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Toll-Free: 866-928-0928 ♦ www.DawsonJames.com ♦ 101 North Federal Highway - Suite 600 ♦ Boca Raton, FL 33432

Profire Energy, Inc. (NASDAQ: PFIE)

August 4, 2022

Buy: Q2 Preview.

Profire hosts a conference call to discuss Q2 results on Friday before the open. We forecast revenue growth of 54% and EBITDA of \$1.2 million, versus a break-even EBITDA in the year-ago quarter. Oil prices, the rig count and well completions continue to rise, providing a favorable backdrop for Profire. We believe the company has significant leverage to higher prices in oil and natural gas and can grow revenue and EBITDA to much higher levels, driving substantial stock price appreciation.

For Q2 we expect revenue of \$9.3 million, a 54% increase over the year ago quarter and down slightly, due to seasonality, from Q1. EBITDA is forecast to increase to \$1.2 million, up slightly from Q1 and versus a break-even EBITDA in the year-ago quarter. Our revenue and EBITDA estimates are slightly higher than consensus.

We remain bullish on Profire Energy given the company's dominant market share in burner management systems, its expansion into larger, more complex downstream markets, the continued strength in oil prices and the resulting growth in the North American rig count and well completions.

Oil prices remain strong, with Q2 WTI averaging close to \$110 per barrel, up from \$95 in Q1 and \$66 in the year-ago quarter. The North American rig count has increased from its low of 278 in June of 2020 to 971 as of last week (source: [Baker Hughes](#)). Well completions have also increased substantially, from a low of 252 in June 2020 to over 960 in June of this year. (Source: [EIA Drilling Productivity Report](#)). This has driven a sharp increase in revenue for Profire with Q1 revenue up 87% and full year revenue for 2022 estimated to increase 45%.

Despite the increase in oil prices, the rig count and well completions are far below levels of a few years ago when oil prices were much lower. In 2022, with monthly average WTI ranging between \$80 and \$110 per barrel, well completions have ranged from about 900 to 950 per month. However, from 2016 through early 2020, well completions were significantly higher, over 1,200 per month, even though WTI was \$60 to \$70 per barrel.

There is uncertainty regarding the trajectory of oil prices from the impact of the West's boycott of Russian oil and from the increase in interest rates. But even so, E&P companies can drill profitably at much lower oil prices (Source: [Kansas City Federal Reserve](#)). Major impediments to greater drilling and completion activities are shortages of personnel and steel tubular goods. (Source: [Dallas Federal Reserve](#)).

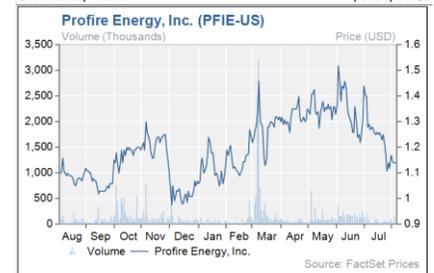
Valuation: Our price target of \$2.00 is based on an EV/Sales multiple of 2x the 2022 revenue estimate of \$38.2 million. Our EV/sales target multiple is a discount to the 2.4x EV/sales multiple in 2018 when WTI averaged over \$65 per barrel. We believe the discount is warranted to reflect the risks of reaching our revenue 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.

James McIlree, CFA
 561-237-2709

jmcilree@dawsonjames.com

Current Price	\$1.14		
Price Target	\$2.00		
Estimates	F2021A	F2022E	F2023E
Revenues (\$000s)	\$ 26,356	\$ 38,226 E	\$ 44,073
1Q March	\$ 5,092	\$ 9,503 A	\$ 10,957
2Q June	\$ 6,034	\$ 9,266 E	\$ 10,683
3Q September	\$ 6,943	\$ 9,266 E	\$ 10,683
4Q December	\$ 8,286	\$ 10,192 E	\$ 11,751
	F2021A	F2022E	F2023E
EBITDA (\$000s)	\$ (192)	\$ 5,379 E	\$ 8,319
1Q March	\$ (386)	\$ 1,109 A	\$ 1,951
2Q June	\$ 3	\$ 1,234 E	\$ 1,899
3Q September	\$ 113	\$ 1,268 E	\$ 1,941
4Q December	\$ 78	\$ 1,768 E	\$ 2,528
EV/Sales	1.5 x	1.0 x	0.9 x
EV/EBITDA	NM	7.2 x	4.6 x
Stock Data			
52-Week Range	\$0.88	-	\$1.59
Shares Outstanding (mil.)	47.1		
Market Capitalization (mil.)	\$54		
Enterprise Value (mil.)	\$39		
Debt to Capital	0%		
Cash (mil.)	\$15		
Cash/Share	\$0.32		
Average Three Months Trading Volume (K)	62		
Insider Ownership	23.0%		
Institutional Ownership	42.7%		
Short interest (mil.)	0.0%		
Dividend / Yield	\$0.00/0.0%		



Outlook

In the smaller and mid-size oilfield applications, demand for burner management systems are 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, which fell to under 14,000 in 2019 and to 7,400 in 2020. However, well completions in 2021 increased 32% to 9,793.

