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Profire Energy, Inc.

First Quarter 2019 Earnings Conference Call

May 9, 2019

CORPORATE PARTICIPANTS

Brenton Hatch, *President & Chief Executive Officer*

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Patrick Fisher, *Vice President of Product Development*

CONFERENCE CALL PARTICIPANTS

Rob Brown, *Lake Street Capital*

James Jang, *Maxim Group*

Jim McIlree, *Chardan Capital Markets*

John White, *ROTH Capital Partners*

PRESENTATION

Operator:

Good afternoon, everyone and thank you for participating in today's conference call to discuss Profire Energy's First Quarter 2019 ended March 31, 2019.

Joining us today is the President and CEO of Profire Energy, Brenton Hatch, and CFO, Ryan Oviatt.

Before we begin today's call, I would like to take a moment to read the Company's safe harbor statement.

Cautionary Note Regarding 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 expected growth; increase in operating expenses, expansion into international markets and planned launch of new products; the availability of Company's resources to make beneficial investments in 2019 and beyond; obtaining new product certifications; the Company's expected increase in operating expenses; the hiring of additional employees; the Company's exploration of M&A opportunities and the potential of international markets; and the Company's future financial performance.

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 reports filed 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 the 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 on these forward-looking statements.

I would like to remind everyone that this call is being recorded, and it will be available for replay through May 16, 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 the remarks by Mr. Hatch and Mr. Oviatt, we will open the call to your questions. As part of the question-and-answer session, Mr. 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 would like to turn the call over to the President and Chief Executive Officer of Profire Energy, Mr. Brenton Hatch.

Brenton Hatch:

Thank you very much.

Welcome, everyone, to our First Quarter Earnings Call and thank you for your interest in Profire.

In Q1, 2019 we were able to achieve total revenues of $10.8 million and a net income of $1.7 million. I am delighted to see that our cash and liquid investments were over $23 million at quarter end, as we were once again able to generate positive cash flows. These numbers are all improvements over the fourth quarter of 2018. Our legacy products performed well as they remain the industry standard. We continued to develop new products and are encouraged that some of these newer product lines, such as the 3100, are gaining traction.

As we indicated on the previous earnings call, we anticipated revenues remaining flat with Q4 2018, throughout the first half of 2019 due to ongoing market volatility within the oil and gas industry. We do not see any significant changes from these expectations for the macro industry. Nevertheless, we will continue to make strategic investments in 2019 to enhance our relevance as a technology leader in the industry.

In 2019, we intend to continue to invest in product development, sales, and training. In the fall, we expect to launch our next-gen burner management system, the PF2200. This product has been in development for some time. Our team has met with customers to better understand their needs and to focus on delivering a product that includes advanced technology and an intuitive customer interface. The enclosure has been designed to improve the experience when performing installation and maintenance. Some other user-friendly upgrades and key auxiliary features will include the ability to control multiple pilots, to perform data logging, and provide advanced diagnostics that have been integrated into the base system. The 2200 will include field-upgradeable firmware offering the end-user access to the most recent upgrades without having to remove the hardware. The 2200 should allow customers to reduce manpower needs and increase automation by relying on Profire's state-of-the-art technology to safely and efficiently monitor and manage combustion and burner applications.

The 2200 was designed and is being manufactured to achieve the same Functional Safety or SIL 2 rating that the Company received on another product, the 3100. In addition to being a user-focused and intuitive product, the 2200 will be compliant with applicable industry standards and codes. This should remove possible regulatory barriers to entry in certain markets and applications. Field trials are being performed as we await final certifications. Commercial sales of this product are expected to commence immediately thereafter. We believe the 2200 will be well-received by customers and allow access to some market opportunities that are not currently available to us with our 2100 product.

New product development is only one area of focus for our long-term growth strategies. Throughout the quarter we strategically invested in expanding the reach of our 3100 product. A new team member was hired, the capabilities of the system continue to be enhanced, and we are improving our facilities in Lindon, Utah to better support the production and assembly of the 3100. We are seeing the fruit of those efforts as 3100 sales increased to just over 5% of total revenues in the first quarter of 2019 which is up from 3.6% at the end of 2018. This additional support for the product will enable us to meet demand as we hire additional sales staff dedicated to that product.

