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Profire Energy, Inc.

First Quarter 2022 Earnings Call

May 4, 2022

C O R P O R A T E P A R T I C I P A N T S

John Beisler, *Investor Relations Advisor*

Ryan Oviatt, *Co-CEO, CFO*

Cameron Tidball, *Co-CEO, Co-President*

C O N F E R E N C E C A L L P A R T I C I P A N T S

John White, *ROTH Capital Partners*

Rob Brown, *Lake Street Capital Partners*

Jim McIlree, *Dawson James*

John Bair, *Ascend Wealth Advisors*

Arieh Coll, *Coll Capital*

P R E S E N T A T I O N

Operator

Good afternoon, everyone, and thank you for participating in today's conference call to discuss Profire Energy's First Quarter 2022 Ended March 31, 2022.

I will now turn the call over to John Beisler, Investor Relations Advisor for the Company.

John Beisler

Thank you, Operator. With me on the call this morning is Co-CEO and CFO of Profire Energy, Ryan Oviatt, and Co-CEO, Cameron Tidball.

Yesterday after the market closed, Profire filed its Form 10-Q with the SEC and discussed the quarter's highlights in a press release. As always, both of these documents are available on the Investor section of the Company's website. A transcript of this call will be posted in the coming days.

Before we begin today's call, I would like to take the 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 impact of increased oil prices, supply chain challenges, revenue forecasts and diversification, completion of strategic projects, the Company's expected growth, investment in R&D and new products, testing and sale of new products, the Company's exploration of M&A opportunities and the Company's future financial performance.

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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 includes certain economic business, public markets 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. It will be available for replay through May 18, 2022, starting later this evening. It will be accessible via the link provided in yesterday's press release as well as the Company's website, profireenergy.com.

Following remarks by Mr. Oviatt and Tidball, we will open the call to your questions. Now I'd like to turn the call over to Co-CEO and CFO for Profire energy, Mr. Ryan Oviatt. Ryan?

Ryan Oviatt

Thank you, John. Welcome to 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. Then I'll turn the call over to Cam to discuss some exciting project wins, overall Company outlook, R&D progress, and strategic direction.

Our first quarter results reflect the combined progress of the global economy's recovery from the pandemic and the systematic execution of our business strategy. Revenue increased by double digits sequentially for the fourth consecutive quarter and gross profit margin improved to its best level since the end of 2020. We posted our first quarterly post pandemic net profit and achieved over $1 million in EBITDA.

We made this progress and achieved these great results in the face of significant cost headwinds and supply chain challenges across every facet of our business. Oil demand increased significantly in the quarter due to the removal of COVID-related restrictions across the U.S. and other countries and due to the war in Ukraine, the combination of which sent oil and natural gas prices to 14-year highs. These higher prices have led to an increase in oil industry activity, with the weekly average rig count in the quarter increasing 56% from the prior year quarter. Although this does not immediately impact our results, it does create future demand for our products.

Producers in the U.S. and Canada continue to face significant challenges in ramping up production, including a lack of skilled labor, an inability to secure replacement parts or equipment on drill rigs, a lack of completion equipment and infrastructure, and underinvestment in Capex spend for many years and political and social pressure to reduce fossil fuel production. These challenges are limiting EMPs abilities to increase production and thereby replace the oil previously imported from Russia.

Recently, the U.S. administration announced it would resume onshore oil and gas leases on federal land. However, at the same time, the amount of acreage offered was reduced substantially and the required royalty payment increased by 50%. Unfortunately, these moves are not helping to incentivize EMPs to increase production, which would help to lower gas prices at the pump and alleviate inflationary pressures in North America.

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With that, let me turn my remarks to provide some additional detail on Profire's financial results for the first quarter of 2022.

In the first quarter of 2022, we recognize $9.5 million in revenue, which represents a 15% increase over Q4 2021 and an 87% increase over the prior year quarter. The sequential and year-over-year increases were the combined result of the increased activity related to the ongoing economic recovery, higher oil prices and consistent execution of the strategic pillars of our business.

Gross profit increased to $4.6 million as compared to $3.4 million in the fourth quarter of 2021 and $2.2 million in the year-ago quarter. Gross margin increased sequentially to 47.9% of revenues from 41.6%, primarily due to product and customer mix, the price increase implemented across our product line at the end of 2021 and the fixed cost coverage provided by higher revenues.

