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Profire Energy, Inc.

First Quarter 2020 Earnings Conference Call

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PRESENTATION

Operator

Good afternoon everyone, and thank you for participating in today's conference call to discuss Profire Energy's First Quarter 2020 ended March 31, 2020.

Joining us today is the CEO of Profire Energy, Brenton Hatch, and CFO of Profire Energy, 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 modification of the Company’s cost structure, increase in operating expenses, expansion in international markets, product development, completing the 3,100 product installations that have been delayed, the availability of Company’s resources to make beneficial investments in 2020 and beyond, and the Company's exploration of M&A opportunities, 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 risk 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 will be available for replay through May 21, 2020, starting later this evening. It will be accessible via the link provided in yesterday's press release as well as the Company's website at www.profireenergy.com.

Following the remarks by Mr. Hatch and Mr. Oviatt, we will open the call for questions. As part of the question-and-answer session, Mr. Hatch and Oviatt will be joined by Profire's Chief Business Development Officer Cameron Tidball, and Profire Energy's 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 Chief Executive Officer of Profire Energy, Mr. Brenton Hatch. Please go ahead.

Brenton Hatch

Thank you, and welcome, everyone, to our first quarter 2020 earnings call.

First, I hope that you and your loved ones are staying safe during the COVID-19 pandemic and we wish you continued good health.

Like all of you, we have spent the past two months adjusting our business and home lives due to the outbreak of COVID-19. I'd like to start today's call with an update on the steps that Profire has taken internally and how we have adjusted our interactions with our customers, particularly in the field.

Our industry falls under the essential business category, so our offices have remained open throughout the stay-at-home orders of the USA and Canada. We have implemented and followed best practice sanitization and social distancing guidelines and have made accommodations for employees that need to work remotely. Some of our employees are unable to work remotely due to the nature of their roles. We have incorporated a shift schedule for these employees to limit exposure and reduce the number of people in each facility at any given time.

As in previous times of volatility in our industry, our strategy remains to stay relevant and present with our customers. Our sales and service team members continue to collaborate with, train, and support our customers through alternative communication means, as well as face-to-face when appropriate in the field. These are key differentiators for us that give our customers comfort that we will continuously be available to service their needs without any lose in continuity.

Our burner management solutions remain a critical component of production and processing, even in the situations and environments that we are currently facing. Profire solutions facilitate safe and efficient operations and support our customers' needs to reduce downtime and waste. Our brand-leading position, coupled with the acquisitions we integrated in late 2019 have increased our value to our customers as we have expanded the range of products and solutions we can offer customers.

Over the years, our Company has been able to withstand the impacts of economic slowdowns, price wars within the oil and gas industry, and global disruptions. Fortunately, we have never had to operate in an environment in which all three occurred simultaneously. This changed in March, with the global spread of COVID-19 which led to a significant decrease in oil and gas demand, due to the virtual shut down of economies across the globe. This, combined with the fallout from the price war between Russia and OPEC, also led to a meaningful reduction in exploration and production activity. I am confident that we will be able to strategically navigate through these times, and I am pleased that we are able to keep Profire in the strong financial position to do so.

In my many years in the oil and gas industry, I have seen many companies take on significant debt loads that become difficult to manage effectively in a downturn. Our continued approach to run the business debt-free, is a strategy that is proving to be quite prudent in the current environment.

With that, I will now turn the call over to Ryan to discuss the financial results for the first quarter. Ryan?

Ryan Oviatt

Thanks, Brent.

I would first like to reiterate that I hope you and your families remain safe and well in these challenging times, and I appreciate you taking time to join us for our call today.

Yesterday after the market closed, 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 Investors section of our website. The transcript of this call will be posted in the coming days.

Before I review our results for the first quarter, I'd like to note some key industry metrics that illustrate the magnitude of the impact the coronavirus pandemic has had on the oil and gas industry.

Coming into 2020, the capital allocation model for most E&P companies was focused on debt reductions, dividend increases and share buybacks, with little or no exploration or cap ex expansion. With the outbreak of COVID-19, E&P companies are pulling back in all areas in an effort to preserve their overall liquidity. Unfortunately, in some cases, companies have been unable to refinance their debts and have had to file bankruptcy.

In the first quarter of 2020, the weekly average rig count for North America decreased to 958, a 20% decrease compared to 1,204 rigs in the same period of last year. Since quarter end, the same metric has dropped another 56% to only 417 as of May 1.

