Cactus, Inc. (NYSE: WHD)
Q1 2021 Earnings Call Transcript
May 6, 2021 @ 09:00 AM Central

Call Participants

EXECUTIVES

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President, CEO and Director
Stephen Tadlock
Vice President, CFO and Treasurer
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

Chase Mulvehill
Bank of America
Scott Gruber
Citigroup Global Markets, Inc.
Tommy Moll
Stephens, Inc.
George O'Leary
Tudor, Pickering, Holt & Co Securities, Inc
Connor Lynagh
Morgan Stanley & Co
Ian Macpherson
Simmons Energy
Stephen Gengaro
Stifel Financial Corp
David Smith
Heikkinen Energy Advisors

Presentation

Operator
Ladies and gentlemen, thank you for standing by, and welcome to the Cactus Q1 2021 Earnings Call. At this time, all attendees are in a listen-only mode. After the speakers' presentation, there will be a question-and-answer session. [Operator Instructions] Thank you.

Now, I would like to welcome Mr. John Fitzgerald, Director of Corporate Development and IR. Sir, please go ahead.

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 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 apologize in advance, I'm fighting a cold and apparently losing.

Cactus demonstrated its ability to achieve meaningful sequential growth during the first quarter despite the weather-related challenges that impacted us in February. Our product market share remained robust at nearly 43% during the quarter. We believe we're well positioned to capitalize on the US market recovery that is now underway.

In summary:

- First quarter revenues increased 24% sequentially with each revenue category reporting growth of more than 20%
- Adjusted EBITDA was up 15% sequentially;
- Adjusted EBITDA margins were 27%;
- Our cash balance rose to nearly $292 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 Q1, total revenues of $84 million were 24% higher than the prior quarter. Product revenues of $52 million were up 21% sequentially, driven by an increase in rigs followed. Product gross margins were 30% of revenues, down approximately 110 basis points on a sequential basis due primarily to increased costs associated with tariffs, materials, freight and wages.

Rental revenues were above $12 million for the quarter, up approximately 45% from the fourth quarter of 2020. Rental gross margins increased more than twelve hundred basis points sequentially due to higher revenue on a relatively fixed depreciable base.

Field service and other revenues in Q1 were nearly $20 million, up 21% versus the fourth quarter of 2020. This represented 31% of combined Product and Rental-related revenues during the quarter, slightly ahead of expectations. We expect Field Service revenue to be 28 to 29% of Product and Rental revenue during the second quarter of 2021. Gross margins were just under 28% of revenues, down 250 basis points sequentially. The margin decline was attributable to partial wage reinstatements instituted for our Associates during the quarter and operational inefficiencies related to February's inclement weather.

SG&A expenses were $9.6 million during the quarter, up $0.7mm sequentially. The sequential increase was primarily attributable to higher payroll related expenses associated with an increased bonus accrual, wage reinstatements and employee additions. As a percentage of revenue, SG&A expenses decreased from 13% during the fourth quarter of 2020 to 11% in the first quarter. We expect SG&A to be slightly more than $10 million in Q2 2021, inclusive of stock-based compensation of approximately $2 million.

First quarter Adjusted EBITDA was approximately $23 million, up from just under $20 million during the fourth quarter of 2020. Adjusted EBITDA for the quarter represented 27% of revenues, down from 29% of revenues during the fourth quarter, in part attributable to February adverse weather conditions together with increases in payroll and other expenses. Adjustments during the first quarter of 2021 included $2 million in stock-based compensation and $0.4 million of secondary stock offering-related expenses.

Depreciation expense was $9.2 million during the period, down slightly from $9.3 million during the fourth quarter of 2020. We expect a similar amount during the second quarter.

We reported a total tax benefit of $4 million during the first quarter, which is representative of $2 million in tax expense offset by $6 million in discrete tax benefits. $5 million of these benefits relate to a deferred tax asset valuation allowance release due to ownership changes from the March offering.

During the quarter, our public ownership averaged 65%. As a result of the March secondary offering, our public ownership was 72% at the end of the quarter. This should result in an effective tax rate of approximately 19% for Q2 2021, barring further changes in our public ownership percentage.

GAAP Net income was $15.1 million in Q1 2021 versus $6.1 million during the fourth quarter of 2020. This included the previously mentioned costs associated with the March follow-on offering as well as the income tax benefit related to the offering.

