



**Profire Energy, Inc.**

**Third Quarter 2023 Earnings Call**

**November 9, 2023**

## CORPORATE PARTICIPANTS

**Steven Hooser**, *Investor Relations*

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

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

## CONFERENCE CALL PARTICIPANTS

**Robert Brown**, *Lake Street Capital Markets*

**James McIlree**, *Dawson James*

## PRESENTATION

### Operator

Good morning, everyone and thank you for participating in today's conference call to discuss Profire Energy's quarterly operating and financial performance for the period ended September 30, 2023.

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

### Steven Hooser

Thank you, Operator.

With me on today's call 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-Q with the SEC and discussed the quarter's highlights in the press release. As always, both of those documents are available on the Investors 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, increased sales activity, revenue diversification success, the planned research and development of new products, growth in our customer base, collaboration opportunities, and (inaudible) from customers, CapEx Investments, potential M&A opportunities, supply chain availability, 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 also like to remind everyone that this call is being recorded and will be available for replay through November 23, 2023, starting later today. 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 the call for your questions.

Now I would like to turn the call over to the 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.

We are pleased to report our fifth consecutive quarter of revenue in excess of \$12 million and our best nine month revenue, net income and EBITDA performance in our 21 year Company history. This quarter's performance was driven through a combination of the ongoing strength of our core legacy business, as well as solid results from our diversification efforts. The legacy business continues to benefit from consistent CapEx spend from E&P operators in response to steady and robust oil and natural gas prices.

Our diversification revenue covering critical energy infrastructure and new industries was just over 16% of total revenue in the quarter, which represents another best for Profire. We are excited about the traction we are gaining in this space.

For the nine month year-to-date period, our total revenue is \$43.8 million. Total revenue for fiscal 2022 was \$45.9 million. We are on track to record the highest annual revenue in our Company's history. We believe our strong performance over the past 12 months has put us in a great position to drive further strategic growth in 2024 and beyond. Our business continues to benefit from the overall demand for hydrocarbons.

The IEA is projecting a global oil demand increase of roughly 900,000 barrels per day in 2024. OpEx forecast is more bullish anticipating daily demand to increase by more than 2.2 million barrels.

Currently, there are nine liquified natural gas projects under construction across North America, that will double export capacity in the next five years, including five projects in the U.S. representing nearly 10 billion cubic feet of capacity. We believe North America will have a large role to play over this horizon to help provide the feedstock of oil and natural gas to meet the world's energy demands.

North American Producers are in the best position to supply these products in a clean, safe, and reliable manner to improve environmental conditions worldwide. So long as the U.S. and Canadian governments don't block hinder or prevent these investments by North American producers, this increased LNG demand will require significant capital spend by the oil and gas industry for many years to come. Profire stands to benefit greatly from these ongoing multiyear CapEx investments.

In recent weeks, many articles have come out covering the significant challenges facing the electric vehicle industry by both auto manufacturers and government organizations. Key among these difficulties is that

consumers remain hesitant regarding full adoption of electric vehicles due to concerns on pricing, range limitations, and lack of available charging stations. The EIA recently projected that EVs will only represent one in five vehicles purchased by 2035 through 2050, and even under a scenario where oil prices could reach \$190 a barrel in today's dollars, EVs will still only represent roughly a third of vehicle sales.

Moreover, the charging stations used by these EVs source their electricity largely from coal and natural gas power plants. Increasing electricity demand will only increase the need for fossil fuel based energy production, which again is good for Profire product demand.

Oil prices have mostly stayed north of \$80 per barrel in recent months. Current events in the Middle East have not yet impacted supply, but a broader conflict in the region could have a meaningful impact on global oil and gas supply. Any further restrictions on global supply will likely increase prices and increase pressure on North American production. Overall, we remain very optimistic about Profire's medium and long-term prospects. We are on track to record the best full year top line revenue performance in Company history, Our strong financial position allows for additional investments and acquisition opportunities going forward as more focus is placed on efficiency and environmental initiatives.

With that, let me turn my remarks to Profire's financial results for the third quarter of 2023.

During the third quarter, we recognized approximately \$14.8 million in revenue, our second largest quarterly revenue in Company history, compared to \$14.4 million in the second quarter and \$12.8 million in the prior year quarter. The 16% year-over-year increase was primarily driven by ongoing customer demand, pricing initiatives, supply chain improvements, and continued progress across our strategic diversification efforts. Gross profit for the third quarter was \$7.5 million compared to \$7.4 million in the prior quarter and \$6.1 million in the third quarter of 2022.