We also continue to evaluate international markets that could offer significant opportunities for Profire. We are working to establish additional relationships with distributors in Asia and South America. We are dedicated to the success of our international sales, as we see this as a major opportunity for growth.

Our acquisition strategy remains focused on exploring opportunities that provide complementary products, improve product development, add additional industry expertise, expand market share, and leverage our strong customer relationships. We intend to continue to evaluate such opportunities.

Even though we plan to increase our internal investments in 2019, our core belief about the Company's capital structure has 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 and to weather the impacts of the cyclical nature of our industry. We believe this strategy positions the Company to drive further success in 2019 and beyond.

With that said, I will now turn the time over to Ryan Oviatt, our CFO, to discuss the financial results for the first quarter of 2019.

Ryan.

Ryan Oviatt:

Yesterday, after the market close, we filed our 10-Q with the SEC, and discussed the quarter'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.

Let's begin by looking at the income statement.

In the quarter we recognized $10.8 million in revenue which is up 2% from the prior quarter but down 11% from the same period a year ago. The increase from last quarter reflects the macro industry improvements realized since the 40% decline in the price of oil in Q4. The decrease from the same period a year ago is also largely a result of macro trends. The average oil price in Q1 2019 was 13% lower than the average of Q1 2018. E&P companies have continued to focus more on capital discipline, like debt reductions, dividends, and share buybacks, than they have on explorations and cap ex expansion. Throughout the quarter oil prices averaged close to $55 a barrel and ended the quarter at $60 a barrel. Nevertheless, we typically see a three to four-month lag between sustained, higher oil prices and additional or accelerated cap ex spending by our customers. Thus far in 2019 the E&P's have remained focused on capital discipline.

Gross profit decreased to $5.8 million or 53.2% of total revenues, as compared to $6.1 million or 50.4% of total revenues in the year-ago quarter. This gross profit margin increase as percentage of total revenues was due to product mix changes, direct labor costs, and adjustments in our inventory and warranty reserves.

Total operating expenses were approximately $3.6 million or a 6% decrease from the same quarter last year. This decrease is primarily due to lower commissions due to lower product sales, lower stock compensation expenses and lower bonuses paid out in Q1 2019 period compared to Q1 2018. As a percentage of total revenue, operating expenses increased to 33.5% compared to 32% in same quarter a year ago. This increase is partially due to the decrease in revenues over the same period and was expected as we continue to execute some of our investments that are driven by our growth strategy. As we mentioned last quarter, we still expect total operating expenses for the full year of 2019 to increase by roughly 20% when compared to 2018, which may outpace revenue growth in the short term due to the ongoing industry challenges. We believe that these investments may not significantly increase revenue in 2019, which could cause our operating margins to tighten, but will be essential to increase revenues over the next three to five years.

Operating expenses for general and administrative decreased 5%, R&D decreased 13%, and depreciation decreased 10%, as compared to the same year-ago quarter. The decrease in general and administrative expenses is primarily due to lower commissions and bonuses in 2019 compared to 2018. The decrease in R&D is related to a decrease in consulting and labor costs associated with our SIL certification which was completed in July of 2018. We intend to keep investing in R&D and hire personnel to fully support the department throughout 2019.

Total other income during the period was roughly $108,000, the majority of which was attributable to interest on investments and the sale of fixed assets. Our net income was $1.7 million or $0.03 per diluted share, compared to a net income of $1.9 million or $0.04 per diluted share in the same quarter last year. Net income is down 11% over the same quarter a year ago due to lower revenues. Net income is up over 100% from the previous quarter due to the one-time CMS inventory accrual recognized in Q4.

Now let's look at the balance sheet. Cash and liquid investments totaled $23.4 million, as compared to $22.6 million at the end of 2018. We were once again able to demonstrate positive operating cash flows for the quarter despite purchasing $1.3 million worth of shares pursuant to our stock buyback program.

