



Profire Energy, Inc.

Third Quarter 2022 Earnings Conference Call

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CORPORATE PARTICIPANTS

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Rob Brown, *Lake Street Capital Markets*

John White, *ROTH Capital Partners*

James McIlree, *Dawson James Securities*

John Bair, *Ascend Wealth Advisors*

PRESENTATION

Operator

Good morning everyone and thank you for participating in today's conference call to discuss the Profire Energy's third quarter 2022 ended September 30, 2022.

I will now turn the call over to Steven Hooser, Investor Relations for the Company. Please go ahead.

Steven Hooser

Thank you, Operator.

With me on the call today is Profire's Co-CEO and CFO, 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 those documents are available on the Investor Section of the Company's website. The transcript of this call will be posted in the coming days.

Before we begin today's call, I would like to take a moment to read the Company's Safe Harbor statement. Statements made during this call that are not historic are forward-looking statements. This call contains forward-looking statements including but not limited to statements regarding the Company's expected growth and strengthening of the legacy business, increased inventory purchasing, and planned launch of new products, the focus of reduction of emissions, the continued collaboration with customers, anticipated well completions, the availability of Company resources to make beneficial investments in

2023 and beyond, and the Company's future financial performance. All such forward-looking statements are subject to uncertainties and changes in circumstances.

Forward-looking statements are not guarantees of future results or performance, and involve risks, assumptions and uncertainties that could cause actual events or results to differ materially from the events or results described in or anticipated by the forward-looking statements. Factors that could materially affect such forward-looking statements include certain economic, business, public market, and regulatory risk factors identified in the Company's periodic reports filed with the Securities and Exchange Commission.

All forward-looking statements are made pursuant to the Safe Harbor provisions of the Private Securities Litigation Reform Act of 1995. All forward-looking statements are made only as of the date of this release, and the Company assumes no obligation to update forward-looking statements to reflect subsequent events or circumstances, except as required by law. Readers should not place undue reliance on these forward-looking statements.

I would like to remind everyone that this call is being recorded and will be available for replay through November 17, 2022, starting later this evening. It will also be accessible via the link provided in yesterday's press release as well as on the Company's website at www.profireenergy.com.

Following the remarks made by Ryan and Cam, we will open up the call to your questions.

Now I would like to turn the call over to Co-CEO and CFO of Profire energy, Mr. Ryan Oviatt. Ryan?

Ryan Oviatt

Thank you, Steven.

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. Then I will turn the call over to Cam to discuss the continued recovery across our legacy business, the exciting progress we're making in our diversification efforts, and overall Company outlook.

As we communicated in our pre-earnings announcement on October 10, this has been a great quarter for Profire. Not only did we see significant recovery in our legacy business, but we have gained meaningful traction in our diversification efforts both within oil and gas as well as in other exciting industries. Our third quarter results reflect the continued strength of our business and the need for our products within the oil and gas industry. Our revenue, gross margin, and gross profit increased both on a sequential and year-over-year basis. This period represents our third highest quarterly revenue in Company history and our best net income and EBITDA since the first quarter of 2019.

The North American oil and gas industry is in a strong position currently and we believe is likely to remain so for the next few years, even though in many ways, it is still recovering from the lows of the 2020 pandemic. Rig counts have continued their slow and steady increase, which are up 16% from the prior quarter and 49% from the same quarter a year ago but remain 7% below the average from 2019. Completion activity has been steady over the past two quarters at an average of 970 well completions per month, which is still below the 2018-2019 average of 1,200 well completions per month.

This is in addition to the fact that E&P companies have under invested in exploration, maintenance, and new technology over the past five plus years. We believe the combination of these industry indicators and global oil and gas supply challenges is positive for Profire and the North American oil and gas industry as

a whole. We believe these signals point to strength in our legacy business for the foreseeable future as customers continue to need our solutions for new well completions and as customers look to reinvest in existing assets to upgrade technology, seek for efficiency gains, and focus on ESG opportunities.

