



**Profire Energy, Inc.**

**Fourth Quarter and Full Year 2022 Operating and Financial  
Performance**

**March 9, 2023**

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

**Steven Hooser**, *Investor Relations at Three Part Advisors*

**Ryan Oviatt**, *Co-Chief Executive Officer, Co-President, and Chief Financial Officer*

**Cameron Tidball**, *Co-Chief Executive Officer and 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

**Rob Brown**, *Lake Street Capital Markets*

**Jim McIlree**, *Dawson James Securities*

**John Bair**, *Ascend Wealth Advisors*

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

### **Operator**

Good morning, everyone, and thank you for participating in today's conference call to discuss Profire Energy's Fourth Quarter and Full Year 2022 Operating and Financial Performance for the period ended December 31, 2022.

As a reminder, the conference is being recorded.

I will now turn the call over to Steven Hooser, Investor Relations at Three Part Advisors to get the call started.

### **Steven Hooser**

Thank you, Operator, and thank you, everyone, for joining today's call.

With me on the call today is Co-CEO and CFO of Profire Energy, Ryan Oviatt, and Co-CEO, Cameron Tidball.

Yesterday, after the market closed, the Company filed its Form 10-K with the SEC and discussed the quarter and full year's highlights in a press release. As always, both of those documents are available on the Investor Relations 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 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, revenue diversification success, the planned research and development of new products, growth in our customer base in the natural gas market, the availability of the Company's resources to make the 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 March 23, 2023, 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](http://www.profireenergy.com).

Following the remarks by Mr. Oviatt and Tidball, we will open up the call for 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, and welcome to all of you who are joining us on the call today.

I will start the call by providing some updates on our industry and our business, followed by a review of the financial results, and then I will turn the call over to Cam to discuss outlook, strategic direction and provide an update on our diversification strategy.

Over the past two years, we have implemented a number of strategic initiatives to sustain our business through the pandemic and to position ourselves for growth as the global economy recovered. We have invested in our sales, service and operations teams. We've been aggressive in procuring inventory and have pursued avenues for our burner management solutions for use outside of our legacy oil and gas markets.

In the first half of 2022, our results continued to show gradual progress from the prior year. In the third quarter, the recovery of our legacy business and traction with our diversification efforts resulted in the third highest quarterly revenue ever for Profire at that time. This momentum continued through the end of 2022 and last night we reported the second highest revenue quarter in company history.

Despite the historically high inflation, rising labor costs and strained supply chain, we also reported improved net income and EBITDA over the previous quarter.

The North American pent-up demand created by multiple years of deferred maintenance and upgrades across the oil and gas industry, provides an ongoing tailwind for our core business. Our diversification strategy, which accounted for 6% of revenue in 2022 compared to less than 1% in the previous year, should also continue to gain further acceptance across non-oil and gas markets.

Looking at our core legacy business, we believe the oil and gas industry remains strong and E&P companies will likely continue to invest in new technology, new wells, and new completions to at least maintain current production levels and control costs through operating technology advancements. This outlook should continue to be positive for Profire.

With that, let me turn my remarks to Profire's financial results for the fourth quarter and Full Year 2022. In the fourth quarter, we recognized approximately \$14 million in revenue, which represents a 9% increase over Q3 and a 69% increase over the prior year quarter. The sequential and year-over-year increases are primarily due to the increased global consumption of oil and gas, ongoing historically high energy prices and strong growth across our diversification efforts.

Gross profit increased to \$6.6 million as compared to \$6.1 million in the third quarter of 2022 and \$3.4 million in the year ago quarter. Gross margin decreased slightly to 47% of revenues from 47.7% in the prior quarter, due to normal fluctuations in product and customer mix. Gross margin increased 540 basis points from the prior year quarter, thanks to price increases implemented for our products and improvement in freight costs and inventory reserves.

Total operating expenses for the fourth quarter were approximately \$4.3 million compared to \$4 million in the third quarter and \$3.7 million in the fourth quarter of 2021. The sequential and year-over-year increases reflect the impact of cost inflation on our business as well as increases in variable costs associated with increased customer deliveries and increases in performance-based compensation.

