Cactus, Inc. (NYSE: WHD)
Q3 2020 Earnings Call Transcript
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Call Participants

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ANALYSTS

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Chase Mulvehill
Bank of America Securities
Tommy Moll
Stephens, Inc.
Stephen Gengaro
Stifel Financial Corp
Scott Gruber
Citigroup Global Markets, Inc.
Jacob Lundberg
Credit Suisse Securities (USA) LLC
Kurt Hallead
RBC Capital Markets LLC
Sean Meakim
JPMorgan Securities LLC
Blake Gendron
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Presentation

Operator
Ladies and gentlemen, thank you for standing by, and welcome to the Cactus Q3 2020 Earnings Call. At this time, all participants are in a listen-only mode. After the speaker's presentation there will be a question-and-answer session. [Operator Instructions]

I would now like to welcome one of the speakers for today Mr. John Fitzgerald. 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, 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 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 again pleased with our performance during the quarter despite the macro environment. Our results were reflective of the differentiated nature of our products and services, our dedicated associates who showed a tremendous commitment to safety and execution during these difficult times, and our industry-leading supply chain model. Reducing the overall cost of production has never been more important for our industry, and Cactus' products and services are truly enabling our customers to increase efficiencies and savings.

While our overall revenues were down during the third quarter as expected, we achieved strong margins across our business lines and increased market share in our Product business to a record 38%.

In summary:

- 3rd quarter revenues were approximately $60 million;
- Adjusted EBITDA approached $25 million;
- Adjusted EBITDA margins were 41%;
- Our cash balance increased to nearly $274 million; and
- We paid a quarterly dividend of $0.09 per share.

I'll now turn the call over to Steve Tadlock, our CFO, who will review our 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. In Q3, revenues of $60 million were 10% lower than the prior quarter, but ahead of expectations. Product revenues at $36 million were 12% lower sequentially while the U.S. onshore rig count fell by 37% quarter-over-quarter. Product gross margins increased to 45% of revenues, up 810 basis points on a sequential basis, due in part to $5.4 million in tariff related benefits to Product cost of goods sold during the quarter, up from $3.1 million during the second quarter.

Rental revenues were approximately $10 million, down 14% from the second quarter. While revenue was higher than the latter months of the second quarter on average, it was significantly lower than the April run-rate. Although gross margins declined on a sequential basis, we were able to maintain positive margins through the achievement of cost reductions in both direct and branch expenditures.

Field service and other revenues in Q3 were $14 million, relatively flat versus the second quarter. This represented just under 31% of combined product and rental-related revenues during the quarter, well ahead of expectations. We expect Field Service revenue to be slightly under 30% of Product and Rental revenue during the fourth quarter. Gross margins increased almost 1,500 basis points sequentially largely due to lower payroll & depreciation expenses and a continued rationalization of our field service vehicle fleet.

SG&A was down $0.3 million sequentially to $8.4 million during the quarter. The decrease was primarily attributable to lower payroll related expenses. We expect SG&A to be approximately $9 million in Q4 2020, with stock-based compensation expense flat at slightly over $2 million.

Third quarter Adjusted EBITDA was approximately $25 million, up from $22 million during the second quarter. Adjusted EBITDA for the quarter represented 41% of revenues. Adjustments during the third quarter of 2020 included $2 million in stock-based compensation.

Depreciation expense was $9.8 million during the period, down from $10.5 million during the second quarter, due largely to the reduction in our fleet of service trucks.

Our public, or Class A ownership, was relatively stable in Q3 and was 63% at the end of the quarter. This should result in an effective tax rate of approximately 19% in Q4 2020, assuming no changes in our public ownership percentage.

GAAP Net income was $10.9 million in Q3 2020. This was inclusive of a $1.9 million non-cash expense related to the revaluation of the tax-receivable agreement liability. Book income tax expense was negligible during the third quarter as the company recorded a $2.2 million benefit associated with the revaluation of our deferred tax asset as a result of changes to our forecasted blended state tax rate.

Internally, we prefer to look at adjusted Net Income and earnings per share, which were $9.5 million and $0.13, respectively, compared to $7.4 million and $0.10 per share in Q2 2020. We estimate that the tax rate for adjusted EPS will be 25.5%.

