Cactus, Inc. (NYSE: WHD)
Q2 2019 Earnings Call Transcript
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Call Participants

EXECUTIVES

Scott Bender
President, CEO & Director
Stephen Tadlock
Vice President, Chief Financial Officer and Treasurer
Joel Bender
Senior Vice President, COO & Director
Steven Bender
Vice President, Operations
David Isaac
Vice President of Administration and General Counsel
John Fitzgerald
Director of Corporate Development and Investor Relations

ANALYSTS

J. Marshall Adkins
Raymond James & Associates, Inc.
Chase Mulvehill
Bank of America, Merrill Lynch
Scott A. Gruber
Citigroup Inc
George O'Leary
Tudor, Pickering, Holt & Co Securities
Connor Lynagh
Morgan Stanley & Co. LLC
Tommy Moll
Stephens, Inc.
Sean C. Meakim
JPMorgan Securities, LLC

Presentation

Operator
Good morning. My name is Felicia, and I will be your conference operator today. At this time, I would like to welcome everyone to the Cactus Q2 2019 Earnings Call. All lines have been placed on mute to prevent any background noise. After the speakers' remarks, there will a question-and-answer session. [Operator Instructions] Thank you.

Mr. John Fitzgerald, you may begin your conference.

John Fitzgerald
Director of Corporate Development and Investor Relations
Thank you, and good morning everyone. We appreciate your participation in today's call. The speakers on today's call will be Scott Bender, our Chief Executive Officer and Steve Tadlock, our Chief Financial Officer. Also joining us today are Joel Bender, Senior Vice President and Chief Operating Officer, Steven Bender, Vice President of Operations, and David Isaac, our General Counsel and Vice President of Administration.

Yesterday afternoon, we issued our second quarter earnings release, which is available on our website. Please note that any comments we make on today's call regarding projections or our expectations for future events are forward-looking statements covered by the Private Securities Litigation Reform Act.

Forward-looking statements are subject to a number of risks and uncertainties, many of which are beyond our control. These risks and uncertainties can cause actual results to differ materially from our current expectations. We advise listeners to review our earnings release and the risk factors discussed in our filings with the SEC. Any forward-looking statements we make today are only as of today's date, and we undertake no obligation to publicly update or review any forward-looking statements.

In addition, during today's call, we will reference certain non-GAAP financial measures. Reconciliations to these non-GAAP measures to the most directly comparable GAAP measures are included in our earnings release. With that, I will turn the call over to Scott.

Scott Bender
President, CEO & Director
Thanks, John and good morning to everyone. I am pleased to report record second quarter results, having delivered top line sequential growth of over 6% and all-time revenue highs in each of our three business lines. Our growth significantly exceeded the trajectory of the U.S. land rig count, which was down 6% sequentially in the second quarter.

During the period, average U.S. market share in our Products business, which we define as percentage of onshore rigs followed, increased from 29.1% to 29.4%. Furthermore, we maintained our overall margin profile despite the softening macro environment.

In summary:

- Revenues increased 6.1% sequentially;
- Adjusted EBITDA increased 6.2% sequentially;
- Adjusted EBITDA margins were 37.2%;
- Operating cash flow was $64m; and
- ROCE was in excess of 47%.

I'll now turn the call over to Steve Tadlock, our CFO, who will review our second quarter financial results. Following his remarks, I'll provide some thoughts on our outlook for the near-term before opening the lines for Q&A. Steve?

Steve Tadlock
Vice President, Chief Financial Officer and Treasurer
Thanks, Scott. As mentioned, Q2 revenues of $168 million were 6% higher sequentially and up 22% year-over-year.

Product revenues were a record $94 million, 29% higher than in Q2 2018 and 9% higher sequentially, despite the decline in the U.S. onshore rig count. This revenue growth was achieved given greater equipment sales relative to rigs followed, a result of more wells being completed and put into production. Product gross margins increased modestly on a sequential basis to 39% of revenues due to leverage of our fixed cost base.

Rental revenues were a record $40 million, up slightly from the first quarter. Growth was partially attributable to continued investments in our asset base as well as the initial impact from our new innovations. Rental gross profit margins declined 290 basis points sequentially due to higher depreciation expense and higher repair expenses as a percent of rental revenue. We expect these repair costs to moderate in the coming quarters, commensurate with lower anticipated completion activity.