The average oil price in the first quarter of 2020 was $45 per barrel, down 17% compared to the average for Q1 2019, and closed on March 31, at what was, at the time, an historic low of $14 per barrel following the price war between Russia and OPEC. As most of you witnessed a couple weeks ago, crude oil prices were negative for the first time on record as global demand significantly decreased and storage was near capacity.

Now on to our results for the first quarter. In the quarter, we recognized $7.4 million in revenue, which is down 31% from the same period a year ago. Our first quarter ended March 31, so the quarter's results only reflect a few weeks of impact related to both COVID-19 and the oil price war.

Gross profit decreased to $3.2 million as compared to $5.8 million in the year ago quarter, and gross margin decreased to 42.5% of revenues, compared to 53.2% in the first quarter of 2019. The decrease was a combination of typical changes in product mix and warranty reserves, as well as the initial impact where revenues dropped faster than we could immediately modify the fixed cost structure.

Total expenses were approximately $3.8 million or a 6% increase from the same quarter last year. This increase is primarily due to an increase in research and development expenses and higher labor and depreciation expenses related to our two acquisitions in the second-half of 2019.

Specifically, operating expenses for G&A increased 4%, R&D increased 17% and depreciation increased 27% as compared to the same quarter a year ago. Total other income during the period was roughly $75,000, the majority of which was attributable to interest income.

Net loss for the fourth quarter was $365,000, or $0.01 per share compared to net income of $1.7 million or $0.03 per diluted share in the same quarter last year. Cash flow from operations in the first quarter was a positive $271,000, despite the reduced revenue and increased costs.

Now let's look at the balance sheet. Cash and liquid investments totaled $17.9 million as compared to $18.6 million at the end of 2019. Capital expenditures for the quarter were $525,000, primarily related to the completion of our new facility in Canada, which opened in March.

Our inventory balance at the end of the quarter was $8.8 million. Consistent delivery in a timely manner is another competitive strength of Profire. We continue to carry enough inventory to be well-positioned to fulfill customer orders in the near-term with the existing finished goods on hand.

Given the significant impact of COVID-19 on the global economies and specifically on the oil and gas industry, we believe the resulting volatility in oil and gas prices will be magnified in the second quarter and possibly longer. In these circumstances, we have already begun modifying our cost structure in order to make necessary changes to return to profitability. For example, we have halted all discretionary spending, cut back on travel for the year and implemented a hiring freeze, including for those positions that are vacated due to attrition.

In addition, the Executive Management team has decided to forego the 2020 annual and long-term incentive compensation plans, which will decrease target compensation for each executive between 40% and 50%. We will also reduce non-employee director compensation through the end of 2020.

While we believe we have sufficient liquidity, this proactive move is being done to maintain our cash balance in the event that these challenging circumstances persist beyond just the next few months as the COVID-19 pandemic eases, or in the event that these times create meaningful M&A opportunity to grow the Company.

As we previously announced, the Company applied for and was granted a Paycheck Protection Plan loan of $1 million through the SBA. Since that time, the Treasury Department issued additional guidance related to small public companies with access to other forms of liquidity. In light of these additional guidelines, Company Management and the Board have decided to return the PPP funds for the benefit of other small businesses with less access to capital. We don't anticipate this repayment to be highly detrimental to Profire in the short-term, however, the long-term impacts of the coronavirus on the oil industry remain uncertain.

I will now turn the call back over to Brent to discuss our plans and expectations for the second quarter. Brent?

Brenton Hatch

Thank you, Ryan.

The fallout from COVID-19 and historically low oil prices is expected to impact our industry throughout much of 2020. Our Company is well-positioned to weather these effects for numerous reasons, but perhaps none more important than our conservative financial strategy and the strength of our balance sheet.

I'd like to give a quick update on our legacy business and some of our growth initiatives that we have highlighted in previous calls, including product development, international sales, and other strategic activities.

Over the years, we have expanded our position and proven our strength in the upstream, midstream, and downstream utility segments of the oil and gas sector, specifically, product sales and field services focused on burner management solutions. We continue to play to our strengths despite the current volatility we are experiencing.

Our legacy PF2100 continues to be the industry standard. Our PF2200, released last year, continues to trend well in performance and customer feedback. The required peripheral products and technical expertise that comprise a BMS solution continue to be sought after and needed. Though our legacy business has been impacted due to changes in capital spending, we feel that we have not lost ground to competitive forces. We look to this period as an opportunity to integrate our expertise further in support of our customers.