Net income for the fourth quarter was approximately \$1.8 million or \$0.04 per diluted share. This compares to net income of \$1.2 million or \$0.02 per diluted share in the third quarter of 2022, and a net loss of \$145,000 or break-even per share in the fourth quarter of last year.

Cash flow from operations in the fourth quarter was approximately \$1.7 million compared to a negative \$309,000 in the prior year quarter.

For the Full Year 2022, we recognized \$45.9 million in revenue. This compares to \$26.4 million in 2021. The 74% increase is primarily due to the factors stated earlier related to demand for oil and gas production and ongoing recovery from the COVID pandemic.

Gross profit increased to \$21.7 million as compared to \$11.4 million in the prior year. Gross margin increased to 47.1% of revenues from 43.3% in the prior year. This year-over-year increase in gross margin is primarily due to the better coverage of fixed costs resulting from the increase in revenue and sales price, both of which help to offset inflationary pressures on variable costs.

Total operating expenses for the year were approximately \$16.5 million compared to \$13.4 million in 2021. The increase is primarily related to higher G&A expense resulting from overall cost inflation, the restaffing of positions correlated to the recovery in our business as well as increases in variable costs resulting from higher product and service revenue. Nevertheless, the overall rate of increase for operating costs was lower than our revenue growth rate for the year.

R&D expense increased 28% and depreciation and amortization decreased 18% compared to the prior year.

Total other income during the year was \$492,000 compared to \$334,000 last year. The increase is primarily attributable to fixed asset sales and the associated gains or losses year-over-year, as well as increased interest income on liquid investments.

Net income for the year improved by \$5 million to approximately \$3.9 million or \$0.08 per diluted share. This compares to a net loss of \$1.1 million or \$0.02 per share last year.

Cash flow from operations for the full year was \$516,000, and our cash and other investments totaled \$16 million compared to \$17.5 million at the end of 2021. The decrease in cash year-over-year was a result of the \$1.2 million spent on Profire share repurchases and approximately \$600,000 in capital expenditures.

We had no borrowings or other debt on the balance sheet at year-end.

Our inventory balance at the end of the year was approximately \$10.3 million, compared to \$7.2 million at the end of 2021. The initiatives taken in early 2022 have allowed us to respond to increased customer demand while replenishing some of our inventory to pre-pandemic levels.

However, we continue to see disruption of the supply chain for portions of our products and these types of challenges are expected to linger throughout the coming year.

We will continue to proactively work with our suppliers to secure the necessary parts and components our solutions require.

Even with all the challenges of the past year, 2022 was a great year for Profire. We recovered to financial and operational performance levels not seen for many years, and we are a much stronger and better positioned company than we were then. We are confident in our ability to leverage the success going forward.

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

### **Cameron Tidball**

Thank you, Ryan.

Our Q4 and combined 2022 results represent one of the strongest quarters and years in company history. Top line revenue, increased market share, and meaningful traction in our diversification initiatives demonstrate the strength of our brand, our team and our products. Profire continues to be the trusted partner and market leader in burner and combustion management solutions.

In 2022, we were able to achieve significant year-over-year growth in our core and diversification markets. These segments include upstream and midstream oil and gas, downstream utility, critical energy infrastructure, as well as non-oil and gas and other industrial markets.

In the fiscal year, our upstream and midstream business benefited from overall stability and commodity prices, moderate increases in drilling, steady completion activity, and end user investment in automation solutions.

E&Ps renewed their focus on improving efficiency, which combined with the tailwinds caused by regulation and ESG pressures has led to increased opportunities for retrofits for Profire and our partners.

Profire continues to attract and support the most sophisticated E&Ps including EQT, Chevron, Devon Energy, CNRL, Antero, Oxy and Concho. This segment represents over 90% of our business, which we grew by 70% year-over-year.

As we look to 2023 and beyond, we believe there remains a significant opportunity. We are optimistic that global energy demand, an increased focus on efficiency, safety, and automation from this segment are well supported by Profire's current products and solutions.

