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Profire Energy, Inc.

Third Quarter 2020 Earnings Conference Call

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Ron Zala, *Private Investor*

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PRESENTATION

Operator

Good afternoon, everyone, and thank you for participating in today's conference call to discuss Profire Energy's third quarter ended September 30, 2020.

Joining us today is the 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 Company's expansion in international markets, exploration of other markets, the Company's review 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 November 24, 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. Oviatt and Mr. Tidball, we will open the call to your questions. As part of the question-and-answer session, 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 Co-CEO of Profire Energy, Mr. Cameron Tidball. Please go ahead, sir.

Cameron Tidball

Thank you, Operator.

First, we would like to offer our wishes that you and your families all remain safe and healthy during the ongoing pandemic, and express a special thanks to our employees for their efforts as they continue to balance their responsibilities at work and at home.

I will start the call by providing some updates on the industry and our business, followed by a review of the financials by Ryan Oviatt, and then I will discuss the outlook and our strategic direction.

The ongoing uncertainty surrounding the U.S. Presidential Election and the COVID-19 pandemic continues to weigh heavily on global markets. While the most recent GDP report showed a strong improvement over the second quarter, we are starting to see states and countries reimplement stay-at-home and other COVID-related restrictions. We believe that these restrictions will likely constrain the demand recovery of hydrocarbon.

The average oil price in the third quarter of 2020 was roughly $41 per barrel, down 27% compared to the average for Q3 2019. Preliminary forecast from Wall Street analysts have prices for West Texas Crude reaching the mid to upper $40 range in the latter half of 2021.

EMP companies continue to face meaningful constraints with their capital allocation models. In addition to the suspension of dividend and share repurchases, some companies are also facing line of credit and term loans that are nearing maturity at a time when the bank may be reluctant to roll over or renew these borrowings. Without access to capital, more EMP companies could face the prospect of bankruptcy.

While we didn't predict of the emergence of COVID-19, we have lived through and survived the previous ebbs and flows of the energy industries by maintaining a debt-free balance sheet and we are confident that this strategy positions us well to survive this current cycle.

As previously mentioned we have also taken multiple steps to adjust the cost structure of our Company. In addition to cutting non-essential expenses, we have significantly reduced our labor cost through a combination of attrition and furloughs. The majority of our employees also took pay reductions and switched to a four-day workweek for a significant periods of time. With these reductions, it is important to note that we have not experienced significant disruption to our business or customer support model.

With that let me turn the call over to Ryan Oviatt, our Co-CEO and Chief Financial Officer, to discuss our financial results for the quarter.

Ryan.

Ryan Oviatt

Thanks, Cam.

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 are documents are available on the Investors section on our website. The transcript of this call will be posted in the coming days.

In the third quarter, we recognized $4 million in revenue. This compares to $4.4 million in the second quarter of 2020 and $9.9 million in the third quarter of 2019. This quarter's results reflect the ongoing impact of COVID-19 on our business.

Gross profit decreased to $1.5 million as compared to $2.1 million in the second quarter of 2020 and $5.2 million in the year-ago quarter. Gross margin decreased sequentially to 38% of revenues from 47.9% in the prior quarter. This is primarily due to product mix and typical movements in inventory and warranty reserves. In addition, the significant revenue decrease caused a fixed cost portion of our cost of goods and services to push product margins below historic levels.

Total operating expenses for the third quarter were approximately $2.8 million. This represents a $300,000 reduction sequentially and a $1.2 million reduction from the third quarter of 2019. The sequential and year-over-year improvement reflects our continued effort to reduce expenses in response to COVID-19 and the supply and balance in the market. These reductions come from reduced labor costs, significant reductions to travel, and other non-essential expenses.

Specifically, G&A expenses for the third quarter decreased 18% sequentially and 31% year-over-year. R&D expense increased 89% on a sequential basis, and decreased 32% from the prior-year quarter. The significant fluctuations in R&D expense is due primarily to the timing of product certification. Depreciation and amortization decreased 7% sequentially and increased 30% as compared to the same quarter a year ago, reflecting the addition of the new building in Canada and the integration of assets acquired in the purchases of Millstream and Midflow.

Total other income during the period was $91,000, the majority of which was attributable to gains related to fixed assets sales as well as interest income.

