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Profire Energy, Inc.

Second Quarter 2020 Earnings Conference Call

August 6, 2020

CORPORATE PARTICIPANTS

Brenton Hatch, *Executive Chairman of the Board*

Ryan Oviatt, *Co-Chief Executive Officer, Co-President, Chief Financial Officer & Director*

Cameron Tidball, *Co-Chief Executive Officer & Co-President*

CONFERENCE CALL PARTICIPANTS

Robert Brown, *Lake Street Capital Markets*

John White, *ROTH Capital Partners*

Ron Zola, *Shareholder*

Samir Patel, *Askeladden Capital Management*

John Bair, *Ascend Wealth Management*

PRESENTATION

Operator

Good afternoon, everyone, and thank you for participating in today's conference call to discuss Profire Energy's Second Quarter 2020 ended June 30, 2020.

Joining us today is the Executive Chairman of Profire Energy, Brenton Hatch; Co-CEO and CFO of Profire Energy, Ryan Oviatt; and Co-CEO, Cameron Tidball.

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

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 effects of COVID-19 on the business and industry throughout the remainder of 2020, maintaining sufficient inventory on hand, sales of the PF2200 product, ability to enter alternative markets, expansion in international markets, the planned launch of new product, the Company's exploration of M&A opportunities, and the Company's future financial performance.

All 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 August 20, 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, Mr. Oviatt and Mr. Tidball, we will open the call to your questions. As part of the question-and-answer session, Mr. Hatch, Mr. Oviatt and Mr. Tidball will be joined by 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 Executive Chairman of Profire Energy, Mr. Brenton Hatch. Please go ahead.

Brenton Hatch

Thank you, and welcome, everyone, to our Second Quarter 2020 Earnings Call. We hope you all continue to remain healthy and safe as the COVID pandemic continues to impact everybody's day-to-day life.

As many of you are aware, last month, I announced my transition from CEO to Executive Chairman here at Profire. After co-founding the Company in 2002 and having led the Company for over 18 years, the time has come for me to turn over the reins to two very talented and capable successors, Mr. Cameron Tidball and Mr. Ryan Oviatt. I've worked with these gentlemen for a long time, Cameron for over 10 years and Ryan for the past five years, and know that they'll do a great job as Co-CEOs.

I am also delighted to assume my new position as Executive Chairman, which will allow me to continue mentoring and advising Company Executives while freeing up some time to assume an even more important role with the recent arrival of my first great grandchild.

Ryan and Cam have worked together on many projects over the past several years, including M&A, Investor Relations and the overall strategic direction of the Company. Their skills are extremely complementary, and Profire is lucky to have both of them. The Board and myself have full confidence that Ryan and Cam will succeed in their new roles, and I look forward to having them run the business to which I've dedicated nearly two decades.

As mentioned in the previous announcement, I remain highly confident and invested in the long-term success of Profire by continuing to serve as Chairman of the Board and remaining the largest individual shareholder.

I will now turn the call over to the two of them to discuss the financial results and provide an update on Company's strategy and operations.

Ryan?

Ryan Oviatt

Thanks, Brent.

Before I begin with my comments, I'd like to personally thank Brent for his excellent leadership of Profire over the past 18 years and for his mentorship to me over the last five years since I joined the Company. It has been a pleasure working with you. And I look forward to continuing the close working relationship with you and Cam as we endeavor to deliver further long-term value for our shareholders.

The second quarter of 2020 represents the most challenging operating environment in Profire's history, with significant portions of the global economy shut down for extended periods of time. Last week, the U.S. Commerce Department reported the U.S. economy contracted by approximately a third on an annualized basis, as stay-at-home orders across the country significantly reduced the demand for oil.

With storage facilities already near or at full capacity in mid-April, the price for crude oil contracts turned a negative for the first time ever. The average oil price in the second quarter of 2020 was roughly $28 per barrel, down 53% compared to the average for Q2 2019, and as mentioned earlier, turned negative in late April. While prices have recovered to the $40 range over the past few weeks, prices remain well below analyst forecast from the start of the year.

Having experienced the cyclical nature of oil and gas before, we were well prepared to react to the challenges presented by COVID-19 and responded swiftly to adjust the cost structure of the Company. This included the halt of travel, implementing a hiring freeze, cutting nonessential expenses and compensation reductions for Management and nonemployee Directors. In addition, we implemented a furlough program in June with the majority of our employees switching to a four-day work week and some taking additional incremental pay reductions.

The onset of the COVID-19 pandemic has provided additional pressure on the capital allocation models for E&P companies. In most cases, these companies have halted their share repurchase programs and some have reduced their dividends in an attempt to preserve their cash on hand and overall liquidity.

