Profire Energy, Inc.

Second Quarter 2021 Earnings Call

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CONFERENCE CALL PARTICIPANTS

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PRESENTATION

Operator

Good afternoon, everyone, and thank you for participating in today's conference call to discuss Profire Energy's Second Quarter 2021 ended June 30, 2021.

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 Statements. Statements made during this call that are not historical are forward-looking statements. This call contains forward-looking statements, including but not limited to statements regarding the Company's expected growth, increase in operating expenses, diversifying revenue streams, expansion in new markets, product development, the availability of company resources to make beneficial investments in 2021 and beyond, and future demand of Profire products due to improving market conditions.

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 August 19, 2021, 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 Messrs. Oviatt and Tidball, we will open the call to your questions. As part of the question-and-answer session, Messrs. Oviatt and 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 and CFO of Profire Energy, Mr. Ryan Oviatt. Please go ahead.

Ryan Oviatt

Thank you, Operator. We welcome all of you who are joining us on the call today.

I will start the call by providing some updates on the industry and our business, followed by a review of the financials, and then I will turn the call over to Cam to discuss some highlights from the quarter and to comment on our strategic outlook and direction.

The second quarter of 2021 continued to show signs of recovery within the oil and gas market. The loosening of restrictions related to the pandemic has led to the reopening of commercial, and retail establishments as well as increased travel demand for both business and leisure.

As a result, the average price for a barrel oil increased 14% during the quarter, with current prices at a three-year high. This quarter represents the best revenue performance for the Company of the last five quarters. In recent days, some local and state governments are considering or have re-implemented mask mandates in response to higher reported COVID cases, which could hinder the pace of the ongoing recovery.

Last month, the OPEC+ ministers announced a 400,000 barrel per day increase in production each month through the remainder of this year. This is largely in response to the improving demand for oil and gas, and global progress on the COVID vaccine. Despite the improving demand outlook, many EMP companies are not expected to ramp up drilling and production activity in the near-term, given their capital budget constraints to remain within cash flows, and a growing push from shareholders for other returns such as dividends and buybacks.

The average onshore rig count in the U.S. and Canada dropped 3% in the quarter to 508 rigs, but has since increased to over 620 rigs in July. The last time WTI was in the mid 70's, the rig count was 975. We expect EMP operators to continue to focus their Capex efforts on the maintenance of existing wells that was deferred over the past couple years rather than drilling new wells despite these higher prices. We expect that this trend will create future demand for Profire, and ultimately a stronger, better-capitalized customer base for us, when drilling and production start to ramp.

With that, let me turn to our financial results for the second quarter 2021. 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 Investor section of our website. The transcript of this call will be posted in the coming days.

In the second quarter, we recognized $6 million in revenue which represents a 19% increase from Q1, and a 38% improvement compared to the second quarter of 2020. The sequential and year-over-year increases were reflected in both product and service revenue. The improvements were achieved as a result of increasing demand for the industry, and through the hard work of our sales, and service teams to support customer needs, and to push our products into new areas of the mid-stream market and other industries.

Gross profit for the quarter was $2.7 million compared to $2.2 million in the first quarter, and $2.1 million in the year ago quarter. Gross margin was 44.0% of revenues, a 130 basis point improvement from the prior quarter, but still below our historical range, which will likely continue until our revenues improve to more historic levels.

Total operating expenses for the second quarter were approximately $3.3 million. This represents a $277,000 increase sequentially, as we unwound the furloughs that were implemented last year as in response to the COVID-related slowdown.

On a year-over-year basis, operating expenses increased $92,000, but remain significantly below our pre-pandemic run rate. We anticipate that we will continue to see modest increases in operating expenses through the second half of the year, due to labor cost pressure, and resumption of travel to support our business.

Specifically, G&A expenses for the second quarter increased 1% year-over-year. R&D expense increased 31% from the prior year quarter. Depreciation and amortization decreased 8% from the second quarter of 2020.

Net loss for the second quarter was approximately $397,000 or $0.01 per share. This compares to net loss of approximately $602,000, or $0.01 per share in the first quarter, and net loss of $809,000, or $0.02 per share in the second quarter of last year.

Cash flow from operations in the first half of 2021 was approximately $1.6 million, compared to $847,000 in the first six months of 2020. Cash and liquid investments totaled $19.1 million compared to $17.6 million at the start of the year. Accounts receivable increased to $3.8 million due to strong sales in May and June.

Our inventory balance at the end of the quarter was $7.9 million, down from $8.4 million at the end of 2020. We believe our current inventory levels, which represent mostly finished goods remain sufficient to address our customer orders in the near-term. We continue to operate debt free.

I will now turn the call over to Cam to provide highlights from the quarter, and an overview of our strategic outlook and direction. Cam.

