will follow suit, similar to our BMS path.

Scott A. Billeadeau:

Great. All right. That's all I had. Thanks, guys.

Brenton Hatch:

Okay. Thank you, Scott.

Ryan Oviatt:

Thanks, Scott.

Operator:

Great. Thank you. This concludes the question-and-answer session. I'd like to turn the floor back to Management for any closing comments.

Brenton Hatch:

Well, thanks, everyone, for joining us today on this call to discuss the Fiscal 2018. We really would like to thank each of you for your continued support in us. We appreciate all of that. We're available to any of you to discuss other questions that you may have. If you want to contact us directly, that would be great, so thank you, all, and have a great day.

Operator:

Great. Thank you. I'd like to remind everyone that this call will be available for replay through March 14, 2019 starting later this evening via the link provided in yesterday's press release and in the Investor Relations section of the Company's website.

Thank you, again, for joining our conference call today. You may now disconnect.