During the second quarter, 18 E&P companies based in North America filed for bankruptcy, the highest quarterly amount in four years. We expect the lingering effects of COVID-19 will likely lead to additional filings for both E&P and oilfield service companies in the latter half of 2020, which will continue to present challenges for us but could also result in growth and/or investment opportunities for Profire.

With that, let me turn to our financial results for the second quarter. 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.

In the second quarter, we recognized $4.4 million in revenue. This compares to $7.4 million in the first quarter of 2020 and $10.1 million in the same period a year ago. This quarter's results reflect the full impact of COVID-19 on our business versus just a few weeks of impact in the prior quarter.

Gross profit decreased to $2.1 million as compared to $3.2 million in the first quarter of 2020 and $5.2 million in the year ago quarter. However, gross margin increased sequentially to 47.9% of revenues compared to 42.5% in the first quarter. This improvement reflects the actions taken during the quarter to reduce costs and adjust our expense structure.

Total operating expenses for the second quarter were approximately $3.2 million. This represents an almost $600,000 decrease from the first quarter and a $1 million reduction from the same quarter of last year. These improvements reflect our continued effort to reduce expenses given the ongoing supply and demand imbalance within the oil markets, as well as our response to COVID-19, including reduced labor costs, travel and other nonessential expenses.

Specifically, G&A expenses for the second quarter decreased 16% from the prior quarter and 23% year-over-year.

R&D expenses decreased 44% on a quarter-over-quarter basis and 55% from the prior year quarter.

Depreciation and amortization increased 23% sequentially and 63% as compared to the same period a year ago, reflecting the acquisition of Millstream and MidFlow in the latter half of 2019.

Total other income during the period was $233,000, the majority of which was attributable to gains related to the sale of fixed assets as well as interest income.

Net loss for the second quarter was $809,000 or $0.02 per share. This compares to a loss of $365,000 or $0.01 per share in the first quarter of 2020 and net income of $1 million or $0.02 per diluted share in the same period last year.

Cash flow from operations in the second quarter was a positive $847,000 despite the reduction in revenue.

Regarding the balance sheet, cash and liquid investments totaled $18.1 million as compared to $17.9 million at the end of the first quarter and $18.6 million at the end of 2019. The sequential increase is primarily attributable to a reduction in our accounts receivable and reduced cap ex spending.

Capital expenditures for the quarter were $469,000, which largely relate to final payments on the new facility in Canada.

Our inventory balance at the end of the quarter was $9 million, down from approximately $9.6 million at the end of 2019.

I will now turn the call over to Cam to provide an overview of our business.

Cam?

Cameron Tidball

Thank you, Ryan.

As Brent mentioned earlier, he and I have worked together for over 10 years at Profire. His example, leadership and guidance have been paramount to my own personal growth and development. Thank you, Brent, for the way that you've led and served our Organization. Thank you for the faith and trust that you've put in all Profire team members to make decisions that consider our customers, our team members and our shareholders. We look forward to your continued involvement and mentorship as we move forward.

Ryan and I have a shared vision for the future of Profire. I'm excited to continue working with him in our new roles. Ryan and I have worked together closely over the past five years on many strategic initiatives, projects and Company direction. This change in Organization structure is a natural fit, and I look forward to our continued collaboration and execution in support of Profire's growth in future.

As Ryan stated, markets remain challenged with the fallout from COVID-19 and the resulting competitive landscape for the oil and gas industry. The Company remains well positioned to weather these effects given our conservative roots and strong liquidity position. We continue to maintain purposeful and strategic advantages such as sufficient inventory on hand and strength of supply chain to be able to service our customers. As a strategy, we continue to remain highly involved with our customers. We have been able to maintain our sales force, and we were successful again in adding customers and maintaining our pricing power in the quarter.

During the second quarter of 2020, the weekly rig count for North America decreased 267 compared to 878 at the end of 2019 and 1,063 rigs at the end of the same period last year. Despite the reduced rig count, we continue to see demand for our products and solutions. We continue to work with our customers to design solutions that provide safety, automation progression and operational efficiency. These elements will continue to be critical to our customers as they endeavor to further digitize and develop operational structures that can withstand inevitable price volatility.

Our PF2100 burner management system remains the industry leader. We do not believe that our market position or share has changed in recent quarters, as the reduction in capital spending has been experienced across the industry. The PF2200 continues to roll out to customers. We have received positive feedback on its performance, feature set and usability. Customers have already begun to specify the PF2200 burner management system for the remainder of 2020 and into 2021.