Inventory levels decreased to $9.1 million from $9.7 million at the end of 2018. The decrease is a result of our operations team working closely with sales forecasts and vendors to carry the requisite inventory on hand. We have been able to decrease inventory amounts while still being able 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 10% of total accounts receivable.

Despite the anticipated ongoing market volatility, we are committed to making investments in 2019 that we believe will add long-term value for shareholders. We plan to invest both internally and externally in 2019 to take advantages of opportunities that will help increase Profire's market potential. This increased investment does not mean that we plan to move away from core values that have made us successful throughout the previous years.

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

Brenton Hatch:

Thanks, Ryan.

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 in the first part of 2019. As Ryan mentioned, oil prices appear to be increasing slowly which would generally lead to our customers increasing their cap ex spend. Even though oil prices have risen, we have heard of a number of E&P's that are performing layoffs in order to streamline functions and reduce shared services and expenses. In the quarter drilled-but-uncompleted wells or DUC's, decreased slightly and the average rig count decreased nearly 4%. Based on reports from E&P's, it appears that they are optimistic about production levels in 2019 and 2020 but have not increased their cap ex budgets with the rising price of oil. The E&P's capital discipline is not the only thing affecting cap ex budgets. Recently, legislation was passed in Colorado that has already adversely affected sales in the DJ basin. The rise in the sale of our legacy products in the quarter was in part due to sales to customers within the DJ basin who were investing as much as possible prior to the suspected impact of new regulations.

We will continue to follow the reports of the E&P companies to see if there will be any increases in cap ex spending or how oil prices will affect their strategies. We have planned accordingly for this outlook as we expect revenues in the first half of 2019 to remain relatively flat with Q4 2018 and pick up as the year moves along. We expect normal seasonality as revenues tend to be lower in the spring and summer months before increasing again in the fall and winter. This outlook has not changed our commitment to our long-term growth and investment strategy. We will continue to invest throughout 2019 in areas that we believe will add value and revenues in the coming three to five years.

We believe our growth strategy allows for growth whether or not the overall industry conditions improve. The areas we plan to invest in throughout 2019 will include expansion of the 3100 sales team and support for the 3100 product, increased R&D spending to develop new products, international market expansion, and research and evaluation of strategic opportunities. In the quarter we focused on training existing 3100 sales staff to where they can operate independently. We also increased awareness and training of the 3100 throughout all our sales staff.

We have a growing R&D team that is working to deliver new products and product enhancements that meet or exceed customer expectations. We believe the addition of the 2200 will prove once again that Profire is able to deliver products that incorporate the latest technologies and that are capable of improving safety and operational efficiency. Throughout the year we plan to make additional announcements for product releases and improvements as they are completed. Many of our customers are looking for ways to implement technology, and as their trusted partner we believe these product solutions will deliver on their expectations.

Our new facility in Alberta, Canada is on track to open later this year. This facility will provide improved space and resources for our R&D team and other Canadian staff.

Globally, the oil and gas production outlook remains positive. Our products are currently sold in various countries, primarily through resellers. We have supported products in Nigeria, Argentina, Mexico, and other areas. In the coming years we intend to more fully take advantage of the global markets. We plan to work with distributors in high-producing areas who will resell and locally support our products. Currently we are investigating these opportunities in every major oil-producing geographic region to evaluate the combustion equipment being used and how our products can be integrated.

We remain active in exploring strategic opportunities. We intend to invest time and thoughtfully explore any opportunities we identify.

Our outlook for 2019 is optimistic, but consistent with market trends in the oil and gas industry. We are making strategic investments with the intent of increasing revenues in the coming years. These investments will help Profire remain a technology leader within the industry. 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:

Certainly. If you'd like to ask a question at this time, please press star, one on your telephone keypad. A confirmation will indicate your line is in the question queue. You may press star, two to move your questions from the queue. For participants using speaker equipment, it may be necessary to pick up your handset before pressing star key. Again, it's star, one to ask a question at this time.

