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## Profire Energy, Inc. (NASDAQ: PFIE)

August 6, 2021

### Buy: Q2 Results Better than Expected

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We reiterate our Buy recommendation and \$1.65 price target on Profire Energy after the company posted better-than-expected Q2 results. We believe Profire has significant leverage to sustained prices in oil and natural gas, and if oil prices are sustained at current levels, we believe the company can achieve its former revenue and EBITDA levels and drive substantial stock price appreciation.

Q2 revenue was \$6.0 million, 18% higher than Q1, driven by a 14% Q/Q increase in oil prices (West Texas Intermediate), a 14% Q/Q increase in the Baker Hughes rig count for the U.S. and a 19% increase in well completions (per the [EIA Drilling Productivity Report](#)).

Gross margin for the quarter was 44%, an improvement from Q1, but lower than we expected. The company cites mix as the major issue driving margin, as pricing has been stable. Historically, there have been meaningful swings in gross margin from changing mix. We have forecast an improvement in gross margins for the rest of this year and next.

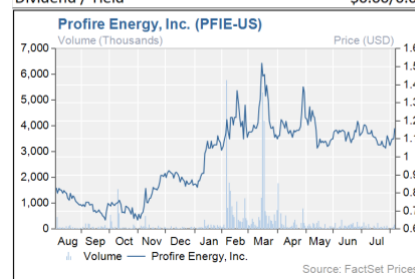
If oil and natural gas prices remain firm, we expect the rig count, drilled wells, and completed wells to continue to increase and the outlook for Profire to improve. The price of WTI crude oil has increased from the negative level seen in late April 2020 to almost \$70 per barrel currently. WTI exceeds the average price in 2018 of \$65.23 and the average price in 2019 of \$56.99. The Baker Hughes U.S. rig count, however, at 488, remains 50% below the average rig count in 2018 and 2019. Energy Information Administration (EIA) data indicates the number of wells drilled fell 57% in 2020 and the number of completed wells fell 45%. There is substantial room for improvement as both drilled and completed wells have increased from the Q3 2020 trough but remain 63% and 40%, respectively, below their peaks in 2018.

Oil prices have continued to improve with the improving economy, but the U.S. rig count has lagged the increase in oil prices by a large margin. The last time WTI was over \$70 per barrel (in 2018), the North American rig count exceeded 1,200, versus 641 currently. We are not counting on an improvement to prior levels in order to achieve our price target. We believe Profire is in a better position than many of its competitors, with a strong balance sheet and positive cash flow. However, it remains at the mercy of oil prices and its attempt to expand into the upstream burner management system (BMS) market.

**Valuation:** Our price target of \$1.65 is based on an EV/EBITDA multiple of 14x our 2022 EBITDA estimate of \$4.3 million. Our EV/EBITDA target multiple is a discount to the median multiple of 14.4x of a comp group. (See page 3.) We believe the discount is warranted to reflect the risks of reaching our EBITDA estimate.

**Risks:** Risks to achieving our price target include changes in oil and gas prices, global economic growth and its impact on demand for oil and gas, regulation that could impact the ability to drill for oil and gas, and regulation that could impede the development of pipelines in the U.S.

Current Price	\$1.16		
Price Target	\$1.65		
Estimates	F2020A	F2021E	F2022E
Revenues (\$000s)	\$ 21,459	\$ 23,799 E	\$ 31,871
1Q March	\$ 7,447	\$ 5,092 A	\$ 7,449
2Q June	\$ 4,359	\$ 6,034 A	\$ 7,822
3Q September	\$ 4,000	\$ 6,034 E	\$ 7,822
4Q December	\$ 5,652	\$ 6,638 E	\$ 8,779
	F2020A	F2021E	F2022E
EBITDA (\$000s)	\$ (1,460)	\$ 69 E	\$ 4,319
1Q March	\$ (339)	\$ (386) A	\$ 853
2Q June	\$ (587)	\$ 3 A	\$ 1,005
3Q September	\$ (935)	\$ 4 E	\$ 983
4Q December	\$ 400	\$ 448 E	\$ 1,478
EV/Sales	1.7 x	1.5 x	1.2 x
EV/EBITDA	NM	536.8 x	8.5 x
Stock Data			
52-Week Range	\$0.63	-	\$1.74
Shares Outstanding (mil.)	48.2		
Market Capitalization (mil.)	\$56		
Enterprise Value (mil.)	\$37		
Debt to Capital	0%		
Book Value/Share	\$0.93		
Price/Book	1.2x		
Average Three Months Trading Volume (K)	137		
Insider Ownership	38.9%		
Institutional Ownership	37.7%		
Short interest (mil.)	0.2%		
Dividend / Yield	\$0.00/0.0%		



