

# **CECO Environmental Corp. (CECO) Q2 2024 Earnings Call Transcript**

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**Body**

CECO Environmental Corp. (CECO)

Q2 2024 Earnings Conference Call

July 30, 2024 08:30 AM ET

Company Participants

Steven Hooser - Investor Relations

Todd Gleason - Chief Executive Officer

Peter Johansson - Chief Financial & Strategy Officer

Conference Call Participants

Aaron Spychalla - Craig Hallam Capital Group

Rob Brown - Lake Street Capital Markets

Gerry Sweeney - Roth

Jim Ricchiuti - Needham and Company

Bobby Brooks - Northland Capital Markets

Amit Dayal - H.C. Wainwright

Presentation

Operator

Good morning, and welcome to the CECO Environmental Second Quarter 2024 Earnings Conference Call. All participants will be in a listen-only mode. After today's presentation, there will be an opportunity to ask questions. [Operator Instructions] Please note, this event is being recorded.

I would now like to turn the conference over to Steven Hooser, Investor Relations. Please go ahead.

Steven Hooser

Thank you, Gigi, and thank you for joining us for the CECO Environmental second quarter 2024 earnings call. On the call, with me today is Todd Gleason, Chief Executive Officer; and Peter Johansson, Chief Financial and Strategy Officer.

Before we begin, I'd like to note that we have provided a slide presentation to help guide our discussion. The call will be webcast along with our earnings presentation, which is on our website at cecoenviro.com. The presentation materials can be accessed through the Investor Relations section of the website.

I'd also like to caution investors regarding forward-looking statements. Any statements made in today's presentation that are not based on historical fact are forward-looking statements. Such statements are based on certain estimates and expectations and are subject to a number of risks and uncertainties. Actual future results may differ materially from those expressed or implied by the forward-looking statements.

We encourage you to read the risks described in our SEC filings including on Form 10-Q for the quarter ended June 30, 2024. Except to the extent required by applicable securities laws, we undertake no obligation to update or publicly revise any of the forward-looking statements that we make here today, whether as a result of new information, future events, or otherwise.

Today's presentation will also include references to certain non-GAAP financial measures. We provided a comparable GAAP and non-GAAP numbers in today's press release and provided non-GAAP reconciliations in the supplemental tables in the back of the slide deck.

And with that, I'd now like to turn the call over to Chief Executive Officer, Todd Gleason. Todd?

Todd Gleason

Thanks, Steven, and to our audience, thank you for your interest and continued support. We are a little more than halfway through the year and are very pleased we continue to meet or exceed the needs of our customers while making a positive impact on our communities and creating above-market shareholder value.

As we outlined in today's press release, we delivered another strong quarter while maintaining our strategic investments to further advance our operating model as we pursue exciting growth opportunities across industrial air, industrial water and the energy transition.

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In the quarter, we delivered several impressive financial records, including our highest second quarter sales, gross profit, adjusted EBITDA dollars and excellent year-over-year margin expansion, all of which reflects the operating model we have developed and continue to advance to drive sustainable results.

Now please turn to slide number three entitled Executive Summary, and I will highlight some key takeaways related to our second quarter performance. We delivered sales of $138 million in the quarter, a 6% improvement over last year, overcoming the impact of timing delays associated with a few customer driven projects and the more drawn out process, finalizing bookings in large project opportunities.

If you recall, we signaled this in our first quarter earnings call, and although we grew sales approximately 9% sequentially, we expect to grow sequentially in the third and we expect to grow sequentially in the third quarter. These timing issues had a modest impact on sales year-to-date.

Gross profit of $49 million was an increase of 23% over Q2 last year, and gross margins of almost 36% were up about 500 basis points year-over-year, further demonstrating the benefits we are realizing from our operational excellence efforts and our strong project execution.

We expect that the benefits we are seeing from our sourcing and productivity initiatives will continue, in subsequent quarters. Continuing with Q2 financial metrics, adjusted EBITDA of $16.1 million was up 18% and EBITDA margins of 11.7% were up approximately 120 basis points year-over-year.

