Cactus, Inc. (NYSE: WHD)
Q3 2019 Earnings Call Transcript
October 31, 2019 @ 09:00 Central

Call Participants

EXECUTIVES

Scott Bender
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Stephen Tadlock
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Joel Bender
Senior Vice President, COO and 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

George O'Leary
Tudor, Pickering, Holt & Co Securities
Chase Mulvehill
Bank of America, Merrill Lynch
Scott A. Gruber
Citigroup Inc
Tommy Moll
Stephens, Inc.
Sean C. Meakim
JPMorgan Securities, LLC

Presentation

Operator
Ladies and gentlemen, thank you for standing by and welcome to the Cactus Q3 2019 Earnings Call. At this time, all participants are in a listen-only mode. After the speakers' remarks, there will be a question and answer session. [Operator Instructions] Please be advised that today's call is being recorded.

I would now like to hand the conference over to your speaker today, Mr. John Fitzgerald. Thank you. Please go ahead, sir.

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 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 of 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 positive third quarter results, showcasing the resiliency of our business and the Company's strong free cash flow business model. Revenues outperformed the trajectory of the U.S. land rig count, which was down 7% sequentially in Q3, and we maintained our overall margin profile despite the weaker than expected macro environment.

In summary:

- Revenues were $161 million;
- Adjusted EBITDA was $59 million;
- Adjusted EBITDA margins were nearly 37%;
- Our cash balance increased by $36 million to $168 million; and
- Our board of directors authorized the initiation of a regular quarterly cash dividend of $0.09 per share.

I'll now turn the call over to Steve Tadlock, our CFO, who will review our third 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, CFO and Treasurer
Thanks, Scott. Q3 revenues of $161 million declined 5% sequentially but were up 7% year-over-year.

Product revenues at $93 million were 17% higher than in Q3 2018 and 2% lower sequentially despite the 7% decline in the U.S. onshore rig count. This relative outperformance was achieved due to higher equipment sales relative to rigs followed. Product gross margins decreased modestly on a sequential basis to approximately 38% of revenues due primarily to the impact of additional Section 301 tariffs announced in May.

Rental revenues were just under $36 million, down 10% from the second quarter. The decline was attributable to reduced industry completion activity, which was only partially offset by higher revenue from our recent innovations. Rental gross profit margins improved 70 basis points sequentially despite higher depreciation expense, as expenses associated with asset utilization declined as a percent of rental revenue and our innovations served to bolster our margin profile.

Field service and other revenues in Q3 were $33 million, down 5% from the second quarter. This represented just under 26% of combined product and rental-related revenues during the quarter, in-line with expectations. As a reminder, Product revenues and our recent rental innovations have lower associated field service revenues than our legacy rental business and this percentage is likely to moderate further as these innovations become a greater portion of our rental revenue mix. In Q4, we would expect this Field Service ratio to be approximately 25%.

SG&A was flat sequentially at $13.3 million for the quarter. We would expect SG&A to be down slightly in 4Q19 to approximately $13 million, with stock-based compensation expense running at just under $2 million during Q4. As you are aware, we maintain a relatively lean HQ organization despite the costs associated with being a public company.

Depreciation & amortization expense during the quarter totaled $10 million, up $0.6 million sequentially. We currently expect fourth quarter depreciation expense to increase by roughly $0.5 million sequentially

Third quarter Adjusted EBITDA was just under $59 million, down from nearly $63 million during the second quarter. Adjusted EBITDA for the quarter represented 37% of revenues, similar to the second quarter.

Our public, or Class A ownership, was relatively stable in 3Q and was 63% at the end of the quarter. This should result in an effective tax rate of approximately 15% in Q4, barring further changes in our public ownership percentage. Our actual effective tax rate during the quarter was higher as we finalized our 2018 tax returns and had some slight revisions to prior estimates that all rolled through this quarter.

GAAP Net income was $36 million in Q3, which was inclusive of $4.1 million in additional tax expenses related to the write-off of foreign tax credits and the reduction in expected future state tax benefits. 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 $0.48 per share, compared to $0.52 per share in Q2 2019, a decrease of 8%. We estimate that adjusted EPS in Q4 will continue to reflect an effective tax rate of 24.0%.