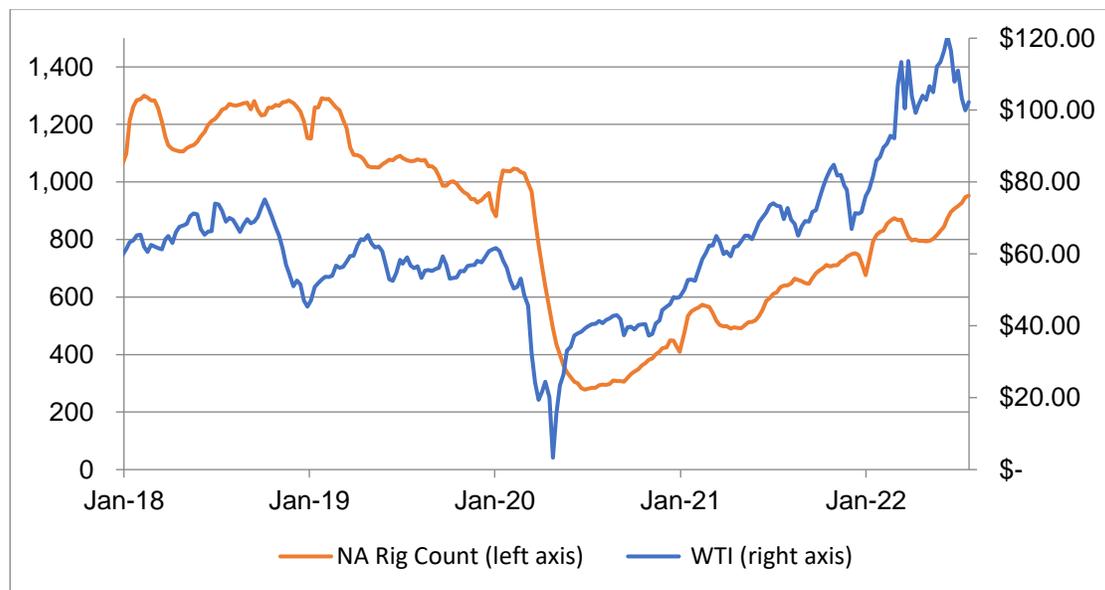
We project revenue for Profire in 2022 of \$38.2 million, up from \$26.4 million in 2021. For 2023, we forecast revenue of \$44.1 million, based on stable oil and gas prices and continued improvement in drilling and completion activity. We believe Profire is in a better position than many of its competitors, 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
CHX	ChampionX Corporation	\$ 20.81	\$ 4,831.8	\$ 3,775.7	1.28	\$ 667.7	7.2
CLB	Core Laboratories NV	17.24	1,031.3	530.5	1.94	75.7	13.6
BOOM	DMC Global Inc.	20.45	776.1	638.8	1.22	84.6	9.2
HTG-GB	Hunting PLC	£ 2.17	£ 290.9	£ 583.0	0.50	£ 54.7	5.3
LBRT	Liberty Energy, Inc. Class A	13.71	2,902.9	4,412.1	0.66	862.6	3.4
OIS	Oil States International, Inc.	4.79	485.0	786.7	0.62	85.9	5.6
	Median				1.04		7.4
PFIE	Profire Energy, Inc.	\$ 1.14	\$ 38.5	\$ 41.7	0.92	\$ 7.1	5.4