Total operating expenses for the first quarter were approximately $3.9 million compared to $3.7 million in the fourth quarter of last year, and $3 million in the first quarter of 2021. The sequential and year-over-year increases reflect the inflationary cost pressures on our business combined with re-staffing efforts in response to the industry recovery over these periods.

Specifically, G&A expenses for the quarter increased 33% year-over-year, R&D expense increased 20% from the prior year quarter, depreciation and amortization was unchanged compared to the same quarter a year ago.

Net income for the first quarter was approximately $627,000 Or $0.01 per diluted share. This compares to a net loss of approximately $145,000, or breakeven on a per share basis in the fourth quarter of 2021 and net loss of $601,000, or $0.01 per share in the first quarter of last year.

Cash flow from operations in the first quarter was a negative $1.2 million compared to a positive $1.8 million in the prior year quarter. This quarter’s decrease was due to the timing of accounts receivable billings and collections and an increase in inventory.

During the quarter, we repurchased an additional 510,000 shares of our common stock for approximately $622,000. So far under the program, we have repurchased 2.4% of shares outstanding from when the repurchase program began. As of March 31, 2022, we had roughly $632,000 remaining for additional repurchases.

Our inventory balance at the end of the first quarter was approximately $7.7 million, up from $7.2 million at the end of 2021. Even with a significant increase in sales in Q4 2021 and Q1 2022, we've been able to successfully procure the parts needed to meet demand and even replenish some of the prior reductions in inventory. We remain strategically focused on inventory management, however, ongoing labor constraints and supply chain issues combined with another round of stringent COVID lock downs occurring in China could bring challenges as we head into the summer months.

I will now turn the call over to Cam to provide further insight on our business. Cam.

Cameron Tidball

Thank you, Ryan. As mentioned, we are excited about the financial results of the first quarter. We have continued to focus on returning the business back to profitability, while investing in our future and our ability to scale as market demand improves and as we continue to gain traction in new industries. As Ryan stated, the results of the first quarter are evidence of not only an improved market for our core products and technology, but an indication of the progress we are making with our strategic imperatives.

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Our traditional upstream and midstream business streams benefited as the combined onshore rig count for the U.S. and Canada averaged 816 in the quarter, which represents a 16% increase from the previous quarter and a 37% increase as compared to the 2021 full year average.

The average WTI price per barrel in Q1 was $95.81, which is a 23% increase from the previous quarter, and a 40% increase from the 2021 fiscal year average. U.S. drilled but uncompleted well count continues to decrease to 4,273 at the end of the quarter. Remaining DUCs at the end of Q1 represent a 52% drop from its peak count in June of 2020.

The rise in drilling activity, coupled with a renewed interest and need to invest in retrofits and upgrades indicates the essential requirements for hydrocarbon-based energy. Though the industry still faces constraints surrounding supply chain, human capital, regulation, and underinvestment, Profire continues to be uniquely positioned with a niche product and solution suite with a dominant market position. Our expertise and brand reputation continues to bring value to our customers as we support them in improving safety for their team members and protection for their critical assets while improving the efficiency of their appliances.

On past calls, we've referred to and provided updates on our diversification progress focused on the downstream side of midstream, or in other words, larger midstream plant operations and facilities. Our reputation in this space continues to grow as we continue to attract new customers and earn repeat business. We feel that our PF-3100 solution, coupled with our ability to successfully engineer, design, and execute on these projects sets us apart from legacy solutions, as well as our competition.

We are encouraged by the revenue generation we achieved in Q1 from completed projects, the sales orders we received in the quarter, as well as the overall growth in the opportunity pipeline. We expect to double last year's revenue related to this growth segment in the fiscal year and we are currently tracking with a run rate approaching $1.5 million for the fiscal year.

As an update to our diversification progress in alternative industries, we are thrilled to report that in the quarter our solutions were utilized on several projects including bio-gas, power generation, mining, landfills and reclamation. In the quarter, we were able to generate revenue from both repeat and new customers.