As expected, we disbursed approximately $11 million in distributions and payments for taxes and the TRA during the third quarter, with the outflow recorded in both our cash flow from operations via TRA payments and cash flow from financing activities through distributions to members. We do not expect to make another TRA payment until the second or third quarter of 2020. As a reminder, TRA payments represent 85% of the cash tax savings that accrue to Cactus, Inc. for a given tax year resulting from our Up-C structure.

Net of this TRA payment, our cash position still increased by over $36 million during the third quarter to $168 million at September 30th, highlighting the strong free cash flow generation of the company. For the quarter, operating cash flow was $50 million, and our net capex spend was $9 million.

Net working capital represented a source of cash during the quarter. Accounts receivable decreased by $12 million sequentially, and DSO declined to 57. Net working capital at the end of the third quarter expressed as a percentage of Q3 annualized revenues was 25%, up slightly from the second quarter and in-line with expectations. We would expect working capital as a percentage of revenues to increase slightly in Q4 as the impact of Section 301 tariffs may drive an increase in inventory days due to the associated higher cost of equipment.

Given expectations for reduced drilling and completion activity in the near-term, we are reducing the range for our net 2019 capital expenditure budget to $50 to $55 million. The majority of our capex will still be directed toward growth capital in our Rental business, with a focus on the build out of our fleet of recent rental innovations

As we look toward capital spending levels for 2020, we anticipate a meaningful decrease year-over-year. This is despite continued spending, albeit at a more cautious level due to lack of market visibility, on our recent rental innovations and additional technology currently in development.

All in all, we expect the fourth 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 and Director
Thank you, Steve.

Despite declining drilling and completion activity, the third quarter highlighted our ability to once again outperform the market on a relative basis. Efficiency gains resulting in more wells per rig continue to be beneficial to our business and to our customers. Our differentiated products and services again resulted in a less volatile margin profile than many of our public company peers, and we expect this to continue to be the case going forward.

While our Product market share dipped to 28.6% during the third quarter as the large E&Ps, our primary customer base, continued to pull-back spending in order to stay within budget plans, product revenue per rig increased by 8% sequentially versus the second quarter. Additionally, rigs followed in October moved slightly higher relative to September levels, and our market share is currently above third and even second quarter levels. That being said, we expect Cactus' rigs followed to be down in the mid-single digits percentage-wise quarter-over-quarter. Product revenues are likely to be down slightly more, as production equipment sales historically suffer from a more pronounced pull-back in completion activity tied to budget exhaustion. Initial indications for 2020 point toward a sequential improvement in activity relative to Q4 levels as several customers have indicated that they plan to pick up rigs in the new year, and we believe that completion activity will rebound in a similar fashion as seen in Q1 of 2019.

Despite the increase in Section 301 tariffs that occurred in May, our Product margins have held up well. The combination of more favorable foreign exchange rates and our continued focus on reducing costs has enabled us to offset a large portion of the tariff cost increase. That said, we expect a relatively modest reduction in Product margins during the fourth quarter as we replenish inventories, though likely less severe than the drop in Q3.

On the Rental side of the business, completion activity witnessed a noticeable drop-off during the latter part of Q3. However, the quarter-over-quarter increase in recent innovation revenues partly offset the volume declines in our legacy rental business, which were due to a combination of activity declines in certain areas like the Eagle Ford and SCOOP / STACK, and our decision not to chase business at reduced margins. Recent industry datapoints are indicating that U.S. onshore completion activity could be down approximately 25% in the fourth quarter. We expect our Rental revenue decline to be less severe than the broader market due to the contribution of our recent rental innovations. Still, as noted by our reduced capex guidance, we are paring back growth capital directed toward these items in light of the current market environment, and reluctance by many potential customers to add costs regardless of the value proposition. Market share growth for the sake of market share is not our priority. That said, we expect recent innovation revenue to represent 10-15% of our Q4 quarter revenue.

We were one of the first North American services companies to call for caution regarding 2H 2019 activity back in May due to the potential for a repeat of the budget exhaustion phenomenon witnessed last year. Thus, we believe we are well prepared to handle the temporary slowdown in activity and expect to maintain adjusted EBITDA margins at levels similar to the third quarter. This steady margin profile reflects our ability to manage indirect costs and the continued value our customers place on the differentiated offerings within our rental business.