Internally, we prefer to look at adjusted Net Income and earnings per share, which were $8.6 million and 11 cents per share, respectively, compared to $6.3 million and $0.08 per share in Q4 2020. Adjustments included $0.4 million of non-routine charges associated with the secondary offering of common stock that was completed during the first quarter and the application of a 25% tax rate to our adjusted pre-tax income generated during the quarter. We estimate that the tax rate for adjusted EPS will be 25% during the second quarter of 2021.

During the first quarter, we paid a quarterly dividend of $0.09 per share, resulting in a cash outflow of $6 million, including related distributions to members. The Board has also approved a dividend of $0.09 per share to be paid in June of this year.

Our cash position increased by over $3 million during the quarter to approximately $292 million, highlighting the continued free cash flow generation of the company, above and beyond our current dividend-related payments and increases in working capital associated with higher activity levels. For the quarter, operating cash flow was nearly $16 million, and our net capex was $2 million.

Capital requirements for our business remain modest, and we will continue to exercise discipline with regards to growth capex. As such, our net capex guidance for 2021 remains in the range of $10 to $15 million.

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

Scott Bender
President, CEO and Director
Thanks Steve.

We noted on our last call a strong management conviction that revenue improvements were forthcoming. This proved accurate as we achieved over 20% growth during the first quarter in all revenue categories.

We continue to generate positive momentum both from existing customer activity increases and by adding new customers. In recent quarters we have been highly successful in winning Product business with Private operators. While the large publicly-traded E&Ps continue to represent the majority of our customers, private operators now represent over a third of our rigs followed, up from sub-20 percent during the middle of last year. Over the same period, our market share with the Privates increased from approximately 15% to nearly 25% today.

We currently expect Cactus' rigs followed to increase by over 10% during the second quarter of 2021. Given the improving market dynamics, continued customer efficiency gains and normal lag times from Q1's rig gains, we expect Q2 Product revenues to increase by over 25% on a sequential basis.

Product EBITDA margins are expected to improve by approximately 200 basis points during the second quarter, highlighting confidence in our ability to offset some of the headwinds related to rising steel prices and ocean freight costs.

On the Rental side of the business, revenues increased considerably during the quarter as customers returned to suppliers geared to generating efficiency gains with more reliable equipment.

Revenue from our innovations was up nearly 5x on a sequential basis during the quarter. Revenue from these technologies represented nearly 20% of our domestic Rental Revenue, up from a mid-single digit percentage during the fourth quarter of 2020.

For the second quarter, we expect Rental activity to be up in the high single digits percentage-wise sequentially as DUC reduction tailwinds moderate. We currently expect EBITDA margins to be in the low-50 percent range for Q2. This market remains highly competitive and we don't expect the market materially to tighten until late this year or early next year.

In Field Service, revenues continue to be driven by both our Product and Rental activity. Revenue as a percentage of Product and Rental revenue is expected to decrease marginally on a sequential basis as pricing in our Product business line likely has greater upside potential from first quarter levels. We expect to see Field Service EBITDA margins in the mid-30 percent range during the second quarter.

In summary, the Company's run-rate revenue for April indicates more than a 20% increase versus the first quarter average. This gives us confidence that Company revenue can grow by at least that amount for the whole of the second quarter.

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

In recognition of our Associates continued focus on execution and commitment to safety, in April we reinstated wages following rollbacks that occurred during the depths of last year's downturn.

In Energy Point Research's most recently published Customer Satisfaction Survey report, Cactus achieved the industry's highest marks in Surface Wellheads & Trees, Surface Production Equipment and multiple other categories. Across all oilfield Products, Cactus had the highest post-sale support ranking and was one of the top-rated companies in Engineering & Design.

On the technologies front, we piloted self-sourced electric-power generated equipment for the first time in April. The equipment has been well received by our customers and represents a more environmentally friendly way to generate power at the well-site. We believe this type of innovation will continue to differentiate Cactus from its less technologically-focused peers.

Regarding our expansion into the Mid-East, we have finalized initial arrangements in Saudi Arabia and have Rental equipment in-country awaiting deployment. Cactus has made preparations to send the required personnel abroad, but the current gating item remains travel restrictions related to COVID-19. The assets we have shipped to date have revenue potential of approximately $1 million per quarter. We anticipate revenue generation beginning during the second half of this year, though uncertainty remains as to timing.

We have recently taken the opportunity to enhance our sales team in the Mid-East, and further demand for our Rental equipment exists today. The Company is currently evaluating whether to ship additional assets into the region and we remain enthusiastic about the potential for this market.