Net loss for the third quarter was approximately $1.1 million or a loss of $0.02 per share. This compares to a loss of $809,000 or $0.02 per share in the second quarter of 2020, and a net income of $922,000 or $0.02 per diluted share in the third quarter of last year.

Cash flow from operations in the third quarter was a negative $724,000 due to the steep decline in revenue which outpaced cost reduction efforts. Regarding the balance sheet, cash and liquid investments totaled $17.2 million as compared to $18.1 million at the end of the second quarter, and $18.6 million at the end of 2019.

Capital expenditures for the second quarter were $152,000. Our inventory balance at the end of the quarter was $8.8 million, down from approximately $9.6 million at the end of 2019.

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

Cam.

Cameron Tidball

Thank you, Ryan.

The oil and gas industry remains challenged by economic and demand headwind. In the third quarter of 2020, the weekly average rig count for North America decreased to 287, compared to 878 at the end of 2019 and a 1,024 average in the third quarter of last year. In September, the rig count increased slightly, the first such increase since March.

Despite the historically slow rig count and the resulting impact to completion activity, there remains the need for our products and solutions. Producers continue to utilize our burner management systems as new production is brought online and as the legacy of equipment is upgraded. Installation of Profire BMS solutions is critical to meeting safety and efficiency initiatives while satisfying regulatory requirements.

We are pleased to report that our recently released BMS controller, the PF2200, continues to gain traction in the upstream, midstream, and natural gas transmission segments. We are encouraged by its initial performance, and feedback received by customers.

As an update to our international growth initiatives, we continue to support our distributors as they quantify individual markets and strive to displace incumbent technology for complacency. Our distribution partners in Latin America continue to place orders. In 2020 through our Latin America distribution partners, we installed our first 2200 products in multiple markets.

Year-to-date we have added over 100 new customers which match the pace of the prior year. We believe that this is indicative of our strength of brand and product performance as customers continue to choose to adopt our technologies. These new customers are a mix of end-users and resellers who reside in the upstream, midstream, and downstream transmission space.

We continue our focus to maintain and grow our existing burner management related market share in our core upstream and midstream market, as well as the downstream distribution pipeline and transmission segments. We also continue to assess both on strategic partnerships, which support our product offerings.

We are researching opportunities and engaging with potential partners to expand our capabilities and support our diversification strategy. This includes potential solutions such as emissions monitoring and reduction, optimization of operations through machine learning and artificial intelligence, and improving overall site safety and security. We believe that these solutions will become increasingly essential for the industry as it works to embed important ESG initiatives for years to come.

Another growth opportunity for us is the development of strategic partnerships with organizations who operate and have a combustion presence in industries outside of oil and gas. Some examples include aviation, power generation, infrastructure, mining, construction, and food and beverage. We have experienced initial success with some of these objectives.

We have developed relationships with partners focused on pad optimization and emissions monitoring through AI and machine learning, and have commenced high-level customer discovery meetings with our customer base to validate the market suitability and acceptance.

We are in the process of validating the use of Profire's controlled technology in a heating application that has the potential to be used in aviation, construction, mining, and soil remediation. We will continue to work on developing a go-to-market strategy for initiatives outside of our core business, and we look forward to providing updates on these efforts as we go forward.

Finally, the turbulence in the oil and gas market created by the pandemic, and subsequent reduced demand, has led to multiple companies either filing for bankruptcy or positioning themselves to be acquired by a strategic buyer. We believe this environment could create strategic opportunities for Profire. We are fortunate to be in a position with our balance sheets to act if the right opportunity comes along that makes financial and strategic sense.

Despite our reduced revenue and spending levels, we remain committed to our sale strategy and have not made adjustments that would prove detrimental to this effort or our customers. Having technical and field support available to support our customers remains a competitive advantage for us.

Before we turn to questions, Ryan and I would like to once again thank our employees and investors for their continued dedication to Profire, and hope you all stay safe.

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

Operator

Yes, thank you. At this time, we will now be conducting a question-and-answer session. If you would like to ask a question today please press star, one from your telephone keypad, and a confirmation tone will indicate your line is in the question queue. You can press star, two if would like to remove your question from the queue. Participants using speaker equipment it may be necessary to pick up your handset before pressing the star keys. One moment please as we poll for questions. Once again and star, one. Thank you.

Our first question is coming from the line of Robert Brown of Lake Street Capital. Please proceed with your question.

