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Profire Energy, Inc. (NASDAQ: PFIE)

May 11, 2023

Buy: Q1 Review. Reiterate Buy.

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Q1 results were better than expected and we have raised our estimates for this year and next. We believe the company can grow revenue and EBITDA to much higher levels, driving substantial stock price appreciation.

Q1 revenue of \$14.6 million exceeded our estimate of \$13.4 million, consensus of \$12.7 million and was up 53% over the year-ago quarter. EBITDA of \$3.6 million exceeded our estimate of \$2.8 million, consensus of \$1.8 million and was up 242% over the year-ago EBITDA of \$1.1 million.

Gross margin in Q1 was 54%, versus 48% in Q1 of last year and 47% in Q4 of last year. Prices improved, as did mix. We have assumed a reversion to a slightly better gross margin level than 2022, and believe there is upside to this estimate. If the company posts gross margin closer to Q1 levels, there could be substantial upside to our EBITDA estimates.

Cash, including short-term and long-term investments, at quarter-end was \$16.3 million (\$0.34 per share), up modestly from \$16.0 million at the end of Q4. Working capital, ex cash) was up \$3 million quarter-to-quarter as A/R increased \$1.4 million and payables declined \$1.6 million. We expect working capital needs will decline as the year progresses, improving cash generation. The company announced a \$2 million share buyback. We believe this will have a minimal impact on the company's share price.

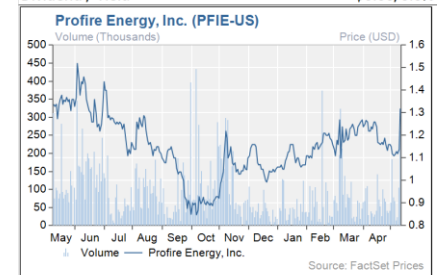
Oil prices (West Texas Intermediate) in Q1 averaged about \$76 per barrel, down 20% y/y and down almost 10% q/q. Despite the decline in WTI, well completions have averaged about 1,000 per month since August of last year. The level of completions is up 18% over the average level of completions in the first half of 2022, even with lower oil prices. The supply curve has shifted up and to the left relative to the prior cycle when prices at current levels would have resulted in completions 40% higher than current levels.

Valuation is favorable, as is the long-term outlook. The EIA's reference case estimates tight oil production in the U.S. will increase almost 25% from 2021 to 2025, (assuming wellhead prices of about \$65 per barrel). EIA expects natural gas production from shale gas and tight oil plays to increase 14% from 2021 to 2025. This is based on Henry Hub spot prices declining to \$3.00 per million BTU from \$4.11 in 2021 and far below current prices (see chart on page 2).

Valuation: Our price target of \$2.00 is based on an EV/Sales multiple of less than 1.5x the 2023 revenue estimate of \$61.5 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 the cultural zeitgeist eschewing fossil fuels.

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.

