Cactus, Inc. (NYSE: WHD)
Q2 2021 Earnings Call Transcript
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Call Participants

EXECUTIVES

Scott Bender
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

George O'Leary
Tudor, Pickering, Holt & Co Securities, Inc
Tommy Moll
Stephens, Inc.
Chase Mulvehill
Bank of America
Connor Lynagh
Morgan Stanley & Co
Stephen Gengaro
Stifel Financial Corp

Presentation

Operator
Ladies and gentlemen, thank you for standing by, and welcome to the Cactus Q2 2021 Earnings Call. At this time, all participants are in a listen-only mode. After the speaker presentation, there will be a question-and-answer session. [Operator Instructions]

I would now like to hand the conference over to John Fitzgerald, Director of Corporate Development and IR. Thank you. 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 to these non-GAAP measures to the most directly comparable GAAP measures are included in our earnings release. With that, I will turn the call over to Scott.

Scott Bender
President, CEO & Director
Thanks, John and good morning to everyone. Cactus demonstrated its ability to achieve meaningful sequential growth during the second quarter. Revenue and Adjusted EBITDA were each up over 25% versus Q1, significantly outpacing the 16% increase in the U.S. land rig count. Our product market share remained robust, at just under 42% during the period.

We believe we are well positioned to capitalize on the U.S. market recovery, given expectations for activity gains beyond the private operators as we head into next year.

In summary:

- First quarter revenues increased 29% sequentially with each revenue category reporting growth of more than 15%
- Adjusted EBITDA was up 27% sequentially;
- Adjusted EBITDA margins were 27%;
- Free cash flow was above $25 million for the quarter;
- Our cash balance rose to nearly $309 million; and
- Our Board of Directors approved an 11% increase in our quarterly dividend to $.10 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 Q2, total revenues of $109 million were 29% higher than the prior quarter. Product revenues of $70 million were up 35% sequentially, driven by an increase in rigs followed, improved drilling efficiencies, production-related equipment demand and cost recovery initiatives. Product gross margins were 32% of revenues, up approximately 190 basis points on a sequential basis as we began to address the impact of the significant cost inflation which commenced in late 2020.

Rental revenues were nearly $15 million for the quarter, up approximately 17% from the first quarter of 2021. Rental gross margins decreased 90 basis points sequentially, due primarily to higher repair costs as we deployed more equipment in the field.

Field service and other revenues in Q2 were nearly $24 million, up 20% versus the first quarter of 2021. This represented 28% of combined Product and Rental-related revenues during the quarter and was in-line with expectations. We expect Field Service revenue to be approximately 27% of Product and Rental revenue during the third quarter of 2021. Gross margins were 26% of revenues, down 160 basis points sequentially, with the reduction largely attributable to wage reinstatements completed for our Associates during the quarter, the adverse impact on utilization of time spent on new hire training and overtime required to meet the aforementioned increase in activity levels.

SG&A expenses were $11.4 million during the quarter, up $1.8 million versus the first quarter. The sequential increase was primarily attributable to higher payroll related expenses associated with higher bonus accruals, wage reinstatements and employee additions. Additionally, the quarter included an increase in stock-based compensation expense related to previously granted PSUs. As a percentage of revenue, SG&A expenses decreased from 11% during the first quarter to 10% in the second quarter. We expect SG&A to be $11 to $12 million in Q3 2021, inclusive of a slightly reduced stock-based compensation expense of approximately $2 million.

Second quarter Adjusted EBITDA was approximately $29 million, up 27% from just under $23 million during the first quarter of the year. Adjusted EBITDA for the quarter represented nearly 27% of revenues, in-line with the first quarter. Adjustments during the second quarter of 2021 included slightly over $2 million in stock-based compensation and $1 million in other expense related to the revaluation of our TRA liability.

Depreciation expense for the quarter was flat vs Q1 at $9.2 million with a similar amount expected for the third quarter.

During the period, we recorded a $1 million non-cash adjustment in Other Expense related to the revaluation of our Tax Receivable Agreement liability.

We reported income tax expense of $1.4 million during the second quarter which is inclusive of a $3.0 million income tax benefit associated with a partial release of a valuation allowance during the period and was partially offset by $600 thousand of expense related to changes in our foreign tax credit position.

During the quarter, the public, or Class A ownership of the Company averaged 73%. Following Cadent's distribution of all but 900 thousand of its shares to its limited partners, our public ownership was 77% at the end of the quarter. This distribution removes what was considered an overhang on our stock. Barring further changes in our public ownership percentage, we expect an effective tax rate of approximately 21% for Q3.