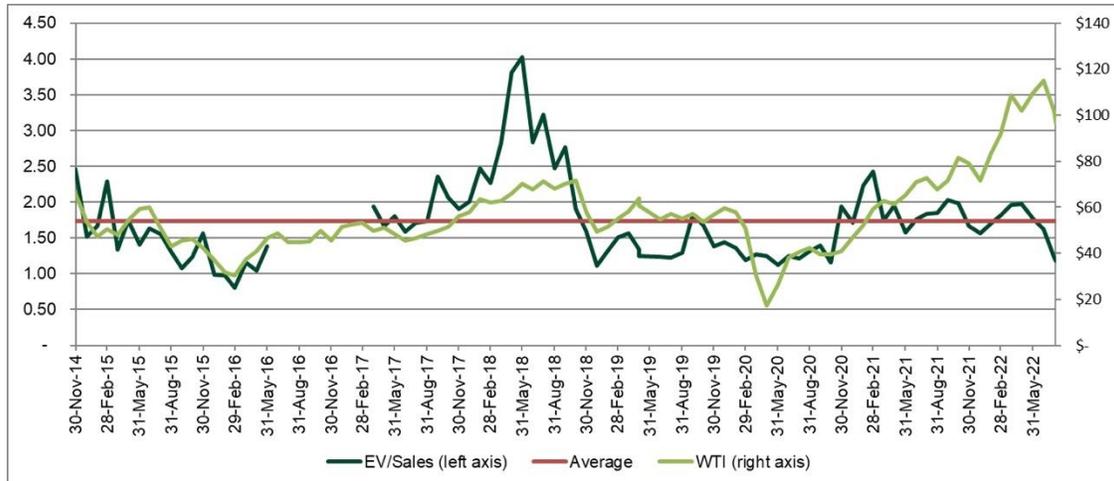
Source: FactSet and Dawson James Securities estimates.

If oil and natural gas prices remain firm, we expect the rig count, drilled wells, and completed wells will continue to increase and the outlook for Profire to improve. WTI is currently far above 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 767, remains about 25% below the average rig counts in 2018 and 2019. Energy Information Administration (EIA) data indicate the number of wells drilled fell 57% in 2020 and the number of completed wells fell 45%, compared to the 2018-2019 period. There was a 32% increase in completions in 2021 vs. 2020 but there is substantial room for improvement. The number of completed wells in Q1 2022 is 30% below its peak level in 2018.



Source: Baker Hughes, EIA

Profire's shares have moved up with the increase in oil prices, but the company's current EV/Sales is lower than levels achieved at much lower oil prices and we think there is further room for improvement.



Source: Dawson James Securities, EIA, Factset

Valuation:

