Cactus, Inc. (NYSE: WHD)
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Call Participants

EXECUTIVES

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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
Stephen Gengaro
Stifel Financial Corp
Ian Macpherson
Piper Sandler
Taylor Zurcher
Tudor, Pickering, Holt & Co.

Presentation

Operator
Ladies and gentlemen, thank you for standing by and welcome to the Cactus Quarter Three 2021 Earnings Call. At this time, all participants are in a listen-only mode. After the speakers' presentation, there will be a question-and-answer session. [Operator Instructions] I would now like to turn the call over to our speaker today, Mr. John Fitzgerald, Director of Corporate Development and IR. You may begin.

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. During the third quarter, drilling activity continued to move higher against the backdrop of strengthening commodity prices. I was particularly proud of our incremental margin performance in both Product and Rental business lines. Cactus remains extremely well positioned to participate in what we believe will be a multi-year up-cycle for the industry, and the third quarter provided evidence of that. We are preparing now with people and inventory for what is increasingly looking like a very busy 2022.

In summary:

- Third quarter revenues increased 6% sequentially with growth in each of our revenue categories
- Adjusted EBITDA was up 11% sequentially;
- Adjusted EBITDA margins were 28%, up 120 basis points sequentially;
- We paid a quarterly dividend of $0.10 per share; and
- We ended the quarter with $302 million in cash and no debt.

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 up for Q&A. Steve?

Steve Tadlock
Vice President, CFO and Treasurer
Thanks, Scott. Q3 revenues of $115 million were 6% higher than the prior quarter. Product revenues of $75 million were also up 6% sequentially, driven primarily by an increase in rigs followed. Product gross

margins at 34% rose approximately 200 basis points sequentially as cost recovery efforts offset inflationary pressures across the supply chain.

Rental revenues were $15 million for the quarter, up approximately 4% from the second quarter of 2021, while gross margins increased 12 percentage points sequentially, due primarily to lower repair and equipment activation costs as well as lower depreciation as a percentage of revenue.

Field service and other revenues in Q3 were $25 million, up 6% versus the second quarter of 2021. This represented 28% of combined Product and Rental-related revenues during the quarter, which was slightly above expectations. We expect Field Service revenue to be 27 to 28 percent of Product and Rental revenue during the fourth quarter of 2021. Gross margins were 23%, down 320 basis points sequentially, with the reduction largely attributable to lower utilization associated with time spent on new hire training, higher fuel and remobilization costs and overtime required to meet increased activity levels.

SG&A expenses were $12.1 million during the quarter, up $800 thousand versus the second quarter. The sequential increase was primarily attributable to higher salaries and wages, increased professional fees and IT system upgrade costs. SG&A expenses were 10.5% of revenue, compared to the same percentage during the second quarter. We expect SG&A to be approximately $12 million in Q4 2021, inclusive of stock-based compensation expense of approximately $2 million.

Third quarter Adjusted EBITDA was approximately $32 million, up 11% from $29 million during the second quarter of the year. Adjusted EBITDA for the quarter represented nearly 28% of revenues, compared to 26.5% for the second quarter. Adjustments to EBITDA during the third quarter of 2021 included approximately $2 million in stock-based compensation.

Depreciation expense for the quarter was $9.1 million; a similar amount is expected for the fourth quarter.

We reported income tax expense of $3.3 million during the third quarter which is inclusive of a $0.7 million income tax benefit associated with a partial release of a valuation allowance during the period and a $0.5 million tax benefit related to the finalization of our 2020 tax returns.

During the quarter, the public, or Class A ownership of the Company averaged 77% and ended the quarter slightly higher at 78%. Barring further changes in our public ownership percentage, we expect an effective tax rate of approximately 22% for Q4.

GAAP Net income was $17.2 million in Q3 2021 versus $14.8 million during the second quarter.

We prefer to look at adjusted Net Income and earnings per share, which were $14.7 million and 19 cents per share, respectively, during the third quarter versus $12.3 million and 16 cents per share in Q2. The Q3 adjustments included 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 remain at 28% during the fourth quarter of 2021.

During the third quarter, we paid a quarterly dividend of $0.10 per share, resulting in a cash outflow of nearly $8 million, including related distributions to members. The board has approved a dividend of $0.10 per share to be paid in December of this year.