The PF3100 product, continues to gain traction with customers whose application requirements are more complex in nature. Prior to the outbreak of COVID-19 and the collapse of commodity prices, we had made significant headway in terms of introductory meetings into some downstream refineries. Unfortunately, these have been deferred as potential projects are being pushed, given the lower throughput and as changes to staff continue.

Though we are disappointed with this slowing of momentum, we are encouraged by the initial meetings we were able to setup and the feedback received. Although a significant milestone project for Profire at a downstream refinery was deferred until further notice, we remain optimistic that the project will go forward in the future.

As discussed on previous calls, in 2019 we planned to bring on three international partners/distributors to represent our products in strategic geographic locations. We are pleased to report that we were able to reach working agreements with six distributors in 2019, and are working toward formalizing relationships with additional distributors. Twenty twenty's progress will definitely be impacted as our distributors face similar challenges, however, we are optimistic about the future and our partners' ability to market, sell, and support our product line.

Market disruptions will continue to provide Profire with opportunities. Though, we plan to remain conservative in our approach to merger and acquisition activities, we continue to use our well-capitalized position to support future growth. Current and future decisions will continue to focus on our strategy to support the industry with product and solutions that: number one, improve safety; number two, provide cost control and cost certainty; number three, deliver optimization of assets and processes; and number four support environmental footprint and impact initiatives.

Before I turn the call over for questions, I'd like to take a moment and thank all of our Profire employees for their ongoing dedication to the Company, particularly while many are balancing additional responsibilities with families, due to the closures of schools and daycares, checking on neighbors, and other adjustments to everyday life.

Operator, would you please provide the appropriate instructions so that we can get the Q&A started?

Operator

We will begin the question-and-answer session. To ask a question, press star, then one on your touch tone phone. If you're using a speakerphone please pick up your handset before pressing the key. To withdraw your question, just press star, then two. Please limit yourself to one question and one follow-up. At this time, we will pause momentarily to assemble our roster.

Our first question is from Rob Brown from Lake Street Capital Markets. Go ahead.

Brenton Hatch

Hello, Rob.

Ryan Oviatt

Hello, Mr. Brown.

Robert Brown

Hi, guys. Thanks for taking my questions. First, I just wanted to get a sense on the sort of recent customer environment. Are you seeing kind of canceled orders at this point? Or, are you just seeing low visibility in order rate? Or what's the current trends?

Brenton Hatch

Mr. Tidball, who's so involved with that, would you like to answer Rob's question here?

Cameron Tidball

Obviously, in quarter one, the effects of COVID and OpEx weren't as prevalent, however, we did see towards the end of the quarter, some deferral as we mentioned, Brent's comments. We had a—what we're calling a milestone project because it was an install in the downstream facility refinery in the United States has been deferred.

We definitely have seen that some deferral of that as companies try to figure out what they're going to do with their capital budgets. We have had a couple companies, a few companies in the first quarter. Basically cut cap ex for the year. But, again, so much is in the air, but we have seen a trend in that for sure.

Robert Brown

Okay. Thank you. Then I think during the last downturn you were sort of focusing your cost cuts away from your field activities. How does that compare to this time around? Where are you really focused on the cost cuts and looking at ways to generate cash still?

Brenton Hatch

Ryan?

Ryan Oviatt

Good question, Rob. You're right in the last downturn we were able to be quite strategic in where we cutback and how we did things. We're still working through the process right now and looking at various options. We've done a number of things so far. As we stated a few minutes ago, we've kind of started at the top with the Executive team and the Board. We've made cuts there to lead by example and to have a sizable impact on the Company and on our cost structure.

We've also looked at our—the budget that we had previously prepared, earlier in the year, and did a Q1 revision where we took out discretionary spending and travel and looked at cutting wherever we could. We've also spent the last several weeks investigating the government assistance programs, both in the U.S. and in Canada to see what relief is available to us through those programs. We're still optimistic that there will be some relief available in Canada, with the team up there.

Unfortunately, as we commented with the PPP program in the latest guidance here in the U.S., it made it highly uncertain and highly questionable for public companies to participate in that program. In consultation with the Executive Management team, the Board and our outside legal counsel, we determined it was in Profire's best interest to return the funds that we had received there. That's kind of the process that we've gone through thus far. We want to continue to be very strategic in how we look at things.