Gross margin was 50.4% of revenues compared to 51.3% in the prior quarter and 47.7% in the third quarter of 2022. The sequential decrease is primarily related to product mix, while the year-over-year increase was the result of product mix, greater fixed cost coverage from the higher revenue base, price increases, as well as typical fluctuations in inventory and warranty reserves.

Total operating expenses for the third quarter were approximately \$4.9 million compared to \$4.2 million in the second quarter and \$4 million in the year ago quarter. The second quarter of this year and third quarter of 2022 each included the recognition of a \$760,000 employee retention tax credit available through the Cares Act. Excluding the credit, operating expenses were roughly flat on a sequential basis and up 13% year-over-year. The increase year-over-year is primarily due to ongoing inflation pressures on our business and headcount growth to support increased business activity.

Net income for the third quarter was approximately \$2 million or \$0.04 per diluted share, this compares to net income of \$2.9 million or \$0.06 per diluted share in the second quarter of 2023, and net income of \$1.2 million or \$0.02 per diluted share in the third quarter of last year. Cash flow from operations in the third quarter was approximately \$886,000 compared to cash use of approximately \$1.8 million in the prior year quarter.

Our inventory balance at the end of the quarter was approximately \$13.5 million compared to \$13 million at the end of the second quarter. We continue to work with our suppliers to source the needed components to avoid potential shortages and shipment delays heading into 2024.

We ended the quarter with \$17.4 million in cash and liquid investments and remained debt free. We repurchased approximately 193,000 shares of our stock in the quarter at an average price of \$1.46 per share and have roughly \$1.7 million remaining for additional purchases under our current authorization.

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

**Cameron Tidball**

Thank you, Ryan.

Our Q3 performance represented our top quarter for the last trailing 12 months in terms of top line revenue, and as mentioned by Ryan, ranks amongst our best results in Company history. To date, our 2023 fiscal year performance stands out as our best in five years.

The Profire team delivers technology products and solutions to industries that are focused on lowering their GHG emissions, ensuring workplace safety and optimizing operations and efficiencies of their thermal processes and appliances. Our strategic pillars remain intact. Our customer centric team continues to focus on growing our traditional legacy upstream business coupled with deliberate efforts to increase market share in the downstream utility space, critical energy infrastructure, and various non-oil and gas and industrial markets.

In Q3, we were able to achieve our strongest diversification results year-to-date as approximately 16% of our total top line revenue was achieved through diversified industries, including critical energy infrastructure, biogas and landfill, wastewater, and construction and infrastructure.

For the fiscal year, we are trending closer towards meeting our 2023 goal of 10% of our revenue derived from our diversification focus. We attribute this significant year-over-year progress to the unique abilities and proficiency of our team coupled with over 400 combined years of expertise as a leader in combustion and burner management technology.

As a whole, this has enabled Profire to enter new industries, leveraging our existing products, and to develop and grow a robust pipeline of opportunities which we believe will lead to continued growth.

Before we discuss some of the diversification highlights, let's review our traditional legacy business. As expected, we continue to see significant consolidation in the energy industry. A wave of high profile mergers and acquisitions demonstrates signs of a bullish energy sector. Of note, We have witnessed a sharp increase in M&A activity in the Permian Basin with over 25 transactions announced in 2023 so far, as operators look to boost reserves and proven acreage. We believe that this activity is positive for Profire as the requirements for automation, standardization and lowering the carbon intensity of each barrel produced will continue to be a focus. This activity, as well as the overall stability and commodity prices, has not yet resulted in an increase in drilling and completion activity thus far. However, we believe that it is a foreshadow of increased activity for the future.

In the third quarter, we continued to work with U.S. and Canadian oil majors in each of the major shale plays to support their initiatives related to emissions control and reduction and increased thermal and operational efficiency. Our product solutions and technical support continue to earn new and repeat business from best in class operators, including EQT, Chevron, Conoco, Civitas, Continental, XTO, Devon Energy, CNRL, Cenovus, and many others either directly or through our numerous valued partners and OEMs who support the upstream and midstream industry.

The world's demand for energy is growing rapidly. How this demand will be met depends on government policy, technological advancement, adoption, and the price consumers are willing and able to pay. With expectations for the demand of useful energy predicted to increase by 50% between 2023 and 2050. We reaffirm that North American produced hydrocarbons have the potential to be the cleanest, most reliable, and affordable means to meet this growth. North American produced natural gas and LNG remains the

lowest cost and quickest method to replacing inefficient global coal, which some estimate represents 40% of the world's CO2 emissions.