Field service and other revenues in Q2 were $34 million, up 2% from the first quarter. This represented approximately 26% of combined product and rental related revenues during the quarter, which is lower than our typical ratios given the impact of our rental innovations, which utilize existing field service personnel and the higher level of product revenues during the quarter. As a reminder, Product revenues tend to have lower associated field service revenues than that of our legacy rental business. In Q3, we would expect this ratio to be in the range of 25 to 26%.

SG&A at $13.3 million for the quarter was $600,000 higher than during 1Q 2019. The sequential increase arose primarily from higher stock-based compensation expense from a full quarter impact of annual grants made in March and incentive compensation accruals associated with our strong performance during the first half of the year. We would expect SG&A in 3Q19 to be approximately $13 million, with stock-based compensation expense running at slightly under $2 million per quarter for the remainder of 2019.

Depreciation & Amortization expense during the quarter totaled $9.4 million, up $0.5 million sequentially. We currently expect third quarter depreciation expense to be closer to $10 million.

Second quarter Adjusted EBITDA was nearly $63 million. This was 14% greater than the equivalent period last year and up 6% sequentially. Adjusted EBITDA for the quarter represented 37% of revenues, similar to the first quarter.

Our public ownership was relatively stable in 2Q and was 63% at the end of the quarter. This should result in an effective tax rate of approximately 15% in Q3, barring further changes in our public ownership percentage.

GAAP Net income was $41 million in Q2 2019, which was inclusive of an additional non-cash tax expense during the quarter. Internally, we prefer to look at adjusted Net Income and earnings per share, as it assumes the public entity held all units, with the resulting additional income tax expense related to the incremental income attributable to Cactus, Inc. With fully diluted shares outstanding of approximately 75 million and an effective tax rate of 24%, our adjusted earnings per share this quarter was $0.52 per share, compared to $0.49 per share in Q1 2019, an increase of 6%. We estimate that adjusted EPS in Q3 will continue to have an effective tax rate of 24.0%.

Our cash position increased by over $43 million during the second quarter to $131 million at June 30th, highlighting the strong free cash flow generation of the company. For the quarter, operating cash flow was $64 million, and our net capex spend was $15 million.

Net working capital was a source of cash despite the increase in revenue during the quarter. While accounts receivable increased by $5 million sequentially, DSO declined to 61. Additionally, while inventories increased, they did not increase at the same rate as our Product revenue with Inventory Days Outstanding declining to approximately 175. Net working capital at the end of the second quarter expressed as a percentage of Q2 annualized revenues was 24%, down slightly from the first quarter. We would expect working capital as a percentage of revenues to be relatively stable as the year progresses consistent with our typical levels averaging 25%.

Given the uncertainty regarding drilling and completion activity in the second half of the year, we are reducing our 2019 capital expenditure budget by approximately $10 million to the range of $50 to $60 million. The majority of our capex will still be directed toward growth capital in our Rental business. For the second half of the year we currently expect roughly half of our rental capex to be directed toward the build out of our fleet of new rental innovations. The success of these innovations in the field has given us the confidence to move a portion of the associated capex to our longer lead time and lower cost supply chain.

During the third quarter we expect to make total tax related payments of approximately $10 million, inclusive of the TRA liability. This payment represents 85% of the cash tax savings that accrued to Cactus, Inc. resulting from our Up-C structure. All in all, we expect the third quarter to be another strong quarter of cash generation.

That covers the financial review and I will now turn you back to Scott.

Scott Bender
President, CEO & Director
Thank you, Steve.

Despite declining drilling activity, the second quarter highlighted the breadth of our customer base and our participation in the industry from drilling through completions to production. That said, the U.S. land rig count has continued to move lower in the third quarter, and recent volatility in crude oil prices will no doubt serve to reinforce our customers' focus on capital discipline. We currently expect Cactus' rigs followed to be down approximately 5% sequentially for the third quarter, although based on preliminary results through July, we would not anticipate the impact to Product revenues to be as pronounced. Due largely to the impact of additional Section 301 tariffs implemented in May, we expect Product margins to be down low single digits sequentially, less severe than we previously anticipated. As noted during our last earnings call, while we have yet to make any significant breakthroughs with the major international oil companies, we've managed to grow our market share in an environment where the companies to which we are most exposed, the large public E&Ps, have been disproportionately impacted by calls for capital discipline; a reflection of our ability to win new business.

