

# **Babcock & Wilcox Enterprises Inc. (BW) Q2 2024 Earnings Call Transcript**

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**Body**

Babcock & Wilcox Enterprises Inc. (BW)

Q2 2024 Earnings Conference Call

August 8, 2024 5:00 PM ET

Company Participants

Sharyn Brooks – Director-Communications

Kenny Young – Chairman and Chief Executive Officer

Lou Salamone – Chief Financial Officer

Conference Call Participants

Rob Brown – Lake Street Capital Markets

Alex Rygiel – B. Riley

Presentation

Operator

Good evening. My name is Makaia, and I will be your conference operator today. At this time, I would like to welcome everyone to the conference call. [Operator Instructions] Sharyn, you may begin your conference call at this time.

Sharyn Brooks

Thank you, Makaia. And thanks to everyone for joining us on Babcock & Wilcox Enterprises Second Quarter 2024 Earnings Conference Call.

I am Sharyn Brooks, Director of Communications. Joining the call today are Kenny Young, B&W's Chairman and Chief Executive Officer; and Lou Salamone, Chief Financial Officer, to discuss our second quarter results.

During this call, certain statements we make will be forward-looking. These statements are subject to risks and uncertainties, including those set forth in our Safe Harbor provision for forward-looking statements that can be found at the end of our earnings press release and also in our Form 10-Q that was filed this afternoon and our Form 10-K that is on file with the SEC and provide further detail about the risks related to our business.

Additionally, except as required by law, we undertake no obligation to update any forward-looking statements. We also provide non-GAAP information regarding certain of our historical and targeted results to supplement the results provided in accordance with GAAP. This information should not be considered superior to or as a substitute for the comparable GAAP measures.

A reconciliation of historical non-GAAP measures can be found in our second quarter earnings release published this afternoon and in our company overview presentation filed on Form 8-K this afternoon and posted on the Investor Relations section of our website at babcock.com.

I will now turn the call over to Kenny.

Kenny Young

Thanks, Sharyn. And thanks, Makaia. And good afternoon, everyone. And thanks for joining us on our second quarter 2024 earnings call.

We continue to build on our strong start to 2024 with a robust second quarter result across all of our businesses. Our results in the second quarter reflect the increased demand for our portfolio of technologies that support the generation of efficient and sustainable energy regardless of fuel source, and B&W is well positioned to capitalize on the continued growth in natural gas conversions, environmental solutions, carbon capture and clean energy opportunities globally with utility and industrial customers.

We are excited about the progress we're making to advance our revolutionary ClimateBright Decarbonization Technologies including our innovative BrightLoop system that creates hydrogen without incineration or gasification to support the world's energy transition. We continue to see opportunities for new bookings this year for these types of hydrogen generation and carbon capture projects and we'll discuss some exciting new developments later during this call.

Additionally, our teams have worked hard to reduce our overall costs, improve our margins as we are seeing the benefits of our more selective market approach and target of higher value projects and opportunities. We've also seen an increase in paid front-end engineering design or FEED study regarding various biomass, carbon capture and hydrogen opportunities. We expect that a few of these FEED studies will lead to booking opportunities over the coming years, and we are looking at expanding our engineering teams due to the increased demand for these studies.

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As mentioned, we generated another quarter of strong operating results during Q2, highlighted by adjusted EBITDA that exceeded our expectations and keeps us on track to achieve our full year adjusted EBITDA targets. Based on the combination of strong thermal parts bookings and new customer activities, and better-than-expected adjusted EBITDA through the second quarter of 2024, we are reiterating our full year adjusted EBITDA target of $105 million to $115 million despite the sale of our Danish renewable services subsidiary, which was completed during the second quarter.

The proceeds from this sale improved our balance sheet and demonstrates the execution of our stated intent to sell certain non-strategic businesses. Importantly, we remain in negotiations related to the sale of other non-strategic assets with proceeds expected to significantly reduce our debt obligations, improve liquidity and support growth working capital.

We also continue to make progress on our cost reduction efforts during the second quarter, achieving $25 million to date as we work toward our target of over $30 million of annualized cost savings. We have significantly improved the cash in our solar operations, which produced $6 million of cash in the second quarter and is now generating positive EBITDA results despite its classification.