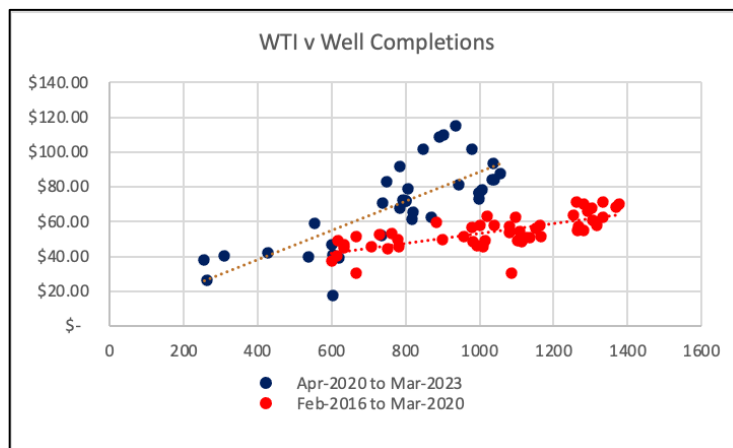
Current Price				\$1.32
Price Target				\$2.00
Estimates	F2022A	F2023E	F2024E	
Revenues (\$000s)	\$ 45,937	\$ 61,518 E	\$ 64,594	
1Q March	\$ 9,503	\$ 14,553 A	\$ 15,281	
2Q June	\$ 9,633	\$ 14,190 E	\$ 14,899	
3Q September	\$ 12,829	\$ 15,784 E	\$ 16,573	
4Q December	\$ 13,971	\$ 16,991 E	\$ 17,840	
	F2022A	F2023E	F2024E	
EBITDA (\$000s)	\$ 7,110	\$ 13,754 E	\$ 13,396	
1Q March	\$ 1,109	\$ 3,791 A	\$ 2,969	
2Q June	\$ 647	\$ 2,691 E	\$ 2,815	
3Q September	\$ 2,583	\$ 3,442 E	\$ 3,603	
4Q December	\$ 2,772	\$ 3,830 E	\$ 4,011	
EV/Sales	1.0 x	0.8 x	0.7 x	
EV/EBITDA	NM	3.4 x	3.4 x	
Stock Data				
52-Week Range	\$0.85	-	\$1.57	
Shares Outstanding (mil.)				47.4
Market Capitalization (mil.)				\$63
Enterprise Value (mil.)				\$46
Debt to Capital				0%
Cash (mil.)				\$16
Cash/Share				\$0.35
Average Three Months Trading Volume (K)				106
Insider Ownership				30.7%
Institutional Ownership				42.8%
Short interest (mil.)				0.0%
Dividend / Yield				\$0.00/0.0%



An additional risk is the Biden administration’s animus towards oil and gas production and consumption which has increased costs to consumers. We do not believe this is sustainable. Natural gas accounts for 38% of electricity generation in the U.S., and it will remain above 35% for the next decade even if the massive subsidies to solar and wind remain (a question mark as budget deficits and a greater portion of the budget required for interest payments put these subsidies under closer scrutiny). The move to electric vehicles is still nascent and even optimistic consumer adoption projections will result in increased electricity demand and the necessity of robust natural gas production.

Well Completions

According to the EIA Drilling Productivity Report, well completions since April of 2020 have recovered sharply, to an average of almost 1,000 per month. However, the supply curve has shifted to the left, and elasticity decreased. We attribute this shift to government policies and market pressures to improve producer balance sheets. Well completions were much higher when WTI and natural gas prices were much lower than it is currently as can be seen on the graph below that compares well completions to WTI for the period before the pandemic and the period after the pandemic started.



Source: [EIA](#) and [EIA Drilling Productivity Report](#).

While oil prices are currently high, a change in the political situation in Russia could change the supply situation in either direction. The increase in interest rates will have an impact on the economy and if inflation remains stubbornly high, we expect the Fed to become even more restrictive. We do not believe consumers/voters will tolerate sustained high gas prices and that they will demand policymakers encourage supply increases domestically. If this occurs simultaneous with an easing of the drilling industry’s labor and equipment shortage, the outlook for Profire could improve considerably.

Outlook

In the smaller and mid-size oilfield applications, demand for burner management systems 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, which fell to under 14,000 in 2019 and to about 7,500 in 2020. However, well completions in 2021 increased 26% and 19% in 2022.