I think in the 2015, 2016 round, there was probably a little more fat to cut or areas where we could trim. I think we've been smarter and more strategic since that timeframe and how we've grown business, so cuts are not—we don't have as much access or fat to trim as we had in the past. The cuts have to be a little bit more strategic, but we're looking at our strategic initiatives, the best growth opportunities that we have. We'll certainly be preserving those opportunities for us as we continue to evaluate the need for further cost cutting and structure revisions.

Robert Brown

The last question is really on the midstream and Midflow—sorry Millstream and Midflow. How are those doing in this? Are they sort of reacting similarly through the rest of the business? Where are you adding getting those integrated?

Brenton Hatch

Cam?

Cameron Tidball

Yes. The Millstream acquisition which is the first we did last year, that product mix that we brought on with that, there are no longer any team members from Millstream as that that wasn't really the point of the acquisition. However, the product mix has been very successful in terms of customer desire for it. We've brought on new customers because of it, we recognize the revenue because of it, but of course, since it is primarily an upstream midstream product addition. It has received the same impacts as overall Profire. But overall, I'm very encouraged by the adoption rates of customers specifications, bringing on those products as part of the whole mix, which we believe will eventually—well it has, it will increase our revenue per BMS sold as it all goes together as the solution.

In terms of the Midflow acquisition, definitely similar impacts as they're very much upstream focused groups. However, as we've mentioned before, it has really given us even stronger footprint in the northeast. We've been able to come up with some good product designs that we'll be able to put out here in this quarter we're in now, that we believe will help producers through this time as all of us companies are going to be in trouble and more and more Profire has to come up with solutions that are easier for customers to order, easier for them to install, and to really give them that cost control that they need and really focused on that.

You've hit it right on the head. They're impacted because they are very much upstream, midstream focused businesses, but we have seen very positive signs from these two acquisitions.

Robert Brown

Great, thank you. I'll turn it over.

Brenton Hatch

Thanks, Rob.

Ryan Oviatt

Thanks, Rob.

Operator

Our next question is from John White from ROTH Capital. Go ahead.

Brenton Hatch

Hello, John.

Ryan Oviatt

Good morning, John.

Brenton Hatch

Hello, John. John?

Operator

Yes, he wasn't there. Our next question is from Jim McIlree from Chardan. Go ahead.

Brenton Hatch

Hi, Jim.

Jim McIlree

Yes. Hey guys, how's it going?

Brenton Hatch

Great.

Ryan Oviatt

Good, how are you?

Jim McIlree

Well, thank you. Given the new expense or the lowered expense structure and assuming I guess normal margins, gross margins, what's the cash flow breakeven level of the revenue at the new expense level?

Ryan Oviatt

At the new expense level, which is continually adjusting, I described before, we're still going through that process. I would say, we're probably in the range of $28 million to $30 million breakeven right now.

Jim McIlree

Okay. On the receivables, have you gone through and scrubbed those yet based on the impact that some of your customers—the impact of lower oil prices has had on your customers? I guess, I'm asking for how confident you feel that in the receivables.

Ryan Oviatt

Overall, we feel relatively confident with them. We have continued on with the same process that we've always done with probably a little bit more effort and scrutiny. We have a monthly meeting with Cam and representatives of the sales team, with the accounting team, with some people from office. We go through and we talk about all of our customers that have balances over 60 days and over 90 days. We talk about any customers that we're are getting feedback from the fields that might be concerning or troubling.

We go through and we scrutinize those, and out of that we have a process where we adjust various things. Credit limits, we sometimes put customers on hold, where we don't allow them to purchase anything else until they paydown their balances. Others we even put on cash-only payment plans as well.

We've been following that very closely. Obviously in the current environment with potential bankruptcies, there is risk associated with the accounts receivables. But, the overall balance has come down significantly. Even with that balance coming down, our aged accounts receivables over 90 days have also come down quite significantly from year-end.

Our receivables team has done a very good job of staying in close contact with customers. and working on those over balances, and even getting payment on some of those old balances that had been troubling for a while. By no means have we eliminated all risk, but we have a very good process to focus on it and it is very important to us, especially in the time like this.

Jim McIlree

Got it. That's helpful. Just to ask the obvious, the inventory levels, we shouldn't expect any significant changes there going forward.

Brenton Hatch

I wouldn't think so, no.

Jim McIlree

Yes, okay. Alright, very good. Thanks a lot. Good luck with everything.