During the third quarter we paid out $6.8 million resulting from our quarterly dividend of $0.09 per share. The board has also approved a dividend of $0.09 per share to be paid in December of this year. Early in the 3rd quarter we also made our annual TRA payment and associated distribution of approximately $23 million. The recent payment was especially large due to our strong 2019 results and the associated tax savings arising from our corporate structure. We expect the next payment and the associated distribution to be substantially lower in 2021 as such disbursements vary directly with imputed tax liability.

Net of the aforementioned TRA and dividend related outflows, our cash position increased by $3 million during the quarter to almost $274 million at September 30th, highlighting the continued free cash flow generation of the company. For the quarter, operating cash flow was $19 million, and our net capex was negligible.

As disclosed in our release, Cactus recognized $6.0 million in refunds during the quarter associated with tariff exclusions granted in March of this year. The refunds reduced cost of revenue, with $5.4 million being allocated to our Product business. As previously disclosed, we were notified in August that the tariff exclusions granted in March on certain imported goods were not extended by the USTR. At this point, we do not expect any further meaningful tariff refunds to be received due to prior exclusions.

The capital requirements for the business remain modest, as evidenced by a reduction to our net capex guidance for 2020 to be between $17.5 and $22.5 million.

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

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

We often note that Cactus has performed well historically during market downturns, and this was the case during the third quarter. As most E&Ps understand that there is little room for further service pricing concessions, their attention turns to efficiency gains to lower well costs. This aligns well with our offerings, which provide disproportionately high time-savings and productivity gains.

In our Product business, market share grew to nearly 38% during the third quarter. This was driven by new customer additions, including privates, and increased market share with recently acquired customers. One particular area of strength was the Haynesville, where our rigs followed increased during the quarter despite the region's overall decline in activity. Recall that our customers typically utilize us to source all their wellhead and production tree equipment. Additionally, given that our equipment is tailored to pad & batch drilling programs, the larger & relatively well capitalized operators tend to appreciate our value proposition. Since there are still large operators who have yet to realize the efficiency gains offered by our equipment and services, our conviction as to further market share gains remains strong.

Based on our customers' most recently disclosed plans, we believe that the U.S. rig count bottomed out in August and expect further rig additions through the year-end. For this reason, we expect Cactus' rigs followed to increase by approximately 20% during the fourth quarter. Product revenues are expected to witness a similar increase.

Our general expectation is for a general increase in rig activity through the fourth quarter, but recent oil price weakness now provides some reason for caution for the remainder of the year.

Our Product EBITDA margins are expected be in the low 30s percent during the fourth quarter, flat or slightly higher than our Product EBITDA margins during the 3rd quarter, excluding the impact of the $5.4 million arising from tariff refunds.

On the Rental side of the business, revenue was in-line with our prior guidance for a low double-digit percentage decline. While our third quarter activity was improved from levels seen in May & June, our second quarter benefited from a relatively strong April, thus hindering our ability to record sequential growth. That said, we believe that a further focus on DUC reductions early next year should provide opportunities for expansion of our rental business, although we have the same concerns mentioned earlier regarding the impact of oil price weakness.

We continue to maintain discipline in evaluating business opportunities for our Rental equipment, recognizing the value our goods and services bring to customers. This discipline was key to our ability to maintain EBITDA margins above 70% during the third quarter. Looking to Q4, we expect flattish revenue on a sequential basis assuming there is not a significant slow-down tied to recent oil price weakness or the holidays. We will continue to exercise pricing discipline and currently expect EBITDA margins in the mid-60s percentage for the fourth quarter.

Revenue from our innovations was meaningfully depressed during the early part of the 3rd quarter but improved sequentially each month. As an update on R&D in our Rental business, we have made substantial progress during this year on the development of additional products, which will further eliminate iron from location and allow users greater remote capabilities. These remote capabilities provide our technicians, other contractors and our clients with safer real-time digital monitoring and automation of frac activities. Importantly, these additional offerings require minimal capital expenditures. Nonetheless, we expect to be paid for such enhancements, and we anticipate a more constructive environment next year.