With that, let me turn my remarks to provide some additional detail on Profire's financial results for the third quarter of 2022. In the third quarter of 2022, we recognized \$12.8 million in revenue compared to \$9.6 million in the second quarter and \$6.9 million in the prior-year quarter. The sequential and year-over-year increase is attributable to improved customer demand, higher oil and natural gas prices, and an increase in rig counts, which has driven an increase in drilling and completion activity. This growth represents the sixth consecutive quarter of revenue increases for Profire.

Gross profit for the quarter was \$6.1 million as compared to \$4.4 million in the second quarter of 2022 and \$3.1 million in the year-ago quarter. Gross margin in the third quarter was 47.7% of revenues compared to 45.7% in the second quarter. Gross margin increased 280 basis points compared to the third quarter of 2021 due to better fixed cost coverage resulting from the higher revenue base. We continue to battle inflationary pressure on gross margin but are excited to see our margins back at higher levels that are driving greater value for our Shareholders.

Total operating expenses for the third quarter were approximately \$4 million compared to \$4.3 million in the second quarter and \$3.4 million in the third quarter of 2021. The sequential decrease is attributable to the recognition of an Employee Retention Tax Credit earned under the CARES Act. Without this reduction in payroll tax expense, our operating expenses would have been roughly flat with the previous quarter.

The year-over-year increase reflects headcount increases and the ongoing inflationary cost pressures on our business, particularly higher cost of freight, shipping, and labor. Specifically G&A expenses for the quarter increased 15% year-over-year. R&D expense increased 50% from the prior-year quarter. Depreciation and amortization decreased 8% compared to the same quarter a year ago.

Net income for the third quarter was \$1.2 million or \$0.02 per diluted share. This compares to net income of approximately \$285,000 or \$0.01 per diluted share in the second quarter, and net income of approximately \$92,000 or breakeven on a diluted share basis in the third quarter of last year. Cash flow from operations in the third quarter was a negative \$1.8 million compared to a negative \$598,000 in the prior-year quarter. This quarter's strong operating cash generation was offset by increases in inventory and accounts receivable. Our inventory balance at the end of the third quarter was approximately \$10.2 million, up from \$9.3 million at the end of the second quarter, and \$7.2 million at the end of 2021.

Our proactive and strategic inventory ordering year-to-date has enabled us to achieve the strong results of Q3 while rebuilding some of our typical inventory held. We believe this strategy will be necessary for the next 12 to 18 months as many suppliers see ongoing supply chain challenges through early 2024. The increase in inventory has largely come from the third-party products we use in our solutions, which have been a little easier to get than the system components, chips, microprocessors, and electronics that are necessary to build our proprietary BMS systems.

We have funded these purchases through our available cash balance. At the end of the third quarter, we had approximately \$14.5 million in cash and liquid investments and we remain debt free.

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

Cameron Tidball

Thank you, Ryan.

As evidenced by our Q3 results, Profire continues to gain momentum as we have now achieved six consecutive quarters of top line growth revenue growth. Our quarter-over-quarter and year-over-year growth demonstrates our ability to scale and represents 33% and 85% growth sequentially. We are encouraged by the improvement in our financial metrics and performance. They represent a direct result of our team's execution of our strategic imperatives. We remain focused on protecting and growing our legacy business and adding meaningful revenue into areas of diversification.

In the third quarter, we continued to see increased demand for our products and solutions. Enabled by our strong market share and our customers' ability to focus capital on drilling and completing programs, retrofits, and upgrades, our legacy business experienced one of our strongest quarters in Company history. This strength was experienced across our entire legacy business, including our upstream, midstream, and downstream utility segments throughout the United States and Canada.