GAAP Net income was $14.8 million in Q2 2021 versus $15.1 million during the first quarter, which had a tax benefit for the period.

Internally, we prefer to look at adjusted Net Income and earnings per share, which were $12.3 million and 16 cents per share, respectively, during the second quarter versus $8.6 million and 11 cents per share in

Q1. The Q2 adjustments included backing out $1 million in Other expense related to the revaluation of the Tax Receivable Agreement liability and the application of a 28% tax rate to our adjusted pre-tax income generated during the quarter. We estimate that the tax rate for adjusted EPS will be 28% during the third quarter of 2021.

During the second quarter, we paid a quarterly dividend of $0.09 per share, resulting in a cash outflow of nearly $7 million, including related distributions to members. The board has approved a dividend of $0.10 per share to be paid in September of this year.

Our cash position increased by 17 million dollars during the quarter to approximately $309 million, highlighting the continued free cash flow generation of the company, above and beyond dividend-related payments. For the quarter, operating cash flow was approximately $27 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.

During the third quarter we expect to make a TRA payment of approximately 9 million dollars and an associated distribution to members of 3 million dollars.

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

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

The second quarter again highlighted our ability to outperform domestic drilling & completion activity. While the U.S. land rig count gained 16% during the quarter, our total revenue grew 29%, with Product revenue up 35% over the period.

Despite the majority of rig count additions in the quarter being driven by private operators, who have historically represented a smaller portion of our business, we reported market share at nearly 42% during the period. Additionally, our Product Revenue generated per rig followed increased by approximately 20% due to a combination of rig efficiency gains, greater production tree revenue, and cost recovery efforts.

Looking to the third quarter, we currently anticipate our rigs followed and product revenues to increase by a high single digit percentage. We remain of the opinion that our publicly traded customers will respond to the improved commodity environment as we head into 2022, thereby contributing to tightness in this competitive market.

Product EBITDA margins are biased slightly higher for the third quarter, as increased direct costs are offset by cost recovery initiatives that should more fully materialize over the coming months.

The supply chain headwinds that we referenced on last quarter's call continue to persist. As you may know, steel prices make up the largest portion of our material costs. While our input cost increases have not been as drastic as the hot-rolled coil steel index prices you see on your Bloomberg screens, we have seen a double-digit percentage increase since last year in some cases. The cost of freight, specifically ocean freight, continues to experience even higher inflation. Moreover, delivery disruptions have emerged as increasingly problematic, highlighting the important role that our Bossier City facility plays in our ability to execute effectively and retain and enhance customer loyalty.

Cactus has diligently worked with our customers in managing the impact of materially higher costs. As economies continue to open worldwide, the global supply chain is likely to remain under pressure and the market for our equipment should remain tight, whether that be for materials, freight or people. Thus, we expect further negotiations with customers in order to address this dynamic during the second half of the

year. At the same time, we are optimistic that some of these inflationary pressures will begin to ease by next year, representing a potential tailwind for returns in 2022.

On the Rental side of the business, revenues increased by more than we anticipated during the second quarter. With this came increased equipment repair costs as more of our fleet moved to the field, which weighed on our margins during the period.

Revenue from our innovations was up 33% on a sequential basis in Q2 and represented over 20% of our domestic Rental Revenue, the highest level witnessed since the COVID-related downturn.

For the third quarter, while general market commentary is pointing to limited completion activity growth following the second quarter DUC drawdowns, we expect Rental revenue to be up in the 10 to 15 percent range sequentially as we continue to gain traction from larger customers who value efficiency and reliability. We currently anticipate rental EBITDA margins to be in the high 40 percent range for Q3, as we expect this market to remain competitive.

Regarding our expansion into the Mid-East, we have been encouraged by recent progress made in deploying personnel into the region, which is an important step in our model. We now expect to generate first revenue in the region toward the end of the third quarter. As previously disclosed, the assets we have shipped to date have revenue potential of approximately $1 million per quarter. We continue to evaluate the shipment of additional assets into the region given the additional demand for our equipment.

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 cost recovery likely has higher upside potential versus second quarter levels. We expect to see Field Service EBITDA margins in the low-30 percent range during the third quarter, down sequentially to reflect a full quarter of wage reinstatements and continued new hire activity, but still strong versus historical levels.