As expected, and in support of our investment strategy and feature development, marketing and sales, we were able to close our highest dollar amount to date in nonoil and gas revenue in Q1. Based on our Q1 sales, future orders received in our opportunity funnel, we believe that we will be able to achieve triple digit revenue growth in this business stream as compared to the previous fiscal year with an annual run rate approaching $1 million.

In Q1, we are able to close seven opportunities in this segment that are expected to be completed in Q2 and Q3. These projects further expand our solutions into metal manufacturing, mining, LNG, landfill, refining biodiesel and food and beverage. Q1 successes in our traditional and diversification business streams demonstrate and add validation to the strategic pillars that we have positioned our team to focus on.

We have a shared vision at Profire, which resonates and is understood across the team, and we are beginning to see the expected results. Our team members continue to execute in the face of a very challenging business environment. Supply chain issues continue to impact us all and though we have fared well thus far, Profire is not immune. New challenges are regularly presented, causing the need for our team to pivot and adapt. We expect some relief through the end of Q2 and beyond. However, we expect ongoing challenges throughout the fiscal year.

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As an update to our current R&D initiatives, we have implemented a balanced investment approach with the goal of bringing solutions to both our current customer base and markets as well as preparing for the future. Our R&D team is developing a solution that we feel could solve a significant pain point experienced by upstream and midstream producers related to collecting and reporting of real time carbon emissions data. Though still in beta testing, we have begun early product trials with encouraging results. We have received valuable feedback and we'll continue to develop the user experience and bring on further product trials through Q2 and Q3. We look forward to sharing progress on this initiative on future calls and meetings with our investors.

We have also commenced research and invested R&D efforts to support a potential solution to improve the efficiency of the natural draft equipment utilized throughout the oil and gas production and processing industry. Our goal is to support our customers' ESG initiatives to lower overall GHG emissions and methane intensity.

In the quarter, we began testing on hydrogen blending at our R&D facility in Acheson, Alberta. We believe that hydrogen has the potential to be an essential energy source in the future; however, the pathway will begin by blending with natural gas. Aligning with industry progress, we see the potential migration to hydrogen at higher levels over the next eight to 10 years. As hydrogen becomes more affordable and readily available, we expect to see investment in conversion from natural gas to hydrogen. Profire has begun research and is planning for future investments so as to enable ourselves to be at the forefront of this energy source evolution.

We continue to be optimistic about the future of our business, our team members and our shareholders. Our position and our core traditional markets continue to grow in terms of customer acquisition and market share. We have begun to improve our position and relevance in being recognized as the go-to partner for larger midstream applications. Our efforts to grow outside of oil and gas, though early, are meaningful, and are snowballing in the right direction. We are investing appropriately in our future with respect to our R&D initiatives. Our M&A strategy remains intact as we continue to look for opportunities that are in line with our strategic initiatives and culture.

Before we turn to questions, Ryan and I would like to thank each of you. We thank our team members for their courage, dedication and creativity. We want to thank our shareholders and the investment community for their encouragement, confidence and interest in Profire and our team.

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

Operator

The first question comes from John White with Roth Capital Partners. Please go ahead.

John White

Good morning, and congratulations on the very nice improvement on your numbers.

Ryan Oviatt

Thanks, John, good morning to you.

Cameron Tidball

Thank you.

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John White

I was interested to hear about the—a little more detail on your carbon emissions initiative. I take it that's a new product. Can you elaborate, is there—do you have this product testing out in the field right now? Or how many units is it installed on?

Cameron Tidball

Great question. It's something we've been—we've conducted quite a bit of research on some of the pain points of our customers and we came up with an idea through some of our marketing research. We do have currently four partners out there, a combination of upstream midstream, as well as someone outside of oil and gas, a company outside of oil and gas where we've installed that MVP, minimum viable product, to see what kind of results we can achieve.

But basically, the theory behind it, all of our customers in this space and really most industry has to get to a point where they can more fully quantify their emissions. Our early research shows that many of our customers, if not all of them, well over report and the reason they do that because it's difficult, there's a challenge to it, there's some secret sauce, there's some software that needs to be built, there's a—it can be quite expensive.