New customer and project wins were supported by an improved inventory situation in the quarter. Although we expect continued stress on supply chain, we continue to proactively look for solutions to match customer demand and strategically build our inventories. Drivers that impact our traditional business include commodity pricing, rig count, well completions, as well as North American oil and gas production. In the quarter, the average WTI price per barrel was \$93, which is a 15% decrease from the previous quarter; however, a 32% increase from the same quarter last year.

Natural gas prices remain high and averaged \$8 for the quarter. The combined onshore rig count for the U.S. and Canada average 942 in the quarter, which is up 16% from the previous quarter and 58% from the 2021 full year average. The U.S. drilled but uncompleted well count or duck count remained relatively flat; however, it's down 51% from its peak count in June of 2020.

Global oil and gas supplies remain constrained due to the ongoing Russian sanctions and unwillingness of the U.S. Administration to loosen restrictions on domestic production. The release of oil from the Strategic Petroleum Reserve has provided limited relief to consumers, and the recently announced plan to replenish the stockpile at \$70 a barrel is unlikely to be implemented in the near term. Meanwhile, the production cut announced by OPEC plus last month will likely keep prices in the \$80 to \$90 range next year according to the EIA's outlook.

The fundamentals that drive the success of our legacy business continue to be strong. We remain optimistic that demand for North American hydrocarbon-based products will continue to grow in the short term, and through 2023 and 2024. Our backlog of orders has reached historic levels and continues to grow. Our existing size and operational structure are able to support current demand and growth with minimal requirement for headcount additions or allocation of capital.

Key to the success of the third quarter, we were able to achieve our strongest quarterly results to date in diversified revenue related to our growth in midstream plant operations and non-oil and gas projects. On October 10, we released preliminary third quarter results which highlighted significant growth in our quarterly diversification revenue. We nearly doubled our second quarter diversification results to approximately \$1 million or 7.7% of total revenue for the quarter.

In the fiscal year, we have completed diversification projects for over 60 different customers. The industries where Profire solutions can now be found include large stream and midstream plant operations, manufacturing, infrastructure and construction, agriculture, landfill, LNG, mining and metals, biogas, renewable natural gas, food and beverage, petrochemical and refining, power generation, and water and wastewater.

In the third quarter specifically, we completed projects involving specialty metals manufacturing, industrial heat treating and drying, landfill methane destruction in support of EPA requirements, food processing

and production, and destruction of hydrogen in advanced materials manufacturing. We also continue to support projects that are critical to the production of renewable natural gas. We continue to build our reputation in these new and exciting markets. Based on customer feedback on our products solutions and project execution, repeat business, as well as our growing opportunity pipeline, we remain optimistic about our ability to continue to grow and expand these business streams.

Turning to our research and development initiatives, we maintain a balanced focus on short-, mid- and long-term development and investment. This strategy enables us to focus on bringing additional solutions to our traditional industries, while preparing us for the future. Our research and development efforts continue as we collaborate with customers to develop technology focused on improving efficiency and lowering emissions of heated appliances. These efforts support our customers as they endeavor to implement ESG initiatives related to overall GHG emission reduction.

In the quarter, we continued to work with customers who are trialing a potential new solution which will provide low-cost monitoring and opportunities for efficiencies and carbon footprint reporting of their heated appliances. We initiated quoting activity in the third quarter with the goal of converting our beta customers to paid subscriptions. Our plan is to continue with strategic introductions and increase quoting activity in the fourth quarter as we continue to ascertain product suitability and traction.

Profire remains in a solid and exciting position. We believe our value proposition to our customers, both current and future, is strong. Our technology solutions provide multiple industries with safety, reliability, compliance, operational efficiency, and environmental protection.

Before turning to the Q&A session, Ryan and I thank each of you for your interest in Profire. We appreciate your confidence and support in our Management team. We thank our team members for their commitment to our customers' success. We appreciate what they do each day to improve our amazing culture and team. Again, we thank you.

Operator, will you please begin the question-and-answer session?

Operator

Certainly.

Our first question is from Rob Brown with Lake Street Capital Markets. Please go ahead.