Our first questions are from the line of Rob Brown with Lake Street Capital.

Rob Brown:

Good morning, Brenton.

Brenton Hatch:

Good morning Mr. Brown. Just for the record now, we truly are an international Company. Today, we have Mr. Patrick Fisher, Vice President of Product Development calling in from Canada. We have Cameron Tidball and J. Hugo calling in from China. We, of course, are in Utah, which is about as far away as everything else. So, here we are. International. Hey, Rob, sorry to cut you off there.

Rob Brown:

No worries. On that note, I'll ask the question how is the international effort going in terms of expanding your international presence and growing that channel?

Brenton Hatch:

It's coming along quite well actually. Rob, we are establishing relationships in some of these other countries and certainly working towards that. We're a bit cautious about that, but as you have noticed as you followed the other companies, especially the larger companies in the oil and gas realm, that they are as well recognizing the opportunities in international circles and are reaching out there. We feel still at this point that using resellers and distributors is the best way for us. We won't be going so far as to establishing bricks-and-mortar, at least at this present time. It's quite positive in terms of the interest expressed by various groups abroad.

Rob Brown:

Okay. Great. Thank you. Then on your new products, your 2200, I believe, what's sort of the market picture for that, the demand environment and maybe the number of new features that were very interesting? How do you see that market developing and maybe the size of it? That kind of thing.

Brenton Hatch:

Mr. Tidball?

Cameron Tidball:

Can you hear me from China?

Brenton Hatch:

We've got you. Yes, you bet.

Cameron Tidball:

All right, 2200, obviously, we're excited to announce that today, and there will be more coming, as it's been mentioned. But really what we've done is upstream and midstream Burner Management for the for the masses, for the volume. We've integrated a lot of the features that we've heard over the last call. It's been almost 9, almost 10 years now of run rate on the 2100 with outstanding and maybe too good. A lot of those features that have been integrated into the platform as well. The platform itself allows us to, not so much outstretch outside of oil and gas, although, it's always a potential, but it's a platform that's open, and we have the ability to act on to in the future to add future technologies that we see potentially coming down the line that customers will want. It's very flexible, open, and our product development team has done an excellent job in getting where we'll have sill certification right out of the gate, and we'll be able to carry forward that momentum that customers, we think, will adopt and actually look for.

Rob Brown:

Thanks. Then in general, you're talking about a flattish second quarter and some growth in the back half of the year. When do you expect the, I guess, is that all new product growth from the 3100 and other things, Or is there some market uptick in that discussion? When do we see the 3100 start to contribute?

Cameron Tidball:

Those are questions we ask ourselves all the time, Rob. Right now, trying to follow the macro environment is really a challenge. Recently, a number of the E&Ps have come out and suggested that 2019 maybe won't be a stellar year in terms of their spend. But again, towards the end of the year, we always look to an uptick because, typically, the spring and summer quarters are a little flattish and these things cooled down, literally, in terms of temperatures and such, often the fall and winter quarters are better for us. In fact, the companies that seem to be hinting at the fact that they're looking at the same kind of thing. We are really caught at the mercy of what these larger companies decide. We find that even when they begin cap ex spending or cut it off, there is usually a two or three months, four months, sometimes, lag in our revenues. But indeed, it usually comes especially when it's a sustained change on their parts.

Rob Brown:

Okay. Thank you for overview. I'll turn it over.

Cameron Tidball:

Thanks, Rob.

Brenton Hatch:

Thanks, Rob.

Operator:

The next questions are from the line of James Jang from Maxim Group.

James Jang:

Good morning, guys.

Brenton Hatch:

Hi, sir.

James Jang:

I have got a couple of questions. So, Cam, the business in China, what is that really for? Is that for the full suite of products? Or is there a specific product that's in demand over in China?