We've invested in developing a low cost, we hope, recurring revenue solution that will be able to help producers, midstream users and eventually other industries actually quantify what they're using in terms of how much gas they're burning in their co2 emissions which you can calculate from that. We do have—I think we have about 10 out there right now. We're trying to put a bunch more out in the next couple quarters. But we've got lots of valuable feedback from our customer base that are trying this to see what else we need to do to better tie into their current systems and infrastructure. But some early results show that there will be some huge value to our customers to helping them just actually know what they're emitting because right now they're overstating it.

John White

Thanks very much. I appreciate that detail and sounds very exciting and sounds like you’ve got a diversified, by sector, a diversified set of testing going on.

Cameron Tidball

Yes, absolutely. We're actually looking at—we're not just on heated appliances as well. We're also working on some applications that are found in the transportation and distribution of natural gas. There's a, we believe, an untapped market there to support customers in that as well.

John White

Thanks again. I'll pass it on.

Ryan Oviatt

Thanks, John.

Cameron Tidball

Thanks, John.

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Operator

The next question comes from Rob Brown with Lake Street Capital Markets. Please go ahead.

Rob Brown

First question on the 3,100 projects that you—Cam gave a good overview of all the things you had going on. Just give us a sense of are you seeing a lot more repeat customer? What's the genesis of this project ramp and growth you're seeing? Is it really getting the brand out there and an operating history? What's driving all of this growth.

Cameron Tidball

Yes, thanks, Rob. Yes, great question. The 3100 solution, we brought it to market. It's interesting how old the product is getting, it's about four or five years old, but really had to get that stable base of customer and application, which we did in the core upstream business before we could even bring it to some of this, our diversification efforts, which you mentioned the downstream side of midstream, or even doing them in downstream utility business and now outside of oil and gas.

Really was, one, it was building up that reference case, that operating time, as you mentioned, but really it is that brand awareness. Now the strategy in outside of oil and gas, which we've talked about, we had a number of projects in the first quarter, half of the business was repeat, and half of it was new. That's great, we're getting some repeat customers, it's showing that they liked the product, and like what it's doing. But the strategies are a little different than what we've done in the past, where we go to the end user, we go to the OEMs. We go to the instrumentation companies, and system integrator companies that are living in that space; for nonoil and gas, it's really a focus on that OEM business.

No one really—as we mentioned, that we (inaudible) project in metal manufacturing. Well, our sales team, they're not showing up to steel mills, they're not showing up to those plants. They wouldn't know us from anybody but the OEMs and the engineers that support those types of businesses and the systems integrators, we've spent a lot of time over the last really year and a half building those relationships, getting product trials, getting our product into their hands, working with their engineers. It really just takes a few of them leaping off that takes our ability to deliver over our competition in this space is a real strategic advantage for us.

As customers try it, they have success, those OEMs then replicate from there. We look forward to, as we mentioned, it snowballing; it's still early, but when you can do some creative math, you're all good at that. When we talked about that we feel we can triple that business from last year to a meaningful run rate, that's how Profire's core business started as well. You had to start from somewhere. We really believe that we'll see some meaningful growth in this space.

Ryan, did you have anything you wanted to add on that one?

Ryan Oviatt

I think you covered it well and it's that work that we've been doing over the last couple of years and building that customer base and even marketing outreach that we've done recently. We participated in, during Q1, in an ESG for Energy Conference, and that actually has generated some business for us as well, just being a part of that and supporting the industry as it's dealing with these types of challenges and issues. Getting the word out that we're capable and that we can do it is really starting to have an impact.

Rob Brown

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Great to hear. Then on the demand environment with oil staying high. Do you see this demand level continuing? Or how do you see demand at this point? I know it's hard to predict a little bit, the environment. But are you seeing continued order activity and strength falling on the Q1 results?

Cameron Tidball

I think we both (multiple speakers). Go ahead, Ryan.

Ryan Oviatt

Go ahead.

Cameron Tidball

I was just—yes, this is one of those cases where we've been vague in the past, especially the last few quarters going through COVID, but if there was a time to feel a little more optimistic and confident in oil and gas production, this would be it. Orders are strong. Yes, is there challenges with supply chains? Yes. But if any of our team members are listening to this, we are incredibly proud of how they have adapted to make changes on the fly, to go out and figure out how to navigate this. It's an incredible sight to see, it lends to the strength of our team.