Cameron Tidball

Good morning, Rob.

Rob Brown

Good morning. Thanks for taking my question.

I just wanted to get a little bit further color on the pipeline of the diversified revenue projects that you're talking about. You said the pipeline's building, I think. How does that come in? Do you have any sort of visibility on your backlog in this business at this point?

Cameron Tidball

Yes, thanks, Rob.

Yes, we do have some visibility. Obviously, it's a growing initiative, so it's always a challenge. You got to keep filling it. But the fact is, we're getting repeat business, repeat projects with the same end users, OEMs, and some of the resell partners or EPCs that work in this space. So it's really a focus of continuing to get the message out that, hey, Profire plays in this area, introducing the team, the process that we bring to these types of projects, which is—it's our own and might be slightly different than the incumbents who have been in that space for decades, but we're really the new kid on the block when it comes to these diversified industries.

You can't really walk in and say, "Hey, we're Profire," like we do for the upstream, midstream and downstream business, utility business. But in this space, we're able to go in, if we get that opportunity, we find that our project process, the customers are liking. The products themselves, well, we already know they work. They're finding out that they work. Then it's learning new types of vernacular and new types of processes where Profire has to dig in, but really, when it comes down to it, the crossover is so applicable between what we've built.

So what does the pipeline look like? It's building. We're making new contacts. We're putting out new bids. They tend to be larger-sized projects, which is great, but we're also getting some of these really quick transactional ones. As I mentioned, I think over 60 customers that we've sold to this year, which is great. Last year it was a third of that, so we'll continue to see this grow.

Rob Brown

Okay. Great. Thanks for that. Great color.

On the core business, you talked about a pretty good demand environment. What are you seeing as this plays out into the rest of the year, and into next year? Do you have some sense of the customer thinking? Do you feel like this demand environment continues, or is it still not great visibility and day by day?

Cameron Tidball

Well, as we mentioned, our backlog and pipeline is at historic levels, and it's growing. This is a luxury we've never really had before, where we get purchase orders coming into the next quarters, like we have before. This is in part, we really educated our customers last year about getting their orders in because if you want them, it won't exist if you don't get them in. Even with that strategy, as we mentioned, we're still dealing with strain. Everybody is.

For the most part, we look at the quarters coming up that they—our customers, they're not coming out and saying "Hey, get ready, we're going to go crazy, like we have in the past." We don't see North American shale production drastically going up, but I think it was in August, and we got to 2019 levels, which is 12 million barrels per day or close to it. I think we could see that still tick up. If that is going to happen, more production is required, more drilling is required, and more completions are required, which all are great places for Profire.

We also do have some retrofit projects in the pipeline, ones that we've been working on throughout the year, throughout the quarter. We see opportunities in that as well, because our customers, although they're still returning profits to Shareholders through dividends or share buybacks, they're also investing in their older legacy equipment with retrofits. As companies are acquired and independents jump out of the game and majors take over more, they're upgrading their fields because they just don't have the human and people power to take care of it in—I don't even think we can call them traditional ways anymore, because traditional is becoming—putting in BMS, but I think that it looks strong for the coming quarters.

Rob Brown

Okay Great. That's good to hear.

Then maybe last question, on just sort of the supply chain, cost structure, margins, pricing, that kind of thing. Are you able to get price increases? Or how are you sort of managing the price increases versus the cost increases?

Cameron Tidball

Ryan, why don't you tackle that one, if you would?

Ryan Oviatt

Yes, for sure. Thanks Cam and Rob.

Overall, the supply chain is still a challenge. We've certainly found that it's alleviated or gotten better in certain areas and then in other areas it continues to be a significant struggle. So as I mentioned in some of my remarks, our inventory balance, we've been able to grow our inventory by getting a lot of the ancillary product, third party product that goes in our solutions, and that's in anticipation of when all of the systems are able to come in and we're able to get those that we can then ship out and fulfill orders right away.