On the Rental side of the business, completion activity outperformed the rig count during the first half of the year reflecting a drawdown of the DUCs that were added in the latter part of 2018. During the third quarter, we would expect Rental revenue to trend in-line with the trajectory of U.S. onshore drilling activity, though we are hopeful the continued adoption of our new innovations will lead to outperformance.

Regarding our new completions innovations, I am pleased to take this opportunity to provide a bit more color on a few of these offerings. Let me start by saying that we have been working with our customers to improve efficiencies at the wellsite in order to drive down overall well costs, complete more stages per day, and improve safety. This comes in the form of reducing the amount of time waiting between the various operations at the wellsite, reducing the amount of time needed to maintain equipment at the wellsite, and reducing the amount of equipment needed to support frac operations.

I'll start with our SafeInject system, which effectively reduces or eliminates the non-productive time associated with the maintenance of the flow control equipment installed on a frac location. SafeInject, like many of our new innovations, is controlled using an HMI control panel outside of the exclusion zone. The

system maintains our equipment, gathers useful data on valve performance and positions our business toward automated maintenance.

Our SafeLink system provides a singular & continuous large bore connection from the missile to the frac stack. Traditionally, numerous small diameter lines are individually hammered into place, requiring excessive time to install and remove. Such connections are susceptible to leaks and sustain costly damage. Our large diameter connection allows for high flow rates, maintaining the integrity of the connection and limiting equipment wear. In contrast to competing solutions, the system provides a singular connection to multiple wells, eliminating the time and safety hazard associated with transferring connections between multiple wells on a single pad. Finally, we have been able to leverage our field-proven wellhead technology to minimize the rig-up and rig down time associated with installing the system, saving the operator hours on site. This system occupies minimal real estate, is adaptable to any pad size or layout, and we believe it is far more cost-effective than competing solutions. It is our belief that the industry will move toward a model where hammered iron is obsolete.

Our SafeClamp system was developed based on customer requests for a more reliable method to connect the wireline lubricator to the frac tree without the need for human intervention within the exclusion zone. On a typical frac site, employees in a man basket will make connections between the wireline equipment and the frac tree. Utilizing our SafeClamp system, operators can more quickly transfer between well-bores and reduce time spent waiting on transitions. Our expertise in flow control connections has enabled us to develop a solution that our customers have indicated is not only more reliable than competitive offerings but also safer. Thus, while this equipment makes up a very small portion of the well cost, it translates into significant time savings and the ability to complete more stages per day. Importantly, by bundling these offerings with our legacy rental products, our customers avoid incurring additional personnel costs to operate and maintain competing solutions.

While we have other innovations currently in development, these are just three which we believe will ultimately lead to significant reductions in personnel and non-productive time, including the time spent by pressure pumpers repositioning their spreads.

Moving on to Field Service, this segment continues to be driven by both Product and Rental activity. As mentioned previously, one of the many benefits for customers utilizing our new completions innovations is that they are able to limit the amount of additional personnel at the wellsite, as Cactus associates servicing our legacy rental equipment are able to operate & maintain these new innovations. In light of this, we would expect revenue from Field Service to be in the range of 25 to 26% of our combined Product and Rental revenue during the third quarter.

Clearly, our free cash flow generation was strong during the quarter, as we added $43 million of cash from the end of Q1. Working capital had been a drag on cash during the last several quarters, and we believe the second quarter demonstrated the cash flow potential of the company during times of more moderate growth.

We continue to evaluate capital allocation in light of our enviable cash position and expectations for further free-cash flow generation. However, the potential impact on other equipment service providers from anticipated weakness in North American activity compels us to exercise patience as we evaluate where best to deploy cash.

I'd like to reiterate that we remain more closely aligned with our shareholders than the management teams of our public company peers and continue to generate returns well in excess of our cost of capital, as evidenced by our best-in-class Return on Capital Employed of over 45% during the quarter. Despite mixed commentary from our peers regarding the North American land market, we have shown the ability to generate record results in the current environment, and we believe we will continue to outperform. With that, I will turn it back over to the Operator so that we may begin Q&A. Operator?

Question and Answer

Operator
[Operator Instructions] We'll pause for just a moment to compile the Q&A roster and please remember to limit your questions to one and one follow-up question. Your first question comes from Marshall Adkins.

Marshall Adkins
Raymond James & Associates, Inc.
Good morning guys.