## Q2 Results

Q2 revenue was \$6.0 million, 18% higher than Q1, driven by a 14% Q/Q increase in oil prices (West Texas Intermediate), a 14% Q/Q increase in the Baker Hughes rig count for the U.S. and a 19% increase in well completions.

Gross margin for the quarter was 44%, an improvement from Q1, but lower than we expected. The company cites mix as the major issue driving margin, as pricing has been stable. Historically, there have been meaningful swings in gross margin from changing mix. We have forecast an improvement in gross margins for the rest of this year and next.

### Actual v Estimates (\$000s except per-share data)

Q2 21	Actual	Est.	Delta	% Delta
Sales of Goods	5,375	5,000	375	7%
Sales of Services	660	457	203	45%
Total Revenues	6,034	5,457	578	11%
Cost of Goods	2,911	2,600	311	12%
Cost of Services	466	320	146	46%
Total COGS	3,377	2,920	457	16%
Gross Profit-Goods	2,464	2,400	64	3%
Gross Profit-Services	194	137	57	42%
Gross Profit-Total	2,658	2,537	121	5%
G&A	2,784	2,605	179	
R&D	301	272	30	
Depreciation	167	167	(1)	
Opex	3,252	3,044	208	7%
Operating income	(594)	(507)	(87)	-17%
Interest and Other	72	95	(23)	
Pretax income	(523)	(412)	(110)	-27%
Taxes	(125)	(107)	(18)	
Net Income	(397)	(305)	(92)	-30%
Basic Shares	48,054	48,016		
Diluted Shares	48,054	48,416		
Basic EPS	\$ (0.01)	\$ (0.01)	\$ (0.00)	-30%
Diluted EPS	\$ (0.01)	\$ (0.01)	\$ (0.00)	-31%
Operating Income	(594)	(507)	(87)	-17%
D&A	390	352		
Stock Comp	207	125		
EBITDA	3	(30)	32	109%
EBITDA Margin	0.0%	-0.5%		

Source: Profire Energy, Inc. and Dawson James Securities estimates

## Outlook

In the smaller and mid-size oilfield applications, demand for BMSs is driven by the number of well completions, and to a lesser extent, by replacement demand and retrofit of existing wells. According to EIA data, in the U.S., the number of well completions in 2018 was almost 15,000, fell to under 14,000 in 2019 and to 7,371 in 2020. Q1 2021 well completions were about two-thirds of

the year-ago quarter's count but up about 57% from the trough of Q3. Q2 2021 well completions increased 19% versus Q1, and if completions in the second half equal the number of completions in the first half, full-year completions will increase 19% over 2020.

#### Change in Profire Estimates

	2021E		2022E	
	Old	New	Old	New
Revenue (\$M)	\$ 23.6	\$ 23.8	\$ 30.1	\$ 31.9
EPS	\$ (0.01)	\$ (0.03)	\$ 0.04	\$ 0.03
EBITDA (\$M)	\$ 0.7	\$ 0.1	\$ 4.0	\$ 4.3

Source: Dawson James Securities estimates

We project revenue for Profire in 2021 of \$23.8 million, up from \$21.4 million in 2020. For 2022, we forecast revenue of \$31.9 million, based on stable oil and gas prices and continued improvement in drilling and completion activity

We believe Profire is in a better position than many of its competitors, with a strong balance sheet and positive cash flow. However, it remains at the mercy of oil prices, and its attempts to reduce its dependence on the upstream BMS market have met with limited success.