Robert Brown

The first question is sort of on the visibility and demand environment, realizing it’s not great. Are you seeing any sort of recovery from COVID kind of settling down, or are you still see the visibility weak? Is there any kind of sense on the how the yearend budgets (inaudible) are shaping up?

Cameron Tidball

Great question, Rob. I will take a crack at it here and Ryan will have some comments as well.

The demand recovery is—we look at it right now as still COVID is - no pun intended - trumping things that are going on right now in the economy. The demand recovery from our customers from the perspective, are they drilling more? Obviously not, you can tell by the rig count, although we had a slight uptick, which was kind of in the August timeframe, drilling picked up a bit to really make up for storms in the Gulf and we saw some of that as we had a little bit stronger end to the quarter than we started. However, that being said, overall we really need the market to open up to really bring in that call for demand for end-product gasoline transportations, especially commercial transportation, etc., and right now it looks like we are seeing the opposite, unfortunately. A little bit of pulling back. However, the positive news, if testing continues to go well for this vaccine it will definitely help us.

Ryan, anything to add?

Ryan Oviatt

Yes, I think you covered most of it for sure, and I think the vaccine is really key as positivity comes around and we get more news about it being effective, assuming that there is an effective one that's on the near horizon, that's going to be critical for demand and getting confidence back for people to not be worried about further shutdowns in their local communities or in states or even in other countries, and then also being able to have confidence in traveling again and reassuming life in a more normal state, is really what we need to see to see the demand side improve, and hopefully we are on the verge of seeing that. There was very positive news yesterday from Pfizer about their vaccine and its effectiveness, and so hopefully some of that, they are predicting, we could continue to see more positive news and actually get some of that vaccine added to the economy and into the hands of people before the end of the year. So that would be very positive for us and helpful, but that's the kind of stuff that really needs to happen to change the demand profile right now.

Robert Brown

Okay. Then on the Midflow, Millstream acquisitions, maybe you can update on where those are at and how you are seeing those—the activity in those.

Cameron Tidball

Yes, the Millstream acquisition which was basically an inventory purchase, as we discussed before. We just finished really our first year of that acquisition and we are pleased to report that customers have really taken well to the burner technology, which is really what we wanted from the acquisition. The airplay control technology that goes with the burner itself and some of the other manufactured goods, which are we are now the OEM for those products, it's really—if we look in our history, even though this is not a great year overall in terms of revenue of course due to the COVID pandemic, but our percentage sales of that product are higher than they have even been, and they now come at a much better margin. Not quite to where our control technology is, but from a perspective of a manufactured goods, it helped tremendously, so we are really pleased with the acquisition in terms of the product. It's given us the increased spend that we now get on an overall burner management solution from individual customers.

In terms of the Midflow acquisition, we really have picked up in the Northeast in terms of a service perspective, which again we wanted to increase that footprint in the Northeast because we believe that the natural gas market will continue to improve. We believe that it will be a strong play in years to come, and to have that service footprint as well as the experience assets that we are able to bring in with that acquisition, we believe are key to our growth in the future as we forge outside of oil and gas with our combustion technology.

Robert Brown

Okay, great. Thank you. I will turn it over.

Operator

The next question is from the line of Jim McIlree with Bradley Woods. Please proceed with your question.

Cameron Tidball

Hi, Jim. How is it going?

James McIlree

Well, thank you. How are you guys?

Cameron Tidball

Well, we are doing well.

James McIlree

Yes, just a couple of questions regarding the changes that are taking place in the industry. My assumption is that there is going to be a lot of consolidation and so there will be fewer customers for you, and I was just wondering if you could comment on how your position is relative to a combining industry. That is, do you have relationships with presumably who are going to be the winners, which would be the larger cap companies?

And then secondly, Cam, you kind of referred to it in the last answer to the question on your exposure to the different basins. As you look out and prepare for whatever is going to happen, how are you positioned in basins that are more likely to see activity, and you mentioned the Northeast with the exposure to the gas but, I am also wondering if you could extend that thought to how you are doing for other basins and oil versus gas where you might need to beef up?

Let me just throw one more in there. You talked about new products, I am wondering if that's going to result in an increase in R&D in the short and medium term. Thanks

Cameron Tidball

Great three questions. I will tackle the large cap first and the basins, and then of course, Ryan, just jump in.