We are encouraged by this industry validation and believe that the design process and rigor put into the development of the PF2200 will make it another industry-leading product for many years to come. As a reminder, the PF2200 has been designed as a platform that will eventually replace the 2100 in atmospheric, upstream and midstream applications. It has also been designed to potentially provide us with a streamlined ability to enter alternative markets wherein combustion and burners require management.

The PF3100 continues to be utilized successfully in applications across the upstream, midstream and downstream utility space. The PF3100 core feature set continue to resonate with many end users and OEMs of higher specification process equipment. Nevertheless, refineries and petrochemical plants continue to push out projects given the lower throughput levels being experienced due to diminished end product demand.

We still have indications of interest for our products internationally. But like last quarter, most companies are in a holding pattern for any new capital spending in the current environment. A portion of our international business development has curtailed due to travel restrictions. However, we remain active in development of this channel and believe that a market exists that will be part of Profire's future growth.

We continue to assess other uses for our technology beyond the well pad and oil and gas production and processing infrastructure. Less than 6% of North America's gas is utilized in the production processing and transportation of hydrocarbon. There remains enormous potential for our systems to be tailored to other industries in combustion management applications. Playing to our strength of combustion and burner management knowledge will support future initiatives and development of products tailored to support other industries.

As we adjust our cost structure to reflect current business levels, we have aimed to minimize potential impact to our customers. One of Profire's core strategic advantages has been our sales and service coverage and support of our customers. There will always remain a need for specialized field services, such as repairs, optimization and preventive maintenance.

We believe that the value our sales and service team presents to our customers as solution experts will become of an even greater importance as the new normal unfolds in our legacy industry.

Earlier this week, we announced changes to our Board of Directors, which consisted of the resignation of Arlan B. Crouch and the appointment of Colleen Larkin Bell. On behalf of the entire Profire team, we thank Arlen for nearly seven years of diligent service and for the value he has brought to the Profire team and our shareholders. We thank his dear wife for sharing him with us, and we wish them nothing but the best.

With Arlen's departure, we are excited to welcome Colleen. Colleen came highly recommended by industry experts. Her skill set, experience and business philosophy is a great fit to Profire's culture and future growth strategy. We look forward to an efficient transition and integration of her abilities on the Board of Directors.

Before we turn to questions, Ryan and I would like to thank our employees for their continued dedication to the Company. Their commitment, loyalty and devotion in support of our customers and each other is humbling. Their knowledge and understanding of the realities a public company faces would be of envy to any organization and shareholder. They continue to juggle responsibilities of home and work while taking the necessary precautions to stay healthy. We thank them and those who support them.

We also want to thank you as shareholders for your continued support and interest in Profire.

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

Operator

Certainly. Thank you. We will now begin the question-and-answer session. To join the question queue you may press star, then one on your telephone keypad. You will hear a tone acknowledging your request. If you are using a speaker phone please pick up your handset before pressing any keys. To withdraw your question please press star, then two. To join the question queue please press star, then one now.

Our first question comes from Rob Brown of Lake Street Capital Markets. Please go ahead.

Robert Brown

Morning.

First question is sort of on kind of your demand trends right now, I realize the market is weak. But could you kind of characterize what's driving demand at the moment? And what you're seeing in terms of activity drivers right now?

Brenton Hatch

Cam, do you want to take that one?

Cameron Tidball

Yes. You bet. Hi, Rob.

Obviously revenue is down in the quarter, which was expected by consensus, given what we're dealing with. However, that being said, there's still plays where it makes economic sense to drill and complete.

We still have producers that have healthy hedge prices to the market. And there are still companies that do have good cash positions and they see the value of investing, despite the low commodity prices.

The demand, of course, from all of our customers were still—sales order quantity is down. Obviously, the sales pipeline in terms of open sales orders is down. However, that being said, we still are working with nearly the same amount of customers, they're just buying less. And some of them haven't really even skipped a beat, especially in some of the Marcellus Shale plays, where this is not really atypical for them to deal with such low commodity prices in terms of natural gas production.

Robert Brown

And then kind of a related question. And as things kind of play out here, based on your kind of prior activity or experience, how do you see—what sort of needs to happen for the revenue to start to increase again? And when do you sort of—how early or late as commodity prices move, do you typically see that happen?

Cameron Tidball

Well, I'll give a shot at it.

Ryan Oviatt

Go ahead, Cam.

Cameron Tidball

Right. Yes, you bet.

Obviously we have higher oil prices. Everybody needs that to be profitable. However, if those prices go way up and drilling just goes right back up and then supply is killed with just too much supply and no capacity at cushing or pipeline, and then it just drags it back down. We've seen that happen. Obviously, this is a different state we're in, with the amount of bankruptcies that have already occurred, with the consensus believe that there is probably a lot more to come in this year, what we need to have is some stability in price that is truly backed by demand, and that will come as we'll see as things progress here in the fall with going back to school, universities opening up, domestic travel can pick up and business travel. All those things will be key drivers in that end product demand and throughput of refineries, which then will lead to the need at the production of the wealth.