So it's a bit of a different dynamic than what we've had historically for our business. But what we're hearing from the suppliers where things are challenged right now, which is more of those system components and microchips, microprocessors, electronics, that type of stuff, a lot of that we're still seeing that it could be into 2024 before that is really alleviated. Obviously, there's lots of dynamics, macro pressures that are impacting that. But we continue to see those challenges, and as you said, one of the ways that we try to deal with that is in price adjustments for our products.

We have been going through the process of refining our system a bit that will make it easier for us to make these types of price increases on a quicker basis. We are still doing that. We're continuing to look at our ongoing input costs, and as those are increasing, we're looking to make changes on the price side as well. Again, we can't go crazy on price increases but we need to be able to pass along the increases that we're seeing, and so far our customers, even though they may not like it, understand it and they can see with it, and we don't see that it's impacted our ability to deliver or to sell to our customers.

Rob Brown

Okay. Great. Thank you. I'll turn it over.

Cameron Tidball

Thanks, Rob.

Operator

The next question is from John White with ROTH Capital. Please go ahead.

John White

Good morning, guys.

Cameron Tidball

Good morning, John.

John White

Good morning. Congratulations on that nice, very nice improvement in your business.

Ryan Oviatt

Thank you.

John White

The list of industries from where the new business is coming from that you read off is very lengthy and very diversified. Over the past year or so, have you added some marketing people that have specialized expertise in some of these industries where you're getting new business? Or is there something else you're doing from a marketing standpoint and it's generating the success you're seeing?

Ryan Oviatt

Yes, it was truly—and as we heard on the call a mouthful, and you're like, “Well, you just named every industry.” Well, not really, but those are truly all the industries that we've done projects in and all this year, which is incredible. You can see that it's diverse. How are we getting to this? Well, one is we have put the team in place. They have been functioning for the full year. They also had a portion of last year, and a couple of the team members even before then. So that's building that reputation. We haven't added anybody new in 2022 to this.

In terms of a marketing focus, we are of course, looking at opportunities. We've invested in belonging to some associations, some groups, but it's really just getting out there. Some of the OEMs, and systems integrators and EPCs that live in these spaces, they also have a wide variety of ability to work in different industries. That has really been our focus. Again, we're not going to show up—well, I shouldn't say this, we do it—but you can't really show up at a pulp and paper mill, which I didn't mention, I guess I could have, and say, “Hey, we're Profire, we're here to do your burners.” We can do it.

You've really got to be in with the OEMs that supply the equipment, especially when it comes to dealing with incineration of byproducts or of excess gas on the site. That's where you really see great opportunities. We have many partners that we've leveraged from within oil and gas, as well as new OEMs that we've met through just the course of business development, who have been able to support us in this.

So it's a variety of the above. We're looking to doing more of the marketing push on it, try to bring in some low cost of acquisition leads and things like that. That is a strategy we've been working on here in the quarter and throughout quarter four, and hopefully get some of that launched in the first quarter of next year.

John White

I really appreciate the detail on that. That's a very nice answer. I'll pass the call back.

Ryan Oviatt

Thanks, John.

Cameron Tidball

Thank you, John.

Operator

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

Cameron Tidball

Hey, Jim.

James McIlree

Hey, guys. Thanks, and good morning.

I just wanted to understand a little bit better about the increase in revenue in Q3 relative to Q2. I've come up with three potential explanations. I'm wondering if you've kind of addressed those. Maybe there's another out there also.

One is we could have just seen a shift in the industry to a higher level of activity. Second, it could be the customers are pre-ordering. They're trying to do the same thing with their inventory that you're doing with yours, that is holding on to inventory, pre-buying it, because they're worried about supply chain issues. Then another reason could be is that you've just done a good job with your inventory levels and so you're better able to supply demand, which in past quarters you haven't. Again, can you comment on those theories? Maybe there's something else going on that we could attribute to the increase in sales in Q3?