Cameron Tidball

Thank you, Ryan.

As Ryan mentioned, the overall petroleum sector continues to exhibit signs of a slow and steady recovery. We are pleased with the progress we made during the quarter in the industry, as well as our reported results. However, we recognize that overall the sector remains suppressed in terms of lack of investment from the financial community, and negative publicity from political and media outlets.

We are pleased to see that during the second quarter of 2021, the quarterly average rig count for North America was up 27% from the year-ago quarter. As we have mentioned previously, rig count, and more importantly completed wells, are critical to Profire's legacy business as our products and solutions are utilized once the well is drilled, completed, and in production. We are optimistic that we will continue to see moderate improvements to the industry through the second half of 2021.

We continue to develop relationships, provide training, and collaborate on potential projects with our strategic partners Spartan Controls, and ECI, both of whom are Emerson Impact Partners. ECI has proven to be a valuable ally in the Northeast in our core legacy business. They have demonstrated strength in marketing Profire's complete solution packages to several end users. They continue to be in the top quartile of customer revenue for Profire.

Spartan Controls, as mentioned previously, has the potential to bring our products to a diverse range of industrial markets in Western Canada. We are encouraged by the internal investments they have made to support integration, marketing, and business development initiatives of Profire products and solutions.

Turning to opportunities outside of our traditional upstream, midstream, and downstream utility markets, we've had a strong year thus far in furthering our excellent brand reputation, and product performance in what we refer to as the downstream side of midstream.

Our products and our team's proven project execution present substantial value to our customers, and we look forward to continuing our progress in this space of the industry. We are mobilizing our sales team, and marketing initiatives in order to support our continued pursuit of these projects, which are prevalent throughout locations where we have sales and service assets in place.

During the quarter, we completed a large-scale, nearly half million-dollar project, for a leading midstream energy infrastructure company. Our project design support installation expertise and solution performance have afforded us the opportunity to participate in future opportunities with this customer as they have several plants that will require upgrades in the near future.

Additionally, we were able to complete Profire's first project specific to the petrochemical industry at a chemical plant during the quarter. Our burner management solution was selected and approved for use on a specialized appliance that is utilized both in chemical plants, and in refineries. Our credibility and reference cases of similar projects we have completed in midstream applications supported our ability to win this opportunity. This project represented one of several projects completed in the quarter related to our strategic focus of revenue diversification into new markets outside of oil and gas.

In the quarter, Profire completed an appliance upgrade for a major municipality related to construction and infrastructure. We also provided our second complete incineration package for use in the mining industry.

Profire continues to engage in early-stage discussions with significant industry participants on potential green energy opportunities that we believe will be necessary in helping to transform the energy industry in the coming years. We look forward to updating you as we progress on these initiatives.

We remain highly focused and encouraged by the traction received in new markets as part of our overall strategy to diversify our revenue streams. These efforts are starting to pay off and prove our value proposition in non-oil and gas industries, as evident from the business we are winning. We continue to demonstrate suitability in a wide variety of burner and combustion management applications across North America, we expect this trend to continue. We remained focused on supporting our channel partners, driving organic growth, and continued product development and enhancement.

Our strategy is enabled by our strong balance sheet and financial discipline. We continue to deploy investments in support of protecting and growing our core business, diversifying our revenue streams both within our legacy business, as well as in new growth markets, and in continuing to develop our exceptionally talented team.

Before we turn the call over for questions, Ryan and I would like to thank our employees for their ongoing dedication, and contributions towards the success of our customers, our Company, and our shareholders.

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

Operator

Absolutely. At this time, we'll be conducting a question-and-answer session.

Your first question comes from line of Rob Brown with Lake Street Capital Markets. Please proceed with your question.

Ryan Oviatt

Hi, Rob

Rob Brown

Hi, Ryan, hi Cam. Thanks for the overview of the projects that you were working on, and maybe could you give us some color in the large project opportunity pipeline you named a number of customers who have a follow-on facilities? What sort of the kind of opportunity size and stuff your that your kind of working on at the moment in terms of quoting or seeing the pipeline over the next 18 months?

Cameron Tidball

Yes, great question, Rob. Thanks for being on the call as always.

Yes, the project we completed in Q2, we were made aware of it in Q1, it's an existing customer that we deal with in kind of in some of our markets where they have other midstream applications, but this is one of their larger facilities and plants. There are many energy infrastructure companies that go to the term of midstream, that have these bigger applications that we've done over the years, but not to the scale in size where we did two thermal appliances, all in a very tight turnaround. The whole Profire team was really involved in in executing that project. In terms of what is on the outlook for the next 18 months, this customer has several plants that they're looking to upgrade. And they're not the only ones, especially in the areas of like the Permian Basin, Oklahoma, South Texas, you have a lot of these midstream gathering facilities, straddle plants that have a lot, we'll call more complex applications, multi-burners, multi-pilot, perfect for 3100 product line, which we've been deploying over the really the last three years in these types of applications. We're starting to hit our stride where we're really executing on these projects. Well, we've got a great reference case, and these projects as we mentioned also in the call really dovetail in nicely into things like petrochemical plants, as well as small batch refineries.