#### Profire Energy, Inc. Comparable Group

		Price	TEV (\$M)	FTM Sales (\$M)	EV/ Sales	FTM EBITDA (\$M)	EV/ EBITDA
CLB	Core Laboratories NV	\$ 30.46	\$ 1,657.5	\$ 518.4	3.20	\$ 86.8	19.1
BOOM	DMC Global Inc.	41.78	612.5	306.3	2.00	42.6	14.4
ENSV	Enservco Corporation	1.22	30.5	27.4	1.11	2.0	15.2
HTG-GB	Hunting PLC	£ 2.11	£ 312.9	£ 491.6	0.64	£ 38.5	8.1
OIS	Oil States International, Inc.	5.43	484.6	646.2	0.75	56.7	8.5
PSD-CA	Pulse Seismic Inc.	C\$ 2.01	C\$ 119.5	C\$ 27.3	4.38	C\$ 22.7	5.3
SDPI	Superior Drilling Products, Inc.	0.77	24.9	11.6	2.15	0.5	45.4
	Median				2.00		14.4
PFIE	Profire Energy, Inc.	\$ 1.16	\$ 36.8	\$ 28.6	1.29	\$ 2.6	14.2

Source: FactSet and Dawson James Securities estimates.

#### Valuation:

Our price target of \$1.65 is based on an EV/EBITDA multiple of 14x our 2022 EBITDA estimate of \$4.3 million. Our EV/EBITDA target multiple is a discount to the median multiple of 14.4x of a comp group. We believe the discount is warranted to reflect the risks of reaching our EBITDA estimate.

#### Risk Analysis:

Risks to achieving our price target include changes in oil and gas prices, global economic growth and its impact on demand for oil and gas, regulation that could impact the ability to drill for oil and gas, and regulation that could impede the development of pipelines in the U.S.