Cameron Tidball

Yes, I'll start it off. If I miss one of the theories, Ryan will pick up the slack, but I'll start it off and pass it over to Ryan.

Yes, there is a shift in the industry for sure. Stability is always good. Now if you look at—okay, Profire had quite an increase, Q2 to Q3. Did the industry pick up that much? No. But there is a bit of the shift in the industry where a little more comfort, got to get these systems automated, winter's coming. It's always a nice thing in Q3. Customers pre-ordering, there is a part of that. Normally, end users will not pre-order too much inventory, but we see that in our backlog and pipeline and the delivery dates that people have put out there. There's a bit of that. So, good theory as well.

Are we doing a good job? Yes, I think we're definitely doing a good job on the inventory side of things. There's definitely some of this revenue that potentially could have been in Q2. I think we mentioned that on our Q2 call. We would have probably had a better quarter had we had the inventory. So we did get a little bit of an influx, and we're kind of riding that little roller coaster. But other things to point to is some good strategic project wins, great gains in our diversification, as well as the fact is the industry, the core, traditional industry, is under invested. It's more than three, four, five years, even beyond that, of under investment, and it's catching up with them, and they got to get ahead of it, and they finally have profits and they're able to deploy them.

Ryan, did I—you probably caught a couple of theories I missed there, but that's how I would quantify those.

Ryan Oviatt

Yes, I think you covered the majority of it.

Typically Q3 is a little bit of a stronger quarter than Q2. Q2, we kind of have the spring break up in Canada, and getting into the summer months. Then the end of Q3, as Cam said, is when things start to get colder in the more northern regions, and that's when people are prepping obviously for the cold winter season and so forth. So there is a little bit of cyclicalities that's probably in there.

Then, as you mentioned as well, the inventory on our side that we had a lot more inventory available in late Q2 and early Q3 allowed us to deliver on that backlog a bit more, but as we've also commented, that backlog has continued to grow. So it's not like we've delivered a ton of product and now the backlog is much lower. We've seen it replenish itself.

So overall, I think it's that key that you last commented on, which is that the industry is struggling to keep up. It's been under invested for a number of years at these prices. E&Ps are encouraged to invest, at least in an effort to try to keep up despite the other pressures that the industry is facing longer term, where they're not going in and just throwing tons of money everywhere to do a full catch up in a very rapid short period of time, which the supply chain right now would not allow anyway. So those are some of the reasons why Q3 was as good as it was, but also continue to give us confidence that there's more of this coming, that this wasn't just a bubble in Q3 and that things are going to come right back down.

We think that there's those macro pressures on the industry and the need that are going to continue to push this for a while.

James McIlree

That's great. Thanks. That's very helpful.

Then looking at the current quarter. So, we've got potential, I won't call it a slowdown, but there's going to be an impact from Thanksgiving and Christmas, so from that perspective, that would be a downward pressure. But everything else sounds like it's moving it towards as good a quarter in Q4 as it was in Q3, again excluding the holidays. Have you seen that in October so far? Has the October business been consistent with what you saw in Q3?

Cameron Tidball

Ryan, you're on a good roll. Why don't you keep going?

Ryan Oviatt

Sure.

So we've certainly seen things continue. As we said, our backlog has grown. Unfortunately we continue to see little supply chain challenges, issues here and there, where one of our suppliers had a couple of weeks delay in being able to deliver some product to us. So those things pop up, but overall we don't expect that at least those little blips are going to have a tremendous impact on the quarter. We think that as that product comes in, we'll be able to get it shipped out quickly. As I mentioned, we've got the majority of all the other ancillary products available.

So we continue to deal with those challenges that we've talked about on the last several calls where new things pop up on a daily/weekly basis that we have to deal with on the supply chain. The orders have come in. We see that pipeline growing and continuing to be strong, but as you mentioned, we do have the holidays in November and December. We also experienced hunting season, which oddly enough does have an impact on our business from time to time, but Q4 is always an issue and a challenge for us just in that it can either be really strong or it can be really weak.