Cameron Tidball:

Great question. This is our second business development trip to China. We've participated in some clean energy forms, where we believe combustors could become quite useful and even sought after for in this market. We noted a large forced draft market. The upstream business in China is potential, but we haven't really had a (inaudible) perspective that Profire has in previous to coming here. They're actually doing quite well in terms of technology. They're not lighting very many of their burner with rags and fix (phon), but they are using old school PLC relay-based burner management logics. They definitely have some opportunities.

The Chinese market is very much about efficiency gains. Right now ,what does the market entail? We believe there is a market for the 2100. There is a market for the 3100, and we believe there will be a market for the 2200. Chemical, not quite sure yet. They actually have quite sophisticated automation in place for that. The one thing about China, because of the control that governments have here, they can put pipelines wherever they want. So, it's a lot of central facilities. So, very few heaters can do a lot of wells, but definitely an opportunity everywhere from way North in Harbin and (inaudible) all the way south to the Hunan province. So, opportunity for sure and as well as some supply chain opportunity for Profire.

James Jang:

Have you had any discussions with the state-owned entities or the Knox over there?

Cameron Tidball:

Yes. We've had discussions with the three national owned companies in several of their refineries and upstream. We have met, not only with distributors, but also with the end users. It's definitely a process we're learning to get in, but we believe that there is opportunity.

James Jang:

Great. Thanks. Going to the outlook for '19. Oil prices are not that strong right now. As you mentioned, the option guys are looking to do more maintenance and pay down debt. How should we be looking at revenues for this year? Do you think it'll be more on par with '17?

Brenton Hatch:

Mr. Oviatt? Our numbers man.

James Jang:

All right. You can just give the numbers. That would be helpful.

Ryan Oviatt:

I'm really good with numbers, James, especially backward (inaudible) numbers. The ones that are a little bit more complicated. That's the challenge. Based on what we said in our prepared remarks, the outlook, it doesn't look bad. We don't believe it's a bad year for Profire, but the outlook in the industry for a lot of growth in drilling activity, completion activity, maybe even oil prices doesn't seem to be there. There's not a tremendous amount of excitement on that side of things. It seems like the companies are doing well on the production side. But then they're not committing to taking that cash or that spend and putting it back into exploration activity or cap ex related type stuff.

From that, we are looking at this, as Brent said in his remarks, flattish for at least the first half of the year. We're optimistic about some improved numbers in the second half of the year, but again some of that depends largely on the macro environment and what we see. I don't think we're talking dropping back to 2017 levels of revenue by any means, but probably not going to be record numbers as well either in hitting best year ever perspective.

James Jang:

Got you. Okay. One final one on the CMS. It seems like this is a no-brainer, especially with the payback being so low. What's been the holdup there?

Brenton Hatch:

I'll comment on there. Obviously, last quarter you would have seen that we did take a sizable reserve against the CMS inventory just because the outlook has struggled, and we haven't proven that, or the numbers themselves haven't proven that product line. We do believe, in many cases, it really should be a no brainer. What we've learned a fair amount over the last year, as Patrick and his team and Cam has gone out and met with customers and other companies that are providing technology solutions to the oil and gas industry, that a lot of times, or at least right now, the focus really isn't on a good ROI type products scenario, a new technology that proves great ROIs just isn't getting the attention that you would think it would, and all of the reasons behind that we don't fully know. I think there's many things culturally and just other impacts that come into play there. But in a lot of cases, these other companies were coming to us and asking, "How did you guys do it with BMS" because they're struggling to break in as well.

As we've said in the past, BMS did take several years here in the U.S. to really get its foot in the door and actually start to sell. We hope that that's the path that CMS is on, that we're on the doorstep there of being able to make some things happen, but we didn't have a lot of activity in Q1. There are things in the pipeline that still look optimistic to us, and that we're hopeful for that are going to come to play later this year. But again, the macro-environment will have an impact there, either for good or bad, and we obviously believe that it's a good product, but convincing others that it is a good product and that the should buy it are the challenges.

Patrick, is there anything you'd like to add to that from your experience with those other companies, some of the things that they had indicated?