We ended the third quarter with a cash balance of $302 million. For the quarter, operating cash flow was approximately $9 million, and our net capex was $4 million. Given issues with the global supply chain and extended transit times, we have strategically increased inventory levels over the last two quarters. Our goal is to secure equipment on a timely basis in anticipation of greater customer activity. During the 3rd quarter we made our annual TRA payment and associated distribution of $12.5 million. As a reminder, this payment is reflective of cash tax savings that occurred in 2020 as a result of our corporate structure. The next such payment isn't expected to occur until mid-2022.

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
Thank you, Steve.

As previously mentioned, we reported sequential growth across all our revenue categories during the third quarter while improving overall margins to their highest level this year, despite extraordinary supply chain challenges.

Following recent conversations with customers, I am more bullish on U.S. activity levels than I have been in some time. Assuming commodity prices remain supportive and key supplies such as OCTG are available, we would not be surprised to see U.S. land rig count grow by an additional 10% by the end of the first quarter of next year.

Despite nearly all the U.S. market's rig additions coming from private operators, who have historically represented a smaller portion of our business, we reported market share at 42% during the period. In what was a testament to our sales, operations and supply chain teams, we improved Product margins by 200 basis points during the quarter, despite historic levels of material and freight inflation and the increased use of our higher cost Bossier City facility.

Looking to the fourth quarter, we currently anticipate our rigs followed to increase by approximately 10%. We remain of the opinion that our publicly traded customers will respond to the improved commodity environment as we head into 2022 and would expect to see another double-digit percentage increase in the beginning of 2022.

Fourth quarter Product revenue is expected to be up at least 5% sequentially. Based on current expectations regarding the timing of our latest cost recovery efforts, we expect relatively flat EBITDA margins in Q4 despite continued inflation headwinds. Note that revenue generated per rig typically declines marginally during the fourth quarter as completion activity lags drilling around the holidays. Additionally, in a rising rig environment, product revenue per rig can lag as rigs are fully onboarded. Lastly, and importantly, we have noted a modest decline in wells drilled per rig, a trend that could continue into next year if overall third-party service execution wanes.

Margin performance will continue to be a function of our ability to adjust prices to compensate for the intense inflationary pressures being experienced in labor, steel and freight. While successful on this front to-date, further steps are underway to achieve incremental margins consistent with historical norms.

In recent weeks, conversations with customers have increasingly focused on the ability to secure equipment to meet drilling plans. We have always excelled in our ability to timely and safely deliver. This competitive strength resulting from our unique supply chain model becomes even more important during times in which the industry struggles with overall shortages.

Although cost inflation has been well telegraphed throughout our industry and beyond, naturally not all customers welcome cost recovery efforts. As we have stated previously, this organization is focused on returns and not market share. Regardless, it is our belief that 2022 will be a year of heightened pressure on delivery and execution, which will reward those of us with significant domestic infrastructure, best-in-class products and differentiated service and execution.

On the Rental side of the business, revenues increased by less than we had originally anticipated for the quarter but were still up 4% sequentially during a period of relatively flat domestic completion activity. Customers have been relying on their inventories of drilled-but-uncompleted wells for the last several quarters, but with DUCs at their lowest levels since early 2017 that trend appears to have ended. However, one positive of the more moderated growth is that it generally leads to slightly more favorable EBITDA margins, resulting from reduced reactivation costs.

Our Rental business is witnessing some positive dynamics, which should lead to above market growth during the fourth quarter. While the tail end of the fourth quarter is normally subject to some year-end budget exhaustion, we currently anticipate Rental revenue to be up at least 10% during Q4. Rental EBITDA margins are expected to be in the low-to-mid 50 percent range during the period.

This Rental market remains highly competitive, but should activity move forward in 2022 along with the rig count, there may be line-of-sight to some improved pricing dynamics, something we haven't seen since early 2020. Our reputation for providing equipment safely and reliably should become an important point of differentiation in the coming year as some service providers struggle to execute.