But we see this continuing on, we see those customers, they're going to produce, they need to. That DUC inventory continues to come down. That stockpile, we don't know for sure, but we believe probably less than half of those DUCs are probably even a potential to complete, there's going to be a lot of dead, pent up inventory there. We look at what's happening globally and although we never condone war or anything like that, those things make a difference. The fact that we are still getting a little bit of mixed messages from the Feds, it's Ryan's comments about, yes, we'll open some lands, but you're going to pay more royalties. We get some mixed messages there. But all in all, we believe that North American oil and gas production is absolutely essential. The world knows it and we'll see it continue.

Ryan, sorry to interrupt you.

Ryan Oviatt

Yes, no worries, all good, great comments and I echo those comments as well. Just to maybe reiterate a little further, not only are there all those challenges and issues on the supply side for oil and gas, but we're in an environment for the past four to five years where here in the U.S. there's been a significant underinvestment in the industry, in new production, in new wells, in maintenance capital, in equipment, all of those things that are now the two coming together at the same time are creating an environment where it's extremely challenging, and there has to be a reinvestment in the industry, even just to maintain current levels of production going forward, let alone to try to rebuild or grow that production level, if we were to replace international purchases from Russia or try to regain U.S. independence in oil and gas.

It's not just flipping a switch and all of a sudden, we're back to 13 million, 14 million barrels per day production. There's a lot of underinvestment that's happened and we're seeing a drive in our side of the business to help support EMPs as they're trying to recapture some of that and get back to where they were previously.

Rob Brown

Great. Thanks for the coloring, congrats on a great quarter.

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Cameron Tidball

Thanks.

Ryan Oviatt

Yes. Thanks, Rob.

Operator

The next question comes from Jim McIlree with Dawson James. Please go ahead.

Jim McIlree

Hey, I was just hoping you could comment on the pace of revenue that you see for the next year. I know you're not going to give specific numbers. The way I'm looking at it, your comment says that the demand environment is good. But the supply chain could hurt you, and right now, do you see that one is outweighing the other? Or is the supply chain something that you can overcome with additional sources of supply? Can you just comment how those two are working against each other?

Ryan Oviatt

Sure, I'll jump in first. On the supply side, it's a very challenging environment, as everyone's well aware, in every facet of your lives. But even in Q1 we had some things pop up in Q1 that were totally unanticipated. We thought we had locked in certain components and pieces of our equipment and had delivery dates and out of nowhere, those were shut down, delayed with no official date in sight and we had to scramble. Our team did a great job of scrambling, finding new suppliers, getting a new source, getting things secured, and even then, there were further challenges or issues, but we've been working through that.

We believe we've taken an approach though, where we're trying to be as in front of it as we possibly can. For example, we put in some extra orders on products that we met—we have manufactured directly in China early on, and we were able to secure those in the last month before China shut down again. We believe we're well supplied in that portion of our product line.

In other areas, we've been putting in advance orders for product that we think we're going to need at the—towards the end of this year, and even into 2023. We're working with our suppliers to get those orders so that they can start to procure the necessary parts and have that procurement cycle build up with release dates and anticipated times of when we need product in and so forth.

But in the short term, we are seeing significantly more challenges. We think we're setting ourselves up pretty well for Q3, Q4 and even into 2023, but there are some challenges related to Q2 where we've had some delays in the month of April where we've had to delay our shipments for a period of time; not all of our shipments but some of our shipments to customers extending the lead times with some of them, but we have new product coming in and we're working through all of those challenges.

Maybe this is a long answer to your question but we think we're doing the rights things and we're making the best moves that we possibly can, but there are curveballs that come out of nowhere that we have to figure out a way to deal with. So far, we've been really good at dealing with those. But you never know what's coming or how hard it's going to be to deal with.

Jim McIlree

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It’s sounds like, Ryan, in your commentary and also in the—it was either in the Q or in the press release, that Q2 had some special challenges that you’re trying to work through. Am I hearing that right?

Ryan Oviatt

Yes, I think that’s a fair way to state it. We aren’t saying that Q2 is going to be a terrible quarter for us but we’re saying that there are challenges in the short term that we continue to deal with and that we’re working through. Cam, do you want to add anything, any other perspective?