Scott Bender
President, CEO & Director
Good morning, Marshall.

Marshall Adkins
Raymond James & Associates, Inc.
So, pretty darn solid performance here. Help us understand – so the overall rig count in the U.S. down 6%. You guys are down like 4.5% of the rigs you follow, but revenue is up 9%. So, I know there's probably a product mix thing going on here where you're selling more stuff related to completions. But help us understand what happened there because that's substantial outperformance and looking forward does that change back or are you going to be able to continue putting up that type of the mix change?

Scott Bender
President, CEO & Director
So, I'll let you know, I'll ask Steve Tadlock to chime in when he feels it's appropriate, but let me answer your second question first, Marshall. Our indication is through July where that we'll be able to maintain our revenue per rig, our product revenue per rig despite the fact that it was – it went up so much in the second quarter. So, I think we can assuage your concerns in that regard.

In terms of why it went up so much, you're right, it has to do with product mix. We also feel like it has to do with rig efficiencies as the rigs we're following are drilling more wells.

Marshall Adkins
Raymond James & Associates, Inc.
Okay. And what type or help us with the product mix. Was it more production trees or production valves or – help us understand what the mix change was.

Scott Bender
President, CEO & Director
I think it's two things, Marshall, it's higher pressure and more production trees.

Marshall Adkins
Raymond James & Associates, Inc.
Okay. And my second one kind of unrelated. Obviously, we're all looking at the tariff thing and it seems like your competitors are in much worse position than you to deal with tariff increases. How do you see that playing out? It seems like you're going to be better positioned to handle that. They're going to be forced to increase prices. So, should we expect prices overall to go up and you to benefit versus your competitors or – just tell us what your thoughts are on that?

Scott Bender
President, CEO & Director
Well, Marshall, do we have many competitors listening to this call? No, we're concerned about giving you this answer. I think we're – I mean, I'm very proud of our supply chain. I think Joel does a most remarkable job in the industry. So, I do think that we're handling the tariffs I think much more effectively than our peers. And I do expect that as the market begins to maybe be a little bit more conducive to an increase, there will be no choice but to see an overall increase in the price of wellhead equipment and

associated API 6A products going forward. So, to the extent we continue to do the job we've done in the past, I would hope that we would outperform.

Operator
Your next question comes from Chase Mulvehill.

Scott Bender
President, CEO & Director
Hey Chase.

Chase Mulvehill
Bank of America Merrill Lynch
Hey. Good morning. So, I may have missed this but did you give rental margin guidance for 3Q?

Stephen Tadlock
Vice President, CFO
Hi, Chase. We didn't say anything too specific but we would expect it to be broadly in line with Q2.

Chase Mulvehill
Bank of America Merrill Lynch
Okay. All right. And then appreciate all the color that we've all been waiting for on the new product rollouts on the rental side. I don't know, now that you've kind of disclosed this a little bit, I don't know if you want to share with us the potential addressable markets and maybe when we think about how you get market penetration into the back half of the year and maybe quantify that for us on the revenue contribution in the back half from the new product rollouts?

Scott Bender
President, CEO & Director
Okay. So I'd say that we're seeing a steady increase in our innovation related rental revenues and that we are comfortably on pace to meet the figures that we discussed during the last earnings call, the exit rate. In terms of penetration of the market – I'm sorry, in terms of the addressable market size, it's at least as large – I've said this before. It's at least as large as our legacy rental market. So, if we look at a pad that has a full suite of our innovations on it in addition to our legacy product, the innovations account for more than 50% of the total revenue per day.

In terms of the speed at which – we're rolling it out comfortably. These are new products for us. We're a little bit more careful maybe than some others. And I'm happy with the pace. As I said, we'll meet our objectives that we discussed earlier.

Chase Mulvehill
Bank of America Merrill Lynch
Okay. All right. That's helpful. Appreciate the color here. The last one is just on the tariffs. It looks like the tariff impact like you said is going to be a little bit less in the back half of the year. Can you kind of help us connect the dots here? I don't know if there is any waivers or anything that maybe you were successful on or maybe it's the foreign exchange and maybe if you've decided at this point to hedge out any FX risk?

Scott Bender
President, CEO & Director
Chase, it's a little bit of all of those things. It's FX. It's better supply chain management. And yes, we did – we have locked in some more favorable FX rates. But it really is – it's also talking to customers. It's a combination of all those things, same things we did at the end of last year, same sort of playbook.