Regarding our expansion into the Mid-East, we were extremely pleased to have generated first revenue during the third quarter. As previously disclosed, this has been in concert with NESR, who has been active in the development of unconventional fields in Saudi Arabia. Our agreement with NESR was important for Cactus to quickly gain access to Aramco and has allowed us to prove our technology and reliability with a key customer. This represents an important first step for our entrance into the area, and we are excited about our overall potential in the region. We continue to evaluate the shipment of additional assets into the region given the increase in unconventional activity while we pursue product sales.

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. This segment typically witnesses lower margins during the final quarter due to seasonal elements, and accordingly we expect to see EBITDA margins in the low-to-mid 20 percent range during the fourth quarter. We would expect margins to approach more normalized levels in the first quarter of next year, as labor utilization returns to traditional levels.

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

The supply chain issues that have plagued most manufacturing businesses have not abated. Increased costs will continue to represent a headwind for the next few quarters at least. The size of that impact will depend on the degree of further cost increases and our ability to continue working with our customers to compensate us for the challenges we face in insuring on-time deliveries. That said, we remain advantaged due to our Bossier City manufacturing capabilities, unparalleled experience and the relationships of our operations team. We simply don't tolerate missed committed deliveries, and no one is better prepared to handle these issues in the face of increased pressures arising from changes in the amount and timing of deliveries.

On the labor front, the market continues to tighten. However, we believe that Cactus offers unique opportunities for our Associates, and we have always been successful in recruiting key talent.

There has been no change to our opinions regarding M&A. We continue to believe that consolidation within our industry makes sense, and this team will carefully monitor and evaluate opportunities to the extent they become available.

As I remind you regularly, management are long-term investors in this business and are 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 were extremely pleased with the cost recovery support from our customers in both our Product and Rental revenue categories. Additionally, our optimism regarding industry activity levels continues to improve. We remain ready to take advantage of our favorable positioning as the ongoing activity recovery continues. And so 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] Please stand-by while we compile the Q&A roster. Our first question comes from the line of Chase Mulvehill from Bank of America.

Chase Mulvehill
Bank of America
Hey. Good morning.

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

Chase Mulvehill
Bank of America
Good. How are you, Scott?

Scott Bender
President, CEO and Director
I'm great. Thanks.

Chase Mulvehill
Bank of America
So, I guess first question. Obviously, you talked about the supply chain challenges and other kind of frictional costs around inflation and things like that. So, I guess maybe first question is I asked you this last quarter, I'm going to ask you again, is today better or worse than yesterday from a supply chain friction? And then, what are you doing to continue to manage the supply chain? And how easy is it for you to continue to push along price increases to offset kind of inflationary cost?

Scott Bender
President, CEO and Director
I think you snuck three questions in there, Chase.

Chase Mulvehill
Bank of America
They're all related.

Scott Bender
President, CEO and Director
Okay. So, the first one is easy. It's worse than it was when you last asked the question. I think this quarter was probably significantly worse than what we've seen in previous quarters. So, that's why I'm particularly proud of the job the team did in increasing our incremental margins. What are we doing to address supply chain? Inasmuch as our competitors have access to this call, you're probably not going to get much of an answer to that. But you know the secret sauce, we've talked about it before. We have Bossier City. We forecast – we do – we just do a number of things, but it's sort of a – it's one of the things I prefer not to discuss openly.

And then, what was your last question? Or did you also forget?

Chase Mulvehill
Bank of America
Ability to kind of push price.

Scott Bender
President, CEO and Director
Well, I'm not going to discuss pricing, but having told you now that costs increased by more than we expected in the third quarter - but our margins went up - that should give you some indication that we've been successful.

Chase Mulvehill
Bank of America
Okay. All right.

Scott Bender
President, CEO and Director
That’s a kind of a smart ass answer I know Chase.

Chase Mulvehill
Bank of America
Yeah. All right. And then when you think about activity and I think you said up 10% on rig activity between now and kind of the end of the first quarter, just call it roughly 50 rigs, horizontal rigs.

Scott Bender
President, CEO and Director
Right.

Chase Mulvehill
Bank of America
So, could you maybe kind of characterize what you're seeing of those 50 rigs, like are those more publics, privates, just trying to understand the mix there in – between publics and privates?

Scott Bender
President, CEO and Director
Third quarter was mostly privates. Fourth quarter, we expect to see an increasing participation by publics.