We also see that there's going to be a consolidation here. In the quarter, we saw Chevron acquired the DJ Basin and all the assets of Noble. That was a key win for us, in our opinion. We have both as customers but we still see mega corporations having interest, especially in the DJ Basin, which has been hard with regulation, and obviously, their lift costs tend to be higher.

There’s a lot of things that need to happen. We're interested to see as everybody is, is what does this election bring. But we need some more stability that's actually backed by real demand. And a lot of that will happen as we all kind of joked about it, we need 2020 to die. We need this to play out. We need to see some change here. And we're all tired of COVID. We're all tired of this balancing of one headline saying, "There's too much supply" and one saying, "Well, now crude is jumping because we've dropped supply." Some stability will help us immensely.

Robert Brown

Okay. Good. That's good color.

And maybe this is a question to Ryan. What's sort of your plan on cost structure here in the interim? Are there more costs you can take out? Do you—I think last time around, you really continued to invest in your sales and service efforts. Where are you at in terms of that balance? And is R&D part of this as well in terms of new product development and downtime, or do you use the slowback?

Ryan Oviatt

Yes. Certainly, good questions there.

Obviously, we talked last quarter about some of the early things that we were doing to change the cost structure. We were taking cuts on compensation at our Executive Management level and the Board level. We were taking discretionary spending and travel, all of those things out. And that's continued up to this point, and it's going to continue probably through the end of the year.

As we said in our earlier remarks, we did expand that in June to include a furlough program for our employees. That program is in place through the end of August. So we'll continue to see reduced costs from that as well. We are right now in the process of determining what happens at the end of that furlough program. At the end of August, how do we continue to embed the cost savings that we have achieved thus far and how we need to roll that out? So that's under work right now, but our thought process is that we do need to find ways to continue to embed that, probably a different mix of initiatives than what exists for that program right now. But again, we're still working through all of that.

As Cam mentioned in his last comments, there's so much that is impacting our industry right now related to the COVID uncertainty, and a lot of that uncertainty, we believe, will either dissipate or become more clear in the next 3 or so months. As he said, with schools reopening, with the return of the cold and flu season or the traditional season and the U.S. election, also progress on an antibody or treatment for the disease. So all of those things, we expect to see much more clarity and even some increased visibility over the next couple of months will really help, at least make things more clear as to how long this is going to take there. Depending on how those move, it could make things much worse. But it also could make things much better.

As we look at it, we see a very short-term need to continue to manage the costs and to maintain the level of cost cuts that we've secured thus far at least for the next three to four months. And in addition to that, what we've been able to demonstrate and realize in the Q2 results doesn't reflect the full benefit of even what we've achieved during Q2. With the furlough program only going into place in June, we have less than a full month of that benefit embedded into the Q2 results. So we should be able to realize even some further cost cuts in Q3, as we will have a longer period with that program in place.

Robert Brown

Okay. Good. And Brent, best wishes in your new role.

Brenton Hatch

Thank you, Rob. This is a fun switch.

Operator

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

John White

Good morning, gentlemen.

Good news on the 2200. That's good to hear. As I'm sure you've been doing yourself, I've been talking to a lot of E&P companies, and seems to be consensus that with WTI crude prices in the range of $35 to $40 we'll see people completing the drilled but uncompleted wells, and with WTI crude in the $40 to $45 range, probably start to see new wells drilled. Does that match up with what you're hearing?

Ryan Oviatt

Yes. It depends on basin, for sure. But in general, that is accurate. Some basins need more: the Bakken, depending on where you're at has some different price points than the Eagle Ford. But for the most part, DJ, Permian Basin, those are all plays that can be effective at those price ranges. You're accurate. Those are the same numbers we're getting.

John White

Okay. Thank you.

And with your strong balance sheet and the industry as a whole suffering, it would seem to bode well for your future acquisition activity. Any comments you want to offer on that would be appreciated.

Ryan Oviatt

Yes, absolutely. We keep our eyes open. Obviously, we want to be careful but not too careful with cash. You want to be able to not miss a great opportunity. We are working with—still remains a big part of our strategy is to seek out bolt-on opportunities that could perhaps be less volatile or impacted by drills and completes, yet still be in the wheelhouse of what we have strengthened. And that's automation, looking at emissions, looking at different opportunities, which we know are on the forefront of mine politicians as well as just the environment itself. So definitely keeping our eyes open for good pickups there.

John White

Thanks. And good luck in your hunting.