Margin expansion was attributable to higher volumes, positive mix and G&A efficiencies. Finally, adjusted EPS of $0.20 was up 33% year-over-year, benefiting from our continued improvements in operational performance and improving interest rates. So overall, very pleased with the financial records in the quarter and the balanced performance.

Now please turn to Slide number 4. We will quickly review our first half of year results and how they set up CECO, for a strong finish to 2024. Peter will add some commentary on these points as well.

Let's start with orders and sales, the top line, so to speak. Orders for the first half were $286 million, which produced a positive book-to-bill of 1.08, but order volumes were down about 7% year-over-year.

While we are pleased to have book-to-bill of almost 1.1, we are disappointed that our first half 2024 orders were down. Our order pipeline has never been stronger. And we continue to do a great job winning and booking small- to medium-sized projects, but we have witnessed a longer booking process associated with the large customer opportunities.

In the first half of the year -- excuse me, in the first half of last year, we were not seeing this long duration time in the notification to order process, and we booked one large industrial layer order and one large energy order, each exceeding $25 million.

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We have similar opportunities in our current pipeline and had just one or two of these jobs booked this year, our year-to-date orders would have been up double digits. Instead, those large pending orders remain in our pipeline. And although we are confident our second half orders will reflect some of these large orders.

We look -- as we look at our pipeline over the next six to 18 months, we see significant number of large jobs, especially in the energy transition in power markets, as the demands associated with electrification, data centers and general power consumption continue to ramp.

So we remain optimistic in our full year bookings outlook and confident that we are well positioned for some large exciting project wins. Sales in the first half were $264 million, up 9% year-over-year, which is at or near the midpoint of our full year growth rate expectations.

Additionally, if you look at our guidance for the full year, this first half sales level represents about 43%, of that full year expectation. This is similar to previous year's run rate for the first half of the year.

We expect stronger year-over-year sales levels in the second half, as our near record backlog produces more volume and project timing is more favorable. First half of year adjusted EBITDA of more than $29 million was up 26% over prior year's first half, and margins were up over 150 basis points.

We had very strong income generation on our sales growth, which demonstrates the benefits we are getting from improving mix and our productivity initiatives.

Adjusted EPS of $0.32 is up 28% year-over-year, benefiting from improving operating leverage and the positive trends we are starting to see from lower interest rates. Free cash flow generation was up nicely when compared to last year as we continue to benefit from higher margins -- or excuse me, higher volumes and our drive associated with working capital management improvements.

And while we didn't deploy capital for acquisitions in the first half of 2024, we did maintain balance sheet health with low debt-to-EBITDA leverage ratio and repurchased $2 million of shares in the second quarter.

Year-to-date, we have repurchased $5 million of our stock through opportunistic price targeting. We have approximately $8 million remaining on our multiyear stock buyback authorization. So a solid first half of 2024 with a lot of great progress building our sales pipeline, executing on projects to deliver for our customers and, of course, the very strong margin expansion and EPS growth.

Please turn to slide number 5, and let's review our full year outlook. Typically, companies save guidance commentary for the end of their earnings report, but we felt it was important to incorporate our key themes in this first section. We are pleased to raise our first -- excuse me, our full year guidance for both revenue and adjusted EBITDA. This is the second time we are raising full year guidance since we first introduced our 2024 outlook.

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You can see the initial guidance range in the column on the left side and how we have increased the guidance range over the past six months. With respect to full year revenues, we now expect a range of $600 million to $620 million, up about 12% at the midpoint. This compares to our previous sales range of $590 million to $610 million.

With respect to adjusted EBITDA, we now expect a range of $68 million to $72 million, up about 21% at the midpoint. This compares to our previous adjusted EBITDA range of between $67 million to $70 million. And we continue to see free cash flow of approximately 50% to 70% of EBITDA for the full year.