Chase Mulvehill
Bank of America Merrill Lynch

Okay. All right. Well that's all I had. I'll turn it back over.

Operator
Your next question comes from Scott Gruber.

Scott Gruber
Citigroup Global Markets, Inc.
Yes. Good morning.

Scott Bender
President, CEO & Director
Good morning Scott.

Stephen Tadlock
Vice President, CFO & Treasurer
Good morning.

Scott Gruber
Citigroup Global Markets, Inc.
Good morning. Just on the outlook for rental, the trend in line with drilling activity if I heard that right, is that inclusive of the benefit of the new innovations or is that legacy and exclusive of the benefit?

Scott Bender
President, CEO & Director
I think that our legacy equipment will probably trend with the rig count and the innovations will be accretive.

Scott Gruber
Citigroup Global Markets, Inc.
Got you. Got you. And I think I heard you right that the expectation by year end you originally gave us a guide that the new innovations would be 20-plus percent of the revenue profile. Is that still valid?

Scott Bender
President, CEO & Director
Yes. I wish I knew what the completion profile in the industry was going to be in Q4 but we're all expecting a little bit of a repeat of the budget exhaustion although I feel pretty good about Q1 2020.

Scott Gruber
Citigroup Global Markets, Inc.
Got you. And just stepping back, can you just discuss the pros and cons of utilizing a rental model with the new technology and not a sales model?

Scott Bender
President, CEO & Director
The obvious, Scott, you sell it one time, you're in it over and over and over again. And in our particular case, of course because we're not constrained by cash, we would prefer to invest in these rental assets and enjoy the proceeds over extended number of years.

Scott Gruber
Citigroup Global Markets, Inc.
And you think there's additional IP protection around the rental model or it doesn't matter at all?

Scott Bender
President, CEO & Director
Well, I think it matters much more in terms of these innovations. And so, I think we've mentioned before that we're heavily engaged in IP for the three offerings that we discussed today at least.

Operator
Your next question comes from the line of George O'Leary.

George O'Leary
Tudor, Pickering, Holt & Co.
Good morning guys.

Scott Bender
President, CEO & Director
Hey George.

George O'Leary
Tudor, Pickering, Holt & Co.
You all ran through the three new technologies which was super helpful. I was just wondering if you could frame for us that you did it for some of the other products you offer, which of the three offer the greatest level of efficiencies or maybe reduce nonproductive time and maybe quantify that in an hour's perspective? Any of that would be super helpful.

Scott Bender
President, CEO & Director
It's a pretty detailed question, George, but I'd say that being able to maintain flow control equipment remotely, continuously, and outside of the exclusion zone, probably provides the greatest near-term reduction in NPT of all the innovations.

I'd say, next would be our SafeClamp which is the way that many people have a device similar to this. We happen to think ours is significantly more robust and reliable and safer. I'd say that probably comes second and then the ability to remove chiksan and hardline is, clearly the installation time is greatly reduced, the maintenance is greatly reduced, the failure rate has greatly reduced, but unless you have a failure, you're probably not going to see the savings.

George O'Leary
Tudor, Pickering, Holt & Co.
Okay, great. That's very helpful, Scott and then just – secondly, as you think through the plan going forward, and I realize now may not be the time to be coming up with brand new widgets but you guys are always innovating, what are your customers coming to you and asking you guys for help on. And you guys have a good relationship with your customers and are constantly in dialogue with them. I think that's how a lot of these innovations come about via that dialogue. So, what's kind of leading-edge discussion with customers where do they need help?

Scott Bender
President, CEO & Director
Yeah, George. I'm probably not going to respond to that question

George O'Leary
Tudor, Pickering, Holt & Co.
Fair enough. I'll sneak in one more if I could then.

Operator
And your next question comes from Connor Lynagh.

Connor Lynagh
Morgan Stanley & Co
Hey guys, good morning.

Scott Bender
President, CEO & Director
Good morning, Connor.

Connor Lynagh
Morgan Stanley & Co
So, I think you've said in the past that you guys tend to have a little bit sooner notice than rig operators. So, you made a comment around feeling good about the first quarter 2020. Is that based on early orders that you're seeing from customers? I'm just wondering if you could quantify or just speak to what makes you say that?