Twenty twenty-two marked a banner year for Profire in terms of revenue generation with natural gas utility providers. In the fiscal year, we were able to achieve greater than 50% growth year-over-year. Our customer base in this segment continues to grow as we collaborate on solutions that support upgrading existing heated appliances as well as ensuring new heaters are brought online with Profire specifications.

Our customer base includes Dominion Energy, National Grid, ATCO Gas, National Fuel, as well as numerous OEMs and strategic partners such as Mulcare Pipeline Solutions, and the (inaudible).

Over the last three years, we have discussed our intentions and strategy to bring our products and solutions into the critical energy infrastructure segment or what we have called the downstream side of midstream. In 2022, we achieved nearly 100% revenue growth year-over-year in this strategic area. Our customer base in this segment includes Williams Midstream, Targa Resources, Kinder Morgan, TC Energy, DCP Midstream, Enterprise Products, Alta Gas, Energy Transfer Partners, as well as several OEMs that we had traditionally not worked with in the past.

New and repeat business in this segment is a testament to the reliability of our products and trust in our team's ability to deliver on projects. The appliances found in this segment are critical to the energy supply chain and Profire solutions continue to deliver performance and reliability for our customers.

The non-oil and gas and industrial area focus for Profire gained significant traction in 2022. We believe our credibility in this space continues to gain strength and momentum and that we are barely scratching the surface of this long-term opportunity.

In 2022, we achieved over 400% growth in year-over-year revenue. We completed projects related to biogas and biomass supporting the production of renewable energy. In the fiscal year, we were able to work with one of the largest renewable natural gas producers in the United States as part of their solution to produce RNG and reduce CO2 emissions at landfills.

We believe that this opportunity has the potential to grow as the demand for renewable sources of natural gas continues to gain momentum. Other industries that we were able to support with our burner and combustion technology include heat treat and metal manufacturing, water treatment, fly ash production, sand and gravel drying, food and beverage processes, hydrogen reforming, LNG fractionation, as well as hydrocarbon processing at micro refineries.

Our diversification strategy continues to focus efforts in the areas of sales and marketing, service capability, engineering support and product development and investment in this space, and we are excited about the future strength this will add to our company.

Our combined diversification revenue for 2022 equated to over 6% of total revenue or approximately \$2.8 million, which represents nearly 200% growth year-over-year. We believe that we are positioned to continue to see growth in these diversification markets. We look forward to keeping you up to date on our progress.

As we look forward to 2023, we are optimistic that many of the tailwinds we benefited from in 2022 will continue. Global demand for energy continues to grow. The oil and gas industry earned record profits in 2022, which should provide sufficient cash flow to continue funding their 2023 strategies.

We believe that the oil and gas industry remains stable and will continue to benefit Profire. Clean Energy production will continue to garner focus and attention from the energy industry. Aligning with our strategy,

we expect increased investment in natural gas and liquefied natural gas as policy has shifted more in favor of energy diversification through natural gas. These factors should support business activity, which drives investment and demand for Profire products and solutions.

Research and development investment and initiatives remain critical to Profire's future. We maintain an intentional balanced effort as we look at short, mid, and long-term product and service development.

We continue to implement a voice of customer and entrepreneurial approach to product development. We look to develop products that enable our customers to solve the problems of today and the future. We believe Profire solutions will remain critical to the energy industry.

Our value proposition to our existing markets and customers remain strong. We have proven that our technology solutions, engineering capability and technical service expertise provide a compelling alternative to that of our competition and provide value in many new and exciting industries.

As we develop both core and new markets, we are confident that our solutions will continue to provide industry with safety, reliability, compliance efficiency, and environmental protection.

Before we turn to questions, Ryan and I would like to thank you for your interest in and supporting Profire. To the Profire team, thank you for your perseverance, creativity, and commitment to our customers and each other, and for the work that you do each and every day to enable our ongoing success.

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

**Operator**

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

**Cameron Tidball**

Good morning, Rob.

**Rob Brown**

Hi, Ryan and Cam, congratulations on a good quarter.

**Cameron Tidball**

Thank you.

**Ryan Oviatt**

Yes. Thank you.

**Rob Brown**

First, you gave a great amount of detail on the new vertical activity that you've had and it's great to see. How would you characterize those projects in terms of size ranges and how does that breadth of activity kind of result in repeat customers and growth into the next few years?