Patrick Fisher:

Yes. The ROI aspect of it, definitely they see the value there. In a lot of cases, we've seen an indication of, "Yes. Thank you for the idea. We'll go do that," type of approach to the chemical management. That's been one of the issues we've definitely seen is that they really like the idea, that it looked like it could sell, and then they agree and go do it. Implement it on TLC or something on-site. The various entry isn't as high as the BMS. BMS has a lot of certification, things like that, required whereas chemical, there's no certification surrounding it.

James Jang:

I see. One final one. With this stagnated BMS sector, do you think this is an opportunity for you guys to take out some of your smaller private competitors?

Brenton Hatch:

Yes. We think there is an opportunity to do that. We think that perhaps the market itself will have an effect on these people. If we find that we struggle as a result of what's going on in the macro market, we know that they will struggle as well with their limited sales, if there's indebtedness there and so on. But yes, it certainly presents some opportunities there for us.

James Jang:

Great. Well, thank you guys. I'll jump off now.

Brenton Hatch:

James, thank you. Talk soon.

Operator:

Thank you once again. As a reminder, you may press star, one to ask a question at this time.

Our next questions are from line of Jim McIlree with Chardan Capital.

Brenton Hatch:

Good morning, Jim.

Cameron Tidball:

Hey, Jim.

Jim McIlree:

Hi, guys. Brent, in your commentary, you mentioned the DJ in Colorado legislation that's taking place. Can you help us understand how big either the DJ or Colorado was as a percent of revenue in 2018 and in Q1?

Brenton Hatch:

Sure. Someone here can. Cam is probably the man to speak to that, but that's a great question.

Cameron Tidball:
Yes. We all know that we had a small victory last year when the public voted no to the proposition, and then politics came into play and gave it to the municipalities. Last year, the DJ Basin was incredibly strong for Profire and the year before, mainly because we have, we believe, over an 80% market share there at minimum, and we've done well there. Plus, the DJ Basin is such a great opportunity to play there. It has low breakeven point for producers as well as it requires heat. They don't do central facilities as much as they do in places such as South Texas or West Texas.

In terms of percentage of revenue, probably for last year was in, for Profire, probably in that 12% to 15%. What we see happening already is the quarter was good in first quarter because they wanted to move things along and get as much in as possible. But we have seen, obviously, we've seen Oxi (phon) and Chevron. Chevron's pulled out but put in a bid for Anadarko assets. With full intention, we believe, to probably divest of that area.

Now, one thing that remains to be seen is what will Weld County, and that's something we all will watch, what will Weld County vote, because that is where 80% of new drills could go. Weld County doesn't say that they're going to put in limiting restrictions, probably not that big of an impact long-term. If they do, we'll see that investment go to the Powder River Basin in Wyoming, as well as to the more pure plays in West Texas. We don't see it as a loss, as much for Profire, a loss in that area, but the investment will go other places, we believe. But Colorado sure has been a nice place for us. Maybe they'll see the light sooner than later.

Jim McIlree:

As far as you're aware, is the Weld County accountable for all the municipalities within Weld County would have (inaudible)

Cameron Tidball:

Yes, you're right. It is all the municipality. That's what we're really waiting (inaudible), and how long that will take. So, our territory guidance, they do their part holding signs on the weekends and at night. With the MPs, we do partner strongly with them to advocate what is the risk of even the GDP of those municipalities and economies, and job losses etc. So yes, you are right, Jim. It is municipality based.

Jim McIlree:

Okay. Then secondly can you elaborate a little bit on the 2200 pricing strategy, particularly relative to that 2100, and how you contemplate managing that transition from the 21 to the 22?

Cameron Tidball:

Brent, you're good if I take this one?

Brenton Hatch:

Yes. Yes, please do. Yes, you bet.