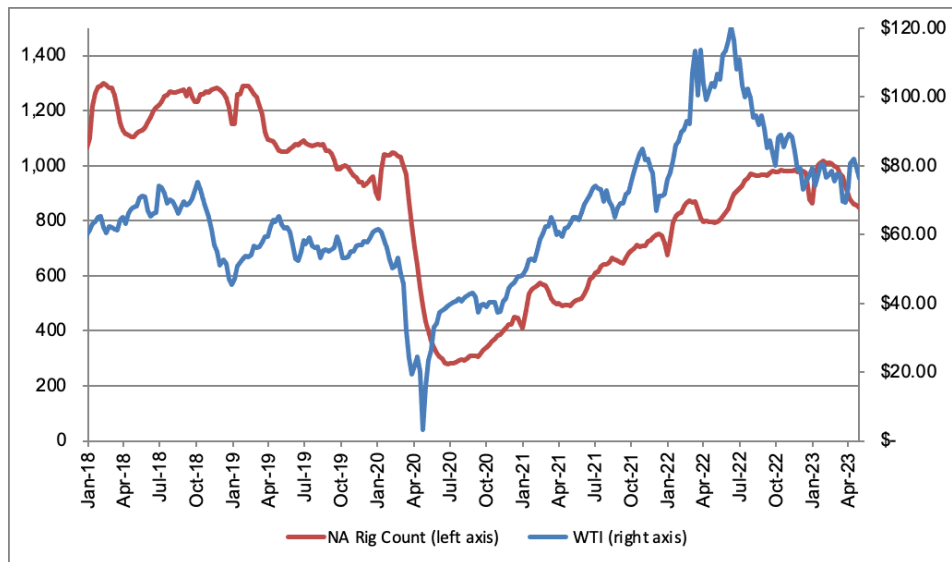
We project revenue for Profire in 2023 of \$61.5 million, up from \$45.9 million in 2022. For 2023, our forecast assumes stable oil and gas prices and current levels of drilling and completion activity. We believe Profire is in a better position than many of its competitors, with a strong balance sheet 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	\$ 26.92	\$ 5,749.8	\$ 4,102.7	1.40	\$ 827.7	6.9
CLB	Core Laboratories Inc.	21.17	1,212.0	557.0	2.18	89.1	13.6
BOOM	DMC Global Inc.	17.64	696.8	737.7	0.94	99.7	7.0
HTG-GB	Hunting PLC	£ 2.20	£ 306.8	£ 669.5	0.46	£ 72.5	4.2
LBRT	Liberty Energy, Inc. Class A	12.16	2,431.3	4,956.2	0.49	1,219.1	2.0
OIS	Oil States International, Inc.	6.96	597.9	870.6	0.69	102.3	5.8
	Median				1.03		6.6
PFIE	Profire Energy, Inc.	\$ 1.32	\$ 46.2	\$ 67.1	0.69	\$ 16.1	2.9

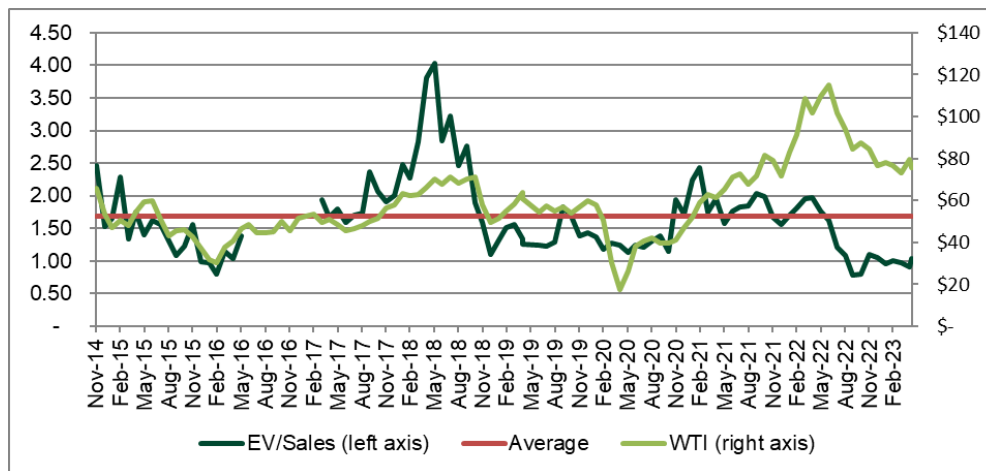
Source: FactSet and Dawson James Securities estimates.

If oil and natural gas prices remain firm, we expect the rig count, drilled wells, and completed wells will remain stable and the outlook for Profire to remain favorable. 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 748, 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 26% increase in completions in 2021 vs. 2020 and a 19% increase in 2022, but there is substantial room for improvement. The number of completed wells in Q1 2023 is 22% below its peak level in 2018.