Scott Bender
President, CEO & Director
Yeah. I probably shouldn't have said that, Connor, but the truth of the matter is we spend an awful lot of time, we do, with our customers and the indications are and it's early that we're going to see some rig count additions for some of our large customers next year, end of this year, beginning of next year.

Connor Lynagh
Morgan Stanley & Co
Okay. Fair enough. And just sticking with product, so the margin degradation that you're expecting in the third quarter largely related to tariffs, is there a follow-through effect in the fourth quarter as well as you move through your inventory or is this sort of the extent of what we're going to see here?

Scott Bender
President, CEO & Director
No. You'll see a follow on to the fourth quarter

Connor Lynagh
Morgan Stanley & Co
Any word on the magnitude?

Scott Bender
President, CEO & Director
It will be less severe in the third quarter and more severe in the fourth quarter. I don't know that I can actually quantify that. But as we run through inventory, it's just logical. We'll probably see another 25% maybe. I'm looking at Steve.

Stephen Tadlock
Vice President, CFO & Treasurer
I think in the third quarter, we would expect it probably to start hitting us about halfway through when we talked about down low single digits. And so, a little bit more than that but maximum impact in sort of a worst-case scenario was a little over 3% in terms of margins and we don't expect that for the reason Scott’s talked about already. So, that's where you're kind of looking at as you move forward.

Connor Lynagh
Morgan Stanley & Co
Okay. Got it. That's helpful. Thanks guys.

Operator
Your next question comes from Tommy Moll.

Scott Bender
President, CEO & Director
Hey Tommy.

Tommy Moll
Stephens, Inc.
Good morning and thanks for taking my questions.

Scott Bender
President, CEO & Director
How are you doing?

Tommy Moll
Stephens, Inc.
Doing good. Thank you. So, Scott, we appreciate all the detail you gave us on the new rentals innovations. I think you touched on this, but if you could just flesh out a little bit more how the new innovations should drive continued utilization on your current rental fleet or, in other words, how the new innovations have to work with what you already rent or how it's better for customers if they take the full package from you?

Scott Bender
President, CEO & Director
When we first began to look at these innovations, our thought was that they could be utilized independent of our legacy offerings. But now we've taken a different approach. They're fully integrated so these innovations will turn out to be very supportive of our legacy equipment. And it's not just because one – and this is important - not just because the same operator or field tech who operates our regular frac trees, operates all of these, which means the incremental cost to our customers is greatly reduced in comparison to some of the competing solutions. But it just works together so that we're doing a whole lot of pre-installation at our shops to reduce the amount of time on location. But that means we integrate it with our legacy equipment before it ever arrives on location.

Tommy Moll
Stephens, Inc.
Okay. And that leads me to a related point on a topic you've discussed on prior calls specifically on service differentiation which is something, I think, we all understand intuitively, but I'm trying to just get as granular an understanding as possible. So, could you maybe give us a hypothetical scenario where a customer wants to change something maybe relating to wellhead design, for example, mid-year? How does your organization quickly respond to that from the fields to Bossier and back? And are there any brackets around a turnaround time from when customer comes to you with an issue to when you – how quickly you guys are able to execute using the Bossier facility?

Scott Bender
President, CEO & Director
They're actually – there are two – I'm going to answer that in two parts, Tommy. The first – when you talk about service, you're referring now to our ability to rapidly deliver. So, I think you've heard Joel say, if he has the raw material in Bossier, we keep a lot of raw material in Bossier, he can deliver in 24 hours, we can deliver in 8 hours depending upon how large the piece is and how detailed the machining is. So, that's just not an issue. We have an engineering team that works on these sort of ad-hoc requests. That's what they do every single day. So, we don't want the engineering to hold this up and because of the supply chain model that we've adopted in Bossier City, I'm very comfortable in saying 24 hours even if we have to do the design work, and it's not a radically new design but maybe a modification. 24 hours is probably the norm in this company.

The other part of service that really is important and no one ever speaks about is the responsiveness and the capability of our field service technicians. And so, issues happen in the field and I think one of the great differentiators of this organization is that when there's a field issue and, look, there are field issues no matter how well we believe we execute. We've got 350 or 400 service techs that all get up on the right side of the bed every day. The difference between Cactus and our peers is that when there's an issue, it pops up on a vendor's phone immediately. And so our field service managers, our branch managers, our service techs know they're going to get a call. And I think that's a strong incentive for them to perform.

Operator
Your next question comes from David Anderson.