Regarding Field Service, revenues in this segment continued to be driven by both our Product and Rental activity. This segment typically witnesses lower margins during the fourth quarter due to seasonal elements, and accordingly we expect to see EBITDA margins slightly below 30% for the fourth quarter, still far higher than we've achieved in recent years. We attribute most of this improvement to cost efficiencies and a focus on labor and fleet utilization.

I'd like to close by highlighting a few items before opening the line to questions:

Internationally, while travel restrictions have impeded our momentum in most markets, we are currently prepping equipment for our first shipment into the Middle East. This should begin to benefit revenue in 2021. We expect to provide additional details next quarter.

Regarding M&A, we continue to believe that consolidation within our industry makes the most sense where there is scope for significant tangible synergies.

As I remind you regularly, management are long-term investors in this business and highly aligned with our shareholders. As activity rebounds, our team will continue to evaluate capital deployment with returns and free cash flow as our main priorities.

In summary, we are optimistic about the opportunities that the upcoming activity recovery will present. Structurally, Cactus is now better positioned than it was only a year ago. As activity and revenue begin to recover, we expect Cactus' results to benefit disproportionately. With that, I will turn it back over to the Operator and we can begin Q&A. Operator?

Question and Answer

Operator
Thank you very much. [Operator Instructions] Your first question comes from the line of George O'Leary from Tudor, Pickering, Holt. Your line is open.

George O'Leary
Tudor, Pickering, Holt & Co Securities, Inc
Close enough. Morning, guys.

Scott Bender
President, CEO and Director
Morning George, how are you?

George O'Leary
Tudor, Pickering, Holt & Co Securities, Inc
I'm doing well. I'm doing well. Y'all are hanging in there?

Scott Bender
President, CEO and Director
Yeah, we're doing great, thanks.

George O'Leary
Tudor, Pickering, Holt & Co Securities, Inc
Yeah. Great. Well, good quarter and just on the, on the rental side, I think reading between the lines a little bit, it seemed like maybe pricing isn't exactly where you guys wanted it to be as it does seem like underlying completions activity ramps through Q3 and has continued to increase at least in October of this quarter.

So is the flattish revenue commentary there more just you're not going to give away high quality products, you know for a price that's unacceptable to you guys or is that just some conservatism around seasonality in the fourth quarter? Just trying to understand the guidance thought process there.

Scott Bender
President, CEO and Director
Yeah. George, it's, it's, it's primarily price related. Price, pricing - when you say it's not exactly where we want it to be, it's not even close to where we want it to be.

George O'Leary
Tudor, Pickering, Holt & Co Securities, Inc
Okay. Fair enough. And the market share you guys have put together on the wellhead side in terms of rigs followed continues to be impressive and outpace our expectations for sure. The 38% with kind of the commentary that you guys think you can grab incremental market share, is that more of a longer term prospect or are you seeing continued market share gains as we progress through the fourth quarter?

And you know where do you – where do you see those opportunities? Is that driven by some of the E&P consolidation or is it selling more products to the same people. Where are you guys seeing it?

Scott Bender
President, CEO and Director
George you seem to have crammed four questions into one.

George O'Leary
Tudor, Pickering, Holt & Co Securities, Inc
I try.

Scott Bender

President, CEO and Director
Okay. I mean obviously market share is always an interesting topic for our group of investors. So let me say first that if we look at our market share gains to date, they've been disproportionately leveraged towards majors and privates.

So our core customer base, which are the large publicly traded E&Ps. While we've experienced increases, it's fair to say they've lagged. So as we look forward to this quarter and the first quarter of next year, we now have a little bit better **–** much better visibility into that group.

And I would look to that group to account for additional market share gains, so the large E&Ps at least in our customer base have lagged behind those other two groups and they provide us with optimism that we have not reached the ceiling.

George O'Leary
Tudor, Pickering, Holt & Co Securities, Inc
Thanks very much for the color, Scott.

Scott Bender
President, CEO and Director
Okay. Thanks, George.

Operator
Your next question comes from the line of Chase Mulvehill from Bank of America. Your line is open.

Chase Mulvehill
Bank of America Securities
Hey, good morning everybody.

Scott Bender
President, CEO and Director
Good morning, how are you?