Cameron Tidball

Yes, I was only going to change your curveball to probably more like a knuckleball; curveball, you can kind of predict. But as Ryan mentioned, where—we look back at things, you don't want to look back too much. But you want to look back and say, "Would there have been something we could have anticipated better? And can we learn from that in the future?" This is one of those situations, go and ask the Ford Motor Company how they're doing with their supply chain and some of these things. We're in a grateful position where we don't have catastrophe. We probably have a blip. But that being said, those knuckle balls, they're getting—they're coming in fast and furious. We continue to try to have to adapt.

Luckily, we've already lived in a world where we have to be ordering way ahead. That's been a reality for Profire for some of our components because they are electronic, and you do rely upon multiple vendor layers. Again, it's we look back, is there something we could have done better, done differently in these cases? Very tough to predict, but I think it's more of that blip as opposed to catastrophic events.

Jim McIlree

Got it. Just a couple more. I'm going to ask both of them now. The first one is, Cam, could you repeat what you were talking about with the DUC inventories and something about half won't be drilled or can't be drilled, and then the second question is, when you're looking at your operating expenses for the rest of the year, it sounds like it's steady as she goes. There might be a little bit of an increase if you continue to have that top line growth, but there's not any major ups or downs in the Opex from current levels, is how I'm looking at it. Is that correct?

Cameron Tidball

I'll tackle the DUC question and then Ryan can jump in on operating expense. But the remaining DUC inventories at the end of the quarter, it's around 4,200, which is 50% lower than it was in June of 2020. Those are already wells that have been drilled, but they haven't been completed, meaning they haven't brought the work over rig, they haven't brought in the heaters, they haven't brought in the subsurface equipment. My comment on 50%, that's a guess that we have; no one knows for sure. The operators themselves don't know.

But what we know is a lot of times you drill the pad and they'll just have moved on. Maybe they've completed some of the acreage in the area and it's been a low producer, or it's been a high producer. If it's been a high producer, they're going to go after that stuff. If geology says and seismic reading say, “Let's get this,” they're going to get it. But we believe that there's a certain percentage, we estimate, save around 50% of those drilled but uncompleted wells are probably never going to be complete.

All of us on the call look at that and go, "Well, I know what I'm paying at the pump. I know what my electricity bill is right now. I know that it costs a lot more money to buy steak right now." You’ve got to think that we're—that's not going to stop. That's probably going to continue because the supply behind the demand

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is not going to keep up. The Feds have dipped into the Federal Reserve, the untouchable reserve. There is a shortage. I don't think we're to the point yet where we're going to be seeing people lining up at the pumps for miles and miles. But who knows? That's my comment on that.

It's one of those things that shows more investment needs to go into the industry, all your major analysts like (inaudible), they're talking about underinvestment, underinvestment; they need to drill and produce because the DUC inventory isn't a safety net anymore. Sorry, long winded answer on that. Does that clarify for you, Jim?

Jim McIlree

Yes, that's great. Thank you.

Ryan Oviatt

I'll just add to that. As we track the DUC count number each month, we've seen a significant reduction in the monthly change in that number. Several months back, quarters back, that number was dropping pretty significantly each month, the number of completions in the industry was far outpacing the new wells being drilled. But that has shifted quite significantly with the rig count coming up. The number of new wells drilled each month is just under the completion number and the change in the DUC count is coming down.

We think that, as Cam explained, there is that dynamic of DUCs that probably just won't be completed and that trend is probably going to continue, that we may plateau with this DUC count number, or the rate of decrease is going to slow down from what it has been.

Then if I jump over to your other question on the Opex side, we agree with your assessment. We don't have current plans to significantly grow the Opex. Obviously, as we've mentioned numerous times, there are inflationary pressures that we will continue to deal with, that will be a challenge, and labor pressures and all types of things that are going to impact our business, but we don't anticipate any significant changes. We're not going to rehire a significant number of people at this point in time, though if demand grows, we will continue to hire and some of those hires will be more on the revenue generating side than on the back office side of our business. But we hope and we believe that we're at a sustainable, good level from an Opex perspective, barring any significant changes or inflationary issues that we don't anticipate at this point.

Jim McIlree

That's great. Very helpful. Thanks a lot, guys, and take care, and we'll talk soon.

Cameron Tidball

Thanks, Jim.