In parallel, we continue utilizing cash to ramp up our investment in BrightLoop and ClimateBright as we continue developing the pipeline of opportunities and anticipate bookings later this year. These actions and our improved margins are creating a pathway that will allow us to improve our liquidity as we focus on reducing our long-term debt. The expected growth and anticipated higher margins of our BrightLoop, low-carbon hydrogen technology and our ClimateBright decarbonization technologies should also lead to continued higher margins in the future.

I would like now to discuss our strong second quarter operating performance in which our adjusted EBITDA exceeded the company's expectations. These results, combined with strong bookings and year-to-date, set the stage for us to reiterate our full year adjusted EBITDA target range. We are already seeing the benefits of our strategic plan as adjusted EBITDA margins expanded during the second quarter of 2024, representing 100 basis points of improvement compared to the second quarter of 2023. Our margins are benefiting from the shift to reduce reliance on high interest, low-margin new build projects. Our margins have been further supported by strength across our aftermarket parts and services businesses.

From a segment perspective, our Environmental business was a standout performer during the second quarter with revenue increasing 15% compared to the second quarter of 2023 and margins that continue to expand, which drove a 97% increase in total adjusted EBITDA compared to the second quarter of 2023. These results were primarily driven by higher margin product mix along with the favorable closeout of the flu gas treatment project.

While revenue declined year-over-year in the Renewables segment as a result of our strategic shift to be more selective and reduce the number of low-margin, new build projects that we pursue, adjusted EBITDA increased 40% compared to the second quarter of last year, benefiting from our cost reduction efforts related to the restructuring of our renewable business.

Thermal revenues declined compared to the second quarter of 2023 as a result of a completion of a large construction project in 2023. However, customer demand for our Thermal segment products and services remained strong as demonstrated by bookings in the first half of 2024, that exceeded bookings in the same period of 2023. And we anticipate a strong Q4 based on previously announced gas conversion projects and recent parts and service bookings.

We continue to see strong underlying industry trends with expanding global demand for clean power production and energy security and a global pipeline of identified project opportunities of over $9 billion which includes over $1.5 billion of BrightLoop and ClimateBright opportunities alone. These trends are foundational drivers for our business outlook for 2024 and beyond as we continue to make considerable progress in converting this pipeline into bookings.

Moving through the second half of 2024, we anticipate prospects for continued new bookings and strong financial performance. Our backlog and applied backlog at the end of the second quarter was $472 million and $757 million, respectively, representing a slight decrease in bookings, but an increase of 39% compared to the backlog and implied backlog at the end of second quarter of 2023. As we introduced last quarter, the implied backlog figure includes awarded projects as well as those under contract and have not been fully released for performance and provides a better representation of our customer demand.

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Looking ahead, given the new EPA requirements, we are seeing increasing opportunities for coal to natural gas and coal to biomass projects within the United States, which is very exciting for us as we look to the remainder of 2024 and into 2025. Many of these projects are either under development in the proposal stage or in final design and have with revenue ranges of $50 million to $400 million in value for B&W.

With our increasing visibility of customer demand and our near-term booking success, we are reiterating our full year 2024 adjusted EBITDA target range of $105 million to $115 million which excludes BrightLoop and ClimateBright.

Importantly, we continue to invest in our BrightLoop opportunities and anticipate spending in the range of $10 million to $15 million in 2024 on our BrightLoop projects and technology advancement, including CapEx. Our efforts to progress BrightLoop are moving forward as we further the commercial development of our existing projects and continue working to improve the overall operational effectiveness of these technologies to produce low-cost, low-carbon intensity hydrogen. We are continuing to progress with engineering work for our previously announced BrightLoop projects in Gillette, Wyoming; Baton Rouge, Louisiana; and Massillon, Ohio.

In fact, today, we are excited to announce a few key developments regarding our Massillon, Ohio project. As we have previously stated, it's important to prove the commercial demonstration of BrightLoop both for hydrogen production as well as syngas production, which can be used as sustainable aviation fuel or SAF, or other synthetic fuels.

We have signed a ten-year [indiscernible] offtake agreement with CGI International for up to five tons of hydrogen per day while sequestering the CO2. We have reached indicative financing terms for the construction and leaseback of the site for up to 10 years as well. We do anticipate signing the SPV financing letters of intent and begin construction immediately with the goal of reaching hydrogen production by the end of 2025 or early 2026. This is a significant development for our BrightLoop technologies as we now will have a commercial demonstration facility near our headquarters in Ohio. This will raise our technology readiness level into bankable projects as we continue our efforts towards the Wyoming, Louisiana and potentially West Virginia projects as well as other BrightLoop opportunities where we are in discussions or have engaged in FEED studies around the world.