I'd like to close our prepared remarks by highlighting a few key points, starting with returns:

Despite being only one year removed from the worst oil price collapse of my career, we achieved an annualized return on capital employed of over 30% for the second quarter. This speaks to the disciplined approach taken by our management team and our ability to quickly capitalize on the industry recovery currently underway.

Since the beginning of 2020, we have generated free cash flow above and beyond our quarterly dividend every single quarter. During that time, our cash balance has increased by over $100 million dollars despite more than $35mm in dividend-related payments to our shareholders. I am especially proud of our team's management of working capital levels over this period, particularly in light of the accelerated revenue growth this year.

Our confidence in the business to continue to generate free cash flow and the strength of our balance sheet have enabled us to raise the regular quarterly dividend to 10 cents per share, an 11 percent increase. As we stated previously, we set the original dividend at a level that we had hoped to grow over time. While we had the capacity to increase our dividend rate sooner, we were sensitive to the sacrifices that our Associates had made. Now that compensation has been reinstated, we feel more comfortable reassessing the dividend level on a more regular basis. Additionally, we do not view regular dividend increases as mutually exclusive from potential special dividends, buybacks or M&A. We will continue to carefully monitor and evaluate all capital deployment opportunities.

In summary, we were extremely pleased with the ability to show significant top line growth during the second quarter and generate meaningful free cash flow. Despite the speed and severity of the industry's cost inflation being greater than anticipated, we proactively addressed these pressures during the second quarter. Our ability to dampen the impact of increased costs is a reflection of the differentiated nature of

our products and services and the value our customer base places on us. This provides optimism for margin improvement next year as volumes expand and costs potentially return to more normalized levels.

We remain ready to take advantage of our favorable positioning as the ongoing activity recovery continues. 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 is from George O'Leary of TPH & Company.

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

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

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

Scott Bender
President, CEO and Director
Doing great. Thanks.

George O'Leary
Tudor, Pickering, Holt & Co Securities, Inc
Good. Well, first question is on the Middle East, now that you should have some revenues there by the end of the third quarter, but more of a longer-term question. Just given you built multiple businesses during your career, how long do you believe it will take to ramp up in the Middle East such that it becomes a meaningful piece of the business, call it, 10-plus-percent of revenue somewhere in that market? Is it a three-year time horizon, or five-year time horizon, just bracket what's reasonable or what's unreasonable to think about it?

Scott Bender
President, CEO and Director
Yeah. All right, George. It's going to take about – to meaningfully ramp up our Mid-East revenue to – in the range of 20%, 15% - 20%, we're going to have to build a facility. And building a facility is about an 18-month proposition. So, as our comfort level increases, which we expect to happen with the introduction of these rental assets, you can figure 18 to 24 months from the end of the year.

George O'Leary
Tudor, Pickering, Holt & Co Securities, Inc
Okay. That's very helpful, Scott. And then just the super strong revenue growth in products in Q2 caught my eye. And you mentioned rig efficiency, there's just – there are also production trees goat-heads. Was the increased revenue driven more by those drilling efficiencies and selling more wellheads, or did production tree sales really kick in and juice the revenues, what was the larger contributor there?

Stephen Tadlock
Vice President, CFO and Treasurer
Yeah. It was a mixture of a variety of things really. So, we can't point to any one factor, but it was production tree and completion-related increases on the product side. It was obviously the cost recovery

efforts and just the kind of catch-up – we'd seen a rapid recovery in rigs and we still even had a pretty healthy rig count growth over that period, but as that increase sort of settles in, you tend to see more revenue per rig. There's always a lag there.

George O'Leary
Tudor, Pickering, Holt & Co Securities, Inc
Great. Thanks for the color, guys. Y'all have a good one.

Scott Bender
President, CEO and Director
Thanks, George.

Operator
Your next question is from Tommy Moll of Stephens.

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

Tommy Moll
Stephens, Inc.
Good morning. Thanks for taking my questions. Scott, I wanted to start on supply chain, just any anecdotes you can share with us on measures that you've taken to try to address some of the issues that have arisen. And then secondarily, anything you can do to quantify what the impact has been or might be going forward and what you've attempted to do on what I think you're referencing as cost recovery there?