Ryan Oviatt

Sounds great. Thanks, Jim.

Operator

The next question comes from John Bair with Ascend Wealth Advisors. Please go ahead.

John Bair

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Thank you. Good morning. Yes. Good morning, gentlemen. Two questions—good. Two questions. One, going back to John's, John White's original and your discussion about these beta tests; when you're doing that, does the potential customer assist you with the expense on that? Or is that all up front and that you're out of your pocket?

Cameron Tidball

Right now, those are all out of our pockets. Luckily, it's not expensive hardware. Obviously, the R&D behind it has an investment. But the hardware itself is not capital intensive. We're able to install it, it's not a laborious install, doesn't take cranes or anything or welding, it's pretty simple. We do most of it in house, setup on a little stand, and then we ship it out. They assist us in terms of labor and connectivity to their systems, etc. But not a large capital expense for it. But right now, we're covering that.

Our hope is that anyone that we do a trial with is that they're a potential customer. If they're not invested or interested in it, we disqualify them as a beta test. We don't want to put something in that someone would have not ever thought of buying.

John Bair

Right. Then would you be able to recover any of that cost, or would that be built in going forward, if they became a customer, and hopefully a repeat customer?

Cameron Tidball

Yes, we do have some of it built in for the future. But really, we're looking long term with the product and scalability and hopefully you get some good contracts with some of these companies, is the goal is to get a recurring revenue contract.

John Bair

Right. Okay. My other question is regarding the supply chain, have you had any circumstances where a particular supplier or manufacturer within the, as you mentioned, I think, multi level—a lot of different touch points, any of them that have just plain gone out of business that can no longer supply a particular part or component that might be used along the whole process? Does that make sense?

Ryan Oviatt

Yes, it makes sense. We haven't had any major significant critical suppliers go out of business entirely. But plastics are a problem right now. Any of our components that are made from plastic, some of our enclosures, for example, our manufacturers are having difficulty getting the supply of plastic to make those products. Those are some areas where we've had to be creative and look at other sources, and other options, potential. We had to even get some recertifications done to be able to go with a different option. That's, again, part of the great work that our people have done during Q1 and continue to do. Not any that we know of that have gone significantly out of business, but there are many that are facing significant challenges as well.

John Bair

Then if you do change a supplier like that, you just mentioned having to recertify. Is that in itself a pretty big obstacle? Does that take considerable amount of time, and therefore delay rolling out that product or not?

Ryan Oviatt

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Normally? Yes, definitely. Normally, that would be a huge stress. Any time you bring up certification, the hairs on your neck go and you get a little bit angry and cranky. But in this particular instance, we had to do a quick recertification. Luckily, it's just more of a paperwork and it wasn't a huge cost as a short timeframe. I do still think, in kudos to the team, they got through it in record time. I think we were able to express the urgency to the certification body.

Yes, normally it would cause a lot of stress. But luckily, we don't foresee having to do really any more recerts. It's more now just finding new components, finding new suppliers for those components, doing a lot on the broker market for electronics, which is not fun, but it's a good challenge and opportunity for our team to understand that better. We don't just leave it.

Obviously, with any manufacturing of a product, you have many layers of vendors; we're not just leaving it to one vendor to go and find it. We are proactively helping them to make sure that we can keep ahead and keep up with things because it's one of those things where you don't always get the truth from the vendor. Sometimes you got to go to the vendors' vendor, and they probably weren't meaning to fabricate anything, but we're going a few levels deep because we want to just get ahead of this as much as possible. We're the ones at the end of the day who have to tell a customer yes or no. We want to put destiny into our own hands.

John Bair

Generally speaking, there's been some chatter about will this help? Will there be a resurgence in onshoring production, in component production, so forth. What's your sense of that? Are you seeing more of that? Are you finding more vendors that you can rely on that are more, let's say, North America centric, as opposed to Asia Pacific?

Cameron Tidball

Well, again, when it comes to electronics, that doesn't exist in any large scale in North America. It's here, but it's really not. That would take a major shift in the world. On that side, no, but on some of your mechanical goods, we've always tried to have dual or triple redundancy in certain product lines so that we can take care of that. We mentioned we've done really well with our direct relations with China where we're bringing in some products from there. But we already have and had in place redundancy onshore to be able to supply that. We've built partner relationships so that we wouldn't have a blip there.