Our updated guidance range incorporates a few key factors. As I already mentioned, we entered the second half with a near-record backlog as well as a tremendous sales pipeline. These two top line factors give us visibility and confidence to deliver second half sales performance in line with this outlook. Our diverse and global sales pipeline includes meaningful project opportunities in a variety of energy-related sectors as well as ongoing strength in general industrial markets.

And with respect to adjusted EBITDA, we expect to continue to produce solid margin expansion driven by more gains associated with productivity and improving business mix. We are balancing these positive items with a clear-eyed focus on items that could be challenges such as ongoing timing delays associated with larger projects and, of course, some unknown economic and political factors.

Net-net, we feel good about raising guidance for the full year and continuing to invest for future growth. In addition to the items I just mentioned, I want to touch on M&A. As many of you know, we have been programmatic with respect to acquisitions over the past few years. While we did not complete a deal in the first six months this year, we advanced several attractive business transactions that fit our strategic focus on acquiring niche leadership businesses with outsized growth potential.

As we shared in our press release today, I am pleased to announce we completed an acquisition this week, which is incorporated in our outlook. While the business will have a small financial impact to our full year 2024, we are very excited with the opportunities the acquired business brings to our portfolio. And while this is the only transaction incorporated in our guidance, we continue to advance our M&A pipeline and remain committed to adding winning businesses to advance our leadership positions.

Please turn to slide number 6, where I will brief you on the recently acquired business of EnviroCare International. Yesterday, Monday, July 29, we completed the acquisition of the California-based EnviroCare International. EnviroCare has annualized sales of approximately $13 million, and we believe as does the EnviroCare leadership that with focused investment in utilization of our established global sales and operations teams, we can significantly increase their growth and profitability.

The company has an established industrial air niche leadership position in markets, including chemicals, food, mining and metals, cement products and municipal solid waste applications. As you can see on the slide, the business has 30% of sales in aftermarket, and we believe this is a growth opportunity within their installed base of over 1,000 systems. We also like the strong patent portfolio and decades of market and technical knowledge.

In fact, we might suggest some of these smaller acquisitions could be considered or could be called Aqua Resources, where you are acquiring resources. We believe the financials and growth profiles are very attractive on their own, but the resources are very strong, and we look forward to working closely with the team.

So with that, I'll hand it over to Peter, who will walk us through additional information on our financial performance for the quarter. Peter?

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Peter Johansson

Thank you, Todd, and good morning, everyone. Thank you for attending our earnings call today.

Let's turn to slide 8, where I'll cover orders and backlog. Orders for the quarter of $141 million, while still significant and reflecting a book-to-bill ratio greater than 1, are down year-over-year approximately 13% on a tough comp, impacted by two significant orders, one in industrial air and on an energy transition worth over $70 million in aggregate that did not repeat. The result of the absence of such orders was that year-over-year TTM orders were flat and sequential TTM orders declined from the first quarter of 2024.

Our commercial teams are pursuing a number of large projects that we expect to realize in the second half of 2024. And as we have communicated in our prior calls, we do not measure CECO bookings on a quarter-by-quarter basis, because they can be lumpy, and we prefer to use the trailing TTM metric and active pipeline size as KPIs, both which are trending positive.

Shifting to the right-hand side of the slide, backlog has remained steady at near-record levels of $391 million, similar to prior year and prior quarter with a book-to-bill ratio in the quarter of approximately 1.1 and strong as booked margins, underpinning our confidence for continued strong gross profit performance in the second half of the year.

We also expect that a large share of this backlog will be realized as revenue in the second half of the year, including a fair portion of the two very large jobs that Todd previously mentioned that booked last year in the second quarter.

Now, let's talk about sales as we turn to Slide 9. Sales for the quarter of $138 million is a new second quarter sales record, up 6% year-over-year and up approximately 10% sequentially.

While we are pleased with our sales performance in the quarter, the results could have been even stronger, have we not experienced certain order booking delays as customers are taking longer to move from notification to formal purchase order placement and select delays in revenue recognition on projects currently underway.