Brenton Hatch

Thank you, Jim. Good to talk to you.

Operator

Our next question is from John White from ROTH Capital. Go ahead.

Brenton Hatch

Hello, John.

John White

Sorry about the inconvenience. I had the wrong button pushed.

Brenton Hatch

We realized it's lunch time in Texas. So, we'll cut you some slack there.

John White

Well, thanks. On the cost reviews and how much information you like to give Brent, but is the growth in R&D spending, is that under review of it?

Brenton Hatch

Yes. It certainly is. In fact, we're looking at everything across the board in the organization, but certainly that's one area. We might ask Patrick, who of course, runs that department. Patrick, would you like to respond in any way to that?

Patrick Fisher

Yes, we definitely can. The growth in R&D this quarter was not so much a growth. There's a lot of just timing of some of the projects completing. A lot of large certification projects, which can be easily six figures by the time we're done. There's a couple of those that we had worked on through 2018 and wrapped—or 2019 and wrapped up in early 2020. We had to pay those bills around then.

Overall through R&D, even at the beginning of 2020, we were looking at ways to reduce costs for R&D. Obviously keep the R&D effort moving, not really reduced the bandwidth there. But yes, cost reduction in R&D has definitely been a huge focus recently.

John White

Thank you. Follow-up, Brent, your comments on the utility business were encouraging. What do you see going forward? What can you say about it going forward?

Brenton Hatch

You know what, I assumed that somebody would be asking that question. I wish I knew John. Obviously, any one of us, if we knew it would make some strategic moves. We are very confident that at some point things will return. The COVID-19 will be over, we'll start to see people driving and flying places, and oil being used around the world. We expect that things will pick up and that people's attitudes towards this will change, the investors eventually will change.

Having gone through, as you certainly have the numbers of years of ups and downs with oil, I'm still very confident in the future, and the fact that the Profire is so well-positioned in terms of its balance sheet, we're very confident that by being prudent with our spending that we will live to see another great day when things are moving. We know how very quickly things can change. We're not foolish enough to assume that it's going to happen in a quarter or two, but we do believe that the future is still very bright for us and investment (inaudible).

John White

Well, I appreciate that. I was encouraged by the utility business just because they have a much more stable operating environment than the E&P companies.

Brenton Hatch

Yes, it's true.

John White

Okay. It's good to hear you guys. Best of luck.

Brenton Hatch

Thanks so much, John.

Ryan Oviatt

Thanks John.

Operator

Again, if you want to ask a question, please press star, then one. Our next question is from John Bair from Ascend Wealth Advisors. Go ahead.

John Bair

Hi, there. Brenton, Ryan. Glad to hear you both on the phone here. It's great. First off a comment and then I think you did the right thing in deciding to return those PPP funds. I think that's a good move there.

I have two questions. First of all, how sensitive is your order flow or bookings to what will likely be more shut ins and perhaps—or not perhaps, there will be PNAs on low volume wells. How much of your business might be affected by this an overall reduction in the number of those kinds of wells?

Brenton Hatch

Mr. Tidball?

Cameron Tidball

You bet. Thanks for the good question. They're all good. Obviously you look at the Bakken, for example, they've already cut in March over April 33% of production. I think it's approximately 400,000 barrels per day. Well, that really doesn't impact Profire except for the fact that, obviously these companies are not drilling. Profire relies on drilling, we rely on completions, we rely on retrofits. So, obviously now with commodity prices all over the map, and different breakevens by different geography throughout the shale plays in the United States and Canada, it's a variety of impacts for sure.

The good news is there are still companies pushing forward. In the Northeast we still see they're kind of used to this wonderful low prices. This is normal operating for them. Obviously they're still—we saw as yesterday Shell sold their PA and Utica assets, which is fine. But, we will see an impact for sure. The Permian, there's nowhere for these barrels to go, that's why we have some negative pricing. We will see as Cushing, even though, with these cuts from depending what the railroad commission comes together, but the Bakken and other shut-ins, it definitely does impact Profire because new drills and completions are impacted.

So, how sensitive are we? We're very sensitive. Those are all important to us. However, that being said, Profire still is—we're still receiving orders. We're still filling service calls. We're still supporting customers in what they believe to be a stronger second-half of the year. That is the good part of it all.

John Bair

I guess where I was going with that was more than maybe an upgrade of systems or whatever for legacy production that is very low volume, and they decided maybe it's a multi wealth field or whatever that they shut production down. So now your systems might—an upgrade to a new or more efficient system might be either pushed aside or might never happen. I guess that's kind of where I was going with that.