Chase Mulvehill
Bank of America
Okay. All right. And I used – that was four, so I will jump back in the queue. Thanks guys.

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

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

Scott Bender
President, CEO and Director
Hey, Scott.

Scott Gruber
Citigroup Global Markets
Yes. Good morning.

Scott Bender
President, CEO and Director
Good morning.

Scott Gruber
Citigroup Global Markets
Good. So just to check, the Product forecast has rigs followed up 10% and revenues up at least 5%, did I hear that correctly?

Scott Bender
President, CEO and Director
You did.

Scott Gruber
Citigroup Global Markets
Got you. And just some additional color on the revenue per rig trend, obviously taken down a little bit. Is that a mix issue with more privates in the mix and they just tend to drill a little bit slower or is it supply chain issues that's starting to impact everybody and there's any fluctuation with wellhead sales driving that number as well?

Scott Bender
President, CEO and Director
Yeah. So, this is a – that's a very, very good question with a – really it's a straightforward answer, but it has many components. So, let me start by saying that in general, we see fewer wells drilled per rig per month by privates than we do by publics, so that's not helpful. Number two, we monitor the well efficiency of our overall customers. And for the first time in, I don't know how many quarters, I'm looking at my team, we actually saw rig efficiencies drop in Q3. And by that, I mean fewer wellheads ship out per month per rig than we've seen the entire year, and maybe in the last two years as far as I know. It was a surprising drop.

And then of course, as the DUC – as the DUCs began to deplete, the need for production trees also fell off, so it's that combination I think of really broadly rig efficiencies, which could also result from maybe the incremental rigs being added, being less efficient, crews being less efficient or it could be the – I think it's really a function of privates in the overall mix. But that really has more to do – that and the fact that we've seen the reduction in DUCs have the most to do with the fact that our revenue per rigs have dropped.

Now, what I expect and what the team expects and what our inventory levels reflect is our belief based upon the conversations we've had with our core customer base who are the publics that we're going to see the publics reemerge going into 2022.

Scott Gruber
Citigroup Global Markets
Got you. So just in terms...

Scott Bender
President, CEO and Director
So in other words...

Scott Gruber
Citigroup Global Markets
...of trends and...

Scott Bender
President, CEO and Director
...there's hope.

Scott Gruber
Citigroup Global Markets
...go ahead.

Scott Bender
President, CEO and Director
Thanks, Scott.

Scott Gruber
Citigroup Global Markets
Yeah. I was just going to ask about the 2022 trend, with publics coming back, and do you have a stabilization in production tree sales such that that revenue per rig trend should start to stabilize? Or did you expect it to essentially degrade a little bit more on 1Q and 2Q?

Scott Bender
President, CEO and Director
I think that fourth quarter will be challenging just because of seasonality. I mean in the best of times, people just tend to put on fewer production trees in the fourth quarter. They take a couple of days off as well, which is.

Scott Gruber
Citigroup Global Markets
Yeah.

Scott Bender
President, CEO and Director
...not helpful. So, I don't expect to see great results in the fourth quarter. I'm much more optimistic as we get into the first and second quarters of next year seeing us return to our historic levels.

Scott Gruber
Citigroup Global Markets
Got you.

Scott Bender
President, CEO and Director
Plus you know... ...you're going to have the benefit of some cost recovery.

Scott Gruber
Citigroup Global Markets
Got you. And then just one additional one. You and peers have been building extra inventory just given all the issues on the supply chain side. Is that coming to an end? Do you have some more build-to-go? And how are you thinking about managing inventory levels after we get past all these supply chain woes? Do you bring them down or do you just kind of keep them as an insurance policy? How are you thinking about it longer term?

Scott Bender
President, CEO and Director
Right now, I can tell you that the industry is stressed with shortages right now. So, we've always been sort of opportunistic. And because we have so much cash, it's a great place for us to put our cash. I think the second point is, we have historically high levels of in-transit inventory. And by that, I mean inventory on the water that we can't get our hands on. And I'm looking at Steve Tadlock. I think we're at 3 times. 3 times, that's a huge amount of inventory that we have that's been on a cruise now for an extended period of time. So, that has not been helpful. And we have to accommodate that.