Our price target of \$2.00 is based on an EV/Sales multiple of 2x our 2022 revenue estimate of \$38.2 million. Our EV/sales target multiple is a discount to the 2.4x EV/sales multiple in 2018 when WTI averaged over \$65 per barrel. We believe the discount is warranted to reflect the risks of reaching our revenue 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 19	FY 20	FY 21	Mar-22 Q1 22 A	Jun-22 Q2 22 E	Sep-22 Q3 22 E	Dec-22 Q4 22 E	FY 22E	FY 23E
Sales of Goods	36,208	19,396	23,691	8,878	8,656	8,656	9,522	35,713	41,175
Sales of Services	2,773	2,063	2,665	625	609	609	670	2,513	2,897
Total Revenues	\$ 38,981	\$ 21,459	\$ 26,356	\$ 9,503	\$ 9,266	\$ 9,266	\$ 10,192	\$ 38,226	\$ 44,073
Cost of Goods	17,588	10,378	12,826	4,383	4,198	4,155	4,475	17,212	19,807
Cost of Services	1,865	1,554	2,129	564	420	414	456	1,854	1,984
Total COGS	19,453	11,932	14,955	4,946	4,619	4,569	4,931	19,065	21,791
Gross Profit-Goods	18,620	9,017	10,865	4,496	4,458	4,501	5,047	18,502	21,369
Gross Profit-Services	908	509	536	61	189	195	214	659	913
Gross Profit-Total	19,528	9,526	11,401	4,557	4,647	4,696	5,261	19,161	22,282
G&A	13,454	10,641	11,533	3,392	3,342	3,342	3,392	13,470	13,470
R&D	1,933	1,299	1,120	308	323	338	353	1,323	1,503
Depreciation	977	666	762	167	167	167	167	668	668
Opex	16,364	12,606	13,416	3,868	3,833	3,848	3,913	15,461	15,641
Operating income	3,164	(3,080)	(2,015)	689	814	849	1,348	3,700	6,641
Interest and Other	403	421	334	99	99	99	99	394	394
Pretax income	3,567,561	(2,659)	(1,681)	788	913	947	1,447	4,095	7,035
Taxes	1,546	(484)	(629)	160	237	246	376	1,020	1,829
Net Income	\$ 2,021	\$ (2,176)	\$ (1,052)	\$ 627	\$ 675	\$ 701	\$ 1,071	\$ 3,074	\$ 5,206
Basic Shares	47,491	47,778	48,071	47,481	47,200	47,177	47,277	47,958	47,401
Diluted Shares	48,134	47,778	48,071	48,536	47,600	47,577	47,677	48,387	47,807
Basic EPS	\$ 0.04	\$ (0.05)	\$ (0.02)	\$ 0.01	\$ 0.01	\$ 0.01	\$ 0.02	\$ 0.06	\$ 0.11
Diluted EPS	\$ 0.04	\$ (0.05)	\$ (0.02)	\$ 0.01	\$ 0.01	\$ 0.01	\$ 0.02	\$ 0.06	\$ 0.11
Operating Income	3,164	(3,080)	(2,015)	689	814	849	1,348	3,700	6,641
D&A	1,467	1,177	1,256	281	281	281	281	1,124	1,124
Stock Comp	391	443	567	139	139	139	139	554	554
Other									
EBITDA	\$ 5,022	\$ (1,460)	\$ (192)	\$ 1,109	\$ 1,234	\$ 1,268	\$ 1,768	\$ 5,379	\$ 8,319
WTI \$/barrel	\$ 56.98	\$ 39.12	\$ 68.09	\$ 95.18	\$ 108.72				
	FY 19	FY 20	FY 21	Q1 22 A	Q2 22 E	Q3 22 E	Q4 22 E	FY 22E	FY 23E
Sales of Goods	92.9%	90.4%	89.9%	93.4%	93.4%	93.4%	93.4%	93.4%	93.4%
Sales of Services	7.1%	9.6%	10.1%	6.6%	6.6%	6.6%	6.6%	6.6%	6.6%
Total Revenues	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Cost of goods	48.6%	53.5%	54.1%	49.4%	48.5%	48.0%	47.0%	48.2%	48.1%
Cost of services	67.3%	75.3%	79.9%	90.2%	69.0%	68.0%	68.0%	73.8%	68.5%
Total COGS	49.9%	55.6%	56.7%	52.1%	49.8%	49.3%	48.4%	49.9%	49.4%
Gross Profit-Goods	51.4%	46.5%	45.9%	50.6%	51.5%	52.0%	53.0%	51.8%	51.9%
Gross Profit-Services	32.7%	24.7%	20.1%	9.8%	31.0%	32.0%	32.0%	26.2%	31.5%
Gross Profit-Total	50.1%	44.4%	43.3%	47.9%	50.2%	50.7%	51.6%	50.1%	50.6%
G&A	34.5%	49.6%	43.8%	35.7%	36.1%	36.1%	33.3%	35.2%	30.6%
Payroll Expense	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Depreciation	2.5%	3.1%	2.9%	1.8%	1.8%	1.8%	1.6%	1.7%	1.5%
Opex	42.0%	58.7%	50.9%	40.7%	41.4%	41.5%	38.4%	40.4%	35.5%
Operating income	8.1%	-14.4%	-7.6%	7.3%	8.8%	9.2%	13.2%	9.7%	15.1%
Interest expense	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Other									
Rental income	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Interest income	0.7%	0.8%	0.5%	0.2%	0.0%	0.0%	0.0%	0.7%	0.8%
Interest and Other	1.0%	2.0%	1.3%	1.0%	1.1%	1.1%	1.0%	1.0%	0.9%
Pretax income	9.2%	-12.4%	-6.4%	8.3%	9.9%	10.2%	14.2%	10.7%	16.0%
Tax Rate	43.3%	18.2%	37.4%	20.4%	26.0%	26.0%	26.0%	24.9%	26.0%
Net Income	5.2%	-10.1%	-4.0%	6.6%	7.3%	7.6%	10.5%	8.0%	11.8%
EBITDA	12.9%	-6.8%	-0.7%	11.7%	13.3%	13.7%	17.3%	14.1%	18.9%

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

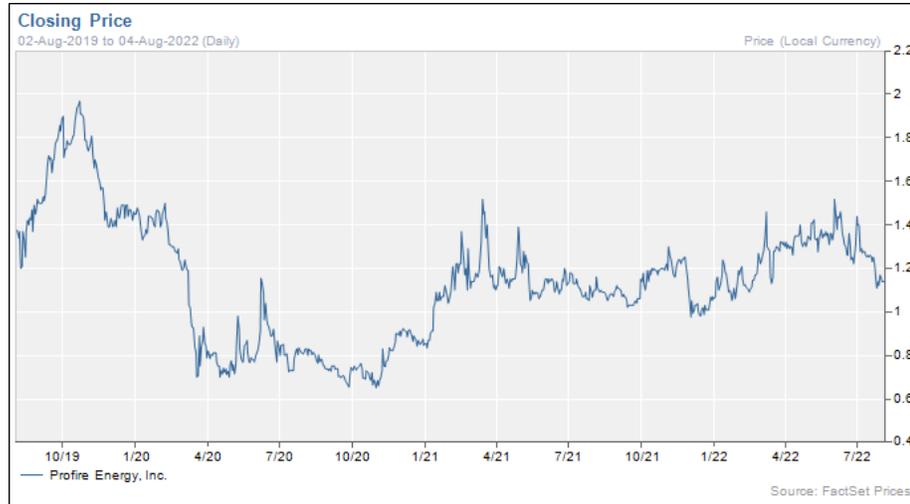
Exhibit 2. Balance Sheet and Cash Flow Statement

