



Profire Energy, Inc. (OTCQB: PFIE)

February 21, 2014
Target Price: \$6.20
Recent Price: \$3.85

Market Data

| | |
|--------------------------|-----------|
| Fiscal Year | March 31 |
| Industry | Oil & Gas |
| Market Cap | \$184.2 |
| Price/Earnings (ttm) | 32.7x |
| Price/Book (mrq) | 9.1x |
| Price/Sales (ttm) | 5.6x |
| EV/EBITDA (ttm) | 20.3x |
| ROE (ttm) | 36.2% |
| Insider Ownership | 73.7% |
| Institutional Ownership | 0.0% |
| Shares Outstanding | 47.8M |
| Float | 10.3M |
| Avg. Daily Vol. (3 mos.) | 21,493 |

As of February 20, 2014

Income Snapshot

| | TTM | YoY Change |
|------------------|---------|---------------|
| Revenue | \$31.3M | 105.6% |
| Gross Profit | \$17.2M | 93.2% |
| Gross Margin | 54.9% | -3.53pts |
| Operating Income | \$8.5M | 430.0% |
| Operating Margin | 17.3% | 16.65pts |
| Net Income | \$5.4M | 345.1% |
| Net Margin | 17.3% | 9.30pts |

Balance Sheet Snapshot

| | 3QFY14 |
|------|--------|
| Cash | \$5.7M |
| Debt | \$0.0M |

Record 3QFY14 revenue and cash; expecting strong growth in U.S. operations

Record 3QFY14 revenue driven by further growth in U.S. operations. In 3QFY14, PFIE reported record revenue of \$9.5 million (169% increase YoY) and net income of \$1.2 million (470% increase YoY). Revenue from U.S. operations was \$5.2 million, representing YoY and QoQ growth of 353.9% and 6.2%, respectively, and revenue from Canadian operations was \$4.3 million, representing YoY and QoQ growth of 79.7% and -2.7%, respectively. Going forward, we expect U.S. operations to continue to drive revenue growth, a result of the Company's sales team expansion over the past few months. PFIE expects to have a sales team of approximately 20 individuals and has expanded its footprint throughout the U.S. PFIE now has offices in Lindon, Utah, Houston, Texas, Oklahoma City, Oklahoma, and a satellite office in the Pennsylvania/New York region.

Non-cash stock-based compensation lowers net income in 3QFY14.

Stock options issued to executives during 3QFY14 totaled \$668,587, leading to an increase in general and administrative (G&A) expenses during the quarter. We do not expect this to recur in 4QFY14E; instead, we expect G&A expenses to decline to approximately \$1.4 million for the quarter.

Strong cash balance of \$5.7 million with no debt. As of December 31, 2013, PFIE had cash of \$5.7 million and was debt free. This position, along with the Company's strong net income, provides cash to expand both the Company's sales and marketing and research and development efforts. Along with the U.S. expansion mentioned above, PFIE is hoping to bring additional products to market in 2014, which includes products addressing energy-generation, valve technologies, and other potential needs.

Maintaining price target at \$6.20. We are applying a P/E of 30x (3.5% discount to the peer group median) to our forward EPS estimate of \$0.21.