Chase Mulvehill
Bank of America Securities
Good. Good. So Scott, you kind of mentioned capital allocation and M&A, so you kind of open Pandora's box here, so I'm going to try to see if I can dig a little deeper. On the capital allocation side, obviously you've got about $280 million in cash on the balance sheet. You've got a dividend, and so how do you think about allocation between you know raising the dividend, buying back shares or kind of saving some cash for M&A?

Scott Bender
President, CEO and Director
What a surprising question. Well, let me first tell you that if – we've just come off the trough in terms of activity so having cash is not a bad thing. That's point number one. The second point is we clearly have enough money and we continue to generate free cash flow, that sustainability of the dividend or even an increase would not be problematic.

Share buybacks, I've never been a fan of. I think maybe I was for one quarter since we went public but that may have been when the price was $8. But I'm just not a fan of that. I think, I think the timing rarely works out. When it comes to M&A opportunities which you know I really can't comment very much except to say that there are an increasing number of opportunities out there.

And we haven't moved on any, as you know, and I'm hesitant to give you any further color except to say that I'd be very surprised over the next years if better opportunities don't present themselves. That's not to say we'll take advantage of them because we do believe that there have to be tangible synergies and not just an expansion of product offerings.

And you know we only want to do, we only want to engage in an expansion that is end-user oriented and takes advantage of our supply chain. So, I guess the playing field is rather limited. But having said that, I mean this industry is under stress. And with stress, I think comes opportunity.

So, we want to keep the money for – for the – for the near-term and see what develops. If nothing develops, as we come out of this downturn then we're going to have to address return of some of this capital to our shareholders. Remember, we're the biggest shareholders. So, having the $275 million or $280 million on our balance sheet is – the prospect of harvesting that is pretty attractive to the main shareholders in this business.

Chase Mulvehill
Bank of America Securities
Yep, that makes sense. And so I won't dig deeper into M&A. I'll kind of leave it there, but if I could come back to tariffs, obviously you talked about it a little bit, we'll see kind of what shakes out with the President here and what it means for tariffs.

But the fourth quarter guide on the products margin side, I actually missed it, but I'll listen to the replay for it, but on the guide that you gave for 4Q product margins, how much tariff headwind do you have in there that could potentially unwind at some point next year?

Stephen Tadlock
Vice President, CFO and Treasurer
So, the guide was, it was low-30s for Q4. And as far as tariff headwinds, I mean, last quarter we said on an absolute worst case scenario, if it didn't get extended, it would be 3% impact. And we noted 1% to 2% is more likely on an absolute basis.

I think we still believe that 1% to 2% is the more likely scenario, and preferably **–** probably more close to the one with Joel working the supply chain a lot, and his team in China. So, I think that's kind of what we're anticipating, but a lot of moving parts there.

Chase Mulvehill
Bank of America Securities
Okay, great. Perfect. I'll turn it back over.

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

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

Scott Bender
President, CEO and Director
Good morning Tommy. How are you?

Tommy Moll
Stephens, Inc.
Just fine, thank you. Scott, I wanted to start on the market share topic, you indicated that a lot of the gains have come from larger E&Ps and privates versus your more traditional customer base?

Scott Bender
President, CEO and Director
Most of the gains come from majors and privates.

Tommy Moll
Stephens, Inc.
From majors and privates, okay. Would you say that a lot of the gains result from interactions and conversations that pre-date the downturn in March and that it's just coincidental that the gains have

occurred during this downturn or do you think that something in the industry and the customer has shifted since the price of oil collapsed and it's allowed you to take advantage of that shift?

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

Tommy Moll
Stephens, Inc.
And any color you could offer there?

Scott Bender
President, CEO and Director
Tommy, it's the same every time we see a downturn about people that previously were reluctant to speak to you because they were okay with their suppliers are now forced to look wherever they can look. And I think that most customers realize there's not much blood left in the turnip.

So, pricing concessions from service companies have clearly peaked and so where do you look next? You look – that's the easiest place to look, right? So they look there first and now they're having to look much more deeply at productivity and efficiencies. And then it's my feeling that as our customers look at their peers and they see their peers using Cactus, they're obviously curious as to why.

And so, I think that market share sort of begets market share. And then as those engineers as well moved to other companies, they take, they tend to take us with them. So, I would have to say most of this is – the impetus for most of this is a renewed focus on efficiency and productivity.