The broader – your broader question is, do I see inventory levels coming back down? Yes. Once Joel gets more confident in the supply chain, once the transit times, and they will become closer to historic transit times, you'll see inventory levels drop back down to our normalized run rate.

Stephen Tadlock
Vice President, CFO and Treasurer
Yeah. I would just add: obviously, inventory is based on prospective sales not historical sales. And given our view for 2022, we are like Scott said, taking advantage of that with what we expect to come. I think working capital as a percent of annualized revenues was pretty good this quarter. It was more in line with our normal, which is 25% to 27%. We were at 26% in Q3. I think in Q4, you would expect – we expect that to be more 27.5% maybe of annualized revenues because of – largely because of inventory.

Scott Gruber
Citigroup Global Markets
Got it. Thanks for all the color.

Scott Bender
President, CEO and Director
Thank you.

Scott Gruber
Citigroup Global Markets
Thank you.

Operator
Our next question comes from the line of Stephen Gengaro from Stifel.

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

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

Stephen Gengaro
Stifel Financial Corp
Good. Thank you. Two things for me. Year-to-date, obviously we've talked about this public-private mix and I know historically your relationships tend to be very sticky. Are you seeing that same stickiness with the private operators as you have historically with the publics?

Scott Bender
President, CEO and Director
Yes, sir.

Stephen Gengaro
Stifel Financial Corp
Okay. Good. And then as we think about next year in aggregate, I know you gave some good color on the beginning of the year. Are you seeing the same type of expectations as we had been hearing from many of the frac companies like looking at kind of a 20%+ rise in spending and probably a bit lower increase in activity or are you – is your insight different than that?

Scott Bender
President, CEO and Director
So, I have to be honest, I don't really listen to the pressure pumpers' calls, and I'm looking at my man, John Fitzgerald here. That 20%, and I assume that includes what they consider to be inflation doesn't it?

John Fitzgerald
Director of Corporate Development and Investor Relations
Yes.

Scott Bender
President, CEO and Director
So what's the real activity increase they're projecting?

John Fitzgerald
Director of Corporate Development and Investor Relations
So probably close to half of that.

Scott Bender
President, CEO and Director
So, 10%. I would be very surprised if our frac activity was only up 10% next year. It's going to be better than that.

Stephen Gengaro
Stifel Financial Corp
Okay.

Scott Bender
President, CEO and Director
And I'm talking about excluding inflation, I think it will be better than that.

Stephen Gengaro
Stifel Financial Corp
Great. Thank you. And then just if I can slip in one final, the competitive landscape in the US market, right, it obviously has changed a little bit over the last couple of years. Are you seeing any material changes in the competitive landscape and the folks that are fighting against you?

Scott Bender
President, CEO and Director
I would say there are a lot of smaller players out there fighting amongst each other, but I wouldn't say that – and we're not really seeing the impact - they're clearly taking a disproportionate share of the privates that are drilling, which is what you'd expect. But I think in a market where we participate, we really haven't seen much of a change.

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

Operator
Our next question comes from the line of Ian Macpherson from Piper Sandler.

Scott Bender
President, CEO and Director
Hi, Ian. How are you?

Ian Macpherson
Piper Sandler
Good morning, Scott. Great, thanks. How are you?

Scott Bender
President, CEO and Director
Great.

Ian Macpherson
Piper Sandler
The – it is – its following Stephen's question, there is an emerging disconnect I think between expected rates of activity increase and E&P spending that there's not enough money in 20% E&P spending growth

to accommodate the Service and Product cost inflation that's happening plus twenties activity, it just doesn't fit. So, I'd be curious to see how that unfolds.

But my question is different. Really your market share has sustained in the low-40s for about a year now. You cited OCTG as a specific threat or bottleneck that could govern growth over the near-term with casing, et cetera. So, I was going to ask if shortages in your niche as well could emerge? And if you could actually outcompete the other 60% or so of the market on deliverability in this tight supply chain market, and actually take more market share and not just on a basis of premium differentiation and efficiency but also just sheer availability and deliverability of wellheads?

Scott Bender
President, CEO and Director
That's the plan.