We remain excited about the prospects and outlook for the BrightLoop platform with visibility to reach one billion in bookings by 2028, driven by a combination of small, medium and large BrightLoop projects that are in our current identified pipeline. As I mentioned earlier, this pipeline includes approximately $1.5 billion of BrightLoop and ClimateBright opportunities alone. We continue to believe this level of activity has the potential to lead to $1 billion in revenues by 2030, which would still only represent roughly 1% of the market share for total global hydrogen spend by 2030.

Within BrightLoop, it's been extremely exciting to watch our team advance the engineering process and the business towards deploying these technologies at scale and further expanding our suite of carbon capture solutions. We also continue to see opportunities for new projects related to waste energy in the United States, which should enable us to leverage our climate decarbonization platform and presents additional higher margin prospects.

I will now turn the call over to Lou to discuss the financial details of the second quarter for 2024. Lou?

Lou Salamone

Thanks, Kenny. I'm really pleased to review our second quarter results. Further details on which can be found in the 10-Q that's on file with the SEC.

Our second quarter consolidated revenues were $233.6 million which is a decrease compared to the second quarter. This decrease is primarily attributable, as Kenny mentioned, through our strategic approach of reducing reliance on lower-margin projects and completion of a very large construction project in the second quarter of 2023.

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Our operating income in the second quarter of 2024 was $42.2 million compared to an operating income of $12.4 million in the second quarter of 2023. Operating income well exceeded expectations and is primarily attributable to a gain on the sale of our Denmark-based subsidiary and a decrease in selling, general and administrative expenses.

Our adjusted EBITDA, excluding BrightLoop and ClimateBright expenses, was $24.6 million, which was ahead of expectations for the quarter.

Implied bookings in the second quarter of 2024 were $193 million and ending implied book backlog was $757.8 million.

Our earnings per share in the second quarter were a positive $0.24 as compared to a loss per share of $0.10 in the second quarter of 2023.

I will now turn to our segment quarterly reporting results. Within our Babcock and Wilcox revenue – segment revenues were $61 million for the second quarter of 2024. This is a decrease compared to the second quarter of 2023 and the revenue decrease was primarily due to our strategic shift to be more selective and reduce the number of lower margin new build projects that we will pursue.

Adjusted EBITDA in the second quarter of 2024 was $7.7 million, an increase of 63% compared to the $4.7 million in the second quarter of 2023. This is primarily due to the reduction of our reliance on low-margin new build projects, and a decrease in selling and general administrative expenses and cost-saving initiatives related to the restructuring of our renewable business.

Within Babcock & Wilcox Environmental segment, revenues were $56.2 million for the second quarter. This is an increase of 15% compared to the $48.7 million in the second quarter of 2023. This increase is primarily driven by higher overall volumes of cooling technology projects partially offset by lower volumes of flu gas treatment projects and adjusted EBITDA was $6.7 million for the quarter compared to $3.4 million in the same quarter of last year. So, our adjusted EBITDA in that segment nearly doubled, and this was primarily driven by improved product mix and favorable flu gas treatment projects.

Turning to the Babcock and Wilcox Thermal segment, revenues were $120 million compared to the – in the second quarter of 2024, which is in line with company expectations despite the decrease compared to the 2023 quarter. The revenue decrease is primarily attributable to the completion of a large construction project in 2023 that was not fully replaced in the second quarter of 2024.

Adjusted EBITDA in the second quarter of 2024 was $13 million, which is in line with our expectations and a slight decrease compared to the second quarter of 2023, primarily due to the completion of that previously mentioned large projects.

I'll now turn to our balance sheet, cash flow and liquidity. Total debt at June 30, 2024, was $476.8 million. And the company had cash, cash equivalents and restricted cash of $202.1 million. As Kenny previously mentioned, we've significantly closed out the legacy – solar projects and anticipate cash use being neutral to positive going forward.