For example, last year, we didn't anticipate Q4 being very strong, but in the last couple of weeks of the quarter, we put out a ton of product. So Q4 last year was a great quarter for us. So there are some of those unknowns that we have to deal with and that could impact the quarter, but overall, we see it continuing at about a similar pace or similar level, knowing that there are some unknowns coming later in the quarter.

James McIlree

Right.

Then my last question is, can you just aggregate the growth in revenue either year-over-year or quarter over quarter, or both, can you just aggregate that from price and units? So how much of the growth was driven by price increases and how much was driven by unit increases?

Cameron Tidball

I don't think, off the top of my head—and Ryan might have this, I'll let him comment. We do, obviously, look at those things, and keeping up as Ryan mentioned, with the price increases that we receive from our suppliers, and the broker market for electronics, etc., trying to keep up with that. For the most part, if we look at our system sales and projects they're up for sure. So a portion of this revenue increase is definitely from that. Is some of it from the increase in price? Yes, some of it.

Ryan, I don't know, if you have further color, you could add to that? I don't really know off the top of my head, the percentages.

Ryan Oviatt

Yes, I don't have the percentages either, but if you're looking at quarter-over-quarter, there were not significant price increases implemented. There were some price increases, but not significant. So quarter over quarter, that would just be all quantity increases and what we're able to deliver to our customers year-over-year. Again, the majority of it is going to be activity. We just have so much more activity going on in Q3 of this year, compared to Q3 of last year where we were still coming out of COVID and the recovery at that point.

So certainly the majority of it is activity for the industry, for our customers. Year-over-year we did that 10% price increase late last year that we talked about, and then we've done some others throughout this year. So there's a portion of it that would be attributable to price but the majority is going to be activity.

James McIlree

Okay. That's it for me. Thanks a lot, guys. Take care.

Cameron Tidball

Excellent. Thanks, Jim.

Ryan Oviatt

Thanks Jim.

Operator

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

John Bair

Thank you. Good morning, guys.

Cameron Tidball

Good morning.

John Bair

A couple of questions here. With the diversification effort, new industries and so forth, can you share what percentage of those that you've addressed? I think you said roughly 60 new projects that have turned into repeat customers as opposed to say a one-off project that you've worked on.

Cameron Tidball

That's a great question.

If I look at—just kind of looking at the project log in my mind, I would say over half of the customers have been repeat. Now most of the revenue is still new, but after you do the—like based on the initial project. So we still haven't even, I think, seen what can happen for repeat business. It's not like we look at, we talked about \$1 million in the third quarter, it's not like it's from two customers. It's from quite a few. Some of them are brand new projects that we finished, who have already started on the process for new projects for the future.

So we love that. It shows that, hey, they like us. It's not a one and done type thing. We will have some of those. There are some facilities that they don't have opportunities for multiple burners. For example, one food and beverage facility that we've done in the quarter, they don't have other heaters at this facility. So probably not unless they expand, which they've talked about. But yes, I don't know the percentage offhand, John. It's something probably we should look at a little closer. The business development team leaders, they have it, but yes, it's definitely growing.

John Bair

That's kind of where I was going. Sorry, go ahead.

Ryan Oviatt

Sorry. John. I would just add to that, that as Cen mentioned earlier in the call that sometimes it may not be the end customer that's a repeat business, but it's the group that brought us the end customer, and that's who we're targeting. So those OEMs, those engineering or construction companies who do lots of different projects for lots of different customers, that's who we want to bring the repeat business just as much as the end user. So there is a little bit of difference in nuance there but to keep that in mind as well.

John Bair

Okay. So when you get that type of business, then do you question the OEM and say, “Where's this going to?” How large is this company? In other words, do they have multiple facilities, where our product could be utilized in? In other words to get a sense of that what that potential for additional growth or repeat business could be.