Ian Macpherson
Piper Sandler
Okay. Do you see evidence of competitors stumbling on deliverability out there today? Is that an abstract or a real opportunity?

Scott Bender
President, CEO and Director
Yes. We are seeing some of that, Ian.

Ian Macpherson
Piper Sandler
Okay. And then I was going to ask also you…

Scott Bender
President, CEO and Director
...Ian, don't ask me too many more questions about competitors.

Ian Macpherson
Piper Sandler
Okay. This one's only for Cactus. Saudi, you're up and running. How are you thinking about scalability of that opportunity going into 2022?

Scott Bender
President, CEO and Director
You know I think that – you're talking about just within the Kingdom or beyond the Kingdom?

Ian Macpherson
Piper Sandler
Yeah. Sure. Total international.

Scott Bender
President, CEO and Director
Yeah. I think that as I've said before, you know our hope and our plans are to continue the expansion in the Mideast with NESR. We're using Saudi kind of as our test case. And the performance has been very good, very pleased with it. I think that we'll continue to deploy more assets in Saudi. I can't tell you exactly when. And I think you'll see us deploy assets in other areas of the Mideast in conjunction with NESR. I also feel increasingly optimistic that we'll turn some of this exposure into Product sales later next year.

Ian Macpherson
Piper Sandler
Very good. Look forward to next steps on that. Thanks a lot.

Scott Bender
President, CEO and Director
Thanks, Ian.

Operator
Our next question comes from the line of Taylor Zurcher from Tudor, Pickering, Holt.

Taylor Zurcher
Tudor, Pickering, Holt & Co
Hey. Good morning. Thanks for taking my question. My first one's on M&A and you talked about the continued need for M&A and likely continuing to evaluate deals, and I guess my question is in this commodity price environment, it feels like seller expectations have probably gone up significantly. So, I'm just curious if you could frame, just generally speaking, where bid ask spreads are today? And if the commodity price environment is hindering the likelihood of M&A over a near-term horizon, maybe the next 12 months, at all?

Scott Bender
President, CEO and Director
Well, we haven't had too many bid-asks, so I can't really speak to you from experience. I mean, it would be logical that sellers would want more, but it also would be logical that we could afford to pay more with our currency. So, honestly, I don't think that we're disadvantaged given the improving dynamics in the – in the macro. In fact, I feel probably the opposite because as long as this company continues to perform, I think our investors will continue to reward us. And as long as they continue to reward us, I think we'll be in an excellent position to move forward on M&A.

So, I mean that leads me to answer a question that you haven't asked yet, and that is, why don't you give up some of this $300+ million, you're going to have positive free cash flow in the fourth quarter? Why don't you release that to the shareholders? And I'm going to answer the way I normally do and that is that we are the largest shareholders and I personally love dividends. But I still see some opportunities to deploy that cash in an M&A manner. So, I know I've asked all of you to be patient with us. We were just very careful about how we spend money, but don't misinterpret that to mean we don't – we're not willing to spend money. We are willing. And we are – we're pretty actively looking.

Taylor Zurcher
Tudor, Pickering, Holt & Co
Well, you answered both my questions there. So, thanks for that.

Scott Bender
President, CEO and Director
Okay.

Taylor Zurcher
Tudor, Pickering, Holt & Co
Maybe I'll sneak one in on market share, 40 to 50 rigs being added through Q1 based on the 10% metric that you provided…

Scott Bender
President, CEO and Director
Right.

Taylor Zurcher
Tudor, Pickering, Holt & Co
I suspect that as the publics start to come back a little bit more in the coming months that that market share probably has room to move higher, but just curious how you frame that for Cactus over the next couple of quarters?

Scott Bender
President, CEO and Director
I think your conclusion was correct.

Taylor Zurcher
Tudor, Pickering, Holt & Co
Awesome. Thanks for the answers.

Stephen Tadlock
Vice President, CFO and Treasurer
Thanks.

Scott Bender
President, CEO and Director
Thank you.

Operator
There are no further questions at this time. Please continue, Mr. Scott Bender.

Scott Bender
President, CEO and Director
All right. Again, thank you everybody for your continued attention to Cactus and interest in Cactus. And we do look forward to seeing you hopefully in person over the next 12 months. Everybody, have a good day.

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