Operator

Our next question comes from Ron Zola (phon), shareholder. Please go ahead.

Ron Zola

Hello, everybody. Nice to meet you telephonically.

I've been a shareholder for a number of years. Can you guys all hear me okay?

Ryan Oviatt

You bet. Absolutely.

Ron Zola

Great. First of all, I wanted to start off by saying, boy, you've been dealt a very difficult hand being at the end of the industry down cycle and now this macro hit. I wanted to—your revenues are down 50%—over 50% quarter-on-quarter. And when you look at the year-to-year comparison—and I'd like to start off with a big complement on management. And keeping your cost aligned with revenues, that's easier said than done. It's a lot of pain and hard decisions.

And also in combination with that, you've just purchased Millstream and Midflow and all of their employees, and integrating those organizations into yours in this type of environment can have special challenges. So as a shareholder, I'd like to thank you all for your hard work and results.

My questions relate to this quarter's revenues. First, I was just curious, and this is a bit of a naive question, but what percentage of your fourth quarter revenues would be reoccurring; that is related to service contracts, part replacements and repairs or replacement of existing units for existing customers, versus new units sold? Do you have a handle on that? There's two parts to this question.

And then second part is, when you acquired Millstream and Midflow, you were expecting revenues by selling their products and there was going to be some cross-selling potential opportunities. And when you made those acquisitions I think you estimated about $1 million to $2 million per year in additional revenues. And I would like to know for the—for this most recent quarter, and I know everything's changed, those estimations were made in the different environment, but I would just like to know what percentage of the $4.4 million in this quarter consisted of Millstream and Midflow products?

And then after you answer those factual questions, I have a couple of strategic questions related to stability of revenues. If I could follow-up with that question as well, I'd appreciate it.

Ryan Oviatt

Yes. Certainly. Cam, I'll start, but certainly, you can jump in as well, I'll give you some time to comment.

On the revenues readies for Midflow and MEP, we don't report or publish separately those pieces of our business. We've pretty much fully integrated them into our overall business. And their products and services have become a part of the standard offering that we are selling to all of our existing customers that we had before and even to the customers that they brought on with us. So it has expanded our overall product offering and total sale to a customer.

I can't give you the numbers compared to what we said a year ago of what we thought it would add. It's—I think we're certainly below that given this current environment in this last quarter. But we are selling those products. They are very good products, and our customers really like them. So they are selling, they are contributing certainly to our product offerings. And by inference, if we didn't have them, our revenues would have probably been even lower from than what they are right now.

Cam, do you want to add to that? And then even talk about the new systems versus service revenue side?

Cameron Tidball

Yes. You bet.

So definitely, the products from the Millstream acquisition that we targeted that we believe would be adopted in the industry have been. We're selling goods, and as Ryan said, if we didn't have those our revenue would be lower, our average sales order, and again, it's kind of—it's really impacted by the quarter. But we believe it, as a whole, and as we come out of this, has increased. So for every control system we sell, our goal is to increase that average sales order per BMS, and we've definitely achieved that. To what degree? Again, it's very complex to come up with that.

In terms of new versus old, we've seen this cycle in Profire's history. When we started this whole thing, it was all replacing of (inaudible) working on applications that had nothing on it. Now we've seen—and we've evolved to replacing competitors. We don't have the traditional, which we would love to have, recurring revenue based on subscriptions; the upstream and midstream industry, they don't love that stuff for sure. They have it. They don't love it, but it is something we are searching out in our strategic, like our acquisition potentials, our partners that we're looking to bring on resell opportunities, we are looking for that type of offering.

In terms of preventative maintenance, that's a very close comparison that Profire currently has to a recurring revenue model. We do have ongoing purchase orders, contracts, whichever you'd like to call with E&Ps across North America, where we're continually going to their heater applications on either quarterly, biannually or annual basis. That was a big part of our revenue plan for 2020.

Unfortunately, things have changed, and there's a lot of the mentality right now, if it's not broken, don't fix it. However, we've seen some positive trends in that regard as people begin to turn on and restart these wells. They've shut in.

So Ron, I hope that answers your question a little bit there.

Ron Zola

It does. It was a very great, comprehensive answer. And you've already actually, I think, addressed my second component to the question, and that is the strategic—a business if it has a moat, as we all know, a competitive moat, that's a really, really good thing. So if you're in your traditional model where you're selling product, when you hit a down cycle in volume, the question is, are you able to increase your price? Theoretically, if you are solving a significant problem, a safety and efficiency, and your buyers' spend is a small component of their capital budget, if you have a competitive moat, you can stabilize your revenues at least a little bit by increasing price during down cycles without adversely affecting volume. So I'd like you to talk about that and whether you've actually done any of that?