Scott Bender
President, CEO and Director
Well, Tommy, that's pretty easy – easily answered question there. First – and I have – Joel's in here and he can add some color to the supply chain issues. First, I'm not going to disclose the impact of the cost increases, nor – I will talk about cost recovery though. So, we started that fairly early as you would expect and it accelerated during the second quarter – towards the end of the second quarter. These things don't happen overnight. A lot of pushback, but we've been – by the end of the second quarter, we were successful in reaching agreements with virtually all of our customers. That's not to say that the price increases were fully implemented by the end of June because they were not. So, you'll see a much greater impact from those negotiations in the third quarter.

In terms of supply chain – I mean, I can tell you I think the area that's been the most impacted has been ocean freight, but I'll let Joel answer that.

Joel Bender
Senior Vice President, COO and Director
I mean, that has – I mean, we saw that coming around the first quarter or so, so we actually ordered up inventory and for two reasons: one to protect the supply chain and have availability for our customers; and secondly to try to as best we could protect our margins by ordering up. And we had the cash to do it. So it allowed us to put some inventory on the ground and maintain those costs as best we can, as I mentioned. That's really been the issue is just trying to keep product on the ground and trying to really protect our margins. So, we have stocked up on most of our common products in anticipation of what we've seen and honestly, the disruption we've seen with the vessels and the containers has probably been greater than we anticipated. But fortunately, end of June, beginning of July, a lot of this product started showing up, so that's allowed us to make our deliveries and increase our product revenue.

Scott Bender
President, CEO and Director
Yeah, Tommy, I think we've seen ocean freight double. Would you say that's fair?

Joel Bender
Senior Vice President, COO and Director
It's more than doubled.

Scott Bender
President, CEO and Director
More than doubled. And ocean freight is a pretty high percentage of our total cost, it's a meaningful percentage of our total cost.

Tommy Moll
Stephens, Inc.
Related to all these issues, I wonder if you've had or anticipate having some share gain opportunities just given the flexibility you have with Bossier, and the balance sheet you've got and have deployed to order in advance of a lot of these big bottlenecks, maybe where some competitors have not been as nimble.

Scott Bender
President, CEO and Director
Yeah. Tommy, I'd be very disappointed, as the year progresses, particularly into the fourth quarter and first quarter of next year, if that doesn't result in some meaningful gains. We've already had to bail out a customer or two who doesn't use us exclusively. Most of our customers do use us exclusively. But yes, our larger competitors are not as flexible and nimble in terms of supply chain response. So, this – as I mentioned you know in the script, we do view this as a positive having Bossier City.

Tommy Moll
Stephens, Inc.
Great. We'll look forward to watching the progress. Thanks for the time, and I'll turn it back.

Operator
Your next question is from Chase Mulvehill of Bank of America.

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

Chase Mulvehill
Bank of America
Hey. Good, good. How are you, Scott? Thanks for squeezing me in here. I guess a few questions. I guess let's first just kind of go back and touch on kind of supply chain friction and raw material inflation and hate to beat a dead horse here, but just kind of thinking about supply chain pressures. If you were to look at them today, are they accelerating or decelerating? And the same question really on the raw material costs. We can look at HRC, hot-rolled coil, on our Bloomberg screen, but we don't know the exact steel cost and stuff that they're pulling through to your P&L. So, just help us understand if that pressure is starting to kind of decelerate yet.

Scott Bender
President, CEO and Director
Not really, Chase.

Chase Mulvehill
Bank of America
Okay.

Scott Bender
President, CEO and Director
We don't really think we're going to see an easing. I mean, Joel can add some – again, some color, but we don't anticipate any easing of freight or steel until the end of the year.

Joel Bender
Senior Vice President, COO and Director
I'm going to say, maybe into the first quarter of next year, honestly.

Scott Bender
President, CEO and Director
That's why it's incredibly important that we stay close with our customers. And I can't overemphasize the job that this organization has done in ensuring that this incredibly rapid and severe increase in cost has not been reflected in severe margin degradation. So, we've done an exceptionally good job, in my opinion, of protecting this company in that regard.

Stephen Tadlock
Vice President, CFO and Treasurer
And I think – as Joel mentioned, he's been proactively ordering to protect that going forward as well and lock in prices so that as he sees rates go up, it's not necessarily – yeah, that could be the next order, but he's heavily ordered.

Joel Bender
Senior Vice President, COO and Director
Correct.

Stephen Tadlock
Vice President, CFO and Treasurer
Starting in Q1.

Chase Mulvehill
Bank of America
That makes sense. And I guess kind of two quick follow-ups – or a quick follow-up on that one. Are you able to kind of provide – or push surcharges through related to kind of incremental shipping costs? And then what about – how much can you save by shifting more to Bossier City from a production standpoint to avoid some of the higher – the elevated cost of shipping?