Although considered part of our legacy business, We continue to gain momentum and traction with natural gas utilities across North America as they focus on improving automation, increasing efficiency, reliability, and safety of legacy and new assets. This is achieved through retrofit programs as well as specifying Profire Technology and Solutions on new construction projects, which supports natural gas transmission infrastructure that enables our communities and businesses to operate with clean, reliable, and affordable energy. Our customer base is supported by Profire directly as well as through several trusted partners. We continue to invest in growing our sales and support network to serve our existing and growing customer base.

As mentioned, Q3 represented our strongest quarter of the year with respect to diversification revenue. As part of our diversification strategy, we continue to grow and develop our customer base in critical energy infrastructure. This base includes operators such as Kinder Morgan, DCP Midstream, MPLX, Alpha Gas, Williams, Enterprise Products, TC Energy, and Energy Transfer Partners. We completed several projects in the quarter and continued to grow our pipeline and backlog as well as began the bidding process for projects expected for 2024. Our direct end user relationships as well as support of specialized OEMs who serve this market is paramount to our growth strategy and future targets in this space.

Turning to our diversification progress in non-oil and gas in industrials, the third quarter represented our best quarter in 2023 in terms of revenue recognized, new orders brought in, as well as bid activity on new projects. We remain committed to our strategy to take Profire product and solutions to new industries while our technology and expertise can be leveraged and provide value. We are excited about the traction and growth we are seeing as well as the future opportunities we have in the space.

In the quarter, we completed projects related to landfill and biogas, renewable natural gas production, water treatment, agricultural biogas emissions destruction, heat treating, mining, agricultural grain drying, and biofuel production. Revenue in the quarter was nearly all from repeat customers. We continue to gain interest from OEMs and other firms who are supporting renewable natural gas production projects.

In collaboration with landfill operators, they develop solutions to take landfill biogas and process it into pipeline quality RNG. We believe this market will continue to grow and contribute to our overall diversification goals.

In the quarter, we received a purchase order to collaborate with a systems integrator and an innovator who is developing technology and an advanced manufacturing process that can convert coal into various high demand carbon based products, including activated carbon, carbon fiber, and hydrogen. We expect to deliver on this project in the next six months and are looking forward to the success of this innovative and green use of this natural resource. We also received orders to support a specialized OEM who is developing thermal equipment for use with a major provider and distributor of electricity.

Currently, our sales pipeline in support of power generation is the highest it has ever been, and we expect to execute on the orders we have received over the next two quarters.

Our research and development process and associated investment remains critical to the future of Profire. We plan to continue developing new products to support our legacy and traditional markets as well as our diversification efforts. This will continue to follow our balanced approach to short, mid and long term product development and research.

Before we turn to questions, Ryan and I thank you for your interest in and support of Profire. To all of our team members, thank you for all you do to support our customers, our shareholders and each other.

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

**Operator**

Certainly. (Operator Instructions) The first question comes from Rob Brown from Lake Street Capital Markets. Please go ahead.

**Robert Brown**

Hi, good morning.

**Ryan Oviatt**

Good morning, Rob.

**Cameron Tidball**

Hey, Rob.

**Robert Brown**

Thanks for all the color on some of the projects you're working on, on the diversification efforts. Could you give us an update on kind of the pipeline of projects? How would you characterize that and how is it sort of setting up for next year and, in terms of quotes you're doing and activity you think you can get.

**Ryan Oviatt**

Great question. Cam, do you want to take that one?

**Cameron Tidball**

Yes. You bet, as we mentioned in our remarks, our Q3 was our best quarter so far for the year, not only in terms of diversification revenue, but the bidding of new projects, new projects brought in that we've received sales order. Overall, on the commentary on how the pipeline slash backlog looks, never been stronger for Profire in terms of our diversification business. These are, as we've talked about previously, on previous calls, they are longer term projects. They take more time from an engineering perspective from the approval of drawings, designs, control schematics back and forth between either the end user or many times there's an OEM or a systems integrator in the middle of the project that we're working with them and the end user.

They take a longer time, but Q3 was very strong. We look at the overall pipeline and the estimate and bid activity that we have out there and it's what gives us a lot of optimism and confidence for the future that we're making great grounds in these diversified spaces. Overall, very healthy.