So, in terms of dollar amounts, what is the total the TAM in this area, we don't have that for sure number, it's something kind of a moving target working on that, but it is significant for Profire and it's right in our wheelhouse don't need to deploy different sales team than we already have service team is spectacular at this type of thing, engineering team can support in operations as well. So, perfect it's just again building out a reference case.

Rob Brown

Okay, great. Thank you, that was a good overview. And then in terms of the demand trends as you get into, you had a good quarter with how are you seeing the demand trends continuing kind of on a week to week basis? Is it still low visibility or do you see sort of a trend line continuing to be strong here?

Cameron Tidball

Ryan, do you want to tackle that one, and I can do some thoughts as well.

Ryan Oviatt

Yes, certainly. It's pretty similar to what we historically have really always seen in our legacy business that upstream, midstream and downstream utility side of things. The visibility is typically a month, maybe two months at the most as far as products that are being ordered. Even right now, and you remember from years past, the summer season tends to have a little bit of a downturn in activity, especially when it gets really hot in the Southwest and Midwest, and so forth. So, we see a little bit of that happening now, but we're still seeing a healthy number of orders coming in. But as I said, they're kind of more on that short-term side of things.

We do as Cam indicated in the prepared remarks, we do have a number of projects on the bigger side that are also percolating, and some of them are turning into sales orders, others we're still quoting and working with customers on. But those do have a much longer horizon. Some of them we're quoting out into 2022, and even into 2023 right now for some of those bigger projects. But we are excited about the number of those things that we are quoting on the number of the projects that our team is finding. Some of the strategic hires that we've done recently are really getting their feet wet, and getting in, and finding opportunities for us. So, although we'd love to see numbers much higher than they are right now, we certainly are still seeing kind of a steady stream of things.

The COVID situation so far throughout the summer and the improvements that have been seen have been helping with that. There is a lot of uncertainty is everyone is right now related to the Delta variant, and as schools are preparing to reopen within a month's time, and then we start to get into that traditional cold and flu season here in North America, there is uncertainty around that. We're highly optimistic that the adoption of the vaccine is going quite well, and that things this fall are going to be much better situation from COVID than it was a year ago. But we'll still see some uncertainty and who knows how that's going play out over the next couple of months.

Rob Brown

Okay, thank you for the color. I'll turn it over.

Ryan Oviatt

Thanks, Rob.

Rob Brown

You're welcome.

Operator

The next question comes from the line of John White with ROTH Capital. Please proceed with your question.

Cameron Tidball

Good afternoon, John.

Ryan Oviatt

Hello, Mr. White.

John White

Good morning. Good afternoon, here. Good morning, there. Boy, excellent results, you beat me by a very, very large margin. Congratulations.

Ryan Oviatt

Thank you.

Cameron Tidball

Thank you.

John White

In Cam's review of the diversification effort, sounds pretty optimistic. Of the—I know you're working to expand within the oil and gas business in the midstream as he detailed and the downstream, outside of the oil and gas industry, what sectors are you most optimistic about penetrating?

Cameron Tidball

Great question. We're tracking numerous industries. We're looking at everything from construction and infrastructure, which so far in the last 18 months, we've probably been overall the most successful at the most number of projects, and as well as we're really finding that there's a gap potentially for the niche expertise that Profire has from a combustion perspective. Some of the feedback we've gotten, some of the plants that we've done upgrades for is we love the quote "it's never worked better". So, so far construction infrastructure, that's things like your asphalt plants, your fly ash (phon) plants, your sand-drying, there's a lime-dryers, variety of those things were Profire's is done some great things. We're finding some value being offered to the OEMs who operate in that space, where we're new to them, for sure. But so far, very, very good traction there.

The biogas sphere we've done a couple projects here this year with several that are being quoted, some incineration applications in the mining industry. As I did mention the prepared remarks, but we're seeing a push in that regard. So, it's a variety, and then of course as we've talked about on this call and on previous calls, the renewable space. We think that there will be a need for burner management. We know there's a need for burner management in that space, as well as combustion expertise. We're working with several major utilities on some of their projects, on what they're looking to do to advance energy transition, whatever it might be. What they find is it it's just not so easy, it's to turn it on, there's a lot of things you got to consider, and combustion and how you deal with that is one of those, and it's a nice feather in our cap to be actually recognized as a partner that can come to the table with something to offer there. So, that's—we really look forward to, as we said in the call of keeping you in the loop on how that progresses, but we're very encouraged before that is started so far.