Source: Baker Hughes, EIA

Profire’s shares have moved up with the changes 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 less than 1.5x our 2023 revenue estimate of \$61.5 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	FY 22	Mar-23 Q1 23 A	Jun-23 Q2 23 E	Sep-23 Q3 23 E	Dec-23 Q4 23 E	FY 23E	FY 24E
Sales of Goods	36,208	19,396	23,691	42,318	13,629	13,288	14,882	15,999	57,797	60,687
Sales of Services	2,773	2,063	2,665	3,618	925	902	902	992	3,721	3,907
Total Revenues	\$ 38,981	\$ 21,459	\$ 26,356	\$ 45,937	\$ 14,553	\$ 14,190	\$ 15,784	\$ 16,991	\$ 61,518	\$ 64,594
Cost of Goods	17,588	10,378	12,826	21,425	5,974	6,644	7,441	7,999	28,059	30,344
Cost of Services	1,865	1,554	2,129	2,860	746	721	721	794	2,983	3,125
Total COGS	19,453	11,932	14,955	24,285	6,720	7,365	8,163	8,793	31,041	33,469
Gross Profit-Goods	18,620	9,017	10,865	20,893	7,654	6,644	7,441	7,999	29,738	30,344
Gross Profit-Services	908	509	536	758	179	180	180	198	738	781
Gross Profit-Total	19,528	9,526	11,401	21,651	7,833	6,824	7,622	8,198	30,477	31,125
G&A	13,454	10,641	11,533	14,397	4,048	3,976	3,946	4,248	16,218	17,028
R&D	1,933	1,299	1,120	1,432	336	380	457	343	1,516	1,592
Depreciation	977	666	762	628	143	143	143	143	572	572
Opex	16,364	12,606	13,416	16,457	4,527	4,499	4,546	4,733	18,305	19,192
Operating income	3,164	(3,080)	(2,015)	5,195	3,306	2,325	3,076	3,464	12,171	11,933
Interest and Other	403	421	334	492	101	101	101	101	403	403
Pretax income	3,567,561	(2,659)	(1,681)	5,686	3,406	2,426	3,176	3,565	12,574	12,335
Taxes	1,546	(484)	(629)	1,738	817	631	826	927	3,200	3,207
Net Income	\$ 2,021	\$ (2,176)	\$ (1,052)	\$ 3,948	\$ 2,590	\$ 1,795	\$ 2,351	\$ 2,638	\$ 9,373	\$ 9,128
Basic Shares	47,491	47,778	48,071	47,161	47,175	47,352	47,402	47,502	47,107	47,359
Diluted Shares	48,134	47,778	48,071	48,447	48,613	47,752	47,802	47,902	48,358	47,929
Basic EPS	\$ 0.04	\$ (0.05)	\$ (0.02)	\$ 0.08	\$ 0.05	\$ 0.04	\$ 0.05	\$ 0.06	\$ 0.20	\$ 0.19
Diluted EPS	\$ 0.04	\$ (0.05)	\$ (0.02)	\$ 0.08	\$ 0.05	\$ 0.04	\$ 0.05	\$ 0.06	\$ 0.19	\$ 0.19
Operating Income	3,164	(3,080)	(2,015)	5,195	3,306	2,325	3,076	3,464	12,171	11,933
D&A	1,467	1,177	1,256	1,101	262	143	143	143	691	572
Stock Comp	391	443	567	815	223	223	223	223	892	892
EBITDA	\$ 5,022	\$ (1,460)	\$ (192)	\$ 7,110	\$ 3,791	\$ 2,691	\$ 3,442	\$ 3,830	\$ 13,754	\$ 13,396
WTI \$/barrel	\$ 56.98	\$ 39.12	\$ 68.09	\$ 94.90	\$ 75.93					
	FY 19	FY 20	FY 21	FY 22	Q1 23 A	Q2 23 E	Q3 23 E	Q4 23 E	FY 23E	FY 24E
Sales of Goods	92.9%	90.4%	89.9%	92.1%	93.6%	93.6%	94.3%	94.2%	94.0%	94.0%
Sales of Services	7.1%	9.6%	10.1%	7.9%	6.4%	6.4%	5.7%	5.8%	6.0%	6.0%
Total Revenues	100.0%	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%	50.6%	43.8%	50.0%	50.0%	50.0%	48.5%	50.0%
Cost of services	67.3%	75.3%	79.9%	79.0%	80.7%	80.0%	80.0%	80.0%	80.2%	80.0%
Total COGS	49.9%	55.6%	56.7%	52.9%	46.2%	51.9%	51.7%	51.8%	50.5%	51.8%
Gross Profit-Goods	51.4%	46.5%	45.9%	49.4%	56.2%	50.0%	50.0%	50.0%	51.5%	50.0%
Gross Profit-Services	32.7%	24.7%	20.1%	21.0%	19.3%	20.0%	20.0%	20.0%	19.8%	20.0%
Gross Profit-Total	50.1%	44.4%	43.3%	47.1%	53.8%	48.1%	48.3%	48.2%	49.5%	48.2%
G&A	34.5%	49.6%	43.8%	31.3%	27.8%	28.0%	25.0%	25.0%	26.4%	26.4%
Payroll Expense	0.0%	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%	1.4%	1.0%	1.0%	0.9%	0.8%	0.9%	0.9%
Opex	42.0%	58.7%	50.9%	35.8%	31.1%	31.7%	28.8%	27.9%	29.8%	29.7%
Operating income	8.1%	-14.4%	-7.6%	11.3%	22.7%	16.4%	19.5%	20.4%	19.8%	18.5%
Interest and Other	1.0%	2.0%	1.3%	1.1%	0.7%	0.7%	0.6%	0.6%	0.7%	0.6%
Pretax income	9.2%	-12.4%	-6.4%	12.4%	23.4%	17.1%	20.1%	21.0%	20.4%	19.1%
Tax Rate	43.3%	18.2%	37.4%	30.6%	24.0%	26.0%	26.0%	26.0%	25.5%	26.0%
Net Income	5.2%	-10.1%	-4.0%	8.6%	17.8%	12.7%	14.9%	15.5%	15.2%	14.1%
EBITDA	12.9%	-6.8%	-0.7%	15.5%	26.0%	19.0%	21.8%	22.5%	22.4%	20.7%