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As previously noted, we completed the sale of the Denmark-based subsidiary during the quarter, which improved our balance sheet and demonstrated our ability to execute against our stated strategy to sell certain non-strategic businesses. Additionally, as previously announced, we are initiating processes to sell certain other non-strategic business – and assets. The proceeds of these sales will be used primarily to pay down existing debt and for working capital.

As a result of these actions, we are confident that we have overcome the previous liquidity concerns and continue to invest over $10 million a year annually in the BrightLoop and ClimateBright projects to accelerate our future growth.

I will now turn it back to Kenny.

Kenny Young

Thanks, Lou. Well, in closing, we remain intently focused on executing our strategic plan and driving further improvements in our balance sheet. More specifically, we anticipate additional sales of non-strategic businesses to drive further improvements in our cash liquidity position and leverage ratio. As we look ahead to the second half of 2024, we expect operating momentum driven by our Thermal and Environmental segments to continue with increased services and project schedules from our customers.

Our global pipeline of over $9 billion in identified project opportunities remains healthy across all our business segments, and we anticipate prospects for new bookings and stronger financial performance throughout the second half of 2024. We continue to believe our deep industry expertise with clean energy and carbon capture technologies, coupled with our long history of in traditional energy sources, positions us well to deliver environmentally conscious technology-driven solutions to our global customers.

And lastly, as always, I would like to recognize the efforts of our dedicated and talented employees around the world. We have a great team at B&W that's focused on working hard and safely to deliver consistent, profitable growth for our shareholders and help meet the world's need for clean, reliable energy now and in the future. I would also like to thank our global customer base and suppliers for their continued support of Babcock & Wilcox.

And looking forward, we are excited about leveraging our leading power and environmental solutions to capitalize on the strong growth prospects ahead for the remainder of 2024 and beyond. And we remain focused on being a leader, an innovator and an advocate for a clean energy future.

I will now turn the call back over to Makaia, who will assist us with your questions. Makaia?

Question-and-Answer Session

Operator

Thank you. We will now begin the question-and-answer session. [Operator Instructions] The first question comes from the line of Rob Brown with Lake Street Capital Markets. You may proceed Rob.

Rob Brown

Hi. First question is on the BrightLoop projects in Ohio. You've got an offtake agreement there and then some financing. Can you give us a sense on how that ramps and how the economic model works for you?

Kenny Young

Yes. So basically, there will be a construction period to build projects over the next 12 to 18 months on the project. So, the primary part of the financing will be used to offset a significant amount of cash being borne by the company for the construction period. And then there will be a leaseback of the site during the offtake period when revenues are being produced off the offtake agreement.

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So, over the 10-year period, that cash and revenue offset each other on that standpoint. So, it is a great way for us to build a first commercial project without using a significant amount of our own capital build a commercial demonstration plan. So, pretty excited both on the financing opportunity and also the offtake agreement to buy the hydrogen during that period.

Rob Brown

Okay, great. And then some of the larger projects that you have under development, I know you talked about the engineering work. Could you give us a sense of how those progress? And I think you talked about expectations by this year, getting some of those to move forward as well, but just an update on how the Wyoming and the Baton Rouge projects are coming along.

Kenny Young

Yes. We're in full engineering mode and working with – on the Wyoming project right now have been doing a lot of the on-site engineering works, civil engineering, those type of activities in conjunction with that. As previously stated, we're working closely with Black Hills Energy on that particular project, who would be the user of the hydrogen as they're working through their rate-based considerations inside Wyoming in parallel.

So, we continue supporting them on those particular efforts and anticipate more developments and other activities around that, hopefully, later this year that we can put out.

On the Baton Rouge project, primarily we are – although I can't name them public at this point, but since we are under NDA, but we are in full discussions with the developer and investor in the initial 15 tons per day project that we contemplate there follow-on up to 200 tons per day in that particular site. And so, we're in full discussions with them on moving that project forward.

So, too early to announce any certainty on the developments of that investment coming in. But other than that, we're in full discussions and considerations right now for both the 15 and the 200 ton per day projects in Baton Rouge. And that again, that would be using biomass in that particular case.

Rob Brown

Okay, great. Thank you. Congratulations on all the progress. I will turn it away.

Kenny Young

Yes, thanks.

Operator

The next question is from the line of Alex Rygiel with B. Riley. You may proceed.

Alex Rygiel

Thanks. Good evening, guys. A lot of great things here.