John White

Okay, thanks so much for the detail. I'll pass it on thank you.

Ryan Oviatt

No problem, thanks John.

Operator

Your next question comes from line of James Jang with Univest Securities. Please proceed with your question.

James Jang

Hey, guys, how's it going?

Ryan Oviatt

Hey, James.

Cameron Tidball

Going great.

James Jang

Great. So, just a couple of questions here from me. In terms of service, how much of a mix do you see that going forward? I mean, it looks like that could start to ramp up a bit as we get to you guys servicing what's already out in the fields. Can you kind of elaborate on what type of percentage increases you could expect to see as we move into next year?

Cameron Tidball

Yes, great question. I'll give some comment on and then Ryan for sure jump in. We did have a very strong quarter in service for Q2. It's approximately right around that kind of 10%, that is about normal. It's not way above normal or way below it's kind of just the average and where we usually sit. We have done some, some work so far this year to potentially become service partners for companies that do things out of oil and gas that is still related into combustion. That's very early stages. Do I see it being a significant driver of revenue, maybe not initially but a great place for our team to learn and develop in those spaces, as well as to learn those industries, which we believe will turn into product sales; exactly how Profire got its roots. We started as a service company, and where that—what that brings us the opportunity to develop products, find niches within those markets. So, we don't see it as a massive uptick, but we are very encouraged by the capacity we have and the actual percentage of that capacity we're able to use for billable time.

Now, you mentioned all the products that are in the field, yes, our install base is now over 75,000, and if you look at some of the revenue trends we've seen last year, the year before and into this year, preventative maintenance is a key component. We also see an opportunity with a Company that we acquired in 2019, that had a high efficiency burner that's used in natural draft applications. We see a potential opportunity to get to our customers and give them quick wins, on how they report their overall CO_2 footprint. We think we have a compelling offer with that burner. So, that's going to be something that would definitely hit our service revenue, but as well as our product revenue.

Ryan, would you add anything to that?

Ryan Oviatt

Yes, I think you covered it really well. The thing I would add is we have made a small increase in our service team in Canada. It's opened up kind of a more Northern Canada area that we didn't have a lot of service opportunity or people covering before, so we have expanded a little bit there. But also, in Q2, part of the increase in the service revenue or the strength of the service revenue is attributable to the large projects that we were able to complete in the quarter. Service is essential on these projects in doing the installation, and getting it up and running and performing properly for our customers. So, that—as we continue to do those projects, we'll continue to see the strength of the service team and services absolutely critical, and essential to how we run our business right now.

James Jang

Excellent, thank you. Are any of your products up for I guess replacement at all?

Cameron Tidball

Our 2100 is—unfortunately although it's long in the tooth still continues to perform very well, but we are to the point now where we've we do have its new version of it the 2200 we're very creative in our in our product naming. But it has been adopted nicely. We do have some customers talking to us already about what does replacement plans look like for the future. We don't see customers who have one or 2,000 of these same replace them all tomorrow, but funnier things have happened before. But we do think that there will be customers that consider okay what is a five-year, what is the eight-year rollover plan look like? But yes, we've replaced that. And then the 3100s, kind of in the middle of its life. It can continue to be added to with regards to feature enhancements industry use. So, we've got a runway there for sure, and we got, as Ryan mentioned, we have a healthy inventory of these things, which is really important right now given the world's lack of supply of computer chips and things like that, we're lucky to be in a place where we have inventory on our core products, and that's just kudos to the strength of our operations and supply chain team for making sure that that happens.

James Jang

Thank you. I'll jump in.

Ryan Oviatt

Sorry James.

James Jang

Sorry, go ahead.

Ryan Oviatt

Sorry, James I'll just add to that that with the 2100, it was built in a different manner than what we're currently using for the 3100 and the 2200. Whereas the ability to really upgrade that in the field or to extend its lifecycle much further isn't really there. But the way that we've designed and built the 3100 and the 2200, those capabilities are there. So, it is likely that those products may even have a longer life infield if the customer continues to upgrade technology, and add the new features and improvements that we're bringing to them. So, just keep that in mind as well.

James Jang

Okay, great. Thanks for that. So, we certainly expect a large-scale replacement cycle event coming up, which could help the topline soon, right?

Cameron Tidball

We wouldn't expect the large scale, but I don't know. Ryan?

Ryan Oviatt

I would say if you're talking in the next 5 to 10 year horizon, certainly that could happen. As Cam said, a lot of the 2100s that have gone out, they're going out this year, they have gone out over the last couple of years, but so we would expect those to still have an 8 to 10 year lifecycle at least. But those that went out 7, 8, 10 years ago, those should or could start to be replaced over the next 5 years or so.