The current market conditions and emphasis on efficiencies and costs by our customer base continue to validate the decision to enhance the moat around our Rental businesses via our recent rental innovations. Although weakening market activity provides a definite headwind in terms of both deployments and pricing, the value proposition for this new equipment has been well validated by current users in the field.

Moving on to Field Service, this segment continues to be driven by both Product and Rental activity. We anticipate revenue from Field Service to be approximately 25% of our combined Product and Rental revenue during the fourth quarter. Recall that this business traditionally has higher non-billable hours during the fourth quarter due to holidays, and we would expect typical margin compression of 700 to 800 basis points. Margins should recover in the first quarter of next year.

Once again, our free cash flow generation was strong during the quarter, as we added $36 million of cash net of $11 million in tax and TRA related outflows. In a flattish rig count environment from current levels, we would expect to continue to generate significant free cash flow.

As noted in our earnings release last night, I am pleased to announce the introduction of a quarterly cash dividend. We view this implementation, which will start at $0.09 per share this quarter, as a sign of our confidence in the business, which is well-suited for a regular return of cash given its variable cost nature and ability to generate significant cash flow through the cycle. We are committed to creating long-term stockholder value through a balanced strategy of reinvesting cash flow at high rates of return and returning cash to shareholders as appropriate. With this in place, our cash balance is still expected to grow substantially. Thus, Cactus will continue to evaluate additional ways to return value to stockholders. We remain closely aligned with our shareholders and will continue to make decisions regarding the business in this light.

I'd like to close by highlighting a few areas of focus for the business in 2020 before opening the line to questions.

In terms of penetration with the majors, we continue to perform well with these customers in our Rental business. Our ability to showcase Cactus' high level of customer service and technological sophistication gives us optimism that we can earn more business from this customer segment next year across our various business lines.

Regarding expansion internationally, we have identified target markets and are progressing toward Approved Vendor status where appropriate. As mentioned during the last call, we believe the opportunities will begin to materialize in late 2020 with benefits the year following.

Turning to new product development, we are in various stages of development for new wellsite products beyond the initial rental innovations unveiled on our last earnings call. Like our SafeLink, SafeClamp and SafeInject, some of these new items are aimed at increasing efficiencies during the completion phase of the well, while other products enhance safety and efficiency during the drilling stage of the well lifecycle.

Finally, in light of questions regarding our supply chain given global trade uncertainty, we routinely evaluate the manufacture of our equipment in various markets around the globe, and we have begun to diversify and supplement our existing supply chain in new international locales. However, we still believe our core manufacturing footprint in the U.S. and China leaves us well positioned versus the competition from both a cost and a delivery perspective.

While the macro backdrop provides ample reasons for caution, we remain optimistic regarding our ability to outperform the market in 2020. Our success in maintaining market share despite the disproportionate decline from our core customer group of large public E&Ps highlights our ability to win new business. Penetration with new customers, international expansion and the roll out of additional technologies provide reasons for optimism. Customer budget exhaustion is expected to weigh on fourth quarter activity, but we are hearing some encouraging datapoints from existing and potential customers regarding plans early next year. As in 2015 and 2016, we intend to leverage the current downturn to our advantage. Finally, I want to thank our dedicated associates for their continued commitment and focus despite the dispiriting macro atmosphere. 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] Your first question comes from the line of George O'Leary.

George O'Leary
Tudor, Pickering, Holt & Co Securities
Morning, Scott. Morning, guys.

Scott Bender
President, CEO and Director
Hey George. How are you?

George O'Leary
Tudor, Pickering, Holt & Co Securities
I'm doing well. You guys hanging in there, it's a good day for your stock.

Scott Bender
President, CEO and Director
Well, I haven't looked.

George O'Leary
Tudor, Pickering, Holt & Co Securities
Well, it was up before and now that you've spoken, it's up more, so you did a good job. The revenue per rig trend that you guys continue to put up is super impressive, and I know during the quarter we discussed that a little bit, but I'm curious if you can peel back the onion here a little bit. Is that really just rig efficiencies or you guys selling more production trees per rig, kind of what's the mix there that's driving that impressive revenue per rig uptick for you guys?