Scott Bender
President, CEO & Director
Hey, David.

Operator
Hello, sir. Your line may be muted. Please unmute your line in order to ask your question. [Pause]

Your next question comes from Sean Meakim.

Sean Meakim
JPMorgan Securities, LLC
Thanks. How are you doing?

Scott Bender
President, CEO & Director
Hey, Sean. Good morning.

Sean Meakim
JPMorgan Securities, LLC
So, guys. I was hoping we just take a little bit of a step back. You guys grew market share substantially in the downturn in 2015 and 2016 when you were still private. Could you talk a little bit about how that environment helped to accelerate adoption of the wellhead technology and maybe just compare and contrast that situation versus today's a bit more muted of a drawdown on activity in terms of how that creates or how that informs the opportunity set for you?

Scott Bender
President, CEO & Director
Yeah. So, it's fair to say that during a downturn like this, more doors are open. So, we've probably got more proposals out now to new customers, clearly, than we had at the beginning of the year. So, it's the same routine; customers eager to increase efficiency, save time, and look at something new. So, that's it. We have quite a few new proposals out right now.

Sean Meakim
JPMorgan Securities, LLC
And then, so just taking that line of thinking and applying it to the rental business, so you're rolling out these new innovations and you're hoping to grow that wallet share at the well site. The current environment's not necessarily great from a growth perspective but does that similarly enhance your confidence in terms of your ability to drive adoption compared to maybe if things were a bit more blowing and going from market share perspective?

Scott Bender
President, CEO & Director
Yes. Even though when rates are going up, truly, these innovations are more impactful. It seems to be our customers feel, I guess, much more compelled to talk to us when things are going badly and so, I think it's going to be – it will be very constructive over the next quarter or so.

Sean Meakim
JPMorgan Securities, LLC
Understood. Thank you.

Operator
Your next question comes from Scott Gruber.

Scott Gruber
Citigroup Global Markets, Inc.
Hey. Thanks for letting me back in.

Scott Bender
President, CEO & Director
Had to let you back in Scott.

Scott Gruber
Citigroup Global Markets, Inc.
I wanted to dig in a little bit more, for several quarters now, you guys have been trying to penetrate the majors with the wellhead product. Can you provide some color on the roadblocks that you've faced in that effort and how you're trying to overcome those?

Scott Bender
President, CEO & Director
You know, Scott, they're the same roadblocks we've discussed before. Change in terms of wellhead providers occurs much more slowly at majors than it does anywhere else. Much more slowly than frac provider changes at majors. And the difference is when a frac valve fails it costs them money right now and they want a solution.

In terms of wellhead equipment, if you think about who the IOC's used, the wellhead equipment works and as long as it's not shutting a rig down there's not the pressure on them to try something new. So, the fact that our wellhead system could save them hours of rig time per well is not nearly as pressing an issue to them as if they were having wellhead failures, and they're not having wellhead failures. So, it's a matter of really a down market like we're in right now providing the impetus for some of these majors to look elsewhere.

Scott Gruber
Citigroup Global Markets, Inc.
Got it. So on...

Scott Bender
President, CEO & Director
I just want to – I want to tell you Scott, we haven't relaxed our ambitions at all in that regard.

Scott Gruber
Citigroup Global Markets, Inc.
Got it. Got it. And just on the share of rigs followed, that's holding up better than the U.S rig count despite some of these big E&Ps dropping more rigs than originally anticipated. Could you just give us a little more color on how you're mitigating that challenge?

Scott Bender
President, CEO & Director
Yeah. We're adding new customers. I mean that's the short answer. As we – I don't know how many new customers we've added but if I look at the profile of our rig count, there are names on there that just simply were not on there at the beginning of the year. A lot of this interestingly has to do – I may have mentioned this before - when some of the larger publicly traded E&Ps scale down, these engineers go somewhere and when they go somewhere they tend to take us with them.

Scott Gruber
Citigroup Global Markets, Inc.
Got it. Appreciate the additional color. Thanks, guys.

Scott Bender
President, CEO & Director
Thanks Scott.

Operator
There are no further questions.

John Fitzgerald
Director of Business Development and Investor Relations
Thank you everyone for joining us on the call and we look forward to speaking with you next quarter.

Scott Bender
President, Chief Executive Officer & Director
Thanks, everybody. Have a good day.

Operator
This concludes today's conference call. You may now disconnect.