James Jang

Got you. Okay. My next question is on the overall industry, it seems like the bigger guys have announced that they they're profitable, they're instituting new dividend policies, but doesn't seem like there's announcements on expanding Capex. So, from your discussion with some of the smaller players or the non-public players, is that the same sentiment that they're just kind of looking at profitability, maybe pay down some debt deleverage, and not spend too much on Capex?

Cameron Tidball

Yes, when you look at things—like all indications point towards supply, outpacing demand in Q2—Q3, and Q4, which will lead to global inventories building probably starting as early as September or October, November. Obviously, this will mean commodity prices probably will go down a bit. We talked about the Delta variant, the virus and what impact impacts that could be, however, most analysts are seeing that production levels will continue to increase, probably close to that 12 million barrels per day, which is still very modest 7% to 10% of where it is today. But, your comment on your majors that are public companies, you're absolutely correct there is no pulling the trigger for increased Capex into drilling. They're sticking with their programs, your private energies, some of your independent, they are focused on growth, some of their plans through the second half of '21 and into 2022 we think they will—they'll probably look to cash in if you can use that term, and there might not be as hedge to some of your bigger groups, and they'll also be looking to make themselves attractive from an acquisition perspective. But your public majors, they'll continue to temper production growth, just because they're focused on some other things, and that's—it's executive bonus driven for sure some of it, but it's also just world supply and demand. They realize that it costs them a lot more to for the most part get a barrel out of the ground versus a private.

James Jang

All right, great. Thanks for that. Last question, this is just general thoughts on the channel on the new pricing for the Gulf. Is the Gulf oil pricing for the U.S. kind of break it out from WTI, do you think that's going to make anything positive—do you see any positives coming out of that for the industry?

Cameron Tidball

Great question. Ryan, do you have some thoughts on that one. I got to do some research on that.

Ryan Oviatt

Yes, I would have to say I need to research and understand that better, I don't know what implications that will have.

James Jang

I think the public markets, I think it could be positive because the U.S. is basically tied to WTI which is landlocked (inaudible) versus Brent which is you have options there. You can ship it direct overseas, you could store on tankers, and pricing as you know Brent's always been higher. I'm thinking if this does take root, maybe for the public markets, it's another data point that investors could point to where pricing could be a little better and essentially can improve a little bit.

Cameron Tidball

Interesting.

Ryan Oviatt

I'll have to pay attention to that.

James Jang

All right. Well, thanks for the color guys. I'll drop off there. Thank you.

Cameron Tidball

All right. Thanks, James.

Operator

Your next question comes from line of Jim McIlree, with Dawson James. Please proceed with your question.

Cameron Tidball

Hello, Jim.

Jim McIlree

Hey, guys. How's it going?

Cameron Tidball

It's going well.

Ryan Oviatt

Fantastic.

Jim McIlree

So, if my math is right, it looks like product gross margin in the quarter was flat with the prior quarter, even though revenue was up substantially. Is there a mix issue or a pricing issue that that took place?

Cameron Tidball

Ryan, you want to tackle that?

Ryan Oviatt

Yes, I don't have the numbers specifically broken out in front of me, but I think you're probably accurate. Certainly we don't believe there has been any significant pricing issues. We do have customers that try to challenge pricing, but we've demonstrated over the years that we can do a really good job of holding our prices steady and maintaining those prices even in difficult environments. We do have product mix that impacts that every quarter either up or down. Just the mix of products. It also with a little bit of a customer mix as well depending on who's buying and the quantities that they're buying. We do have some customers that are at different levels of discount. So, the mixture of those types of things can come into play, but I don't have any further detail I can drill into at the moment on that.

Jim McIlree

Okay, great, that's helpful. You both talked a lot about the move away from your legacy upstream business. Can you put either a percent of product sales or a range of product sales that came from the non-legacy upstream business?

Cameron Tidball

Yes, for the most part, we lump upstream and midstream together, just because your producers in the United States drillers in Canada, their definition of midstream and upstream, it's blurry. So, we have them together. We know that in the quarter, what we would call the downstream side of midstream was very successful, obviously with one marquee project nearly half a million dollars. But overall, I think for the quarter, I don't have it in front of me, but it was a much higher percentage in those different—I guess not different but your true midstream that guys that aren't drilling that they're truly gathering and doing some light processing. For a lot of the operators it was higher. But for the most part, we kind of sit around that in the core business upstream, midstream together around that 90% downstream transmission ranges anywhere depending on the time of year, potentially anywhere from 3% to 7% or 8%, then internationals still very small, and then the remainder of that would be our efforts outside of oil and gas. But in the quarter, it was our strongest combustion products in service sold outside of oil and gas. That was our strongest quarter. So, since we've started tracking, which is the last 18 months here.