**Ryan Oviatt**

Excellent question, Rob. There's a lot happening there obviously is as Cam mentioned. I'll turn it over to Cam and let him provide some additional details for you there.

**Cameron Tidball**

Yes, you bet. Good morning, Rob.

There is a wide range. Those projects we could see them being a little bit lumpy in terms of some of them could be that \$10,000 to \$20,000 range and there could be others that we could be more in that \$50,000 to \$100,000 and beyond. That's what I mean by lumpy, it could be up and down and depending which type of projects you close in the quarter. But we are now to your question around that repeat business, we're starting to already, we talked about it in the previous earnings calls. We're starting to see repeat requests for bids, potentially some larger scale projects, larger scale scope of automation on some of these plants or facilities that we're working on.

As we mentioned in our comments, we see that, again, really not even scratching the surface of what is possible in this combined area of non-oil and gas as well as critical energy infrastructure. There's much to be done. When you get into these spaces, you start to learn more of the problems and pain points that they're experiencing. It can, to a degree, influence and maybe even guide future development for mid and long-term.

At those projects, they're definitely bigger on average than our core legacy business, which we talked about here the upstream and midstream space on average, at least on double the size of our average sales order, but with the potential to be much more significant.

**Rob Brown**

Okay, great. Thank you.

Then how is the visibility on growth into 2023? You had a good ramp into the back half as energy prices were strong. But how do you sort of think about the trends into this year? Do those demand trends continue and any kind of timing issues that you see for '23?

**Ryan Oviatt**

Yes, great question, again. There's obviously a lot happening in the space and lots of challenges, but also lots of opportunity things that we're excited about. As far as visibility goes, certain things that we're looking at in the legacy business are really the rig counts and commodity prices and what's happening with completions and drilling activity.

We don't right now see a significant increase necessarily coming in rig counts or in the completion and drilling activity that's been pretty steady, pretty flat, small increases, over quarters in the last 12 months. We think that that will continue. The rig count likely coming up a little bit more, we're still just below pre-pandemic levels as far as the rig count is concerned, and even with the completions and the drilling, they've kind of gotten to a parody on a monthly basis, averaging around 1,000 completions and 1,000 new wells each month.

We see that activity continuing fairly steady at these price levels, which overall we think continues to be good, continues to be strong for Profire. These are still fairly historically high levels from a WTI perspective, and we see our natural gas recovering a bit back into the 3s and even low 4s by the end of 2024 according to the EIAs predictions.



With that, for our legacy business, we think it's kind of just really steady with some modest growth over the coming year. We are, again, very excited about the growth in diversification and the opportunities there.

Cam, do you want to talk about the visibility and what we're seeing potential growth wise for the coming year there?

**Cameron Tidball**

Yes, definitely.

Obviously, over 400% growth in non-oil and gas last year and over a 100% growth in critical energy infrastructure, combining it over 200%. Can we do that every year or we never—I guess, is this possible? We probably don't expect 400% growth from the non-oil and gas, but is triple digits a potential? Yes, we think that's a strong opportunity there, very high double digits.

When we look at the pipeline of our opportunities, these are longer term projects. There's a more of engineering that goes into it and planning. You're doing more than just one burner. You're doing probably multiple burners. You're looking at process, you're looking at integration with other elements of the facility. It does take a little more time for each of these projects to hit, but is last year kind of as the first year we've started to see that trickle in, that's started to build somewhat of a small backlog into this year, which we continue to grow with and reverting even with our core legacy business. Things like that come out from the federal government on methane reduction act or the carbon taxes that are north of the border into Canada.

Those are all things that are supporting Profire's solutions of giving greater efficiency. One of the keys to reducing pollutions and emissions is improving efficiency, and we've been able to show that time and time again, and we're seeing customers really put a lot of meat and horsepower behind. All right, we've got all these pneumatic venting devices and applications, what can we do? Profire plays a big part in that with our fully electric fuel trend. Obviously, a BMS system that is able to control and eliminate venting issues.