With our sales performance in the second quarter and for the first half of 2024, CECO's TTM sales are up $100 million from the year ago period, approximately 22%.

With $264 million of first half sales, we have delivered approximately 47% of our total year results, which is in line with our 2022 and 2023's performance. I am very pleased with the strong double-digit TTM growth we have experienced and it is certainly a great way to enter the second half of the year.

Now, please turn to Page 10, where I will cover earnings and margins, which is a story of continuous and steady improvements, keeping CECO on track for our mid-teens EBITDA margin target, which we have signaled we will achieve in the 2025, 2026 timeframe.

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Starting with gross profit. Margins in the quarter were 35.6%, a record level for any second quarter, continuing a trend of mid-30s margins started in the fourth quarter of 2023, which reinforces that we are on the right path.

The improvement year-over-year has been largely as a result of improved project execution, improved book margins, and the early benefits of our sourcing and operational efficiency initiatives.

Also in the second quarter and the first half periods, our short-cycle brands and recent acquisitions, both of which tend to have higher margins, are contributing higher volumes and a greater share of revenues.

Sequentially, gross profit has increased approximately $4 million to $49 million on $12 million of additional sales, realizing an incremental margin rate of 33% and a 9% improvement on a dollar basis. Year-over-year gross profit increased approximately $9 million or $9 million of incremental sales for a fantastic conversion result of nearly 100%.

On a TTM basis, gross profit of $190 million is an increase of approximately $46 million, delivered on $100 million of additional sales or incremental conversion margins of 46% and a 32% increase on a dollar basis, resulting in a margin increase of 260 basis points to 33.6%, a number which is quite near our historical highs. And as you will recall from our first quarter conversation and fourth quarter results that that's where we expected to get back to a level in this year.

Moving to adjusted EBITDA. Second quarter 2024 delivered $16.1 million, a record for any second quarter, benefiting from our record sales in the quarter and strong operational performance. This resulted in margins expanding by 120 basis points to 11.7%. The incremental conversion in the period was approximately 24% sequentially and 28% year-over-year, respectively.

Our EBITDA conversion on higher sales was partially offset by continued investment in our sales, engineering and project resources necessary to drive growth and operating excellence resources and information systems to drive back-office efficiencies and productivity and to allow us to accelerate the integration of our acquisitions.

Also, I'd like to bring to your attention that in the second quarter, CECO's annual merit adjustments become active -- providing a little upward pressure on G&A expense. On a TTM basis, adjusted EBITDA of $64 million is an increase of approximately 40% or $18.2 million, which resulted in an 18.2% incremental margin rate, certainly on trend to achieve the 20% margin target on incremental sales that we are targeting as we start to see accelerated benefits from our investments in our G&A processes, business system upgrades and functional resources from prior periods. The resulting TTM margin of 11.2% is an increase of about 140 basis points year-over-year and 20 basis points sequentially.

Now moving to Slide 11, we'll quickly review our cash position and liquidity. We CECO finished the quarter with gross debt of $125 million, lower by $8 million from year-end 2023, with net borrowings in the quarter of approximately $8 million. Net debt was $83 million at quarter end, higher by $10 million from year-end 2023 and flat year-over-year with CECO's leverage ratio moving up a tenth of turn to a modest 1.5x from year-end 2023, as our bank EBITDA metric adjusted slightly downwards in the quarter.

Leverage moved down by 0.4 of a turn year-over-year with our capacity increasing slightly on a sequential basis to $120 million, a level which fully covers our planned capital deployment for the balance of the year, including M&A and capital investment. CECO finished the quarter with $37 million of global cash, reflecting a decrease of approximately $18 million from year-end 2023 and a decrease of $12 million year-over-year. The lower balance was the result of accelerated debt repayments in the quarter and the aforementioned stock buybacks we executed in the first half.