Jim McIlree

Right, but you see what I'm trying to get at is that this has been an initiative for the Company for some time now. And it's I don't know this I think this is the first I recall where you've been as specific about this many opportunities and this many successes. So, I'm just trying to get the numbers guy, so I'm trying to get a numbers flavor to it.

Cameron Tidball

Yes, that and that's the fun part is because yours—to a degree sometimes limited by your ERP and how much manual work you want to do to track that type of business. So, it is something we could derive for sure and come up with, but as we mentioned, this was a strong quarter for that. Some of your bigger true midstream players did some nice projects, and the pipeline looks very attractive. And it is—you're right we've always been in that place, but we haven't always been doing what we call again the downstream side of midstream. So, maybe we ever really ever chunk that out in our ERP because it's up to interpretation of whoever's getting the sale, but yes, I get what you're saying Jim, but we don't have the specific numbers broken out.

Jim McIlree

Okay.

Ryan Oviatt

I mean, you can tell from the numbers Cam gave that it is still a small portion of our business. Obviously, we're looking to grow it as much as we can, as quickly as we can, through the various actions that we're taking, not only our internal organic efforts through our salesforce, but with the strategic partnerships and so forth. Likely once we get to where it's about 5% of total revenues, then we'll be able to more meaningfully break it out in reporting and provide that, therefore, you can assume right now it's less than 5%. But we certainly want to get quickly to that 5% and then grow it well beyond that. Our internal goals are that these growth segments become eventually just as large as our historical oil and gas business, but that's going to take time obviously to get there.

Jim McIlree

Right, understood. Can you talk a little bit about the regulatory environment? I'm particularly interested in Colorado and New Mexico, if there's been any impact to your business in those two states, or others if relevant from changing State and Federal Regulations?

Cameron Tidball

It's a moving target for sure. Colorado, obviously suppressed and part of it just purely because of where investments for (inaudible) have gone. For the most part, as we mentioned before, there's no lack of available permits and land that the majors have. They're not really—they haven't really been deterred. Now, some of it in New Mexico, yes, but the Permian Basin really hasn't slowed down when you consider its percentage of production in the United States. So, there's not really that. What we're more seeing is what EMPs are looking to the future of what our emissions standards going to look like, and what does that mean? How am I going to report my CO_2 footprint, my methane leaks. So, those are some strategic areas where Profire is working with customers, working with some potential partnerships to see where does Profire fit.

Again, one of our strategies is we like to get more revenue from existing customers, we have a great brand name, which affords us the ability to bring in potential new opportunities for them. And so, that's the regulation that we see probably more on the top of minds of drillers, and exploration and production companies than that of potential drilling restrictions. Now, of course, something came out of left field, which has been discussed before, stop all fracking, well that changes things. But right now, your majors have more than enough permits more than enough land to drill for upwards of a decade without anything else changing.

So, Ryan, did you have anything else on the regulatory front? You might add some color?

Ryan Oviatt

No, I think you covered it really well.

Cameron Tidball

Did that answer your question, Jim, or other thoughts?

Jim McIlree

It does. No, that's, that's perfect. Thanks a lot. Appreciate it, and thanks for the answers. Good luck with everything.

Ryan Oviatt

Yes, thanks Jim.

Cameron Tidball

Thanks Jim

Operator

Your next question comes from the line of Samir Patel with Askeladden Capital. Please proceed with your question.

Ryan Oviatt

Hey, Samir. Samir, do we have you? Are you on mute?

Operator

Samir, are you on the line?

Samir Patel

I was in fact on mute. Can you hear me now?

Ryan Oviatt

Yes, we can hear you.

Cameron Tidball

Yes, we've got you. It's probably the best question ever.

Samir Patel

Nice. Yes, so a couple things you haven't touched on. The first is any progress on the international front with travel opening back up, and then the second is the M&A use of cash on the balance sheet. So, anything you want to share on those?

Cameron Tidball

Sure, I'll do international, and Ryan, you want to take him in M&A. So, international we have not sent anybody overseas as of yet. Your South America countries still remain to degree—you can go now, not advised, so being a little cautious with that. However, we still have this same group of distributors that we've been working with. We are seeing some more opportunities come in the door that haven't. We're seeing more activity in Asia, the MENA region. Revenue still remains kind of close to historicals, maybe a little bit better so far this year, compared to last year, which you would expect. Still remains a difficult market. It's difficult in terms of quantifying those areas, and it's one of the reasons we really can't wait to get our people there, to work closer with the distributors that we've selected to ensure one, that they're the right partners, it's always good to be able to do it face-to-face and see who they're bringing you to. So, as of as of now, again it's not a massive investment for Profire in terms of people, we don't have bricks and mortar, but we're tackling with our existing team and it's working well, we don't find it overburdening them and we think we're giving the right attention to it.