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

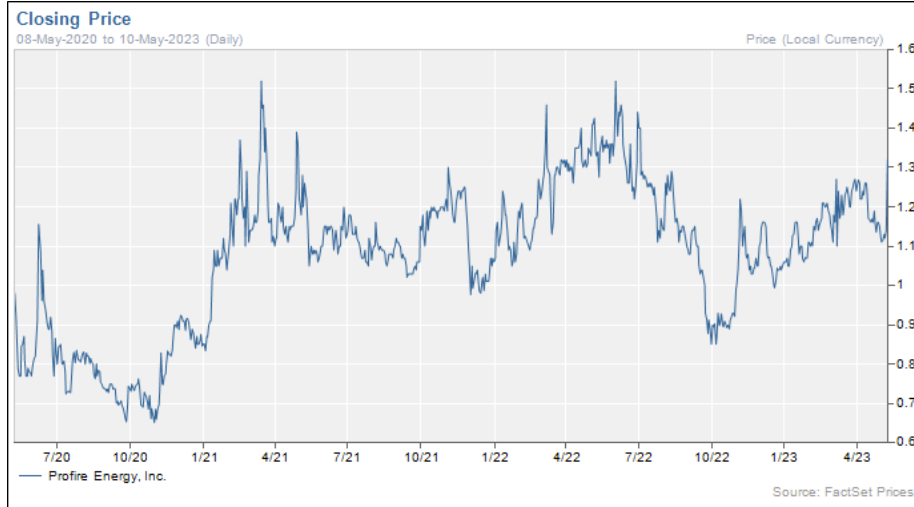
Exhibit 2. Balance Sheet and Cash Flow Statement