We are positioned very well for the large caps to take over. In fact, that's where we have for the most part focused our efforts over history. Yes, we work with any producer, but the focus on your Chevrons, your focus on your Devon Energys, your Marathons, your larger companies that are doing—the Oxys that are doing a lot the transactions through the Pioneers, etc. We are positioned very well and specified in with most if not all of the majors. So, your recent acquisitions that occurred, Cenovus of Husky: well, we had both as a specification. Your acquisition of Chevron of Nobel in the DJ Basin, great: we have both of those anyway.

We completely agree, consolidation will continue to happen, and it's why Profire has to remain diligent in how much credit we give out, that we extend to customers. We are very carefully watching their activity, their payment history. Our credit team mixed with our operational and sales team, it's a major focus for us.

In terms of basins, in the Northeast we have an expansive footprint of sales and service, and it is probably outside of the DJ Basin and Colorado, those two probably remain as our highest market share where we are probably in the high 80's if not 90's percent of the market we believe that we capture it. When you go further south, into—the Permian Basin is obviously a key focal point and will remain a key focal point for liquids in the United States, and it is an area where we had admittedly not so much come late to the party but our presence was not as big there as we would have liked it to; however, over the last three years, we have done very well in the Permian Basin and we have a strong footprint there, but looking to expand. And in fact, a lot of our customer addition throughout this year have been in the Permian Basin, which is a good sign.

We believe North Dakota will probably continue to struggle: that basin has higher lift cost. However, we still have a presence there through our sales as well through distribution partners who sell and service our equipment. Oklahoma and North Texas, I think there will be an emergence there as gas become more important—not so much more important, but more used as we go forward and potentially a coal-free or less coal in our power plants. Natural gas will have to pick up the slack, as well as in a lot of other spaces.

The last question on new products. We definitely continue to look at what we are going to do with our product line. Right now, obviously, we have the 3100 which we still are working on updating features as we gain validation and customer information on what is required for different markets, both inside of oil and gas, mainly on the more complex appliances, as well as outside of oil and gas as we venture into that territory.

R&D expense, we look to control it. Anything that we do going forward will need to match market need and desire, and we are really looking into our strategic partnerships to help us in our R&D efforts in terms of which way to steer the ship as we again—as we want our combustion products, which are world-class, as we stated in our release. They're world-class; they can be used in a lot of different areas. We believe we have only tapped just a small portion of it through the upstream and midstream space.

Ryan, anything I missed there?

Ryan Oviatt

I think you covered it very well. The only thing I would add is on the R&D side.

We are certainly committed to continuing to develop new technologies and even adding capabilities to the technologies that we have in place right now, and as I noted in my review of the quarterly results, we can see some quarters where R&D does jump up a bit and largely that will be related to certifications of any new products or features or things that come out; but, as far as the overall R&D spend say on an annual basis, we're not looking to increase that, we are looking to manage the costs and reprioritize our efforts where we believe they will have the most value. So, we shouldn't see any significant increases in R&D cost, but still allow ourselves the opportunities to invest.

James McIlree

Fantastic. Thanks for the answers, guys, and good luck with everything.

Cameron Tidball

Thanks, Jim

Operator

Our next question is from the line of Brad Bullock with Pioneer Capital Group. Please proceed with your questions.

Brad Bullock

Thank you. Actually, it's kind of a follow-up to the last question on R&D. Where are you in terms of the product development in expectations of getting it to market?

Cameron Tidball

Well, on the upstream-midstream space, obviously we've executed there and the product is there. The 2200 that we launched late last year and early this—more of a commercial launch here in 2020 is rolling forward just as planned. We would have liked there to have been more demand this year to get more of the out, but it's actually a little bit of a blessing in disguise. You get an opportunity to test the product a little bit more fully, allow customers to bring it in slowly into their fleet.

I guess your question would probably be more along the lines of, where is your combustion technology as it needs to be your controllers for other market, and that is a great question. We have already done some installations and some asphalt plants in some sand drying plants, some agricultural opportunities, we've begun work in some biogas applications. Really, we are calling it very productive dabbling, as we've put it, in a lot of different industries and now we believe we are to a point where finding the right strategic partners who already have a presence in those markets, larger automation firms that are looking for a technology that can be their own, and then we support them as the manufacturer and expert of the technology instead of trying to grow it organically.

So that really is the opportunity Profire is looking at right now. Does our control technology match every industry? No, it doesn't; but does it match a bunch of them? A lot—large market? We believe it does, and that's again some more of the research we will be putting in development over the next coming months, but we really look forward to 2021 being a year where can potentially bring on some strong strategic partners to help diversify our revenue streams.