Scott Bender
President, CEO and Director
Yeah. Our Far East supply chain is still more competitive even including the higher freight costs. So it doesn't really make sense to do that.

Joel Bender
Senior Vice President, COO and Director
No, because you have to remember too that if steel is going up in China, it's going up everywhere at this point. So, you just – any product you buy today that's steel or has a component of steel in it, you're going to see an increase whether it's coming from China, the U.S., Italy, India, any of these locations, you're seeing the same kind of increases on the steel.

Scott Bender
President, CEO and Director
So, in answer to your question about freight recovery, so we're now implementing freight surcharges with our clients.

Stephen Tadlock
Vice President, CFO and Treasurer
And I think historically – and this hasn't changed – if we get a drop-in order that was not forecasted, Joel is not shy about requesting…

Joel Bender
Senior Vice President, COO and Director
No, that's going to go at a market price. It's not going to go at necessarily a contract price.

Chase Mulvehill
Bank of America
Okay. Perfect. I guess coming back to the questions around kind of market penetration on the international side. And obviously, you're starting on – with rentals, but maybe could you speak to kind of the wellhead market. Us investors are really not too well educated on the wellhead market structure internationally. So, maybe just talk about that market structure and how fragmented it is or is not.

Scott Bender
President, CEO and Director
Yeah. So, it's clearly not as fragmented as the U.S. market. You've got three major players internationally, and it used to be four. So, it's a much tighter market. The better markets internationally are the markets that require indigenous manufacturing. So, if you think about the world, think about the areas that have the most attractive margin potential, those are the markets that require that you have a facility, and that's why I responded earlier to see a meaningful contribution from the Mid-East in particular is going to require that we build a factory. Fortunately… a factory will cost about $15 million. Fortunately, we're in a position to do that. The U.S. though is so fragmented that the competitive pressures are just much more acute here.

Chase Mulvehill
Bank of America
Okay. Perfect. Appreciate all the answers. I'll turn it back over. Thanks, Scott.

Operator
[Operator Instructions] Your next question is from Connor Lynagh of Morgan Stanley.

Connor Lynagh
Morgan Stanley & Co
Yeah, thanks. Good morning, guys.

Scott Bender
President, CEO and Director
Good morning.

Connor Lynagh
Morgan Stanley & Co
I was wondering what we should read into from the magnitude of your dividend increase. Certainly good to see you guys returning extra capital. But if we think about the sustainability or the durability even in, to your point, the worst downturn we've had in this industry in decades, so you guys would have very easily covered even the new dividend run rate. So, I'm just curious what's your sort of thinking, are you continuing to think that there's incremental M&A opportunities, would you just prefer to see this grow more long term as opposed to a big step-change, just curious the calculus around that?

Scott Bender
President, CEO and Director
You really asked two questions. The first is, as I mentioned, we set it low to make sure it was sustainable. We would have raised it earlier had it not been for, I think, the morale at the company. We asked our associates to take some very painful hits to their wages and benefits and we didn't feel like it was appropriate to increase the dividend although we have the capacity to do so until we'd addressed those. Those are behind us and fully reflected or will be fully reflected this quarter. And so, our plan is to much more frequently address incremental increases in the dividend. So I think that – and barring the unexpected, that's still on the horizon. We do not absolutely view that as mutually exclusive with M&A opportunities. So, we are absolutely focused on accretive M&A opportunities that don't impair our balance sheet and our ability to continue to continue to pay a dividend or increase the dividend.

Connor Lynagh
Morgan Stanley & Co

Yeah. Understand – I definitely understand that portion around the people. Maybe just sticking with that theme, what are you seeing in terms of labor market, how has your sort of capacity at your facilities and then in terms of your field service?

Scott Bender
President, CEO and Director
We added I think this quarter about 125 or so associates. Since the beginning of the year, we've added over 200. We have about 90 open positions right now. Is that right, David?

David Isaac
Vice President of Administration and General Counsel
Correct.

Scott Bender
President, CEO and Director
Something like that. It's a struggle to be sure. And we're not – we're no different from anyone else. Fortunately, when we go out into the field unlike a pressure pumper, we typically only go out with one associate, sometimes two, so the burden in terms of service techs is not quite as high. We've been able to hire, and we have been able to control our labor costs, surprisingly well. But it's a full-time job to try to bring these folks on. So, it's impacting us. It's just not probably as impactful to us as it is to pressure pumpers and perhaps drilling contractors.