That coupled with some of the other things we're working on, we think just—it's a great atmosphere for Profire right now. Oil prices are—they're stable-ish, we'll say, ish. Who knows what they'll do, but they're stable overall.

Again, back to that, that backlog visibility to the future, we can just see from the traction we're getting, the type of web contacts we get, the people finding us because we're getting referred. It continues to grow and we'll see more and more Profire focuses its efforts from a marketing perspective that way to, again, bring in these EPCs that work on these projects, bringing the OEMs that are looking for alternatives to traditional Fireye, Honeywell, Siemens, DeltaV, all these different types of applications, as they're looking for alternatives, which is perfect for Profire.

**Rob Brown**

Okay, great. Thank you for all the color. I'll turn it over.

**Ryan Oviatt**

Thanks, Rob.

**Operator**

Our next question comes from Jim McIlree of Dawson James. Please go ahead.

**Jim McIlree**

Thank you. Good morning, guys.

Can we just focus on the traditional Burner Management System business in the second half? Again, just focusing on the traditional Burner Management System, can you walk me through or discuss the trends that you're seeing in oil versus natural gas? The increase that you saw in the second half, was that an oil driven increase? Was it a gas driven increase? Was it equally both? Then I was hoping that you could then extend that and say, what you're seeing for the next six months, again, in both of those oil and gas markets.

**Ryan Oviatt**

Yes, certainly. First of all, in relation to the first half of last year versus second half, one of the big things that we talked about in prior calls was supply chain challenges for us. The first half of 2022 was significantly challenged on the supply chain side more than the second half. We had a lot harder time getting systems from our manufacturers in the first half of 2022 compared to the second half.

There was pent-up demand in the supply chain and with our customers and their orders. That was spread across both oil and natural gas, certainly, seeing good growth and good activity between both of those across all of our business, all of the basins in each of the areas and across all of our customers as well. That was one big contributor to the difference between those halves.

The success of the second half doesn't mean that we aren't still seeing supply chain challenges, because we certainly are and there are challenges now seem to be mostly on the component side for the BMS systems, the electronics, the chips, all the little things that go into that that a lot of things ultimately come from sources originating in China. Those challenges are still there, but we have been able to get more systems in the second half of the year.

Going into 2023, we're still seeing that there's likely to continue to be challenges. Every time we solve one, there's a new one that that continues to pop-up. That certainly has played a big part in maybe some of that seasonality, if you will, of what we saw over last year, and the stability and the timing of us being able to deliver to our customers.

Cam, do you want to talk more specifically about the trends between our oil versus natural gas customers?

**Cameron Tidball**

You bet. When you talk about—when you look at these, because a lot of the producers—it's really difficult for us to identify, is that a natural gas or an oil? Unless you look at for example, the Northeast, United States and certain shale plays in Alberta, Canada. We definitely saw some great growth in the Northeast. With the Appalachia, you look at producers like EQT, Antero, Ascent, Southwestern, like those companies were very busy. They were very much working towards one.

They're all seemed to be very aligned in a North American, even United States LNG strategy. You can't feed those LNG trains without natural gas of course. We did see a big pickup with that. Obviously, higher natural gas prices helped that. The conflict that still remains in Europe with Russia and Ukraine, that is still impacting that drive and the world's demand for natural gas.

As we mentioned in the comments, we're seeing more and more governments even in Europe, saying, well, maybe natural gas is okay, maybe we can use that as a green or a transition fuel. That's where Profire believes this is not a transition away from fossil fuels. It's a diversification needing all energy sources. We

were very busy in the Permian Basin this last year, which is a traditional oil market. However, they produced a lot of natural gas as well.

Overall, I would say it's very difficult for us to quantify a percentage, but if you were to say last year did we benefit from natural gas? Absolutely, there was a strong pick up there.

With that, when we talk about critical energy infrastructure and you're dealing with your pipeline companies, your plants that do both treating all the different ethane extractions, it was a banner year for Profire and we see a tremendous pipeline for the future.

Jim, it's hard to really quantify that. It was actually interesting, I was reviewing our end user list because we don't always sell directly to the end user, but we do quantify it in the United States and Canada. It's really difficult because they all do—a lot of them do both and it's really hard to know at what percentage.