Tommy Moll
Stephens, Inc.
Got it. Thank you. That's very helpful. Shifting now to consolidation among E&Ps, there's been a lot of it lately, potential for more certainly in the coming months. From a big picture strategic standpoint about your market opportunity in, in North America shale, how do you see that shifting as we speak here, as the wallet consolidates on the customer side?

Scott Bender
President, CEO and Director
Yeah. Well, let me speak about specifically what consolidation we've seen to-date and then I'll speak to how I see the future in terms of consolidation. So, to-date with the exception of Chevron, we've been on both sides. So, we've had exposure to both sides of the transactions.

We – we've found historically that it's not going to surprise you that if we do business with the acquirer, we continue to do business. But we've also seen that when we do business with the target, it opens the door for a trial. So, whether or not they entertained a trial before, they sort of have to entertain a trial now.

And we've been, our success rate with trials is quite high as you know. The downside to consolidation, I think both to date and going forward is that we expect there to be some rationalization of the combined CapEx of the two entities. So, I'd hope for the best.

If you have a customer that had 10 rigs, buying a customer with 5 rigs at least in the near-term you have to expect that it's not going to equal 15. They're going to step back, they're going to try to evaluate the best prospects, they're going to pause a bit.

On the other hand, long-term, I think it bodes well for the industry because as I hope you'll agree, it means that those that survive are going to be financially stronger which means that maybe a year or a year and a half post-merger. activity will pick up. And those customers have typically been attracted to our value proposition. So, that's my long-winded way of saying, so far so good. But we have to be a little bit cautious about capital – about CapEx.

Tommy Moll
Stephens, Inc.
Understood and appreciate it. And I'll turn it back.

Operator
And we have a question from Stephen Gengaro from Stifel. Your line is open.

Stephen Gengaro
Stifel Financial Corp
Thanks and good morning, gentlemen.

Scott Bender
President, CEO and Director
Good morning.

Stephen Gengaro
Stifel Financial Corp
Two for me, you've covered a lot. The first being, you mentioned potential or likely shipments to the Middle East next year. As you think about earnings expectations and the model and et cetera, when do you think you start to see a material contribution from the international side?

Scott Bender
President, CEO and Director
Yeah. We're going to talk about that in the next call.

Stephen Gengaro
Stifel Financial Corp
Okay. Trying to get some preview, I guess not. The other...

Scott Bender
President, CEO and Director
It's early.

Stephen Gengaro
Stifel Financial Corp
It's early. No. I understand **–** I understand that. The other part is on the rental side, any impact you see from consolidation at that level? And how does it impact on the rental side versus the product side?

Scott Bender
President, CEO and Director
We're talking about E&P consolidation, right?

Stephen Gengaro
Stifel Financial Corp
Yeah, I guess that plus what you're seeing on the service side as well.

Scott Bender
President, CEO and Director
Well, I haven't seen any consolidation yet on the service side of the business, although I think it's you know it's fair to say that the weaker players are getting weaker. They just **–** they're probably at the **–** they're at early stages of meeting working capital continue – to continue and I think they're going to struggle to come up with working capital, both to finance receivables and then money to effect repairs.

But to be fair to date, I haven't seen much, we haven't seen much. In terms of E&Ps, in general, the larger the company the more attractive our rental offerings become, so consolidation among E&Ps is I think will be a long-term benefit to our rental proposition – value proposition.

Stephen Gengaro

Stifel Financial Corp
Very good. Thank you, gentlemen.

Scott Bender
President, CEO and Director
Thank you.

Operator
And your next question comes from the line of Scott Gruber. Your line is open.

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

Scott Bender
President, CEO and Director
Good morning Mr. Gruber. How are you?

Scott Gruber
Citigroup Global Markets, Inc.
Doing well. Circling back on a couple of previous questions, first on the tariff impact, when will we see the full impact of the tariff given the inventory cycle assuming no change in policy obviously?

Stephen Tadlock
Vice President, CFO and Treasurer
Yeah, I mean, typically it would be about six months or so. So, we'd be looking at Q1 into Q2, so full impact is probably in Q2.

Scott Gruber
Citigroup Global Markets, Inc.
Gotcha. Gotcha. And then also coming back to the capital return question, obviously your free cash generation prospects are very strong in the recovery, but this industry is still inherently volatile.