And then the second thing you've already kind of led to, and that's the reoccurring revenues. Have you ever thought about instead of selling burners, placing burners with a full complement of services and converting that to what you had already had said, a subscription-type model?

If you have a competitive moat, even if the buyers don't like that, if it's a competitive moat, the buyers will go along with it. So I'd like you to address that, because that will produce stability of revenues because you have over 71,000 units in place. And if they were on a reoccurring revenue stream, I think the value of your business would be enhanced significantly. So if you could just comment on those, I'd appreciate it.

Cameron Tidball

Sure. I can give a quick stab, and then Ryan can jump in.

The recurring revenue, have we thought about, can we just sell the controller as a service, as a SaaS model with free updates or low-cost updates and service and PMs? We've definitely thought it. We broached the subject with customers to a degree. What we normally find is that the capital expenditure is still the preference for them. So we haven't thrown that out in our core products, and—but it is something that has been looked at. It's not simple for sure.

Have we increased prices during the downturn here? Not so much in terms of our legacy 2100 product. We left it alone. We haven't decreased it. Our 2200 does have a higher MSRP, and the average—because it comes with more power, it drives more results. And we've really honed in with our sales team to sell the results of the product, not the product and its features.

We believe in the future that will help us, but we also realize every business has increased the cost. So we're not saying this will the significant driver of increased margin, but we believe it helps us maintain and stabilize those levels.

Ryan, did I miss anything there that you got? Ron has a great question.

Ryan Oviatt

I think you covered it—yes. I think you covered it really well. And as you said, it's definitely something that our newer products will give us a greater opportunity to explore further, the legacy products and what we've been doing over the last 10, 12 years. That opportunity didn't really exist as much. There's a lot of barriers there, just given the overall size of our equipment compared to the vessels that it controls and our ability to either shut it down or turn it off if customers aren't paying bills and things like that. So it's not as simple or easy as some might think. But with the new systems, we are certainly exploring that more.

So thank you, Ron.

Operator

Our next question comes from Samir Patel of Askeladden Capital. Please go ahead.

Samir Patel

Brent, Cam, Ryan, congratulations to all of you on the new roles.

Brenton Hatch

Well, thank you.

Samir Patel

I have three questions. I think they're all for Cam.

Cam, first one real quick. I couldn't tell if you answered this or not previously. Are you sequentially seeing completions trends going up in Q3 versus Q2? Or would you expect revenues to be down? I know you have low visibility, but just from what you've seen so far?

Cameron Tidball

We believe, actually, Q3 should have a slight uptick in completions compared to Q2. We believe that revenue, based on current forecast, we're not expecting massive growth, but it's still a little early to tell. Our projects, unfortunately, a lot of our customers, they are going through massive restructures and contacts are being lost, and we're having to gain new contacts and pick up where they left off. This is a bad thing because we lose friends and we lose people. We have close relationships.

It's a good thing because, as I mentioned in my remarks, we fully believe that they're going to have to rely on us even more. They have less manpower to do what they've done historically. They're going to need experts, and that's a big part of the value that Profire brings, of course.

Samir Patel

Perfect. Okay. Second question, more of a macro question. Given the steep decline curves of shale, you would expect that they kind of fly off the back of the treadmill at some point if the rig count stays where it is. Right? So I was curious if you have any insight. I've seen a statistic that says you need about 600 rigs drilling just to maintain U.S. production at the levels it was in 2019.

I'm curious if you kind of have a number like that in terms of rigs or completions activity or what you think is needed just to obtain U.S. production as opposed to grow it?

Cameron Tidball

Yes. It's a great question. You see tons of research and articles out on that. If you've noticed today, Exxon came out saying, if we don't get some stability in prices, even increase, 20% of the world's reserves could be in jeopardy. I'm not sure I completely subscribe to that right now, but they've got a lot of big mines there that probably are way smarter than I. So there's something that to be said to that.

Now what that number is for drilling rigs in the United States. Oh, for sure, it's got to be higher than where it is today. The U.S. will continue to be a major supplier and swing producer of oil and gas. Shale wells is something—technology is going to have to evolve for sure because of that steep decline. It's just the price point to drill those wells. They can't beat down drillers to lower the price any more than they already have.

Can technology evolve and become better? For sure. Is there ways to prove the reservoir quicker? Probably. So what is that level? A lot of that can depend also what is the world doing? Where is the world buying its oil from? If we see, obviously, places like Libya, Venezuela, Southern Africa, Northern Africa, they can change on a dime based on just the type of countries they are and dictatorships they deal with.

I don't know exactly, Samir, where that number needs to be. It has to be higher than where it's at, especially as we come out of COVID and demand increases.