Regarding M&A, we continue to believe that consolidation within our industry makes sense, and we will continue to carefully monitor and evaluate such opportunities.

In summary, we remain optimistic about the opportunities that the upcoming activity recovery presents and are ready to take advantage of our favorable positioning. With that, I will turn it back over to the Operator so that we may begin Q&A. Operator?

Question and Answer

Operator
Thank you, sir. [Operator Instructions] Your first question is from the line of Chase Mulvehill of Bank of America. Your line is now open.

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

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

Chase Mulvehill
Bank of America
Good. How are you? I guess you got a little cold. So hopefully you get over that fairly quickly. It's a little warm to have a cold. I mean it's pretty hot in Houston now.

Scott Bender
President, CEO and Director
Yeah. Chase, I want to ask you to restrict your questions to answers that only require 10 words or less.

Chase Mulvehill
Bank of America
I'll try. I'll try. So if we can talk about pricing, obviously commentary around pricing has been pretty positive, at least on the product side. I mean, obviously rental is not so much. When we think about pricing and how much you've been able to push price, I know you're not going to give me that number on how much you've been able to push price. But if we can think about so far the pricing that you've been able to get on the product side, how much of that will you see in 2Q in the guide, I think you said margins will be up 200 bps. So, how much of that is flowing through in 2Q versus kind of continue flowing through in the back half? And then the pricing that you're seeing, is it more wellheads or is it also trees?

Scott Bender
President, CEO and Director
Yeah. The pricing is wellheads and trees. I'm going to just guess that about half in the second quarter, about half of the impact and the full impact in the third quarter.

Chase Mulvehill
Bank of America
Okay. All right. That's helpful and I would assume that if the market continues to improve, then you'd be able to continue to push price. That's the intent, right?

Scott Bender
President, CEO and Director
That's the expectation. Yes, Chase.

Chase Mulvehill
Bank of America
Yes. Okay. One more – and if we think about the market share gains that you've had, I guess maybe could you talk about pad sizes and if you see pad sizes growing, have you seen that kind of happened over the past few quarters? And then, maybe, if you talk about kind of isolate that conversation around privates because, obviously, kind of what we've always heard is that the privates do smaller pads. Are you starting to see them do bigger pads which actually increases the value of your wellhead business? So, just kind of speak to that a little bit.

Scott Bender
President, CEO and Director
Yeah. I think in general, it's fair to say that we're seeing pad sizes decrease. I don't know that I can really address whether or not privates have begun to increase pad sizes. Steven, have you seen any indication of that?

Steven Bender
Vice President, Operations
No, I don't – I mean, nothing tangible.

Scott Bender
President, CEO and Director
But, in general, pad sizes have decreased this year.

Chase Mulvehill
Bank of America
Okay. So, what would you attribute the market share gains on the private side? Is there just a bigger focus for Cactus on the privates?

Scott Bender
President, CEO and Director
Chase, it's just really the impact of lots of our customers, lots of our larger customers reducing personnel and those personnel who are used to using Cactus finding their way over into management positions at the privates. So it's just an expansion of really the relationships that we fostered over the last 10 years and these people now taking management positions with privates.

Chase Mulvehill
Bank of America
All-righty. Perfect. Sorry, I made you talk too much, Scott. I'll turn it back over.

Operator
Your next question is from the line of Scott Gruber from Citigroup. Your line is now open.

Scott Gruber
Citigroup Global Markets, Inc.
Good morning.

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

Scott Gruber
Citigroup Global Markets, Inc.
Doing well, doing well. So there's a bit of debate this earnings season as to the vigor with which privates add rigs from here - some suggest that trend will lose steam, others are saying it will continue. What's your view on the appetite for privates to continue to add rigs. And any color on the other two cohorts, the majors and publics, and their appetite to add rigs, which is probably more of a second half question, but what are you seeing across the cohorts today?

Scott Bender
President, CEO and Director
Yeah. I think that our view is that for the rest of the year, the large E&Ps, publicly traded E&Ps will increase disproportionately in comparison to the privates. So, kind of a reverse of what we saw earlier this year. And I don't see the majors picking up significantly until 2022. So I think the benefit from that segment will begin to crystallize maybe starting at the end of the year, but certainly next year, so I think the second half of this year will be a tale of the publicly traded – large publicly traded E&Ps at least for Cactus.

Scott Gruber
Citigroup Global Markets, Inc.
Okay. Got you. And then separate question on the electric frac rental equipment. What's the outlook for additional deployments and does deployment require basically a joint deployment with an electric frac fleet to source power? Do you source power independently? Can you deploy it on a conventional fleet? Just some color there.