So, with regard to the base dividend, Scott, is there a payout ratio whether you look at on earnings or cash flow, where you just start to get less comfortable like, you know how high would you take it just given the volatility of the business?

John Fitzgerald
Director of Corporate Development and Investor Relations
I would just say that, we clearly set it at a level where we felt comfortable that we would be able to increase it steadily over time. I don't think we want to get into on the call, specific payout ratios that went into the analysis of kind of how we set the level. But certainly, we'd like to be in a position where we can pay the dividend and continue to grow the cash balance.

Scott Gruber
Citigroup Global Markets, Inc.
Gotcha. Appreciate the insight. Thank you.

Operator
Your next question comes from the line of Jacob Lundberg from Credit Suisse. Please ask your question.

Jacob Lundberg
Credit Suisse Securities (USA) LLC
Hey, good morning guys. Thanks for taking the question. I guess….

Scott Bender
President, CEO and Director
Good morning.

Jacob Lundberg
Credit Suisse Securities (USA) LLC
Good morning. To start just wanted to dig into product margins a little bit, so maybe a little bit of pressure is still coming over next couple of quarters from the tariffs kind of rolling back in, but maybe a bit of color on some of the levers you have there to drive those margins back towards kind of 2019 or even the first half of 2020 levels?

Is it just volume or is there anything else you can do to get there a little faster if the market is looking flattish and maybe any thoughts around kind of time to achieve that?

Scott Bender
President, CEO and Director
Well, the easiest way to achieve it is to raise our prices, right? And I don't see the opportunity – I don't see an opportunity to raise prices until, you know I don't want to – we never talk about prices on purpose, but you know there is no appetite for a price, for price increases right now. You know in terms of, you know I mean I'm looking at Joel.

That's the greatest determining fact. That's the gating issue is, I don't think anyone in this industry – I'm confident having been involved with two, two current competitors previously, Joel and I. No one has a lower product cost basis than Cactus. No one and I think that it's fair to say that we've, each year we've reduced our costs for like items. We're the big player, so we get the best pricing.

We have the most leverage with suppliers. We probably have the deepest relationships. We're also very loyal to our suppliers and I think they reward us, but so there's a lot of cost reductions that have, that are flowing through our system right now. And that's the reason that Steve says the tariff headwind, although the worst case scenario looks like 3%, it's more like 1%.

The reason for that is not because we're raising our prices to our customers. It's because we've been successful lowering our product costs. I wish I could give you a better answer, but...

Stephen Tadlock
Vice President, CFO and Treasurer
Yeah. And obviously volume is key, right because we include our indirect expenses in our margins that we report. So, the more the top line grows, the more leverage we get on that, on that figure.

Jacob Lundberg
Credit Suisse Securities (USA) LLC
All right. That makes sense. That's all for me. Appreciate the color, guys. Thanks.

Operator
And we have a question from Kurt Hallead from RBC Capital. Your line is open.

Kurt Hallead
RBC Capital Markets LLC
Hey, good morning.

Scott Bender
President, CEO and Director
Good morning. How are you?

Kurt Hallead
RBC Capital Markets LLC
Good. How you doing?

Scott Bender
President, CEO and Director
We're doing great.

Kurt Hallead
RBC Capital Markets LLC
Good to hear from you guys. Good update too appreciate that. So Scott, my angle I guess is on the rental side of the business and I know you've made a very concerted effort to develop new technology and kind of referenced it on the call again today.

Just wondering if you can give us an update as to what percent of your rental business came from new technology deployments in the quarter? And then you talked about how you pretty much E&Ps have squeezed the lemon as much as they can on pricing and now the focus is on efficiency, which I would think would bode really well for your technology acceptance as you get into next year. So, I wonder if you can comment on that as well?

Stephen Tadlock
Vice President, CFO and Treasurer
I'll take the first part. The innovations were high-single digits as a percent of rental. But, I think Scott noted in the script that that started from a very low base at the beginning of the quarter. So, trending up the right direction by the end of the quarter.