Samir Patel

Sure. That's perfect. Final question, Cam, is I was a little surprised to hear you mention the other markets. I remember you kind of played around with grain silos a couple of years ago, but I think you'd abandoned it just because the margins were really up to Profire standards.

If you could maybe talk about what you're seeing there in terms of competitive environment, the opportunity set and then maybe whether you think you're going to be able to achieve the same type of margins in that market as you do in your quarters for business because I kind of thought that was the headwind to penetrating those. Thanks.

Cameron Tidball

Yes, you bet. There definitely is—the headwinds exist, but you have to consider margins. And your sales, do you have a divergent sales strategy? Or who do you put towards those efforts? I did mention in my remarks, and this is a statistic from the EIA, a very small percentage of gas that is used for processing, for production, or other uses, is actually at the well pad or in the pipeline food chain. So what does that mean? Well, that means there's a lot of other places where there's an opportunity to light a burner, control a burner and provide automation. We know these exist. We've done lime dryers. We've done grain dryers. We've done quite a few this summer actually. So we haven't quite abandoned that. We're not marketing aggressively, but we have come and made partners with people who can at least open the door, and then we can come in with the engineered solution.

There are a lot of commercial opportunities that exist - light industrial, heavy industrial - where burners are needed. So it is one thing that Profire is considering, and it's why we built the 2200 with its open platform, if you will, we have an easier path to getting to those. Now how are we going to figure out which ones to go after? Well, we're looking at ways to systematically take an opportunity, an industry, whether it's bio, gas, grain dryers, pulp and paper mills, and we are putting in a program in place to take a look at these things, analyze them appropriately, if they're a great opportunity, we'll double down and go for it. If they're a dog, we'll fail quickly and sell forward is a mantra we're putting forward in the Organization.

So we are looking for other opportunities beyond the well pad. The oil and gas business, we are still optimistic, it will come back. It's going to be different, and we are not going to abandon that. It’s what has made us successful, the strength of ours. But looking outside off the oil well pad is important to Profire's future, and we believe we have the know-how as well as the products that could be adapted or potentially could use right away in-house. So that's how I would comment on that question.

Samir Patel

No, that's great. And on the competitive environment, I mean, how are those kinds—I know it's a very broad market, but how are those customers being served right now with further burn management needs?

Ryan Oviatt

Yes. It depends on the industry, highly PLC based, highly antiquated technology, relay-based logic, not to get technical, but it's a variety of things. If you were to go to—you'll find farmers lighting grain dryers by hand. You'll find them with a (multiple speakers)

Samir Patel

A rag and WD-40.

Ryan Oviatt

Yes, you'll see it for sure. We have a sales team out at an asphalt plant today. It will just be old antiquated technology in place. But there are some incumbents, for sure, and we plan to, as part of our research and analysis of these opportunities, to see what is the incumbent? Well, we know we won't be able to, probably, for the most part, get into new grain dryers because the incumbent that's there, it's all baked in. It's done. But on the retrofit side, there might be a great opportunity. With each opportunity we look at, each industry, that is a big part of the analysis, is who's already there, what's the space? What are they charging? What are they building? Is there an opportunity to get in with an OEM and build something with them for them? All those things play a part of the analysis.

Samir Patel

Makes sense. Thank you, guys.

Operator

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

Our next question comes from John Blair of Ascend Wealth Management. Please go ahead.

John Bair

Congrats, Brent, on your transition, and to Ryan and Cameron as well in your new capacity.

Brenton Hatch

Thank you.

John Bair

A number of my questions have been addressed a little bit. First off, on the international, it sounds like that's pretty much kind of on autopilot right now, not really much going on in that regard. Is that—am I understanding that right?

Cameron Tidball

Definitely not the indication that we wanted to completely give. It's been curtailed a little bit. We had aggressive plans to be out with our distributors that we brought on in 2019. But we believe there's still opportunity there. It's just changed how we're going to approach it to a degree.

We're working on some, what we believe to be, good-sized projects. Right now we don't hold all the cards or have all the direct insight because we're not working with the end user, but based on our distributors' feedback, these could be some potential good opportunities for Profire in the upcoming quarters. We had actually in one of our offices one of our distributors, that covers parts of Europe, this week. And they gave a good indication that things are starting to open up a little bit. Quarter Two results, as we mentioned, weren't significant enough, but we're still positive that there's opportunities coming forward, and optimistic regarding those.

John Bair

Okay. So the addressable market is obviously still there, just kind of deferred for right now.

Cameron Tidball

Yes.

John Bair

Okay. You addressed this a little bit in the prepared remarks, both the press release and intro, about adding new customers. And I was wondering if you could elaborate a little bit on that? Is that more—is that new customers in existing geographical areas that you have historically worked in? Or have you picked up new customers in new areas? And are these sort of new products, perhaps with existing customer, but...