Scott Bender
President, CEO and Director
Yeah, absolutely. It was designed to be deployed with conventional fleets. So it's self-contained. It produces its own power. It can be deployed with electric fleets. We can use power off of that source, but that was not why and how it was designed. So, we expect, this is really a retrofit of our existing assets. That's why the CapEx requirements are fairly modest. So we intend to roll that through the fleet between – well, we started that in the second quarter, we'll try to complete that to the extent the market cooperates through the end of the year.

Scott Gruber
Citigroup Global Markets, Inc.
Got it. Appreciate the color. Thank you.

Scott Bender
President, CEO and Director
Thank you.

Operator
Your next question is from the line of Tommy Moll of Stephens. Your line is now open.

Scott Bender
President, CEO and Director
Hi Tommy, how are you?

Tommy Moll
Stephens, Inc.
Good morning, Scott. Thanks for taking my questions. I wanted to start on cost inflation which is something that was discussed at least as early as a quarter ago. Sounds like particularly on the product side, that market is improving and you're able to take at least enough price to continue to improve margins there. But what anecdotes can you share with us on the cost inflation side? And any measures you've taken to address this?

Scott Bender
President, CEO and Director
I'm going to let Joel address the anecdotes because of course, now, keep in mind, Joel is going to tell you the very worst of the stories. He is not going to pat himself on the back and tell you what he's done to mitigate the impact. But go ahead, Joel.

Joel Bender
Senior Vice President, COO and Director
It's been a pretty challenging period to be honest with you. It's coming from sort of all sides between raw material and freight issues and wage inflation. It's been tough all the way around. We were proactive and started early on in ordering additional products to try to keep pricing down. But we're pretty fastidious and we're pretty tough when it comes to negotiating product. So we spent a lot of time – much more time than we normally do working with our suppliers trying to forecast, trying to buy the lower priced goods as much as we could early on. And we've been successful in doing that, successful in negotiating pricing down. I've not been able to avoid increases, but I've avoided some double-digit increases that look like they were prevalent in the marketplace.

In addition, in terms of freight, we started booking early on so that we wouldn't get hit with a lot of these higher container rates because I'm sure you're aware if you've read the news that containers have gone from $2,500 to in excess of $10,000 if you're trying to buy on spot market. So we book in advance. We lay our product in at the ports three to four weeks in advance of shipping now. So we're trying to do anything we can to mitigate these additional costs. But the honest reality is that we do have these increases and it's a continual battle.

Scott Bender
President, CEO and Director
What would you say steel has gone up, for example, in the last…

Joel Bender
Senior Vice President, COO and Director
It's been double-digit numbers. I've seen it as much as 20%, 25% depending upon one order to the next. If I ordered something at the end of last year and I'm ordering this year, I've seen it go up that much. So it's a constant battle right now.

Tommy Moll
Stephens, Inc.
That's all very helpful. Thank you. If I could shift back to M&A, Scott, you referenced it in your comments. We've heard it from you before. At the same time, I'm curious if it appears more or less likely than, say, 90 days ago just given that the commodity or WTI is still in the mid-60s and the industry generally is moving up and to the right. Are seller expectations at a level where transactions are more or less likely would you say versus last time we spoke?

Scott Bender
President, CEO and Director
Well, I'd say that the best time to have done this would have been towards the end of last year when I first began to harp on it. I guess I first mentioned it in the second quarter earnings call. And that's what it takes to sometimes get people over the edge. So the opportunity still exists. The prices will be higher. But, Tommy, I think there are people that just are struggling to make money in North America. Even with WTI in the low-60s, I think there's some working capital challenges for people that aren't terribly well financed. The capital markets don't support this industry. So the opportunities are still there. But you know the answer to this. Seller's expectations have increased. Fortunately, our currency has as well - so I don't really see that as being an insurmountable roadblock to transacting.

Tommy Moll
Stephens, Inc.
Thank you, Scott. I'll turn it back.

Operator
Your next question is from the line of George O'Leary of Tudor, Pickering, Holt & Company. Your line is now open.

Scott Bender
President, CEO and Director
Good morning, George.

George O'Leary
Tudor, Pickering, Holt & Co Securities, Inc
Good morning, Scott. Hope you feel better soon.

Scott Bender
President, CEO and Director
Thanks.