Scott Bender
President, CEO and Director
So your question about efficiencies. The problem we have right now, Kurt, is this, the rental business has been hit in a similar fashion as the pressure pumping business in terms of expectations for lower prices. And to be quite frank, we have competitors who are willing to provide - and not just small competitors, large competitors who have seriously compromised pricing during this downturn and - including some of their higher tech offerings which makes it very problematic.

Now while I continue to believe and this whole group believes that what we have, what we have working right now and we hope to deploy next year is the next generation from what's available in the industry.

I can't promise you that these customers are going to pay for it. They just seem to be less willing to pay for those on the frac side than they are on the drilling side in our experience. And because frac-related innovations, historically, have consumed a disproportionately high share of capital, we're just not going to invest until we feel very comfortable that customers are going to pay for that.

As I mentioned in the script, the good news is a high percentage of our new enhancements require very little capital at least in comparison to frac valves. But nonetheless, we expect to be paid for it. And what I've learned in 43 years in this business, once you begin to give that away, it's very hard to get it back.

Kurt Hallead
RBC Capital Markets LLC
Yeah. That's for sure. And that's really good color. I appreciate that. That's it.

Scott Bender
President, CEO and Director
I guess, okay.

Kurt Hallead
RBC Capital Markets LLC
Keep going, I am listening, keep going.

Scott Bender
President, CEO and Director
I mean I think you got a lot of, you have the most, the most years of experience in this industry at Cactus. And it's more of an art than a science. And, and so, we're not driven just by volumes. We're, we've never traded – pardon me – market. We've never traded market share for margins and we're not going to start.

Kurt Hallead

RBC Capital Markets LLC
Okay, great. That's great. Thanks, Scott. Appreciate it.

Operator
And we have a question from Sean Meakim from JPMorgan. Your line is open.

Sean Meakim
JPMorgan Securities LLC
Thanks. Hey, good morning.

Scott Bender
President, CEO and Director
Sean, how are you?

Sean Meakim
JPMorgan Securities LLC
Doing great. Thank you. So to come back to the market share topic in Product, you all really scaled this business in the last downturn. So, it's not a surprise you're doing it again. But I think the magnitude is what's maybe surprising people today. So, can we just unpack a little more the progress with the majors, specifically in that business?

It seems like that's always been a pretty big prize that we've been looking to see how that develops. So, if we just dial in to maybe how much of a factor those customers have been in the recent share gains and maybe like what inning we are in terms of penetration with the majors.

Scott Bender
President, CEO and Director
I think on a percentage, I'm only going to talk to you on a percentage basis. Sean, on a percentage basis, I think the majors accounted for the highest percentages, I'd say, of growth, but they were closely followed by privates. And so, it was a large percentage.

So, it's progressing very well, but I'm not going to postulate as to where that's going to end up. I just want to emphasize to you that if I look at our market share gains, I have been very surprised that they have not resulted from the large publicly traded E&Ps and having said that, that group which is the core of our business has indicated to us that they have plans to increase their rig count during late fourth quarter and into the first quarter.

So, that's why I'm optimistic about market share gains. We just – we have a very aggressive sales staff, and they've done very well in penetrating really all segments of the customer base right now.

Sean Meakim
JPMorgan Securities LLC
Well, I appreciate that Scott. And that's actually – that's the other topic I wanted to maybe dig into a little more. So you've got some shifting competitive landscapes for products and rentals. As you noticed your sales force is really trying to dial in and get each side.

Customers are focused on efficiency, they have more time on their hands maybe at the moment. Is there any more commentary you can give us on the efficacy of cross pollination between those two? Again, we've always talked about the rentals being kind of your first lead, needless to say the majors have been one type of customer. Can we maybe share a little more commentary on how those two have been able to cross-pollinate in the last quarter or two?

Scott Bender
President, CEO and Director
Yeah. I don't see any, any cross-pollination. It really is two independent – pardon me. By and large, it's like dealing with two independent customers, the completion group, completely separate from the drilling group.

Sean Meakim
JPMorgan Securities LLC
All right. Fair enough. Thanks a lot.

Scott Bender
President, CEO and Director
Thank you.

Operator
And your next question comes from the line of Blake Gendron from Wolfe Research. Your line is open.