**Jim McIlree**

Right. That's helpful. Thank you.

I was just trying to puzzle through a couple of things on the natural gas side. Obviously, gas prices have come down recently and I'm curious if you've seen any reaction to that as yet from your customers. Then secondly, the war in Ukraine has essentially made the U.S. the supplier of natural gas to Europe. That looks like it's going to be a permanent market share shift to the United States. That should benefit you. Any comments on either of those issues?

**Cameron Tidball**

Yes, for sure. Natural gas prices are down, we expected that. We all did, it was called for. We've had, even though I wouldn't say it's been a warm winter, for me, this week it's been terrible, but it's been pretty warm overall winter, which has allowed stockpiles to gain. But the real problem's going to come, especially for Europe, it's not this winter that they were worried about. It's the summer coming up, the cooling season and the next winters. That's the concern.

As much as natural gas probably is going to stay, Ryan gave a good range that we're predicting, we don't want any more conflicts in the world but it's still at better prices than these producers are used to operating under. Just the requirement for LNG, you can't build enough solar panels, you can't build enough wind turbines, you can't build enough of these alternative energy sources to be able to make up this gap that exists for global energy demand. We see a lot—that's why we invested in the Northeast as we have. It's why all of our products are great for natural gas and for oil. We see a huge runway for that.

**Jim McIlree**

All right. That's great. Thanks a lot, guys, and talk to you later. That's it for me.

**Ryan Oviatt**

Yes. Thanks, Jim.

**Operator**

Our next question comes from John Bair of Ascend Wealth Advisors. Please go ahead.

**John Bair**

Thank you. Good morning, Ryan and Cam.

You addressed one of my questions here, the last caller with regards to any trends you're seeing in end user demand due to the drop in natural gas. That pretty well was covered. I've got a couple other ones though. In your press release, you indicate—you showed about \$7.4 million in cash and \$1.1 million in short-term investments, yet you indicate \$16 million in cash. I'm wondering where that difference is that partly in your accounts receivable being higher versus the prepaid? Because the difference there is about \$8.5 million, if I put the two together, I come up with roughly \$16 something million. Am I seeing that right?

**Ryan Oviatt**

Yes. Actually, there's one other piece that I think you're missing and it shows up on the long-term side. It's our long-term investments, which are liquid, they're bonds. Overall, we have our cash portfolio, which as you stated is in that \$7 million number. We've got some short-term investments, which are CDs and money market accounts. Then we have some bonds as well. But all of those are highly liquid assets that are secure for us to be able to tap into as we need.

When we talk about cash and liquid investments, we're picking up each of those three pieces. When you add all three of those together, you get to the \$16 million. Then the accounts receivable is on top of that. That would be another item that will shortly be cash for us.

**John Bair**

Great.

What are you seeing in that regards with your—the payment cycle on your accounts receivable? Are you seeing any change there? Is it getting paid a little sooner or about the same or people taking longer to pay you or how's that working?

**Ryan Oviatt**

Overall, I think it comes and goes towards the end of any full fiscal year, we see a little bit of a slowdown. I think most companies tend to hang on to their cash to keep it on the balance sheet as of the year end. But then start to pay again shortly after the year turns. But overall, we are very happy with what we've been able to achieve with our customers on payment. I think the majority of our customers pay within 90 days.

Historically for the oil and gas industry, that number was pushed out to above 120, even sometimes 180 natural—oil companies and natural gas companies historically had a reputation of taking forever to pay. We work really hard with our team. We're proactive. We send out communications on a regular basis. When customers aren't paying timely, we hold back on their next orders.

In an environment like this where supply chain is challenged and people need product, they're paying and they're paying on time. We were even very surprised through COVID through 2020 and even 2021. We anticipated that there would've been a much bigger cash crunch. I think it just really proves the validity and the importance and the criticality of our products to our customers that even through all of those difficult times and even current to now, they're willing to pay, and they pay pretty well. Doesn't mean we don't have some customers that are difficult. We do and we have little challenges that we deal with, but overall, we're quite pleased with how customers are treating us and paying their bills.