\$ in 000's	FY 19	FY 20	FY 21	FY 22	FY 23E	FY 24E
Cash	7,359	9,148	8,188	7,385	11,131	19,343
ST Investments	3,822	2,389	1,014	1,154	2,072	2,072
A/R	5,598	3,720	6,263	10,886	12,357	12,975
Inventories	9,572	8,415	7,185	10,294	13,855	14,772
Prepaid Expenses & Other	1,750	2,165	1,586	2,315	3,095	3,249
Current Assets	\$ 28,100	\$ 25,836	\$ 24,236	\$ 32,034	\$ 42,508	\$ 52,411
LT Investments	7,400	6,064	8,260	7,503	7,053	7,053
Financing right of use asset	108	50	65	120	107	107
PP&E	12,071	12,022	11,186	10,424	10,652	11,080
Deferred Tax Asset	0	0	163	0	0	0
Intangible Assets	1,990	1,772	1,549	1,269	1,225	1,225
Goodwill	2,579	2,579	2,579	2,579	2,579	2,579
Total Assets	\$ 52,248	\$ 48,323	\$ 48,038	\$ 53,930	\$ 64,124	\$ 74,456
A/P	2,634	1,179	1,823	2,956	2,292	2,406
Accrued liabilities	2,089	1,197	1,872	3,574	3,751	3,937
Financing lease	59	39	30	54	52	52
Income tax payable	403	0	0	205	215	226
Current Liabilities	\$ 5,185	\$ 2,415	\$ 3,725	\$ 6,788	\$ 6,310	\$ 6,621
Deferred Tax Liability	439	523	136	489	701	701
Financing Lease Liability	52	13	36	68	57	57
Equity	46,572	45,372	44,141	46,584	57,057	67,077
Total Equity & Liab.	\$ 52,248	\$ 48,323	\$ 48,038	\$ 53,930	\$ 64,124	\$ 74,456
	FY 19	FY 20	FY 21	FY 22	FY 23E	FY 24E
Net	2,021	(2,176)	(1,052)	3,948	9,373	9,128
D&A	1,467	1,177	1,256	1,101	691	572
Stock issued for services	391	443	567	815	892	892
Other	201	(123)	(176)	(240)	(11)	0
Working Capital	3,633	943	54	(5,107)	(5,762)	(1,379)
Operating Cash Flow	\$ 7,713	\$ 264	\$ 649	\$ 516	\$ 5,183	\$ 9,213
Other	1,611	3,314	(649)	612	(293)	0
Acquisition	(4,384)	0	0	0	0	0
CapEx	(4,665)	(1,547)	(169)	(601)	(904)	(1,000)
Investing Activities	\$ (7,437)	\$ 1,767	\$ (818)	\$ 11	\$ (1,196)	\$ (1,000)
Equity	(2,977)	(153)	(795)	(1,341)	(243)	0
Lease Liability	(74)	(58)	(41)	(34)	(7)	0
Financing Activities	\$ (3,050)	\$ (210)	\$ (836)	\$ (1,375)	\$ (249)	\$ -
FX	31	(31)	45	45	9	0
Change in Cash	\$ (2,743)	\$ 1,789	\$ (960)	\$ (804)	\$ 3,746	\$ 8,213

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
- Update – Buy – August 8, 2022 – Price Target \$2.00
- Update – Buy – September 22, 2022 – Price Target \$2.00
- Update – Buy – October 11, 2022 – Price Target \$2.00
- Update – Buy – November 4, 2022 – Price Target \$2.00
- Update – Buy – December 20, 2022 – Price Target \$2.00
- Update – Buy – May 11, 2023 – 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.

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.

Current as of 1-May-23

	Company Coverage		Investment Banking	
Ratings Distribution	# of Companies	% of Total	# of Companies	% of Totals
Market Outperform (Buy)	26	72%	2	6%
Market Perform (Neutral)	10	28%	1	3%
Market Underperform (Sell)	0	0%	0	0%
Total	36	100%	3	9%

Analyst Certification:

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