Cameron Tidball

We probably—we look at more as a deferral. For the management technology, we don't see it reverting back to five years ago or six, seven, eight years ago to where if we go back to rag and stick methodology. We think that it's more of a deferral, similar to the way we look at docks. It's a deferral opportunity for Profire.

John Bair

Okay. My follow-up question was with regards to in the past you've talked about opportunities in burner management systems in non-oil and gas markets. I was wondering if you might be able to give us some insights on any progress on that front, realizing that everybody's kind of scrambling right now, these other industries and what not? Maybe not a top priority for them at this point, but if you could maybe give us some comments on that would great? Thank you.

Brenton Hatch

Sure. To get on your business development effort, yes, can you speak to that?

Cameron Tidball

Obviously Profire strategy has been to play to our strengths, which is in oil and gas combustion related products and services. We have—last year was a banner year really when it came to dabbling in some industrial dryers, some agricultural dryers and with our core product. They are areas that we have worked with our sales team to be able to look to, hey, you've got the opportunities that we've had. This case study, it's worked, it's a good product for that application.

We have not dedicated at this point, specific business development team members to it. However, we do have business development team members who are focusing on research on other areas. Not so much right out of oil and gas. We believe that leveraging our existing sales team and service team is most—kind of is prudent and smart, especially given where we're at right now.

But, we're not saying no to those things. But they definitely have taken a little bit of a backseat now to just taking care of the backyard and ensuring that we do the best we can for our existing customers. But still a great potential, we have a great potential to be in our product fits. It's just a timing and people for sure.

John Bair

Very good. Thanks for answering my question. You all be strong.

Brenton Hatch

Thanks.

Operator

Our next question is from Samir Patel from Askeladden Capital. Go ahead.

Samir Patel

Hey guys. Cool. Two questions. The first one as you outlined a series of sort of self-contradictory goals with regard to, on the one hand, maximizing profitability in the near-term with some of your actions, and on the other hand, it sounded like you still were eager to invest either organically or inorganically, like you did through the last downturn.

If you could help me understand, just based on that math and in response to the earlier question, you know $7 million a quarter is kind of roughly your breakeven point and you were there in March. It's clearly, it seems with the environment having worsened that your next quarter, maybe the quarter after might not be at that level. Basically can you walk me through your tolerance, for I guess, burning cash for a little bit, (inaudible) kind of some of the investments that you'd like to make? Is it sort of a priority on being profitable at all expenses, even if it means cutting pretty deep into the organization? That's the first question.

Brenton Hatch

Ryan?

Ryan Oviatt

Sure. Good question, Samir. As you might imagine, it's not an easy thing to juggle all of those goals and objectives all at the same time and in a very rapid downturn and decline. Overall, we want to return to profitability, that is important to us. It's a key focus for us. We need to preserve cash in order to be able to do that for the long-term. Thankfully, we're coming at this from a position of strength to some degree, given our balance sheet and the fact that we don't have debt.

In the short-term, there may be some cash burning. We don't fully know what Q2 is going to hold for us or even Q3. We're optimistic that things start to turn around early in the summer and with COVID, and things going back to normal, but clearly a lot to come into play there in that process. We will look to make the cuts and the rightsize our organization, but we're also not going to sacrifice the full future as well.

I understand that these may be somewhat contradictory statements, but at the same time, we're kind of feeling our way through this. We're likely in Q2, probably going to burn a little bit of cash, as we said things will be down a little bit further. But our ultimate goal is to preserve the future, to preserve cash and to return to profitability, and hopefully take advantage of some opportunities along the way. Brent anything you want to add?

Brenton Hatch

No, that's perfect.

Samir Patel

Yes. No, I'm sorry, if that sounded aggressive. I was just trying to understand the trade-off. Obviously, I support all the decisions you guys are making.

Second question was with regards, you mentioned the signing of six international distributors, and no one's asked about that. I thought I'd ask about that. Can you maybe talk about a little bit of background on the size of those markets? Who those distributors are? What the growth potential of those markets might be in sort of a more normal environment?

Brenton Hatch

Cameron?