| Name | Ticker | Price | Market Cap (M) | P/E (ttm) | Fwd. P/E | P/S (ttm) | P/B (mrq) | Rev. (ttm) | EV/EBITDA (ttm) | Fwd. Revs. | Rev YoY Growth |
|------------------------|-------------|-------------|----------------|--------------|--------------|-------------|-------------|--------------|-----------------|--------------|----------------|
| Greenhunter Resources | GRH | 1.07 | 36.16 | N/A | N/A | 1.0x | N/A | 33.92 | N/A | 58.59 | 1444.3% |
| Forbes Energy Services | FES | 3.47 | 74.51 | N/A | N/A | 0.2x | 0.8x | 411.20 | 5.8x | 434.65 | 6.0% |
| Global Geophysical | GGG | 1.45 | 55.27 | N/A | N/A | 0.2x | 1.7x | 272.08 | 4.3x | N/A | -12.0% |
| T.G.C. Industries | TGE | 6.88 | 150.98 | 66.6x | 14.0x | 0.9x | 2.3x | 172.86 | 4.6x | 187.35 | 30.0% |
| Mitcham Industries | MIND | 14.79 | 189.28 | 31.1x | 14.7x | 2.0x | 1.2x | 96.86 | 4.4x | N/A | -7.2% |
| Natural Gas Services | NGS | 33.06 | 410.10 | 27.7x | 22.8x | 4.5x | 1.8x | 89.65 | 9.6x | 104.70 | 43.8% |
| <i>Median</i> | | | 112.74 | 31.1x | 14.7x | 1.0x | 1.7x | 134.9 | 4.6x | 146.0 | 18.0% |
| <i>Average</i> | | | 152.72 | 41.8x | 17.2x | 1.5x | 1.6x | 179.4 | 5.7x | 196.3 | 250.8% |
| Profire Energy | PFIE | 3.85 | 184.17 | 32.7x | 18.6x | 5.6x | 9.1x | 31.34 | 20.3x | 47.87 | 105.6% |