**John Bair**

That's very good to hear.

That kind of leads into my next question and that is that your OpEx was up about 7.5% quarter-over-quarter sequentially and 16% year-over-year and yet you also indicated that you're able to build your inventory levels back up to roughly pre-pandemic levels. The question is then does—is that something where you can increase prices given that you do see supply chain constraints and therefore maybe improve your margins some and maybe start to build your cash levels back up into the 20 million-ish or above levels?

**Ryan Oviatt**

Yes. Certainly, a number of things impacting the multiple questions I guess, that are built into that overall statement there. A couple things on the trends quarter-over-quarter, year-over-year, obviously, our costs have increased just like every business out there. We're fighting the battle on inflation and its impact on our business. Thankfully, we're seeing the rates of inflation come down a little bit. That's been helping and we're happy that those numbers have started to move in the right direction there.

On a quarter-over-quarter increase, a lot of that had to do with the fact that in Q3, we were able to benefit from the recognition of an employee retention credit that's available for businesses out there in the U.S. government. We qualified for a credit there, which reduced our overall payroll taxes and that benefit hitting Q3. OpEx in Q3 was actually down from Q2, and Q2 and Q4 are on fairly similar levels. But overall, that was just inter-quarter trend, but on an annual basis, we certainly have employed price increases and that's helped with the margin perspective. On an annual basis, we're able to move up from 43% margin to 47% margin. Certainly, seeing some price increase impacts there.

We'll continue to do that as much as we believe we can with our customers and as much as we need to continue to fight off inflation and some of that increase as well in our cost structure and in the G&A line is where the variable compensation such as sales commissions and other variable comp plans hit. As we perform better, as our revenue grows, those variable costs also grow. In growth periods, we'll continue to see some growth in OpEx that's just simply tied to those variable impacts.

But overall, we continue to try to control the costs as much as we can and we'll continue to look at price increases in other areas to either reduce costs or try to offset them as best we possibly can.

**John Bair**

Okay.

The last one here, you'd mentioned component electronics and so forth coming from China causing some of the supply chain issues and so forth. What have you been doing to try to source from other regions, either domestically in North America or kind of get away from being dependent on Chinese sourcing?

**Ryan Oviatt**

Yes, great question and lots of interest there. I think for many companies and for us specifically we have some direct sourcing that comes from China. Then we also are impacted by indirect where we may buy something from a U.S. company, but their supply chain ultimately ties back to China. Very difficult to manage that more indirect relationship. But from a direct perspective, we have actually reduced our direct purchasing and direct reliance on China over this past year.

One big component that we previously were sourcing out of China was our flame arrestors and our flame arrestors housing. We've started to move that to other opportunities onshore which is proving to be a good benefit for us. Its faster deliveries means we don't have to carry as many of those products. That transition

has gone well and we're looking at other things that we continue to source directly out of China would be burners and airplates, some enclosures for our BMS systems. We continue to look for other opportunities onshore for those items as well.

That's an ongoing process that we are committed to. Because of the relationships there, we're concerned about the long-term perspective and want to find other opportunities from a component, electronics, chips standpoint, that's a bigger challenge because so much of that is tied back into Asia and China specifically. We continue to work with our contract manufacturers and their suppliers to find alternates wherever possible where we get some of that stuff through Japan, which is another great alternative.

But all of those things are in short supply, continue to be in short supply and high demand. Continues to be a very challenging environment, but it's certainly something that we are focused on wherever possible without realizing massive increases in cost trying to balance that relationship and how we procure going forward.

**John Bair**

Very good. Thank you very much for taking the questions. Congratulations on the quarter and the momentum that you've built over the past year or so.

**Ryan Oviatt**

Thank you very much. Good talking to you, John.

**John Bair**

Yes. Good to chat with you.

**Operator**

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

**Ryan Oviatt**

Thanks, everyone, for joining us on our call today to discuss our fourth quarter and Full Year 2022 (phon) results. We'd like to thank all of you for your continued support. As always, we are available for any discussions or questions you may have.

Also, we will be participating in the ROTH Capital Partners Conference next week and look forward to meeting with many of you there.

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.