Yes, it's a change to a degree in margin, but not significant. So far, we haven't seen. Obviously China is a lot different than it was 10 years ago, 20 years ago. But in terms of electronics, that is something that Asia really has a stranglehold on. But that being said, are we still looking? Absolutely, especially on the plastic side of things.

John Bair

Very good. Thanks for taking the questions. Keep up the good work.

Cameron Tidball

Thanks.

Ryan Oviatt

Certainly. Thanks, John.

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Operator

The next question comes from Arieh Coll with Coll Capital. Please go ahead.

Arieh Coll

Good morning, gentlemen. How are you? Hope all is well. Two quick questions for you. You mentioned earlier in the call that there is some products for whom shipment may be delayed from the June quarter into the September quarter. Can you quantify the total value of products that might be delayed into the September quarter? Are we talking in terms of hundreds of thousands of dollars?

Ryan Oviatt

Yes, I think I was the one that made some of those comments. Part of what I think we're experiencing there is maybe not so much of a delay between the quarters but delay within the quarter. We have seen some delays in April. But we expect that later in the quarter we'll be able to recover those. Though our pipeline of orders is building so there could naturally then be a little bit of it that spills over into other quarters because of the supply chain issues.

Right now, I would probably say our best estimate might be that it'd be in the range of 10% of what's currently flowing through. But again, there's lots of things that will come in to impact that. We are working to alleviate that as much as possible and to accelerate and bring product in as quickly as we can, even faster than maybe what's been quoted or promised to us at this point. But there are still significant challenges there. We don't see it being there's—it's certainly not a 50% or even 30%, 25% delay between quarters or shifts between quarters, but there could be some impact.

Arieh Coll

Okay, fine. I appreciate clarification. We're talking about product delays that might be two weeks, four weeks, something like that. It's not like ordering a car where they're saying wait six months.

Then the second question is regarding the carbon emission data product that you're piloting. You alluded to the fact that the business model might be recurring in nature. Is it fair to say it could be maybe—that this product maybe is more of a software than a hardware product and so the margins down the road, though we don't know them now, might be closer to the 80% plus area versus in the 40s because it's more of a software information product being delivered by a network?

Cameron Tidball

Yes, great question. We want to be careful. We wanted to share that just because we've had some early, great feedback, and we've got customers are interested in it. We want to be cautious, obviously; public company, we don't want others to know as much about this as possible. But you're absolutely right. There'll be a little—hardware is not the goal here, software is the goal. We fully expect and hope that software margins can be derived from this, and again, we hope that it will be an opportunity not just to take to our existing customers, which is always one of our— it's always a strategic imperative to grow and grow that core business, but we want to take it to our diversification streams as well. That's, we think, a great opportunity. But yes, software is the goal with this, software, and yes, that online platform and portal, et cetera.

Arieh Coll

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Then the last thing is regarding this product, you talked about a minimum viable product. Is it good enough that when you make a couple changes to it based on customer feedback, that the next version could actually be commercial? Are you thinking it's going to take two or three iterations in a product a year away from launch? Just trying to sense for how close it is yet to being good enough for customers to actually go commercial.

Cameron Tidball

Commercial launch, we haven't finalized on that. But we're hoping that by the end of the fiscal year that we could be close to or in early commercial launch. We're not three or four iterations away. The hardware itself is probably where it needs to be. There's some—a little tweak there, the software, the user experience is more the fun stuff and making sure that whatever you build is scalable. I would say we're not a year away from the ability to be commercially launched. But more like that Q4, close to a year.

Arieh Coll

Right. Well, thank you. I commend your creativity and innovation and best of luck with the pilots.

Cameron Tidball

Thank you.

Ryan Oviatt

Excellent, thanks, Arieh.

Operator

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

Cameron Tidball

Thank you, Operator. We thank everyone for joining us on the call today to discuss our first quarter results. We'd like to thank you all for your continued support.

As always, we're available for any discussions or questions you may have. We'll be participating in the Three Partners Advisors' Virtual Ideas Conference in June. For more information or to register, please contact the Three Partners Advisors' team, and thank you and have a great day.

Operator

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

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