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In the quarter, we implemented our international cash pooling structure, which reduces structurally the amount of net cash that we believe we need to hold to support operations and meet our liquidity needs. This frees up cash for other corporate uses. Cash generated from operations was $8 million for the quarter and up approximately $9 million year-over-year, benefiting from improvements in working capital management. In the quarter, we funded CapEx investments of approximately $4 million to support continued growth, IT system upgrades and cyber upgrades. Cash taxes and cash interest paid in the first half totaled $10.4 million versus $13 million in the year ago period.

That concludes my summary of CECO's second quarter 2024 financial results. The results in the quarter and the first half give me high confidence that we will sustain and improve on this level of performance sequentially throughout the remainder of 2024 on higher revenue generation and order rates, delivering on our commitments and the improved full year outlook.

And now I'd like to turn the stage back over to Todd for his concluding remarks.

Todd Gleason

Thanks, Peter. A lot of good details with respect to our financials and other insights into our performance. We're going to go to the final section and then also our final summary slide.

Please turn to Slide number 13. Overall, our second quarter and year-to-date results produced the sustainable top line and bottom line growth we have been delivering for a number of quarters and also signaling in our guidance. We have navigated some delays in bookings and project deliveries. We continue to produce record financial results, and we are really demonstrating strong margin expansion, which is a major focus for our leadership teams.

We feel great about our sales pipeline. There are tremendous opportunities in energy markets associated with what is proving to be a power super cycle, which is still on the horizon, but we're definitely closer to many of the jobs in our pipeline. And we have large project opportunities in industrial water and industrial air.

We look forward to sharing more in the coming months and quarters as we believe the timing on these jobs is imminent. We are pleased to share the recent acquisition of EnviroCare, and we are excited how our M&A pipeline is advancing. We believe we have a proven track record of acquiring strategic growth businesses at accretive prices and then accelerating the growth and profitability of these acquired businesses. We look forward to investing in EnviroCare, working with their leadership team and maximizing its full potential.

As a result of these factors, coupled with our view of the markets, we are pleased to have raised guidance for the second time this year, and we believe our revenue range of between $600 million to $620 million or up 12% at the midpoint and our full year adjusted EBITDA range of between $68 million to $72 million, up 21% at the midpoint, each reflect our commitment to strong performance, while we invest for future growth.

And a special thank you to all our CECO team members around the world that are working hard to deliver for our customers and providing solutions that protect people, protect the environment, and protect industrial equipment.

And with that, we are now happy to open it up to any questions. I'll hand it back over to the operator, and then I will conclude with a few remarks.

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Question-and-Answer Session

Operator

We will now begin the question-and-answer session. [Operator Instructions] Our first question comes from the line of Aaron Spychalla from Craig Hallam Capital Group.

Aaron Spychalla

Yes. Good morning, Todd and Peter. Thanks for taking the question. Maybe first for me, just on the pipeline expansion, the $4 billion, up 40% year-over-year. Can you talk about any areas in particular driving that strength? It sounds like there's still some large energy transition opportunities out there? And then just maybe a little bit more detail on some of the order delays and kind of confidence in some of those converting to orders here in the back half of the year.

Todd Gleason

Yeah. Good question, Aaron. Look, for us, we talk about it each quarter pretty consistently that certainly the quarterly performance of bookings is important and a focus of our organization. But us growing our pursuits and our sales pipeline in our minds, is really the best factor for us to drive that future growth. Look, I would say the largest opportunity set for us in the next six to 18 months, no doubt, in terms of the big projects, are in the energy and energy transition space. Doesn't mean that there aren't extremely important and large industrial water and industrial air opportunities of between $15 million to $30 million each. But those are fewer large jobs, but attractive.

But in the energy space, we have been mentioning now for the last quarter maybe quarter and a half, that we are seeing many larger multiples of what we have seen in 2021, 2022, and 2023 of, again, mostly power-related opportunities, whether it be in natural gas or other power sources. And I would also say the reason we continue to refer to it as a super cycle, potentially, is that we're not seeing a slowdown in investments in renewables or in opportunities that could be down the pipeline like geothermal or nuclear. We would say everything's on the table to satisfy the demands of power globally.