\$ in 000's	FY 19	FY 20	FY 21	FY 22E	FY 23E
Cash	7,359	9,148	8,188	11,913	15,581
ST Investments	3,822	2,389	1,014	454	454
A/R	5,598	3,720	6,263	6,795	7,834
Inventories	9,572	8,415	7,185	7,721	9,096
Prepaid Expenses & Other	1,750	2,165	1,586	1,274	1,469
Current Assets	\$ 28,100	\$ 25,836	\$ 24,236	\$ 28,157	\$ 34,434
LT Investments	7,400	6,064	8,260	7,853	7,853
Financing right of use asset	108	50	65	53	53
PP&E	12,071	12,022	11,186	10,697	10,573
Deferred Tax Asset	0	0	163	166	166
Intangible Assets	1,990	1,772	1,549	1,493	1,493
Goodwill	2,579	2,579	2,579	2,579	2,579
Total Assets	\$ 52,248	\$ 48,323	\$ 48,038	\$ 50,999	\$ 57,152
A/P	2,634	1,179	1,823	1,614	1,861
Accrued liabilities	2,089	1,197	1,872	2,008	2,154
Financing lease	59	39	30	22	22
Income tax payable	403	0	0	0	0
Current Liabilities	\$ 5,185	\$ 2,415	\$ 3,725	\$ 3,645	\$ 4,037
Deferred Tax Liability	439	523	136	183	183
Financing Lease Liability	52	13	36	31	31
Equity	46,572	45,372	44,141	47,140	52,900
Total Equity & Liab.	\$ 52,248	\$ 48,323	\$ 48,038	\$ 50,999	\$ 57,152
	FY 19	FY 20	FY 21	FY 22E	FY 23E
Net	2,021	(2,176)	(1,052)	3,074	5,206
D&A	1,467	1,177	1,256	1,124	1,124
Stock issued for services	391	443	567	554	554
Other	201	(123)	(176)	(67)	0
Working Capital	3,633	943	54	(469)	(2,217)
Operating Cash Flow	\$ 7,713	\$ 264	\$ 649	\$ 4,217	\$ 4,667
Other	1,611	3,314	(649)	793	0
Acquisition	(4,384)	0	0	0	0
CapEx	(4,665)	(1,547)	(169)	(583)	(1,000)
Investing Activities	\$ (7,437)	\$ 1,767	\$ (818)	\$ 210	\$ (1,000)
Equity	(2,977)	(153)	(795)	(713)	0
Lease Liability	(74)	(58)	(41)	(13)	0
Financing Activities	\$ (3,050)	\$ (210)	\$ (836)	\$ (726)	\$ -
FX	31	(31)	45	25	0
Change in Cash	\$ (2,743)	\$ 1,789	\$ (960)	\$ 3,725	\$ 3,667

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
- Update – Buy – September 28, 2021 – Price Target \$1.65
- Update – Buy – October 18, 2021 – Price Target \$1.65
- Update – Buy – November 5, 2021 – Price Target \$1.65
- Update – Buy – February 18, 2022 – Price Target \$1.65
- Update – Buy – February 18, 2022 – Price Target \$1.65
- Price Target Change – Buy – March 9, 2022 – Price Target changed from \$1.65 to \$2.00
- Update – Buy – May 4, 2022 – Price Target \$2.00
- Update – Buy – July 5, 2022 – Price Target \$2.00
- Update – Buy – August 4, 2022 – Price Target \$2.00

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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.

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Current as of 1-Aug-22

	Company Coverage		Investment Banking	
Ratings Distribution	# of Companies	% of Total	# of Companies	% of Totals
Market Outperform (Buy)	30	68%	4	13%
Market Perform (Neutral)	13	30%	0	0%
Market Underperform (Sell)	1	2%	0	0%
Total	44	100%	4	9%

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