Blake Gendron
Wolfe Research
Yeah. Thanks. I'm going to follow-up on Sean's line of question there just some procurement and some of the shifting dynamics that you've seen and really the question boils down to market share, you know - lumpiness one way or the other. I would imagine with the large customers, it's fairly bureaucratic and you're selling maybe into a handful of rigs, whereas with the privates you might have a company man who only uses Cactus and won't go any other way.

So, I guess my question, are you seeing with consolidation maybe market share becoming a bit more lumpy where your wins will be bigger chunks of share and your losses similarly or is procurement still very much at the rig level and you expect to see kind of smooth undulations as you ultimately try to increase your share moving forward?

Scott Bender
President, CEO and Director
Yeah. Procurement for our product business is not at the field level, so it's at the headquarters level. And it's, depending upon the customer, the very large independents, it's led by procurement. I would say the medium size E&Ps publicly traded and smaller ones it's driven by – mostly by engineering folks. But it's very hard – procurement loves to get involved.

It's very hard for procurement to push back on efficiency gains, and so it's not like an international tender where they take six bids and then a buy. Our efficiency and productivity contributions play a large part. In terms of the consolidation of the industry, you know the truth of the matter is for all but the one I mentioned, we've been on both sides.

So when I look at market share gains, as I said I think the risk is that they rationalize their CapEx as they try to high-grade their prospects. So short-term, I think we'll probably see a reduction in their combined rig count, long term I think we'll see an increase in their combined rig counts.

Stephen Tadlock
Vice President, CFO and Treasurer
I would also just add, I think the trend continues that if you have one customer you get all of the rigs, that's been our experience, so – but you don't flip a switch and then all of a sudden have all the rigs. That's the intent when they – when you win that customer, but it takes a period of time to get onto all those rigs as the other company moves off.

So, you're asking, do you see more lumpy adds? Yes, they're lumpy if you look, start at one quarter to end of another quarter, but it's more gradual in our eyes because we're seeing adds through the months as we work up to 100% of the rigs.

Blake Gendron
Wolfe Research
Got it. That makes sense. And then, one more if I could, just on the new innovations, could you help us maybe frame what the contribution there is? It seems like last quarter it was all about price and optimizing costs for the operator, wondering if you expect a re-acceleration of the new product innovations? And

then, pretty interesting commentary around the – around the remote capabilities. We've heard a lot about it from the diversified service providers, not necessarily on the product side. So on that, any sort of cost implication for you guys where you can maybe move structural margins higher because you're doing things more remotely?

Scott Bender
President, CEO and Director
Yeah. Well, I think that that when we first engaged in some of the more innovative products for our frac rental program, that was to build a moat around and protect our legacy frac products. I think that's still the case. So, it remains to be seen what the industry is willing to pay.

There's a lot of remote activity going on right now. As you know, it's accelerating. We honestly believe, and I've never misled this group, that we have a much better mousetrap. It's just – we'll just have to see how much the industry, our customers, are willing to pay for that.

I still feel like it's pretty much expected that we're going to move forward in that regard.

And I look at it as probably the greatest contribution is going to come from increased utilization of our current assets. In other words, I'm not seeing customers pay a whole lot more for the innovations that have been commercialized over the last six months or nine months.

Blake Gendron
Wolfe Research
Got it. Understood. So you see it more as a revenue implication building the moat, maybe getting some more market share on the rental side as opposed to, we can streamline our costs, we can maybe rationalize the folks that are monitoring operations remotely that sort of thing. It's more revenue as opposed to a cost driver for you guys?

Scott Bender
President, CEO and Director
You're – that's exactly right.

Stephen Tadlock
Vice President, CFO and Treasurer
Yeah. But...

Blake Gendron
Wolfe Research
Okay.

Stephen Tadlock
Vice President, CFO and Treasurer
... look, obviously we have very healthy EBITDA margins on the rental side. So any revenue implications have good results on the bottom line.

Blake Gendron
Wolfe Research
Very, very fair. Appreciate the time guys. Thanks.

Operator
Again, participants [Operator Instructions]

There are no further questions at this time. Presenters, please continue.

Scott Bender
President, CEO and Director
All right. Thanks everybody. Stay safe. And I appreciate your support of the company.

Operator
Ladies and gentlemen, this concludes today's conference call. Thank you for joining. You may now disconnect.