But, it all alludes to though with the with the way that North American shale is changing. Someone's going to have to pick up the supply because not everyone's on an easy tomorrow or in a year or five years. Someone's going to have to pick up the supply for ever increasing demand, and we're going to see that in places like Canada. We're going to see that in places internationally unless the U.S. changes its policy or thoughts on the whole strategy.

So, Samir, I guess, long way of saying it's progressing. Of course, not as fast as we like, but we think we're giving it proper attention. It's just, it's a slower process for sure.

Ryan Oviatt

Yes, I mean…

Cameron Tidball

Go ahead Ryan.

Ryan Oviatt

Second question was on M&A and use of cash, and even just before I get to that, I'll just reiterate Cam's comments in that we are still being cautious as far as travel goes, and in the current environment, getting across borders, either north or south of the United States is still challenging. It's not impossible, but it's still challenging and we want to make sure people are protected. But we look forward to when that becomes much easier, safer and better for us to do.

On the M&A and use of cash front, obviously, we've been able to kind of maintain and even grow our cash balance a little bit over the COVID period of 2020, and even into 2021. So, we are looking at a number of things there. As we've mentioned as well, we're making some small reinvestment in our business, to prepare for growth opportunities and some of the strategies that we're working on. So, we're reinvesting a little bit more cash into R&D, and starting up some projects or putting some more power behind those projects via cash investment in people to move some things forward, and Cam alluded to what some of those might be as far as helping customers with other ESG type initiatives. Very interested in that type of stuff.

We are still down significantly in our headcount from where we were prior to COVID. We don't have plans to simply just ramp back up to that same number, but we are making some strategic investments in that regard.

But now beyond that, having kind of pulled through these things, the positive revenue growth that we've seen in Q2 and in our anticipation that the second half of the year still continues to improve at a modest and slow but steady pace, we are looking at other ways that we can utilize that cash. We're still looking at a number of partnerships, joint ventures, potential investments with some of these companies that are developing some new products, some interesting technology again, to help a lot on the ESG front, things that our customers are worried about. There are some M&A potential opportunities that we're looking at that also could be a very good fit with current regulation, and the push in reducing emissions, and things like that as well. So, still a lot that we're actively looking at pursuing talking about interested in. There's nothing that we see at this moment as imminent in the short term, but those types of things can change very quickly.

We also are still considering the opportunity of what we've done a lot in the past would be of buying some shares back. We still think that the share price is quite attractive right now, and that that might be something that we decide to do again going forward. So, certainly a lot of different opportunities available for us, and we are very interested in using these opportunities to propel growth forward.

Samir Patel

Sounds good. Thank you, guys.

Cameron Tidball

Thanks, Samir.

Operator

Your next question comes from one of John Bair with Ascend Wealth Advisors. Please proceed with your question.

John Bair

Thank you.

Cameron Tidball

Hey, John.

John Bair

Thank you. Good afternoon, how you all doing?

Ryan Oviatt

We are doing very well.

John Bair

Good, likewise. So, a number of my questions have been addressed there, but kind of cycling back to a previous one, with a little different angle to it. What percentage of exposure of your sales do you have going to say the private—privately owned companies, the smaller operators or private equity type companies versus majors and large made independence? In other words, the narrative is that the majors as you spoke about and see this they're not looking at doing much in the way of ramping up their rig count, and so forth, but mostly activity is coming from the smaller players. So, what's your mix or your exposure in that?

Cameron Tidball

Well, that's a great question, John. I don't know if that we've quantified it before when we, because in the core of business, we are grateful and appreciate that we have such a high market share. I'm not sure, although your comment the majority of the drilling—it's still coming from your majors. It's just that your independence, your smaller private. They're actually in percentage wise adding more to their fleets of drilling than that of your bigger companies. But still the production, the opportunity is still with the larger producers, because their drill program, even though they're smaller than normal, are still—they still trump the size of some of your smaller or your private companies. So, overall, what is our exposure? Very difficult to say? I'll let Ryan comment on that, but I think it's really difficult to say but just because we have such a large market share of that.

Ryan Oviatt

Yes, I can add just a little there. Again, we don't have anything where that's currently reported or tracked. It is something that we could look at tracking going forward. It probably would require some good effort to do. But if—as Cam was talking, if you look at what those smaller producers were doing historically, a lot of them would probably fit into the categories of they had one to five active rigs going in 2018 or 2019. It is likely that some of those companies have gone right back up to that level, those same numbers of rigs working in their areas. Whereas, the majors would have a couple of 100 rigs in some cases, and they're nowhere near that. So, I think that's kind of the mix there is that they've kind of gone back to historical levels, where the majors are still active, and they're still doing more drilling than the smaller ones, but at just a much reduced pace.