Scott Bender
President, CEO and Director
George, it's mostly rig efficiencies, but it's also product mix, higher pressure, large bore.

George O'Leary
Tudor, Pickering, Holt & Co Securities
Got it, that's helpful.

Scott Bender
President, CEO and Director
...multi-string.

George O'Leary
Tudor, Pickering, Holt & Co Securities

Okay. You guys are always so on top of kind of leading-edge trends and trying to help make your customers more efficient. We've started to hear on our side of the table more about monoline fracs and simul-fracs starting to gain some share in various places. I was wondering if you could speak to whether you guys are seeing that start to play out in the business and just any other notable kind of completion or drilling trends that you all have noticed that may stand out.

Scott Bender
President, CEO and Director
Yeah, I'd say that's absolutely the case. There's been, I guess, over the last quarter or two quarters a pretty significant move towards reducing the amount of frac iron on location, which of course is solved by the use of monolines from pressure pumpers into the frac trees. So, I think that's – I think we've predicted earlier that – we don't think there's going to be a whole lot of frac iron on locations by the end of the next year or two.

George O'Leary
Tudor, Pickering, Holt & Co Securities
All right, great. Thanks for the color, guys. I'll turn it back over. Nice quarter.

Scott Bender
President, CEO and Director
Thanks, George.

Operator
Your next question comes from Chase Mulvehill.

Scott Bender
President, CEO and Director
Hey Chase.

Chase Mulvehill
Bank of America Merrill Lynch
Hey, good morning. I guess if we can talk about the international growth opportunities that you see kind of over the medium term, so if you can kind of lay that out for us, maybe which regions you think you have the best opportunity for growth here. And maybe if we should be layering in any the incremental R&D or OpEx or CapEx as we think about international growth opportunities for you?

Scott Bender
President, CEO and Director
Well, I think in terms of – let me first speak to CapEx. We've increased our CapEx in Australia this year and we'll probably continue to increase CapEx in Australia next year. Those figures have been reflected in the levels that Mr. Tadlock recited earlier. The Australian market is a lot like the US market in terms of frac activity, and so the requirements are pretty much similar to U.S. requirements.

Not a lot of CapEx requirements for 2020 internationally, although we will undoubtedly see some increases in SG&A as we begin to penetrate or at least set ourselves up for a market penetration internationally. Chase, it's not going to be a significant amount of money. Yeah, I don't really think it'll move the needle, but there will be additional SG&A related to that. In terms of areas, you probably can appreciate my reluctance to discuss those areas, because very often our competitors listen in on these calls.

Chase Mulvehill
Bank of America Merrill Lynch
Yeah. Yeah. Understand. And then, if we just come back to the U.S. a little bit and talk to the success that you may or may not be having at this point with kind of penetrating the majors on the wellhead products there?

Scott Bender
President, CEO and Director
What a surprising question. Chase, I so hate this question, because when it happens it happens. Telling you when it's going to happen is just not very constructive. I feel good about the prospect. How's that?

Chase Mulvehill
Bank of America Merrill Lynch
Okay. All right. We'll leave it there. Yeah.

Scott Bender
President, CEO and Director
Okay.

Chase Mulvehill
Bank of America Merrill Lynch
Thanks, Scott.

Operator
Your next question comes from the line of Tommy Moll with Stephens, Inc.

Scott Bender
President, CEO and Director
Hey, Tommy.

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

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

Tommy Moll
Stephens, Inc.
Doing well, doing well. So, I wanted to start on the decision to initiate a dividend which is one I know you and the board did not take lightly. One of the factors you called out a couple times is confidence in through-cycle capital returns due to the variable cost nature of the business. Can you remind us what that strategy looks like for you guys and how you're able to flex up and down in terms of the costs? And why that gives you confidence to go ahead and start with a dividend now and then signal that we may see that number raised over time?

Scott Bender
President, CEO and Director
Okay, Tommy. I'm going to try to give you an abbreviated response to this. Our business grew from 2011 to the level where we are today with a maximum debt, I think, of $9 million in only one month and that occurred in 2016. So, the entire business has been financed with internal cash flow and that includes that very, very difficult period, 2015 and 2016, when we had our term B loan, you may recall of about $275 million.