George O'Leary
Tudor, Pickering, Holt & Co Securities, Inc
Just a question on incremental margins moving forward. You outlined everything real well for the second quarter, but just kind of a crystal ball question that's not too far out. Seems like there's potential for higher incremental margins given the fact pattern you laid out: prices increasing, you have some cost headwinds at the moment. Assuming those cost headwinds abate, should we expect higher incrementals in the third quarter? And I'm purposefully asking a question that you can answer quickly.

Stephen Tadlock
Vice President, CFO and Treasurer
I'll answer it and save him the 10 words. But, yeah, for Q2, obviously they're not quite as great as we'd like in terms of our projections, just because of wage reinstatements and rental margins and the pressure in that market. But like we said, we expect them to, kind of return to better levels Q3 forward. And in general, we look at our adjusted EBITDA margins and usually our incrementals are slightly better in each category on that front. So, yes, I think that looks more positive Q3 forward.

George O'Leary
Tudor, Pickering, Holt & Co Securities, Inc
Great. Helpful. Thanks very much. And then products, I think you said products growth should outpace rental growth. Is that more of, like, an underlying market activity standpoint, in terms of more rigs than frac spreads are being added? I realized there's also a pricing component or is a more sluggish rental growth coming from just the pricing dynamics there, are still not in great position? So, you're not going to play where the pricing is not attractive?

Scott Bender
President, CEO and Director
Yes. George, you got it.

George O'Leary
Tudor, Pickering, Holt & Co Securities, Inc
Great. I told you, I'd keep to easy questions for short responses. So we're good.

Scott Bender
President, CEO and Director
You summed it up.

George O'Leary
Tudor, Pickering, Holt & Co Securities, Inc
Thank you, guys.

Scott Bender
President, CEO and Director
Thank you.

Operator
Your next question is from the line of Connor Lynagh of Morgan Stanley. Your line is now open.

Connor Lynagh
Morgan Stanley & Co
Thanks. Maybe we could stay on…

Scott Bender
President, CEO and Director
Good morning.

Connor Lynagh
Morgan Stanley & Co
Good morning. Good morning. Maybe we could stay on the rental side of things here. We obviously talked about you guys are reclaiming pricing in product. What do you think it takes in rental? I mean, my general understanding is this equipment gets pretty beat up and I think you're one of the few well-capitalized companies out there. Is there an attrition angle to this or do you think we need materially higher frac activity to really drive the pricing on that?

Scott Bender
President, CEO and Director
I think there's definitely an attrition factor that's just now coming into play particularly because so many of our competitors are not charging for repairs, and the repairs become increasingly expensive. So I think you'll see absolutely some attrition in that regard. But there also needs to be some tightening in the market and that coupled with attrition, I think, is why I made the comment that I think we're going to see some price improvement by the end of the year, beginning of next year. So it's the combination of those. But to be clear, we need – we really do need both.

Connor Lynagh
Morgan Stanley & Co
Yeah. Understood and apologies if I missed, but have you guys provided an update on the innovations in recent quarters here and just any thoughts around potential uptake as the market improves here?

Scott Bender
President, CEO and Director
We haven't provided a whole lot of detail except that maybe mention the fact that, of course, we're going to be generating our power outside of diesel generation. So we'll be rolling that through the fleet as I mentioned earlier. We're far more digitized today than we were this time last year. So we can manage all of the frac operations, for which we're responsible, remotely outside of the exclusion zone.

I think that we've really begun to focus as we did in the last market downturn on our valve design. I think that reducing repair cost is going to be critical going forward. So we're spending a lot of time on the less sexy parts of the frac business. And that is reducing the need for really robust valve repairs. Every time a valve comes in, we're one of the few companies that completely tears a valve down to its bones and rebuilds it. And it's a very, very costly process, but it allows us to sleep at night. So we're addressing a lot of R&D efforts in that direction.

Connor Lynagh
Morgan Stanley & Co
Got it. Appreciate it.

Operator
Your next question is from the line of Ian Macpherson from Simmons. Your line is now open.

Scott Bender
President, CEO and Director
Good morning, Ian.

Ian Macpherson
Simmons Energy
Good morning, Scott.

Scott Bender
President, CEO and Director
How are you?

Ian Macpherson
Simmons Energy
You capitalized really well on the customer mix shifts this year and part of that looks semi-structural, if not structural with higher oil prices. And you've also spoken to the fact that those in the more commoditized part of your business are still struggling. And it seems like we're at a point of capitulation for some of those. So, just given those two dynamics, I wanted to just ask you to muse medium- to longer-term on the ceiling for market share. It seems like getting up to 43% has been a good story, but might not be the end of the story. So, just want to get your thoughts on that. You can keep it 10 words or less, if you like.