I guess, however, to add to that, our customer base spans all of these different groups. I don't have the numbers right in front of me, but I think in the quarter, we had around 350 or 400 different customers that were purchasing from us, just in this last quarter, and if we looked back over a 12 month period, it was even a bit higher than that. So, with that, obviously we're picking up a big number of those companies, but again the dollar amount of what they're spending, what they're ordering is much lower than the major. So, very difficult to mix all that together, but I think we have really good exposure to them. I think we still have very strong market share of the companies that are purchasing burner management systems and solutions for their new products, new drilling efforts. We're still getting the lion's share of that.

John Bair

Well, okay, so where I was kind of going, the majors are pretty much pulling their own if you will, on the number of rigs that they're operating. But, as you just said, the smaller players dropped down from let's say, five to one or whatever, now they're back up again. I guess, what I'm trying to get at is that enough of incremental increase—if the increase in the rig count is coming primarily from the non-majors, then is it fair to assume that maybe these additional rigs that are being put on by the smaller private operators whatever, could translate into a pickup in overall product sales or services for you folks?

Cameron Tidball

Either way, whether it's the larger producers or the privates, if drill count goes up and completion follows, and production follows, Profire stands to benefit regardless. Your majors, yes there's one thing to say if a large Permian operator adds a bunch of wells on a mega pad and brings it all into a central facility that we already have upgraded? Yes, you're right, we don't get that. Whereas if a smaller private might be doing maybe not a mega pad, but a pad where they're doing all their treating on pad, that could benefit Profire. Absolutely, it could. But either way, for the most part on average depending on geography of course, for the most part if drillings going up and completions going up, Profire stands to gain.

John Bair

Okay. Another question is regarding R&D, given the focus now on reducing emissions at wellsite, and transportation and so forth, I'm wondering if you're looking at trying to develop monitoring devices that could go together with your burner management. I don't know if that's feasible or not, but to put in the burner management equipment onsite, could you also piggyback some sort of a mission detector or that kind of thing. Are you working on that at all, or thought of any of that? Are you partnering with another company who does that kind of thing?

Cameron Tidball

Yes, all of the above John. Obviously, we're not going to give away all our secrets on the call here, but definitely things we've been looking at for a while here.

Our research and development team and then product development team is looking at what our play is in that space. One thing we do with our product development and our research and development was we look for traction, we look to meet with customers and see if this is the idea, is this what you need? Is this going to support? Then is it just one customer or the attraction across a bunch? Then you get a prototype and get it out there? And does someone want to pay for it? So, yes, absolutely, operators are considering what is their plight? We've mentioned it before, we're considering and working with bringing potential solutions that will support leak detection and leak monitoring, pinpointing that quantification that's being looked at through partnerships. We're doing some things internally as well to consider well how can we support customers ESG initiatives? We know right now depending on the state, most customers they don't really breakout, for example, in our world. They just kind of report each appliance that it would be on 24X7, well, that's not the case, and if we can help with efficiencies there, and potentially with reporting of that we might be able to give them all a very quick win. So, again, regulatory is really fun, and it's never clear, and it's sometimes left to interpretation most times, and so we've kind of got a track of those things, watch all those things, investigate all those things, and to see if yes, we could probably really support them, but if it doesn't create value for them, and they can't use it, it's not tangible, well then there's no point. We don't want to do nice to have things, we want to do must have things. So, long answer there, John, but definitely all things that Profire is looking and considering with our R&D and product development initiatives.

John Bair

Well, that mission control aspect is going to be a must have, it's not a nice to have not the way, not the way things are going. So, okay, very good. Thank you, for answering the questions and look forward to talk to you soon.

Ryan Oviatt

Excellent, thanks John.

Operator

Ladies and gentlemen, we have reached the end of the question-and-answer session, and I'd like to hand the call back to Management for closing remarks.

Ryan Oviatt

Thanks, everyone for joining us on our call today to discuss our second quarter 2021 results. We'd like to thank all of you for your continued support. As always, we're available for any future discussions or additional questions.

We will be participating in several Investor Relations Conferences in the coming months, including the Three Part Advisors Virtual Midwest Ideas Conference later this month, the Lake Street Virtual Best Ideas Growth Conference in September, and the Dawson James In-Person Small Cap Growth Conference in October. We look forward to meeting with many of you at these upcoming events. The event details are linked in the Investor Relations calendar on our website.

Thank you, and have a great day.

Operator

This concludes today's conference. You may disconnect your lines at this time.

Thank you all for your participation.