So, during that period, we were able to maintain our positive liquidity and still make payments of primarily interest, some principal as well as early retirement of some of that debt in excess of $20 million a year. So, as I look back at 2015 and 2016 and our ability to continue to generate cash during that period, that's what gives rise to our optimism that this is a highly sustainable level of dividend.

Tommy Moll
Stephens, Inc.
And any…

Scott Bender
President, CEO and Director
Does that help at all?

Tommy Moll
Stephens, Inc.
It does. If I could just follow up on the variable cost strategy, can you remind us…

Scott Bender
President, CEO and Director
Yeah. Okay. All right, Tommy...

Tommy Moll
Stephens, Inc.
...how you've implemented that? Yeah.

Scott Bender
President, CEO and Director
...because this is primarily a – we are at our core a products business and we have very, very low fixed cost requirements or capital requirements to support our products business. And you'll recall that the way our supply chain is set up, we do – really a majority of our increased – we fulfill a majority of our increased product requirements out of China where we operate very, very low CapEx structure. We have about 75 or 80 people there. And I'll remind you, we tripled the size of that plant in 2017 at a capital cost of $500,000. So, because of the way we're set up in China, we're able to increase capacity and we're able to decrease capacity without impacting, I think, our returns...

Tommy Moll
Stephens, Inc.
Perfect.

Scott Bender
President, CEO and Director
So, that's what I meant by the variable cost nature of this business.

Tommy Moll
Stephens, Inc.
Yeah. Now, that hits the nail on the head. If I could shift to M&A specifically among E&Ps, it's a trend we've seen continue this year, potentially see more of that into next year. When that occurs, what are the risks and opportunities for Cactus, specifically on the wellhead side of the business? I presume when you've got a relationship with the buyer in a transaction that's maybe a net opportunity for you, maybe it's the flip side of that when you work for the seller, but not the buyer. But if you can just help us understand how you look at the risks and opportunities in those transactions, I think it would be helpful. Thank you.

Scott Bender
President, CEO and Director
Well, I mean, clearly, when you're doing business with the seller, there's a certain degree of anxiety. But on the other hand, if the past is any indication of the future, when the buyer has forced them to put us on trial by default, so he buys one of our customers, the results have been very positive. So, it's sort of like getting a default trial where maybe before we couldn't get on a trial. So, the results have been very positive so far.

Tommy Moll
Stephens, Inc.
All right. Thank you, Scott. That's all from me and I'll turn it back.

Operator
Your next question comes from the line of Scott Gruber with Citigroup.

Scott Bender
President, CEO and Director
Hey, Scott. How are you.

Scott Gruber
Citigroup
Good morning. Hey, good. Where do the new tech revenues sit as a percent of 3Q sales? Do you have that number?

Stephen Tadlock
Vice President, CFO and Treasurer
We're not really disclosing – I mean, Scott talked about 10% to 15%, and that's somewhere in line with what we expect over the coming quarters that heading to 20%. I think he mentioned no later than Q2 or optimistic by Q2 2020 at this point.

Scott Gruber
Citigroup
Yeah. I was just trying to peel apart kind of growth for new tech relative to the legacy business within rental. Any color you can provide on the kind of bridge from 3Q to 4Q?

Scott Bender
President, CEO and Director
Yeah. I think the innovation side of our business is going to grow faster to be sure than the legacy side of our business. But in all honesty, they're significant headwinds right now in terms of new customer adoptions not because of the value proposition, Scott, as much as the attitude right now is if it costs $1 more, even if it could potentially save me $3, I am not going to spend $1 more. So, it's probably fair to say, yeah, it's a tougher sale today than it was in the spring.

But it's also fair to say that the value proposition is much better than we thought it was in the spring. So, I didn't really want to get into this, but I feel comfortable and I think the team feels comfortable that as we put more and more installations behind us and we're able to generate more data in terms of the actual returns to our customers, data that we can share with others that we'll be able to significantly overcome some of that reluctance to spend that incremental $1. It's just right now the last thing a customer wants to talk to you about is another $1.