As of February 20, 2014

Source: Bloomberg, RedChip Estimates



| | 1QFY13 | 2QFY13 | 3QFY13 | 4QFY13 | FY13 | 1QFY14 | 2QFY14 | 3QFY14 | 4QFY14E | FY14E | 1QFY15E | 2QFY15E | 3QFY15E | 4QFY15E | FY15E |
|---|------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|
| Sales of goods, net | 3,451,507 | 4,095,452 | 3,176,627 | 5,015,980 | 15,740,546 | 8,940,062 | 8,940,062 | 8,999,070 | 9,943,981 | 34,722,074 | 10,854,080 | 11,755,646 | 12,642,236 | 13,534,852 | 48,789,814 |
| Sales of services, net | 225,766 | 283,141 | 364,434 | 273,380 | 1,146,721 | 342,619 | 402,394 | 531,767 | 587,666 | 1,864,446 | 641,451 | 694,908 | 747,126 | 799,878 | 2,883,363 |
| United States | 741,851 | 1,174,414 | 1,154,970 | 2,838,556 | 5,909,791 | 4,383,218 | 4,936,505 | 5,242,662 | 6,029,094 | 20,591,489 | 6,812,865 | 7,630,409 | 8,468,754 | 9,316,729 | 32,229,758 |
| Canada | 2,935,422 | 3,205,179 | 2,386,091 | 2,450,784 | 10,977,476 | 2,798,362 | 4,405,951 | 4,288,155 | 4,802,563 | 15,995,031 | 4,682,865 | 4,823,145 | 4,919,608 | 5,018,000 | 19,443,419 |
| Total Revenue | 3,677,273 | 4,379,593 | 3,541,061 | 5,289,340 | 16,887,267 | 7,181,560 | 9,342,456 | 9,530,837 | 10,531,647 | 36,586,520 | 11,495,531 | 12,453,554 | 13,389,362 | 14,334,730 | 51,671,177 |
| Cost of Goods Sold-Product | 1,327,716 | 1,950,355 | 1,050,966 | 2,705,666 | 7,034,703 | 2,724,480 | 3,550,640 | 3,894,002 | 4,077,032 | 14,246,154 | 4,341,632 | 4,703,458 | 5,056,894 | 5,413,941 | 19,515,925 |
| Cost of Goods Sold- Services | 172,720 | 211,312 | 313,442 | 345,820 | 1,043,294 | 288,197 | 232,250 | 418,594 | 398,918 | 1,317,959 | 371,536 | 402,489 | 432,744 | 463,298 | 1,670,077 |
| Gross Profit | 2,176,837 | 2,217,926 | 2,176,653 | 2,237,854 | 8,809,270 | 4,188,903 | 5,559,566 | 5,218,241 | 6,055,697 | 21,022,407 | 6,782,363 | 7,347,597 | 7,899,724 | 8,457,491 | 30,487,174 |
| Operating Expenses: | | | | | | | | | | | | | | | |
| General and Administrative Expenses | 1,003,160 | 903,225 | 1,339,676 | 513,542 | 3,798,075 | 839,123 | 1,259,192 | 1,977,911 | 1,369,114 | 5,445,340 | 1,494,419 | 1,618,962 | 2,410,085 | 1,863,515 | 7,386,981 |
| Research and Development | 0 | 0 | 38,472 | 0 | 95,930 | 155,089 | 138,691 | 138,691 | 168,506 | 559,216 | 183,928 | 199,257 | 214,230 | 229,356 | 826,771 |
| Payroll Expenses | 372,353 | 329,302 | 1,144,024 | 811,083 | 2,656,762 | 835,076 | 930,993 | 946,878 | 1,053,165 | 3,766,112 | 1,149,553 | 1,245,355 | 1,338,936 | 1,433,473 | 5,167,318 |
| Depreciation Expense | 46,458 | 64,468 | 116,678 | (32,534) | 195,070 | 61,328 | 65,597 | 78,685 | 81,685 | 287,295 | 84,685 | 90,685 | 90,685 | 93,685 | 356,740 |
| Total Operating Expenses | 1,421,971 | 1,296,995 | 2,638,650 | 1,292,091 | 6,649,907 | 1,831,457 | 2,410,871 | 3,143,165 | 2,672,470 | 10,057,963 | 2,912,586 | 3,151,259 | 4,053,936 | 3,620,029 | 13,757,810 |
| Income from Operations | 754,866 | 920,931 | (462,197) | 945,763 | 2,159,363 | 2,357,446 | 3,148,695 | 2,075,076 | 3,383,227 | 10,964,444 | 3,869,777 | 4,196,338 | 3,845,787 | 4,837,462 | 16,749,365 |
| Other Income (Expense): | | | | | | | | | | | | | | | |
| (Loss) gain on sale of fixed assets | 0 | 0 | 0 | 0 | (13,936) | 0 | 1,617 | 0 | 0 | 1,617 | 0 | 0 | 0 | 0 | 0 |
| Interest Expense | (1,252) | (7,426) | (4,493) | 4,733 | (8,438) | (10,467) | (100) | 0 | 0 | (10,567) | 0 | 0 | 0 | 0 | 0 |
| Rental Income | 0 | 0 | 0 | 0 | 629 | 615 | 1,575 | 311 | 311 | 2,812 | 311 | 311 | 311 | 311 | 1,244 |
| Interest Income | 69 | 8,246 | 13,074 | 4,553 | 25,942 | 801 | 7,565 | 1,544 | 1,544 | 11,454 | 1,544 | 1,544 | 1,544 | 1,544 | 6,176 |
| Total Other Income (Expense) | (1,183) | 820 | 8,581 | 9,286 | 4,197 | (9,051) | 10,657 | 1,855 | 1,855 | 5,316 | 1,855 | 1,855 | 1,855 | 1,855 | 7,420 |