Brad Bullock

Thank you.

Operator

The next question is from the line of Samir Patel with Askeladden Capital. Please proceed with your question.

Samir Patel

Yes. I was just saying a good job on the cost discipline, and sure it will get better soon.

So, the first question, I didn't understand what you were saying about the emissions reduction, ESG stuff. Were you talking about organic product development, or were you talking about M&A? I didn't quite understand. If you could go over that again.

Cameron Tidball

We are looking at partners in that arena. There is a plethora of technologies our there where that focus exists, and where we feel our strategy is to start with a strategic partner. Could it potentially turn into M&A? Who knows, right? If the opportunity is right it might go that way, but for now we want to work with partners or partner in this area and to use our footprints, our customer base to be able to get some early adopters. Get this technology more mainstream. It is a great opportunity for EMPs, and as we mentioned in our call, they have to pivot. They cannot continue to hope that they will get all their savings from drilling. Drilling is not going to get cheaper unless you just don't do it, and we are not to that point. So, they have to get operations in line, and they can't do it through a ton of people staring at screens and a ton of people driving out to look at things. They have to rely on we believe artificial intelligence and machine learning, and so this will be a partnership strategy for us, at least for us at this point, Samir, but we look forward to sharing more on that as we get some wins in that area.

Samir Patel

Okay. Understood. The second question was for Ryan. On your gross margin, I didn't understand, were there some kind of inventory reserves in there, like are those margins kind of just like what you are doing right now, or is there something kind of one-off? And is about $1 million of EBITDA or cash flow a quarter reasonable burn rate for the next quarter or two until demand picks up?

Ryan Oviatt

Some good questions there for sure.

As far as the gross margin is concerned, there is a lot of things that come into play there as part of our normal structure, and some of that or a lot of that is being amplified as the revenues have dropped significantly. So, there is certainly some fixed portions that come through there in overhead and depreciation that are now, as a percentage, larger than they would be in previous periods or periods where we have higher revenues.

Another factor that does come into play there also is the actual products that are sold during the period and the customers that they go to. We have larger customers that purchase in much higher quantities get a little bit of a discount compared to some other customers who aren't meeting those same types of numbers, and in quarters like this where things are down, it tends to be those larger customers that are doing more of the buying than some of the other customers. So that naturally has a little bit of product mix and customer mix impact as well.

Warranty and inventory reserves do come into play there: if there are movements up or down in those, they will either move the gross margin up or down as well. But overall there was nothing highly unusual or abnormal in these standard items. It was a just movement that unfortunately were all kind of drawing the margin down a little bit more and therefore we saw that significant reduction in the margin, but nothing significant when it comes to the inventory, we didn't write off any large portion of inventory or anything like that.

Then your question on EBIDTA, obviously we don't give quantitative forecasts or predictions, guidance, but if you were to look at our run rate right now, and if things were to hold flat, it's a reasonable number to look at going forward, for sure.

Samir Patel

Okay. It sounded like you making some good progress on international. Again, I am curious: are you going to start breaking out, like the actual results at some point, like what you are actually selling? And do you have a sense of—I know a lot depends on the oil pricing environment and what not, but do you have a sense of kind of how that business can progress over the next couple of years?

Cameron Tidball

Ryan, do you want to comment on the breakout part, and then I can jump in on the how to progress?

Ryan Oviatt

Yes, certainly. There are definitely accounting rules and requirements, as far as the financial statements are concerned, as to what portions need to be broken out and at what levels, typically it's dings (phon) that become greater than 5% of the total number, so at some point, we certainly hope that international becomes large enough that we are able to break it out on the financial statements and it becomes that meaningful.

So, it may be around that threshold, as to when it makes the most sense to start to break that out. Obviously, you can get from what I am speaking that it hasn't quite reached that level at this point, but we are making good progress.

Cam can comment specifically about where that progress is happening and what it is that we are seeing.

Cameron Tidball

Yes, definitely. We're really, as we mentioned, we got our PF2200 into several markets in Latin America over the—so far this year, and the adoption of that technology. We believed from the beginning that our international products for natural draft heaters, even four strap, would have to be something that was less language dependent, which the 2200 user experience is probably more international friendly. We have seen some great grounds gained in the Vaca Muerta play, which is in Argentina; and as you speak the language you know that that means 'the dead cow' - I learned that, which is a great thing. But we love that place. Our distributors throughout Latin America are busier than in other areas. Right now, we have learned that Saudi Aramco, they love our technology; unfortunately, Saudi Aramco just doesn't have a ton of applications currently for us.