**Robert Brown**

Okay. Great. Thank you. Then, you're talking about really good energy demand environment and sort of seeing that continue. How do you sort of—is it improvements in drilling activity that you think kind of continue or what are you hearing from customers in terms of their CapEx needs for next year? Just some sort of color on how sustainable this demand environment is.

**Cameron Tidball**

I'll continue on with it and then Ryan will have comments. As we're—we always in the fourth quarter, we work with our, E&Ps, the oil and gas majors to kind of come up with what is, what does your drill program look like for next year? What are you going to do for retrofit? That's in progress, and it's something we work towards really through the middle of December. Obviously, that's all intertwined with the holiday season as well as on depending on some years, getting a lot of spend in and some companies not getting their spend in, it all kind of balances.

But overall, when we look at just the overall demand for energy, we don't see it decreasing. We don't see renewables being able to oust or kick out this wonderful natural resource of hydrocarbons that we have for many years. In fact, we look even out into 2050. Will the world use less oil? Probably. Will it be dramatic? We think probably not. On the natural gas side, we think it could be as much as double of what we use today. All those things are really good for Profire. The gas business for Profire, we never really break it out between oil and gas because there's so much overlap, very challenging for us. But more and more we're seeing the applications we're doing, they're all about natural gas. This is a great thing for Profire as we see it growing. We'll continue to work with our customers as we do every year.

We do it quarterly and then we do it annually as well as to try to figure out what we're going to need to have on the shelf for product, what will our service needs need to be for our customers, as well as preparing our partners for those, for that demand. That's yet to be seen, it's not completed, but we'll continue to work on it throughout the rest of the quarter here.

#### **Ryan Oviatt**

Yes. I'll just add a little bit there. As we talked in our prepared remarks, there's a lot happening in the macroenvironment and for the longer term prospects, even those who are forecasting peak oil in 2030 or 2035, the interesting thing is if you look at their chart beyond that, it only slightly decreases through 2050. We certainly don't think that it's peak oil in that short horizon of 2030 or 2035. But even then, it's, as Cam mentioned, very flat, steady environment after that. It's not like it drops off of a cliff. We certainly see good times for oil and gas for quite a while.

When you look at the shorter horizons, within our quarters, we think that there will be some fluctuations potentially up and down on a quarterly basis because of short-term macro environment things that'll happen from quarter to quarter. But year-over-year, we continue to see good prospects for Profire, good strength for Profire. Right now, we're still in that interesting environment where despite steady strong oil prices, the rig count really has gone down for the last 12 to 15 months. We think it's kind of stabilizing at the moment and likely for this year to either remain flat or probably go up just to maintain production. We think it's going to have to go up.

Oil is not responding necessarily like it would have five or six years ago at these price levels where drilling was just going crazy. Every time oil would go up, drilling would go up in response. We're not necessarily seeing that. We're seeing much more discipline from the E&Ps here in North America. We think that that's likely to continue even though they will continue to invest in the coming years.

#### **Robert Brown**

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

#### **Operator**

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



**James McIlree**

Thank you. Good morning, guys.

**Ryan Oviatt**

Good morning.

**James McIlree**

The bullishness that you have on the natural gas production and demand. I'm trying to understand how that affects your—let me put it differently. I'm trying to understand how you position yourselves in order to take advantage of that. Do you have to build up new offices in different geographies? Do you have to come up with different product designs? Do you—is there a difference in the take rate of your burner management systems with gas versus oil? I'm just trying to understand the impact on your business and how you position yourselves in order to benefit from that from that increased demand that you're looking at?

**Ryan Oviatt**

Yes, great question. I'll provide comments and also let Cam do the same. But overall, we've talked a lot about the growth in the demand for liquefied natural gas and those plants are being built around the U.S., and even globally. They're going to require a lot of natural gas feed to come to those. We think the U.S. is very well positioned to be able to supply that and even to supply a large portion of what the world is going to need. To your question, the specifics, how does that benefit Profire?

Our systems are used equally on natural gas wells as much as on oil. Even in certain geographies, have a larger uptake of the number of our systems per well and infrastructure. The infrastructure is also a key part of that as they build out more pipelines to supply these LNG facilities those need heaters in various stages and processes as well. The infrastructure plus the ongoing well supply and demand is all where our products are utilized. We also see some opportunity to bring additional product to market in that type of environment and to continue to support that as well for Profire. Cam, do you want to add anything?