| Net Income before Income Taxes | 753,683 | 921,751 | (453,616) | 955,049 | 2,163,560 | 2,348,395 | 3,159,352 | 2,076,931 | 3,385,082 | 10,969,760 | 3,871,632 | 4,198,193 | 3,847,642 | 4,839,317 | 16,756,785 |
| Income Tax Expense | 187,948 | 276,621 | (127,347) | 393,683 | 730,905 | 734,411 | 1,109,803 | 870,625 | 1,184,779 | 3,939,416 | 1,355,071 | 1,469,367 | 1,346,675 | 1,693,761 | 5,864,875 |
| Net Income | 565,735 | 645,130 | (326,269) | 561,366 | 1,432,655 | 1,613,984 | 2,049,549 | 1,206,306 | 2,200,303 | 7,130,344 | 2,516,561 | 2,728,825 | 2,500,968 | 3,145,556 | 10,891,910 |
| Basic Earnings per share | 0.01 | 0.01 | (0.01) | 0.01 | 0.03 | 0.04 | 0.05 | 0.03 | 0.05 | 0.15 | 0.05 | 0.06 | 0.05 | 0.07 | 0.23 |
| Fully diluted earnings per share | 0.01 | 0.01 | (0.01) | 0.01 | 0.03 | 0.04 | 0.04 | 0.03 | 0.05 | 0.15 | 0.05 | 0.06 | 0.05 | 0.07 | 0.23 |
| Basic weighted average number of shares outstanding | 45,030,989 | 45,078,587 | 45,155,000 | 45,155,000 | 45,109,767 | 45,250,000 | 45,289,301 | 46,560,913 | 47,836,428 | 46,234,161 | 47,836,428 | 47,836,428 | 47,836,428 | 47,836,428 | 47,836,428 |
| Fully diluted weighted average number of shares outstanding | 45,128,972 | 45,460,439 | 45,155,000 | 45,155,000 | 45,371,959 | 45,727,737 | 45,905,364 | 46,973,885 | 48,249,400 | 46,714,097 | 48,249,400 | 48,249,400 | 48,249,400 | 48,249,400 | 48,249,400 |
| U.S. Rev Growth Rate QoQ | 22.68% | 58.31% | -1.66% | 145.77% | | 54.42% | 12.62% | 6.20% | 15.00% | | 13.00% | 12.00% | 11.00% | 10.00% | |
| U.S. Rev Growth Rate YoY | 20.17% | 26.82% | 32.62% | 53.67% | 35.00% | 61.03% | 52.84% | 55.01% | 57.25% | 248.43% | 55.43% | 54.57% | 61.55% | 64.99% | 56.52% |
| U.S. % of Revenue | -3.61% | 9.19% | -25.56% | 2.71% | | 14.18% | 57.45% | -2.67% | 5.00% | 56.28% | 59.27% | 61.27% | 63.26% | 64.99% | 62.37% |
| Canada Rev Growth Rate QoQ | 9.38% | -29.13% | -50.76% | -19.52% | -27.09% | -4.67% | 37.46% | 79.71% | 83.72% | 45.71% | 67.34% | 9.47% | 14.73% | 11.45% | 21.56% |
| Canada Rev Growth Rate YoY | 79.83% | 73.18% | 67.38% | 46.33% | 65.00% | 38.97% | 47.16% | 44.99% | 42.75% | 43.72% | 40.73% | 38.73% | 36.74% | 35.01% | 37.63% |
| Canada % of Revenue | 59.20% | 50.64% | 61.47% | 42.31% | 52.17% | 58.33% | 59.51% | 54.75% | 57.50% | 57.46% | 59.00% | 59.00% | 59.00% | 59.00% | 59.00% |
| Gross Margin | 27.28% | 20.62% | 37.83% | 9.71% | 22.49% | 11.68% | 13.48% | 20.75% | 13.00% | 14.88% | 13.00% | 13.00% | 18.00% | 13.00% | 14.30% |
| G&A % of Revenue | 10.13% | 7.52% | 32.31% | 15.33% | 15.73% | 11.63% | 9.97% | 9.93% | 10.00% | 10.29% | 16.0% | 1.60% | 1.60% | 1.60% | 1.60% |
| Payroll % of Revenue | 20.53% | 21.03% | -13.05% | 17.88% | 12.79% | 32.83% | 33.70% | 21.77% | 32.12% | 29.97% | 33.66% | 33.70% | 28.72% | 33.75% | 32.41% |
| Operating Margin | 24.94% | 30.01% | 28.07% | 41.22% | 33.78% | 31.27% | 35.13% | 41.92% | 35.00% | 35.00% | 35.00% | 35.00% | 35.00% | 35.00% | 35.00% |
| Income Tax % | 15.38% | 14.73% | -9.21% | 10.61% | 8.48% | 22.47% | 21.94% | 12.66% | 20.89% | 19.49% | 21.89% | 21.91% | 18.68% | 21.94% | 21.08% |
| Net Margin | | | | | | | | | | | | | | | |



Additional Information

Auditor: Sadler, Gibb & Associates LLC
Legal Counsel: Poulton & Yordan
Transfer Agent: OTC Stock Transfer, Inc.

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Company Contact Info:

*Profire Energy, Inc.
321 South 1250 West, Suite 1
Lindon, UT 84042
Phone: (801) 796-5127
Website: www.profireenergy.com*

Investor Contact Info:

*Brendan Hopkins, Specialist
RedChip Companies, Inc.
500 Winderley Place, Suite 100
Maitland, FL 32751
Phone: (407) 644-4256, ext. 134
Website: www.redchip.com*