Scott Gruber
Citigroup
Yeah, we certainly hear that term. And do you think that reticence evaporates pretty quick in 2020 with a budget reset?

Scott Bender
President, CEO and Director
It certainly is going to relax, I think, some of that reticence, that and more installations. So, I mean I'm proud to say that those who use it, use them, love them. They still use them. It's just getting that next customer now to come to terms with having to spend $1 to save maybe $3. So, yes, this is a terrible environment right now to ask a customer to spend $1

Scott Gruber
Citigroup
And any color on why you think the value proposition is better than you originally thought?

Scott Bender
President, CEO and Director

Because we're always cautious going in. I think that – I mean there are a lot of reasons, we're cautious by nature. I think secondly, the more you use it, our customers use it and we use it, the faster we are in mobilizing and demobilizing. And then, as you might understand with new products, you make tweaks to them along the way, so I've always been proud of the group we have here. When they see a better way to do something, we quickly make a modification, so virtually every one of these products has undergone some level of modification to increase their efficiency.

Scott Gruber
Citigroup
Got it. And one last one, do you think the legacy rental business is down at a similar rate to the market around that 25% mark? Or do you think it could be a little bit worse if you're not chasing given where pricing is going?

Scott Bender
President, CEO and Director
Yeah, the latter.

Scott Gruber
Citigroup
Okay. Got it. Thank you.

Operator
And your final question comes from the line of Sean Meakim with JPMorgan.

Scott Bender
President, CEO and Director
Hey, Sean.

Sean Meakim
JPMorgan Securities, LLC
Thank you. Good morning. So, Scott, it's interesting to hear your comments about the new tech conversations are tougher now as convincing customers to spend an extra dollar. It is more difficult to justify than it was in the spring. Is it fair to say that there's some seasonality to that mentality? You all did famously well during the downturn taking market share perhaps because folks were able to spend a little more time listening to you. Does that give you a little bit more confidence as you head into next year and budgets reload? Not that it won't still be a bit of an uphill battle, but is that also a factor that could help you in the first part of 2020?

Scott Bender
President, CEO and Director
I'd be very disappointed if it didn't.

Sean Meakim
JPMorgan Securities, LLC
Okay. Fair enough. And then, I guess as we think about – as these new technologies are getting rolled out, could you give us a sense of the appetite and/or, I guess, kind of the queue of incremental technology that you guys have kind of either in the works and/or just things that are kind of on the drawing board? And just how you think about cycle times from idea generation either coming from the field or something internally and converting that into a commercial product? Just how do you think about timelines for those types of opportunities over kind of a medium and long-term basis?

Scott Bender
President, CEO and Director
Okay. I would say that right now we have two very near-term rollouts, and when I say near term, within the next couple of quarters, and one beyond that. The next one to roll out, we expect to roll out at the very end of this year. Some of that will depend upon when, of course, a pad starts, one pad ends the next pad starts, but it'll roll out for trial, I hope, by the end of the year for deployment probably by the end of the first quarter. We began to work on this product about, Steven, what would you say?

Steven Bender
Vice President, Operations
Six months ago.

Scott Bender
President, CEO and Director
...six months ago. It's probably the most technically ambitious of all of our products. It has an element of digitization to it. And so, on the one hand, the capital cost is low. On the other hand, of course, that's offset by the technological demands. So, six months, which I don't think is too bad, the next product is more sort of equipment heavy than technology heavy. We've been working on that for about four months and we'll roll that out, I hope, sometime at the end of the first quarter. So I would say, in general, we're looking at maybe six months, on average.

Sean Meakim
JPMorgan Securities, LLC
I think that's really helpful. And just one point around the context around each of those in terms of how they were developed or kind of where the idea generation came from, were they internally developed or are those kind of in the field partnering with customers? Just curious how those others evolved from the early stage.

Scott Bender
President, CEO and Director
Yeah. Virtually every idea we have comes from a customer.

Sean Meakim
JPMorgan Securities, LLC
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I figured as much. Okay. Scott, thanks very much

Scott Bender
President, CEO and Director
Thanks, Sean.

Operator
And there are no final questions at this time.

Scott Bender
President, CEO and Director
Thank you everybody. Have a good day.

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