We'll continue down the process, we did a deep dive into our progress throughout the year or our distributors, and we are working several of our distributors more accountable than we had in the past. We want to see progress. We want to see the behaviors they are exhibiting in this new world of Zoom meetings—we don't have to be in Chile and we don't have to be in Peru and Bolivia. We can do things via MS Teams or Zoom or whatever technology. So, we look for 2021 to be a stronger year, and the last half of 2020 has shown some nice promise. We'll continue—we are planning to add more distributors in the upcoming year and perhaps switch a couple out if they are not performing, but again, as Ryan mentioned, we would love to be able to be able to break it out and share it, because that would show the progress, but we are happy so far with the progress.

Samir Patel

Got you. Thanks

Operator

As a reminder to ask a question today, you may press star, one.

The next question is from the line of Ron Zala (phon), a Private Investor. Please proceed with your question.

Ron Zala

Hi, Cameron. Hi, Ryan.

First, I wanted to make a recognition that these two down cores are really, really significant revenue hits and I think I want to recognize Profire and you guys, it's very tough. You have I'm sure a family-like environment with employees, and its—keeping cost is no fun, and cutting also your customer relationships are good and I know a lot of customers are hurting out there as well. I did want to compliment you guys on your ability to control cost, you have very low operating leverage which is great. Low financial leverage, and you are actually preserving cash which is fantastic in this downturn. So, I just want to commend you guys: it's no easy task but you have done a phenomenal job of preserving the balance sheet, and it's given you the ability to look at a lot of the strategic options that you have talked about, which are exciting.

I had a question related to the core business. There are companies in the oil field service sector like computer modeling and natural gas services and some others that have a reoccurring revenue model where they basically continue to experience revenues even when drilling stops because of their business model, and when you have a competitive mote, like Microsoft did with their Office Suite, even though as a customer of Microsoft I wanted to buy it, they didn't give me that option and I had no alternative, right? Because they have this mote, they have a high market share.

So my question is, have you ever thought of transitioning in conjunction with new technology availability, a new burner model, into a non-recurring revenue model, where you could use it to do preventative maintenance updates, be responsible for routine maintenance, and also monitoring the variables that you were talking about, and making sure that customers are getting the most out of the burner technology through some kind of collective intelligence and analytics with a partner potentially. You have a balance sheet that would enable you to do that. If you truly had a mote, then you could probably restructure your model, and I was wondering if you guys ever had thought about that, because I see these other companies that have these reoccurring revenues, like the two I mentioned, and their revenues don't go down when the drilling stops.

So, I was wondering if you had kind of thought about a reoccurring model for new technology and potentially selling older technology or selling the technology into the international market as a hybrid.

Cameron Tidball

Hello, Ron.

If you could read our minds of what keeps us up at night, you have hit a couple of them. One is our team members, which you obviously know by what we've had to do from cost control and people going with less pay and working less hours, keeps us up; but probably one of the next biggest things is, how are we going to pivot our legacy business as well as future add-on businesses to be more in that space where we can lessen the drops and the ups and downs of the business.

So, have we thought about it? Absolutely. Are we looking at that with some of the technologies we mentioned on the call with artificial intelligence and machine learning? Absolutely. Are we hoping that there's an opportunity to integrate perhaps future offerings with our BMS in that? Top of our list of research and trying to figure out.

We have looked at it before, is there a way to lease the controls, for example, and the field trains; and we did some customer investigation with that and some discovery meetings with our big customers, and really at the time it wasn't really well received. Now you bring up: well, maybe if you have that mote, if you have that share, can you just flip the switch and not give them the opportunity? Potentially, but it is something we will have to continue to investigate, analyze and see where it goes forth, but our strategy and our plan is to—anything that we look at needs to have that as a consideration. Anything we build in the future, that has to be a consideration.

Ryan, any thoughts you would like to add there?