Connor Lynagh
Morgan Stanley & Co
That's fair. Are you anticipating significant wage increases for the duration of the year here?

Scott Bender
President, CEO and Director
So I think that we are going to see some increases towards the end of the year. But I don't think they'll be cause for concern.

Connor Lynagh
Morgan Stanley & Co
All right. That's helpful. Thank you.

Operator
Your final question is from Stephen Gengaro of Stifel.

Stephen Gengaro
Stifel Financial Corp
Thanks. Good morning, gentlemen.

Scott Bender
President, CEO and Director
Good morning.

Stephen Gengaro
Stifel Financial Corp
Two things for me. One is, I just want to get back to the revenue per rig followed number that you guys talked a little bit about earlier. And I think you said, and I might have missed this, that you expected – I don't know if you said it's 7% to 9% or high-single digit increase in the third quarter. I think you said in rigs followed, if that was correct?

Stephen Tadlock
Vice President, CFO and Treasurer
Yeah.

Stephen Gengaro

Stifel Financial Corp
How does that revenue per rig number evolve? And I know there's some puts and takes with the tree sales et cetera. But given the pricing and given what you're seeing, does that – is that stabilized? Is that trend back towards a more normalized level in the next quarter, how do we think about that?

Stephen Tadlock
Vice President, CFO and Treasurer
Yeah, this quarter we're expecting it to more stabilize. As production activity maintains and, as Scott said, the cost recovery initiatives came throughout the quarter, and we're growing at a more – well, high-single digits. So, I think we would expect that to be relatively flat quarter-over-quarter.

Stephen Gengaro
Stifel Financial Corp
Okay, great. That's helpful. Thank you. And then just on the market share question, I mean I understand the dynamics of the privates versus the publics and your share being so strong with the publics. How has the share with the privates evolved, because my sense was it has improved just based on what you guys did in the first quarter, but how has that evolved over the last couple of quarters, and how do you see that playing out as it fits into the puzzle?

Scott Bender
President, CEO and Director
Yeah. So, it's – there's absolutely no question our market share gains with the privates have been meaningful and substantial. I think that – John, help me out here. I think we've gone from at the end of last year from about 20% to now 27-or-so-percent, something like that.

John Fitzgerald
Director of Corporate Development and Investor Relations
Yeah. Middle of 2020, we were probably down in the mid – maybe even lower mid-teens. Through this year, we've kind of gotten to the 20s in the first and second quarter. And despite the fact that the overall market share number ticked down in the second quarter, our share with the privates actually ticked up a little bit. But as you know, Stephen, the privates went from 45% of the rigs to 55% of the rigs. We can gain share there a little bit, but just given the mix issue, it's going against us from that perspective from an overall market share standpoint.

Stephen Gengaro
Stifel Financial Corp
Exactly. No, that makes sense. And as publics pick up activity, we should see that benefit I would expect.

Scott Bender
President, CEO and Director
That's what we expect.

Stephen Gengaro
Stifel Financial Corp
The other quick one, and I think Chase asked about the international landscape on the wellhead side. But on the U.S. front, have you seen any changes? And I know one of the businesses changed hands a couple of quarters back and just curious have you seen any change in the U.S. competitive landscape or anything you're watching closely.

Scott Bender
President, CEO and Director
Yeah. So, we had a couple of competitors, small competitors, that retreated since the beginning of the year. And we've seen an equal number of new competitors enter the market. I think that – I think people think that frankly replicating the Cactus story is easy and so – seems that everybody wants to try it. And apparently they don't view the barriers to entry as being very significant. So, I think on a net basis, we

probably have the same number, maybe one more competitor today than we did at the beginning of the year.

Stephen Gengaro
Stifel Financial Corp
Okay. Great. Thank you for the color, gentlemen.

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

Operator
There are no other questions in queue. Do you have any closing remarks?

Scott Bender
President, CEO and Director
No, we just want to thank everybody for your support. I think the rest of this year is going to be incredibly challenging. It's – people don't realize managing in a downturn in some respects is pretty easy, you have to cut your expenses. Managing in an upturn is much more challenging. And I think that we're blessed with the very best management team in the industry and taking advantage of this really unexpected growth that we've had in our top line. So, anyway, stay tuned. Thanks for your support. Everybody have a great day. Stay safe.

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