Cameron Tidball

It's a great question. We track that on a monthly and quarterly basis, new customers and the revenue they bring in. Obviously, it's something that has been a great strength at Profire is we continually do this because we have a sales team and a search team that's out continuously.

In the quarter itself, we did. We brought on some new customers. They're all in current geographic areas and doing the same thing. It’s a balance of end users, as well as resellers of our product; companies that actually install and work for the end user. So we had a combination of that in the quarter. And we do regularly have new customers come on that are doing something a little bit different.

As we mentioned, it's a strategy of ours to look beyond the well pad. We had a customer, a new customer in Q2, that is doing some interesting things with our PF3100, that could be something that's used in the downstream utility business to help with—and it's not even our core downstream utility business, but it's actually at the pump. So it's very interesting. There's not a lot of details I can give on it today.

We see new customers that see us and we run into them. And we're asking our sales and service team to broaden their view to open their eyes to what's also around that is using control with burners and burner management.

John Bair

Okay. And then with the companies—the E&Ps having scaled back their cap ex in general, are you seeing some shifting of their spending dollars, perhaps money that they're saving on actual exploration activities and addressing some of that, taking some of that capital savings and doing some kind of maintenance and upgrades and whatever. You get any sense that, that's going on at all?

Cameron Tidball

Not to the degree it used to be done, that's for sure. We often would see at the end of years, companies go through a large amount of budget because they had it. We don’t see the large retrofit programs happening right now because of the decrease in drilling. We have some, but for the most part, as I mentioned earlier, a lot of them are putting in place. If it's not broken, don't fix it. If it's not a higher producing well, we might not invest in it at this time. The economics just aren't there. But it is something as we progress forward here, as they get their corporate structures, again, more in line, whatever that means in the future, we could see that.

John Bair

Yes. Okay. And the last question here is kind of touched on it again in previous question, but can you speak to the market environment as far as—and what the quality of potential M&As with all these service companies, there's a lot of small ones, probably a lot of privately owned ones, they're having difficulties.

What's your sense as to the quality of potential acquisitions? And I'm assuming too, that you're not looking for a fixer upper-type opportunity. But for example, picking some assets or a company up out of perhaps a bankruptcy situation, what are you seeing in that regard?

Cameron Tidball

Ryan, do you want to help? You start that one.

Ryan Oviatt

Sure. As you said, there are certainly a lot of opportunities out there, and we think that there will continue to be opportunities as this continues to roll on, especially with all the uncertainty that still exists, at least through the end of this year. But we certainly aren't looking to do an M&A transaction just simply to become bigger. We've maintained our focus that M&A is a great potential opportunity for us to grow, but that we want to do it strategically and grow in ways that we think are meaningful to us and also to the industry. So we're looking at what are the technologies that are going to be needed.

And even coming out of this COVID situation, as Cam said, the industry that we've been a part of for so long is going to be different, a bit different. And there are going to be needs and desires for new technology that help with a transition that will be taking place over the coming years. And so we want to acquire or invest in those areas specifically.

If by a chance there is a company that has that type of technology that's emerging from bankruptcy, then maybe that is a good pickup or opportunity; but we don't want something that's a fixer-upper or just it's going to make us a lot bigger of what we are right now. We're being very strategic and focused on new technology, on what we see the industry needing in the next five to 10 years and how we can be strategic key players in that effort.

Cam, do you want to add?

Cameron Tidball

I think you put it perfectly. Hitting a fixer-upper is probably not the best idea for Profire right now and just growing numbers in that regard. It's more along the technology side and what the future is going to need, is where our strategy lies.

John Bair

That's what I figured. And that's good to hear. So yes, I think we're all going to have—a lot of industries are going to look a lot different on the other side of this wherever and whenever that might be. So good luck and keep going on and enjoy that great grandchild there, Brent. I can appreciate that. I have a new grandchild. Not a great grandchild, but a grandchild.

Brenton Hatch

Well they're all great as far as I can say, John.

Operator

This concludes the question-and-answer session. I would like to turn the conference back over to Management for closing remarks.

Ryan Oviatt

Thanks, everyone, for joining us on our call today to discuss our second quarter 2020 results. We would like to thank all of you for your continued support. As always, we are available for any discussions or questions you may have.

We will be participating in a few virtual conferences, investor conferences in the coming months, including the Midwest IDEAS Conference, the LD Micro Conference and the Lake Street Conference. We look forward to catching up with many of you at these events. Thank you again, and have a great day.

Operator

This concludes today's conference call. You may disconnect your lines. Thank you for participating, and have a pleasant day.