Ryan Oviatt

No, I think you have covered it very well, and it's obviously something we've been thinking about for a long time, and even the newer products that we brought to market and bringing to market, PF2200 and others, have additional capabilities that can lead down this path. It's a big transition for oil and gas to move in that direction and in machine learning and these types of things. But we firmly believe that it's a necessary path that they need to go down and will be going down and over the next several years, and we certainly want to be a player as a part of that, and we do believe there's opportunities for recurring revenues as we move in that direction. So great question. Thanks, Ron.

Ron

Thank you.

Operator

Our next question is from the line of line of John Bair with Ascend Wealth Advisors. Please proceed with your question.

John Bair

Hi there, folks. Appreciate you squeezing me in here at the end of a pretty long one.

In your prepared comments, Cameron, I guess, it sounds to me as if perhaps you are looking at more on a bias towards expanding partnerships with different entities as opposed to acquisitions, and I would imagine right now the acquisition front, given the dire straits if you will, of the industry, the quality of potential acquisition candidates may not be as enticing perhaps, I don't know if that is a fair way of putting it, and I would imagine that any acquisition would be geared more to getting you into basins or area where you could improve your market share. So that's one question: am I hearing that idea that partnerships are perhaps more on the front burners than outright acquisitions?

Cameron Tidball

Well, yes and no. Your comments there, we look at the current business, the business that we are strong in, upstream, midstream, downstream transmission burner management - the core, as it were. We believe that for the most part, besides there might be some peripherals bolt-ons to consider, which we won't dismiss completely, but you are absolutely right. What's available right now, Profire probably does not want it. That might not always be. You just never know, right?

Where we talk strategic partnerships is more along the lines of, where else can Profire technology live? And that, we believe, is outside of traditional drills and completions dependent oil and gas industry. We won't abandon it, because it is such a great market. However, if you were to look, for example, power and infrastructure, or mining, or, as I mentioned, soil remediation, pharma, food, and beverage: for Profire to organically grow in that space would be a—I believe a monumental task that—it's just the cost would be insurmountable; and the knowledge base and the contacts: Profire doesn't have that. What we do have is the ability to find partners that are in those spaces, that we believe, we'll use the comparable of, we can dance but we need someone to take us there. And that we believe will help us overall, is to move higher-margin products into those businesses at less of an operating cost for Profire. So that is something we considered.

Does that answer, John?

John Bair

Yes, it does, and actually it addresses sort of a follow-up to or an add on and that was, are the partnership attempts more to get you into new markets outside of traditional oil and gas, and I think you basically said yes. That's the game plan. So, with that being said, how quickly you think you might see some sort of a monetary benefit from these partnerships? In other words, something that revenue-wise, and profitability wise, how do you see that playing out? Is it something that has to—you kind of have to toe-touch there to tap dance a little bit with the partners before, or will be something that you would come into say projects or something that they are already working on that you can then add on your expertise to?

Cameron Tidball

We believe that market dependent and geographic dependent—I don't think this is something where—in fact I know it's not something where we are just starting it, this is something that we can enter. We already have lots of contacts that dabble—not dabble, I don't want to use that word, but are in oil and gas, but they are also in refining, they are also in upgrading, they also have large sales forces that chase that all over the place. That's kind of an industry term outside of oil and gas is, chasing stack. If there is a stack, there is a burner; if there is a burner, there is a burner management system. And so, how quickly can we turn this from a strategy, an idea, a goal into revenue? We think in some areas it's going to take—it could take a year or more. In some areas, we could jump right in and like you said, add our technology to existing products and perhaps give whoever our choice of partner or partners are a strategic advantage with our technology versus what is already being used in some of these industries, which is, in a lot of ways, sometimes old and antiquated technology built out of a garage, or with older intellectual capital, or sometimes it could be very expensive PLC-based expensive-to-maintain to build great systems, whereas Profire has more of an off-the-shelf offering that we believe could fit into a lot of these industries.

John Bair

Okay. Very good. Appreciate you taking my questions. Good luck (multiple speakers) seeing a little pick up in the rig count and hopefully that will continue. Thanks a lot.

Operator

There are no further questions in the queue at this time. I would like to hand the call back to Management for closing remarks.

Cameron Tidball

Thanks, everyone, for joining our call today to discuss our third quarter 2020 results. We want to thank you all for your continued support. As always, we are available for any discussion or questions you might have. We will be participating in the three-part advisors virtual Southwest IDEAS conference later this month, and we look forward to speaking with many of you at that event.

Thank you and have a great day.

Operator

This concludes today's conference. You may now disconnect your lines at this time. And thank you for your participation.