Scott Bender
President, CEO and Director
Okay. I'm going to try. I'm going to – first, I'm going to reiterate what I mentioned last quarter, and that is that there is market share to be gained, but it's a matter of whether or not we can attract customers that are going to pay us for our value proposition. So, not everybody is going to pay us for our value proposition. But there is – I think everybody at Cactus believes we can add market share.

The second part is that we've just witnessed a competitor going out of business in the wellhead segment. I think that that's the first of several. Now, to be sure, they're not Tier 1 players, but they have rigs and they haven't been very constructive in terms of getting prices back up to a reasonable level. So I think this could be the year, particularly as working capital requirements increase, that we'll see some attrition in wellhead providers. I mean you know that Weatherford announced they were going out of the wellhead business.

Ian Macpherson
Simmons Energy
Yeah. Yeah.

Scott Bender
President, CEO and Director
I think there are an awful lot of wellhead companies out there right now, Ian.

Ian Macpherson
Simmons Energy
Good. Well, I will stay tuned. I would ask another one on M&A, but I think you've addressed it for now. So, thank you.

Scott Bender
President, CEO and Director
Thanks, Ian.

Operator
Your next question is from the line of Stephen Gengaro of Stifel. Your line is now open.

Stephen Gengaro
Stifel Financial Corp
Hi, gentlemen.

Scott Bender
President, CEO and Director
Hi, Stephen.

Stephen Gengaro
Stifel Financial Corp
Two things if you don't mind. One, you obviously have a lot of cash. I'm just sort of curious about as you look at M&A opportunities, to the extent nothing materializes, what is – any sense for timeframe and/or willingness to change the dividend policy? I mean obviously, there's a lot of people there who care, but just curious your perspective on that as of today.

Scott Bender
President, CEO and Director
Yeah. I'm going to have to give you the same answer I've given before. And that is that we're still the largest shareholders. So all this cash on our balance sheet is not helpful for the family since we don't work for a salary. So it's not our best interest to keep this cash on our balance sheet. Having said that, the only reason we're keeping it in on our balance sheet is that we have a fairly, I guess, optimistic view of opportunities this year. If those opportunities turn out not to come to fruition, then clearly we're going to expand our dividend. This is – I'm not going to hang around forever waiting for an M&A opportunity because I think, frankly, as the market is – as we talked about earlier, as the market heals itself, the opportunities probably will reduce and at least at a decent price.

Stephen Gengaro
Stifel Financial Corp
Got it. Thank you. And then you talk a little bit about international. As we think about the impact that has, I mean would you think we'd start to see a meaningful impact in 2022 or do you think it's going to take a little longer to kind of gain momentum and see kind of a more significant profit impact later than that? How should we sort of think about the timing?

Scott Bender
President, CEO and Director
I think second half of 2022.

Stephen Gengaro
Stifel Financial Corp
Okay. Great. Thank you.

Operator
Your next question is from the line of David Smith of Heikkinen Energy Advisors. Your line is now open.

Scott Bender
President, CEO and Director
Hi, David.

David Smith
Heikkinen Energy Advisors
Hi. Good morning. Thank you. Hey. I wanted to make sure that I heard correctly on the Q2 rental guidance. Did you say revenue up high-single-digit, margins in the low-50% range?

Scott Bender
President, CEO and Director
Yes.

David Smith
Heikkinen Energy Advisors
And I expected Q1 rental margins may have reflected some impacts from the storm disruptions. I was just hoping you might help with some color behind the segment margins stepping down a little in Q2, is this flattish pricing and rising costs? Is there something else maybe staging for international deployment weighing more?

Scott Bender
President, CEO and Director
So it is in fact the pricing environment that's not very helpful. We do have **–** we don't have great visibility in our frac business as we've mentioned before. But we've got **–** we are preparing ourselves for a couple of very large deployments in June and July. So that's impacting our margins. But I would say, really, most of it has to do with just this pricing environment more than anything else.

David Smith
Heikkinen Energy Advisors
Great. Helpful. That's it from me. Thank you.

Operator
There are no further questions. Presenters, please continue.

Scott Bender
President, CEO and Director
Okay. Thanks, everybody. I appreciate your time and your interest in Cactus. Stay safe.

Operator
And with that, this concludes today's conference call. Thank you for attending. You may now disconnect.