Cameron Tidball

You bet. Our goal was three last year. We wanted to have presence in—a stronger presence in South America. We brought on a partner that's representing us in Argentina, Uruguay and Bolivia and until the last few weeks here with the news in Argentina, we thought Argentina might be a really strong market for Profire, still might be. Obviously, COVID has slowed us down. We actually had people in Argentina that we had to rescue to get out of there. Otherwise, they might still be there as all international flights out of Buenos Aires had been canceled. But we had at one point 15 different meetings booked with EMPs in that area.

In terms of the market potential, we know that we already have hundreds of controllers in that market. What is available? Well, a lot will depend on retrofit programs, so availability of cap ex and drilling programs. South America was a target for us. We also wanted to get into the south or into the Africa market part of Mena, North Africa there. We do have a partner that is out of the UK which does a lot of business in Ghana, Nigeria, Mozambique, Tanzania. We think they'll be a good partner. Then parts of the Ukraine, Belarus, Turkmenistan, Azerbaijan, I can't say all these words, but that's—we wanted to get in there.

Then of course, the Middle East, we know that Saudi Aramco uses Profire products. They've gotten historically through just a bunch of OEMs throughout the United States. We now have an official partner who has bricks and mortar and boots on the ground in that area. Unfortunately, the Middle East always sounds wonderful. The hard part is the crew comes out of the ground almost ready to go up there. They don't have a lot of heating per well needs. However, at their big facilities, their dehydration facilities, Profire can be found there. Drilling there is a good thing, we'd rather have it be in places like the DJ or the northeast though.

Then we have our partner in Brazil, and we continue—actually, we believe that we'll be able to add perhaps two or three more international partners this year, strategically in India, and perhaps in Australia and New Zealand area. That's where we're at this year.

We really believe that this year could be one of those instead of just talking about it and planting seeds to see some harvest. Obviously COVID has slowed that down a bit.

Samir Patel

Understood. Thanks for the color. I appreciate it, guys.

Brenton Hatch

Thanks Samir.

Operator

Again, if you have a question please press star, then one.

There are no further questions in our queue. I'd like to hand the call back to Mr. Hatch for closing remarks.

Oh, wait, we have a question. I'm sorry. The question is from Dick Sargent from NTB Financial. Go ahead.

Dick Sargent

Hi, gentlemen. How are you today?

Brenton Hatch

It’s a good day.

Dick Sargent

Just to clarify, I'm calling to say thank you and to give you hope. I'm 86, I started with Dean Witter in 1962. I live at below two bucks. I mean, this is where the money is made. You're perfect. What I wanted to let you know is, one, after watching you for a while, I was the bulk buyer on Monday at 73. The thing that stunned me is I always start by looking at long-term charts and get a feel for it.

But then when I saw the balance sheet, it absolutely blew me away. You guys are super. I'm extremely excited about the prospects. You've really given the investing world a great product. My whole world is percentages. I don't care what it is. So, at two bucks on Profire, I'm up, that’s a triple for me. That's what it's all about. There's a great, great situation. I just wanted to call and say how pleased I am with what you've done, and how good this thing looks.

Sometime when you're free for a lunch, I'm over in Denver, but it's worth it to me to just drive over and have lunch with you or fly over and have lunch with you. I really like the way you're operating. So that's it. I've got great expectations. I've already got orders in to buy a little more on a dip, but that's all I wanted to say. I'm excited. I think you've got something terrific. That's basically it. All I had to say was thank you very much, and congratulations.

Brenton Hatch

Well, thank you, Dick. That's very kind of you. That lunch sounds really good. That's one thing that's happened during COVID is I've really learned to eat more. We welcome a good lunch any time.

Dick Sargent

All right. Well, you keep that one open and Dick Sargent will give you a call and come over and see, I'd like to do that. Thank you and keep up the good work. It's great. That's all I got to say. I'm just thrilled. See you. Bye-bye.

Brenton Hatch

Thank you.

Operator

Now, there's no further question in the queue. I'd like to hand the call back to Mr. Hatch for closing remarks.

Brenton Hatch

Thanks everybody for joining us on our call today to discuss the first quarter of the year.

We would like to thank all of you for your continued support. As always, we are available for any discussions or questions you might have in the future. As the economy gradually reopens over the coming weeks and months, we look forward to meeting many of you at various investor conferences and so on as things return to the normal.

Thank you, and have a great day, everyone.

Operator

Again, I would like to remind everyone that this call will be available for replay through May 21, 2020, starting later this evening, via the link provided in yesterday's press release, and in the investor section of the Company's website.

Thank you, ladies and gentlemen, for joining us today. You may now disconnect.