Kenny Young

Hi, Alex.

Lou Salamone

Hi, Alex.

Alex Rygiel

A couple of questions. First, Kenny, as it relates to your guidance, it's great to hear that you are reiterating your guidance, your EBITDA guidance. I guess my question is sort of kind of what's at risk there, or maybe what portion of that guidance, if any at all, is not yet in backlog and/or there are some variables that can help you to be near the low end or the high end of that range?

Kenny Young

Yes, it's mainly timing on primarily, I would say, a couple of the larger projects, gas conversion projects that we announced previously. And it's really the timing of the exact starting point of some of those activities. And anything on our projects, especially larger projects, our revenue and margin is all based on cost recognition. So, it's just the timeliness of how we get orders through and on some of those projects and just the timing of that, that could hit the higher end of the range or the lower end of the range on that. So that's always our challenge, but those are the main considerations there.

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Alex Rygiel

Excellent. And then great to see your net debt down here. Any update on the timing of additional non-core asset sales?

Kenny Young

We're those, we're just in discussions and those continue on and anticipate hopefully, one or two, yes, this year, and I would leave it at that for now, obviously, since we're in discussions and negotiations on those. But we do anticipate one or two yet this year on that. And that's probably – it's probably as much as I want to get into it on the call.

Alex Rygiel

Excellent. And then coming back to the Ohio BrightLoop project, can you help me to understand that leaseback again? How much capital is B&W going to have to put up on the front end there for construction? And exactly what's the time frame? Or when does that sort of get paid back and so on?

Kenny Young

We can go into it more – but go ahead, Lou.

Lou Salamone

No, go ahead, Kenny. And then I'll follow-up.

Kenny Young

Okay. So, what we're anticipating, I mean the total project to build the project will be in the roughly $50 million, $60 million range or I should say that let's just call it $60 million to $65 million range to build out that particular project is what we're anticipating. Initially, we'll probably have, I don't know, roughly $5 million to $10 million as we mentioned, we're spending about $10 million a year investing in BrightLoop. Some of that investment goes towards that project. So, it's not duplicative or incremental on top of that. I just want to add that.

So about $5 million to $10 million would come from B&W in that and the rest would be financed out to do the construction portion of that particular project. And then the revenues for the hydrogen would start with the first data that we're producing hydrogen, which can we do anticipate the end of 2025, really 2026 as we start to place some of the long lead time orders for equipment and other aspects associated with that particular project overall.

So that's – Lou, I don't know if you want to add to that, but that's a rough order of magnitude and how we think about it in terms of the B&W's portion of it.

So, I think we're excited about it because we need to have that commercial demonstration out, and this is actually a much more affordable way for us to do that, to get that first commercial project off the ground so that we can increase our TRL level. And what we're excited about. Normally, we would have to invest in that project ourselves and build it ourselves almost like an R&D facility. In this particular case, we're doing that in a commercial environment where we're receiving revenues to cover the costs associated with that based on the revenues of the hydrogen that we'll be selling to the offtake or through the offtake agreement itself.

So, we think it's a great way for us to get this off the ground a great way to do it with a low amount of cash requirements by B&W, and we had to offset the financing costs of that over the long-term period versus the tendered and offtake agreement that's corruptly five times a day. So, that part seems like a win-win for us. But Lou, do you want to add some color?

Lou Salamone

Yes, just to amplify a little bit, Alex, it's really a two-phase with one entity financing. One will be the construction phase, where we'll have your basic construction loan for the construction period and then there will be what we call an offtake period to go with the offtake once the construction is completed, where we'll have what would be to a long-term lease for the remainder of the – to amortize out those construction costs that we incur.

So as Kenny said, for us, it's a really good cash flow project because we're able to keep cash on our balance sheet, use the construction financing and then use the lease financing when the offtake agreement starts producing revenue.

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Alex Rygiel

Yes, it's great. Thank you.

Operator

Thank you. There are currently no questions registered. So, at this time, I would like to pass the conference back over to the management team for any further remarks.

Sharyn Brooks

Thank you, Makaia. And thanks, everyone, for joining us. That concludes our conference call. A replay will be available for a limited time on our website later today.

Operator

Once again, thank you all for attending today's call. This will now conclude today's conference call. We appreciate your participation. We hope you have a wonderful day, and you may now disconnect your lines.

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