**Cameron Tidball**

Yeah, I just add to one of your questions. We don't really need to add new products per se, except for, of course, the evolution as we update controllers and things like that. That being said, we do look at new products that we could either build ourselves or obtain through acquisition that we think would be a value to the natural gas markets. The great thing about natural gas production globally, really, is that when it's a natural gas well and if it's a shale well, which most of it comes from the decline curves on shale, they're they happen. Are they getting a little better? Yes. But overall, they decline and therefore the output of those wells decreases, which drives the need for more drilling, completion, more heaters, as Ryan talked about.

As we get into the spaces where we feed these LNG terminals, we feed that whole feedstock you're going to need more natural gas. If you need more electricity, you're going to need more natural gas and natural gas ratio to heaters overall. For example, in the northeast of the United States and some shale plays in Canada, the BMS to well ratio is higher, then say that of traditional conventional or even shale oil wells in, places like the Permian.

That being said, we know that the Permian is getting, pardon the term here, gassed here. We're using the industry. It's getting more and more gas that's going come out of the Permian. We look for opportunities of how can Profire expand its exposure in the Permian, it's a strong territory for us, but we think that it can be

even stronger for us. That might be a place that we look for, whether it's adding a small or larger presence, more product offerings specialized to that area.

But kind of looking at all the things above, but overall, kind of Ryan mentioned, that gas, that feedstock that we're going to need for the future for energy, North America has the best opportunity to fill those needs and we're positioned well without a lot of expansion to capitalize on it.

**James McIlree**

Okay. Thank you. That's helpful. Ryan, I know you talked about the working capital early in the call, but I'm just I'm still struggling with what's going on here. Is it something that we should expect for there to be, I'm going to call it permanent or semi-permanent, levels of inventories, that are higher than what we've seen pre-COVID. Is that just I should just get used to it?

**Ryan Oviatt**

Yes, no, good question. Inventory is something that I think we struggle with at times as well. Certainly, the pre-COVID, post-COVID has had an impact on our business, and I think many other businesses to where gone are the days of just in time inventory. We were even in the days of just in time inventory, we were always accused of having too much inventory. We certainly don't believe that we have too much inventory now nor did we back in those pre-COVID days either. With the supply chain challenges, the uncertainty, economic and political, that we find ourselves in the landscape these days globally, we probably are going to carry higher levels of inventory. We are also still in a period of transition from our older legacy system, the 2100 to the 2200, and still waiting on full stabilization of the supply chain for that transition.

We have built more inventory of the 2200. We've got more of it on hand. But we're still, we're getting close or we're doing better in the fact that that supply chain for the 2200 seems to be stabilizing more, the product availability, the quality of the product coming in for that system which has allowed us to build product and get more product on the shelf. Now we can start to transition customers over to that product the key challenge that we have kind of in our business, which maybe is unique to us a little bit, is it's not good for us to constantly switch which system we're selling to an individual customer. They don't want us to sell a bunch of 2200s to them this month and the next month sell a bunch of 2100s to them. They want to be able to shift to the newer product when they can continue to get that product.

That's part of that transition for us where we're building the quantities on hand and we're firming up the supply chain and having enough confidence that through 2024, we'll be able to continue to produce that product reliably and have enough of it that we can start to fully transition customers over.

I think that's probably the biggest thing that we're seeing right now as to why inventory hasn't just dropped back down to say the \$9 million or \$10 million that we had pre-COVID. That's going to take a little while longer, but like I said, we are seeing sizable improvements in that 2200 supply chain environment and we are looking forward to—through Q1 and even throughout 2024 of being able to transition more customers over to that and decrease the quantities of the 2100 that are being produced.

Again, there's, we still have to see how the supply chain handles that and what other curve balls we may get in that timeframe. But that's one of the bigger things. As we do that, I'm optimistic that we can bring the inventory levels back down. lower than where they are today. Hopefully if we continue to see growth in activity and demand as a we may have to still have higher these levels of inventory, but that as a percentage of total revenue on an annual basis, it would hopefully come down a little bit.

**James McIlree**

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

**Ryan Oviatt**

Thanks, Jim.

**Operator**

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

**Ryan Oviatt**

Thanks everyone for joining us on our call today and thank you for all your continued support. As always, we're available for any discussions or questions you may have. Also, to mention, we'll be participating at three parts advisors ideas conference in Dallas next week on November 16 and look forward to seeing 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.