Cameron Tidball:

I have some thoughts on this. Really the 2200 price point we believe will be very much in line with the 2100s fully featured 100. The pricing strategy we believe for the upstream and midstream natural draft market, Profire is not the cheapest, nor do we want it to be, we sell value, we sell features and capabilities, and future potential. We'll probably stay in line with the pricing strategy. There will be a time, obviously, when the 2100 might not be produced as in the volume it is right now. We saw it with our 1100, eventually parts become obsolete etc. But pricing strategy, we believe will be close to in line with a fully featured 2100 because we believe that's what the market bears in that area.

Brenton Hatch:

With the purchasing that we do, the volumes and such, we don't believe that the cost of production will increase dramatically on this either.

Cameron Tidball:

No. That's correct.

Jim McIlree:

You don't see the market freezing waiting for the 2200? Is that how you're looking at it?

Cameron Tidball:

Yes. We don't see people waiting because they need it. It's not something they would go without. We will be strategic with it. We'll obviously, now that it's public, that it's coming out, people will ask, and they want to know when it's coming. I remember when the big question was, "When is this 2100 coming out? You said was coming six months ago." That was in 2010. Well, it's coming. But we've come a long way since then. We do have a detailed launch strategy for testing, for field trials, for feedback, loops, and then for eventual mass production. But we do believe a good percentage of customers, for at least a while, will hang on to continue to order the 2100. There may come a time where we want to incent them to go a different way, the 2200. We don't see people holding off BMS sales. They just can't, they won't rewrite specs. The management of change process, the automation strategy, etc. They need to continue to buy for their manager.

Jim McIlree:

All right, great. Thanks, guys.

Brenton Hatch:

Thank you Jim.

Operator

Thank you. Again, as a reminder you may press star, one to ask a question.

Our next questions are from the line of John White with ROTH Capital.

Brenton Hatch:

Morning, Mr. White.

John White:

Good morning, Mr. Hatch. Good to hear from you again. There's been some talk about the 2200. I'm glad to see you're rolling out a new product, and can we get a little more technical details, like when you're pitching the 2200 to the ENP operator, what do you say? What are your bullet points? What do you have to say?

Brenton Hatch:

I suppose Mr. Fisher knows as much about, well no, knows a lot more about this than anyone. Patrick, would you care to address that without obviously getting into too much engineering lingo?

Patrick Fisher:

Yes, for sure.

Brenton Hatch:

Thank you.

Patrick Fisher:

A lot of the focus where we're going to, like you said in the question, the bullet points are really going to be focused on the user experience and usability of the system. The level of expanded capability, able to address a few adjacent features and auxiliary functions that currently they have to do externally, or require add-on cards, things like that have been integrated. Just the general usability, the user friendliness of the system, we put a lot of effort into ensuring that the product is out of the box. User friendly; that experienced when they first opened up the product and start using it is very intuitive and doesn't take a lot of time to learn and train. Training times will go way down. Those will be the kind of the key points we have been focusing on hitting there.

Cameron Tidball:

You forgot the key point that John White would build to commission a Burner Management without training. That was the key point.

Patrick Fisher:

Yes.

Brenton Hatch:

Side job for you, John. I think, too, it's important to add that this isn't the production of the ultimate unit. We have a great little product that will be coming out. But Mr. Fisher and his organization will keep adding new features to these along the way as the customers demand them as technology changes and so on. We will keep adding features to this, that will make it better and better. But it is programmable in the field so that we won't have to replace it with hardware, but simply do these add-on features into field. So, that's a really positive thing, I think, that Patrick and his organization has done with this.

John White:

Well, Cameron, I had a correct comment. I'm probably more skilled at drilling than I'm production. So, I'll concede. Thanks for taking my question.

Brenton Hatch:

Thank you very much, John.

Operator:

Thank you. This concludes our question-and-answer session. I would like to turn the floor back over to management for any closing comments.

Brenton Hatch:

Thank you so much. Thanks, everyone, for joining us today on this call to discuss the first quarter of 2019. We'd like to thank you all, each of you, for your continued support. As always, we are available to you for questions that you might have. Feel free to reach out to us here at Profire. Thank you, everyone. Have a great day.

Operator:

This concludes the teleconference. You may disconnect your lines at this time. Thank you for your participation.