**Exhibit 1. Income Statement**

\$ in 000's except per share data	FY 18	FY 19	FY 20	Mar-21 Q1 21 A	Jun-21 Q2 21 A	Sep-21 Q3 21 E	Dec-21 Q4 21 E	FY 21E	FY 22E
Sales of Goods	42,870	36,208	19,396	4,658	5,375	5,375	5,912	21,319	28,475
Sales of Services	2,744	2,773	2,063	435	660	660	726	2,480	3,397
Total Revenues	\$ 45,615	\$ 38,981	\$ 21,459	\$ 5,092	\$ 6,034	\$ 6,034	\$ 6,638	\$ 23,799	\$ 31,871
Cost of Goods	20,789	17,588	10,378	2,538	2,911	2,849	2,897	11,194	13,691
Cost of Services	1,924	1,865	1,554	380	466	462	508	1,816	2,326
Total COGS	22,713	19,453	11,932	2,918	3,377	3,310	3,405	13,009	16,017
Gross Profit-Goods	22,081	18,620	9,017	2,120	2,464	2,526	3,015	10,125	14,784
Gross Profit-Services	820	908	509	55	194	198	218	664	1,071
Gross Profit-Total	22,901	19,528	9,526	2,175	2,658	2,724	3,233	10,789	15,854
G&A	13,029	13,454	10,641	2,555	2,784	2,834	2,884	11,056	11,835
R&D	1,397	1,933	1,299	257	301	316	331	1,206	1,416
Depreciation	501	977	666	167	167	167	167	668	667
Opex	14,927	16,364	12,606	2,979	3,252	3,317	3,382	12,930	13,919
Operating income	7,974	3,164	(3,080)	(804)	(594)	(593)	(149)	(2,141)	1,936
Interest and Other	624	403	421	95	72	72	72	311	288
Pretax income	8,598	3,567.561	(2,659)	(709)	(523)	(521)	(77)	(1,831)	2,223
Taxes	2,517	1,546	(484)	(108)	(125)	(136)	(20)	(389)	578
Net Income	\$ 6,081	\$ 2,021	\$ (2,176)	\$ (602)	\$ (397)	\$ (386)	\$ (57)	\$ (1,442)	\$ 1,645
Basic Shares	48,471	47,491	47,778	47,990	48,054	48,239	48,289	47,878	48,094
Diluted Shares	49,222	48,134	47,778	47,990	48,054	48,639	48,689	47,878	48,334
Basic EPS	\$ 0.13	\$ 0.04	\$ (0.05)	\$ (0.01)	\$ (0.01)	\$ (0.01)	\$ (0.00)	\$ (0.03)	\$ 0.03
Diluted EPS	\$ 0.12	\$ 0.04	\$ (0.05)	\$ (0.01)	\$ (0.01)	\$ (0.01)	\$ (0.00)	\$ (0.03)	\$ 0.03
Operating Income	7,974	3,164	(3,080)	(804)	(594)	(593)	(149)	(2,141)	1,936
D&A	897	1,467	1,177	294	390	390	390	1,464	1,555
Stock Comp	1,059	391	443	125	207	207	207	746	828
<b>EBITDA</b>	<b>\$ 9,930</b>	<b>\$ 5,022</b>	<b>\$ (1,460)</b>	<b>\$ (386)</b>	<b>\$ 3</b>	<b>\$ 4</b>	<b>\$ 448</b>	<b>\$ 69</b>	<b>\$ 4,319</b>
<b>WTI \$/barrel</b>									
	\$ 65.23	\$ 56.98	\$ 39.12	\$ 58.09	\$ 66.19				
	FY 18	FY 19	FY 20	Q1 21 A	Q2 21 A	Q3 21 E	Q4 21 E	FY 21E	FY 22E
Sales of Goods	94.0%	92.9%	90.4%	91.5%	89.1%	89.1%	89.1%	89.6%	89.3%
Sales of Services	6.0%	7.1%	9.6%	8.5%	10.9%	10.9%	10.9%	10.4%	10.7%
Total Revenues	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Cost of goods	48.5%	48.6%	53.5%	54.5%	54.2%	53.0%	49.0%	52.5%	48.1%
Cost of services	70.1%	67.3%	75.3%	87.4%	70.6%	70.0%	70.0%	73.2%	68.5%
Total COGS	49.8%	49.9%	55.6%	57.3%	56.0%	54.9%	51.3%	54.7%	50.3%
Gross Profit-Goods	51.5%	51.4%	46.5%	45.5%	45.8%	47.0%	51.0%	47.5%	51.9%
Gross Profit-Services	29.9%	32.7%	24.7%	12.6%	29.4%	30.0%	30.0%	26.8%	31.5%
Gross Profit-Total	50.2%	50.1%	44.4%	42.7%	44.0%	45.1%	48.7%	45.3%	49.7%
G&A	28.6%	34.5%	49.6%	50.2%	46.1%	47.0%	43.4%	46.5%	37.1%
Payroll Expense	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Depreciation	1.1%	2.5%	3.1%	3.3%	2.8%	2.8%	2.5%	2.8%	2.1%
Opex	32.7%	42.0%	58.7%	58.5%	53.9%	55.0%	51.0%	54.3%	43.7%
Operating income	17.5%	8.1%	-14.4%	-15.8%	-9.9%	-9.8%	-2.2%	-9.0%	6.1%
Interest and Other	1.4%	1.0%	2.0%	1.9%	1.2%	1.2%	1.1%	1.3%	0.9%
Pretax income	18.8%	9.2%	-12.4%	-13.9%	-8.7%	-8.6%	-1.2%	-7.7%	7.0%
Tax Rate	29.3%	43.3%	18.2%	15.2%	24.0%	26.0%	26.0%	21.2%	26.0%
Net Income	13.3%	5.2%	-10.1%	-11.8%	-6.6%	-6.4%	-0.9%	-6.1%	5.2%
EBITDA	21.8%	12.9%	-6.8%	-7.6%	0.0%	0.1%	6.7%	0.3%	13.6%