Cameron Tidball

Yes, our sales team wouldn't be good sales team members if they weren't digging for opportunities such as that. Sometimes the OEMs can be a little tight lipped, but we really have kind of a track record with—we're not looking to steal their business because obviously we're not going to get into building hydrogen reformers or other types of equipment like that. So yes, we definitely ask. We look to quantify every single OEM or systems integrator project.

Part of the way we get that is when we do the project process, when we go through an engineer and put together the package, we need to know the appliance. We need to know what it's doing in order to spec out the appropriate inputs and outputs, in order to spec out the different types of relays, the packaging, we need to put together in terms of what this goes in from a hazardous location.

So all those things have to be taken into account. So we often right from the get out, we know who the end user is, and we know what industry they're in. Then definitely, we look for more opportunities. If that OEM is not going to go and get more, we'll go and look for those things. Google is a great tool for us. You just look up who the end user is and what they have and where they have it.

John Bair

Great. Okay.

Now, shifting over to the supply chain area. Are you seeing any issues in the supply chain, where a particular product that you need, that that supplier is no longer manufacturing that particular product, and that that creates an issue, that you have to find another supplier to accommodate that order for that product? In other words, obsolescence or a supplier that's shutting down for whatever reason that was making a particular product for you, be it a chip or whatever?

Cameron Tidball

I'll have some comments and then I'll turn it over to Ryan to add further color.

Really, do we deal with obsolescence in some components? For sure. As some products get older, you need to deal with that, but it's not normally full products. It's pieces and parts that go into the whole product and solution itself. So that's a constant thing that Profire has always dealt with. We always have to be looking into those things, especially for our proprietary products. We need to watch that. More of the challenge that we're dealing with now is the plants and the companies that make our things. It's not so much that they're—it's really just layers and layers down the supply chain where there's problems.

It's not problems so much that customers have gone out of business or they're not building these things. It's just they—we're not just catching up from COVID demand here. We're catching up plants, one who, depending on where they are, are dealing with human power shortages. Now that the world has really—all of us used some sort of Zoom or Teams or Blue Jeans or something before COVID, to have an analogy. We all used it but we were forced into it during COVID. Now it's just normal.

Well, that automation, that type of call upon electronics and different types of things in so many industries escalated dramatically with that. It's not just now that the plants that were running just need to get enough people and then they can keep up. They have to almost bring on new plants to keep up. That's generalizing a lot of industries, but if we look at our controllers industries, for example, for our controllers, and other people who are building things with microprocessors, and different chips that go into these types of electronics, we all depend on a lot of the similar vendors.

For example, Texas Instruments, we all rely on them. Well, Texas Instruments probably needs to bring online, and we know they are, more plants to be able to keep up with demand. They're not the only one that is just trying to play catch up and build for the future. It's all been escalated by just the greater need for automation for our electronic world. So anyways, I hope that answered, but I will turn it over to Ryan to add any color to that he'd like.

Ryan Oviatt

Yes, Cam. I think you've covered it really well.

Probably the only other thing I would add is that because of all the pressures that Cam talked about, we've struggled to be able to get the quantities that we need of various components from good, reputable suppliers. In that effort, we've reached out and tried to go into the broker market or find additional suppliers that could supplement that, and some of those have been better than others. Some of those have not been good at all and the product has had a lot of quality issues.

So there are those challenges. More than just companies going out of business or stopping producing a product, I think it's more what Cam described.

John Bair

Very good. Thanks very much.

Cameron Tidball

Thanks, John.

Operator

There are no further questions in the queue.

I'd like to hand the call back over to Cameron Tidball for closing remarks.

Cameron Tidball

Thanks everyone for joining us on our call today to discuss our third quarter results. We would like to thank all of you for your continued support. As always, we're available for any discussions or questions you may have. We'll be participating in the Three Part Advisors IDEAS Conference in Dallas later this month. For more information or to register, please contact Three Part Advisors. 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.