Source: Profire Energy, Inc. and Dawson James Securities estimates

**Exhibit 2. Balance Sheet and Cash Flow Statement**

\$ in 000's	FY 18	FY 19	FY 20	FY 21E	FY 22E
Cash	10,102	7,359	9,148	10,258	11,055
ST Investments	4,558	3,822	2,389	2,087	2,087
A/R	6,885	5,598	3,720	4,166	5,509
Inventories	9,660	9,572	8,415	7,566	8,639
Prepaid Expenses & Other	647	1,750	2,165	1,715	2,268
<b>Current Assets</b>	<b>\$ 31,851</b>	<b>\$ 28,100</b>	<b>\$ 25,836</b>	<b>\$ 25,792</b>	<b>\$ 29,559</b>
LT Investments	7,978	7,400	6,064	7,133	7,133
Financing right of use asset	0	108	50	29	29
PP&E	8,020	12,071	12,022	11,559	11,234
Deferred Tax Asset	85	0	0	0	0
Intangible Assets	430	1,990	1,772	1,543	1,313
Goodwill	998	2,579	2,579	2,579	2,579
<b>Total Assets</b>	<b>\$ 49,363</b>	<b>\$ 52,248</b>	<b>\$ 48,323</b>	<b>\$ 48,635</b>	<b>\$ 51,847</b>
A/P	1,178	2,634	1,179	1,383	1,829
Accrued liabilities	1,757	2,089	1,197	1,635	1,927
Financing lease	0	59	39	30	30
Income tax payable	1,172	403	0	0	0
<b>Current Liabilities</b>	<b>\$ 4,107</b>	<b>\$ 5,185</b>	<b>\$ 2,415</b>	<b>\$ 3,049</b>	<b>\$ 3,787</b>
Deferred Tax Liability	0	439	523	602	602
Financing Lease Liability	0	52	13	0	0
Equity	45,256	46,572	45,372	44,985	47,458
<b>Total Equity &amp; Liab.</b>	<b>\$ 49,363</b>	<b>\$ 52,248</b>	<b>\$ 48,323</b>	<b>\$ 48,635</b>	<b>\$ 51,847</b>
	FY 18	FY 19	FY 20	FY 21E	FY 22E
Net	6,081	2,021	(2,176)	(1,442)	1,645
D&A	897	1,467	1,177	1,464	1,555
Stock issued for services	1,059	391	443	746	828
Other	69	201	(123)	(222)	0
Working Capital	(2,553)	3,633	943	1,846	(2,231)
<b>Operating Cash Flow</b>	<b>\$ 5,553</b>	<b>\$ 7,713</b>	<b>\$ 264</b>	<b>\$ 2,392</b>	<b>\$ 1,797</b>
Other	359	1,611	3,314	(650)	0
Acquisition	0	(4,384)	0	0	0
CapEx	(1,928)	(4,665)	(1,547)	(593)	(1,000)
<b>Investing Activities</b>	<b>\$ (1,568)</b>	<b>\$ (7,437)</b>	<b>\$ 1,767</b>	<b>\$ (1,243)</b>	<b>\$ (1,000)</b>
Equity	(5,233)	(2,977)	(153)	(43)	0
Lease Liability	0	(74)	(58)	(22)	0
<b>Financing Activities</b>	<b>\$ (5,233)</b>	<b>\$ (3,050)</b>	<b>\$ (210)</b>	<b>\$ (65)</b>	<b>\$ -</b>
FX	(95)	31	(31)	25	0
<b>Change in Cash</b>	<b>\$ (1,344)</b>	<b>\$ (2,743)</b>	<b>\$ 1,789</b>	<b>\$ 1,110</b>	<b>\$ 797</b>

Source: Profire Energy, Inc. and Dawson James Securities estimates

**Important Disclosures:**

**Price Chart:**



**Price target and ratings changes over the past three years:**

Initiated – Buy – May 12, 2021 – Price Target \$1.65

Update – Buy – June 21, 2021 – Price Target \$1.65

Update – Buy – August 6, 2021 – Price Target \$1.65

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- 1) **Buy:** the analyst believes the price of the stock will appreciate and produce a total return of at least 20% over the next 12-18 months;
- 2) **Neutral:** the analyst believes the price of the stock is fairly valued for the next 12-18 months;
- 3) **Sell:** the analyst believes the price of the stock will decline by at least 20% over the next 12-18 months and should be sold.

The following chart reflects the range of current research report ratings for all companies, followed by the analysts of the Firm. The chart also reflects the research report ratings relating to those companies for which the Firm has performed investment banking services.

As of: 3-Aug-21

	<b>Company Coverage</b>		<b>Investment Banking</b>	
<b>Ratings Distribution</b>	<b># of Companies</b>	<b>% of Total</b>	<b># of Companies</b>	<b>% of Totals</b>
Market Outperform (Buy)	25	71%	4	16%
Market Perform (Neutral)	10	29%	0	0%
Market Underperform (Sell)	0	0%	0	0%
<b>Total</b>	<b>35</b>	<b>100%</b>	<b>4</b>	<b>11%</b>

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