But for gas turbine power, we are in constant dialogue with our end customers with respect to jobs that they are booking, announcing or already been receiving but haven't yet announced. These are jobs that generally go on months and months of analysis, discussion, negotiation and review. So those are the areas where in our $4 billion of sales pipeline, we would suggest probably have the largest big project impact for us.

Aaron Spychalla

All right. Thank you for the color there. Another solid quarter of gross margin. Anything particular to note there one time? And then can you maybe talk about just the split between project execution, some of the initiatives that you're early in and just the short cycle mix there, and then how you're thinking about margin kind of cadence over the next few quarters as you execute on some of those larger projects you kind of talked about too?

Todd Gleason

Yeah. I'll make a couple comments, and Peter will provide certainly more color. So we're pleased, and we've been, again, signaling our investment in operating excellence, project management and, of course, both acquisitions and organic better positioning our portfolio for higher gross margins and EBITDA margin results as just a core part of our portfolio. So all of those things are starting to really now produce great quarterly gross margins and EBITDA margins. We expect certainly to be expanding our EBITDA margins consistently on our path to maintain EBITDA margins, and that's the most important of the margin discussion topics for us and we think for the investment community.

That doesn't mean the gross margins we expect them to have a huge drop-off, but as revenue goes higher and the business mix of our gross margins in that revenue, we certainly expect gross margins will come down a little bit but still produce a very attractive year-over-year EBITDA margin expansion because of our ability to leverage the volumes and the G&A that those volumes can absorb. So for us, again, having higher gross margins year-over-year is a great driver of bottom line performance. And we're going to continue to keep the focus on productivity and business mix. But as our sales go higher in the second half of the year, we do expect gross margins will come down a bit versus the first half, but will continue to drive good EBITDA margin expansion.

Peter Johansson

Aaron, what we historically see is the very large projects booked with lower aggregate or lower average excuse me, gross profit margins, but come with very little fixed cost addition. And so they have a powerful volume component in terms of delivery margin enhancement. We do track gross profit margins. Actually, we talk more about contribution margins internally because that is, to a great degree, what our project teams are seeing as they roll up their numbers because that takes all the project costs into consideration. And that's where we're seeing the operational efficiencies from buying better and executing faster where and when our customers are allowing us to move as fast as we would like to. And we're seeing those contribution margins typically. And across most of our regions expand sequentially and year-over-year.

Aaron Spychalla

Right. Okay. That makes sense. Thank you for the color and for taking the questions. I'll turn it over.

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Todd Gleason

Yeah.

Peter Johansson

The mix is a powerful driver for us, Aaron, when we talk about large versus typical projects and short versus long and it's that mix that converts to revenue that in these last two periods has been a tailwind for us.

Operator

Thank you. Our next question comes from the line of Rob Brown from Lake Street Capital Markets.

Rob Brown

Good morning.

Todd Gleason

Hey, Rob.

Rob Brown

I just want to touch a little bit more on the project delays. I guess, did you -- are you seeing kind of any sort of secular activity that's causing the delay? Or is this just the particulars of each project and the timing relative to maybe what you'd hoped?

Todd Gleason

So we understand, and I think it's confirmed by the fact that small -- and when we say small, we're talking still over $1 million projects and medium would be in the $3 million to $5 million, maybe $6 million range. We're not seeing a slowdown in those. We're seeing a pipeline growing. We're seeing those moving through the bid review, the notification and then the purchase order issuance very much at the same pace in a brisk good pace as before. And these are big customers that are doing important expansions that are doing even new builds, very similar to what we were seeing last year.

The -- and so we would say economically speaking, we're not seeing a lot or anything in the general industrial markets that would signal a sea change or a change or a different view of what of the type of investment that businesses are taking to support global and of course, re-shoring and other ongoing thematic industrial expansion. However, in larger projects, I think what we're hearing and seeing and fortunately for us, we have a very good resource plan. And while keeping people and recruiting people is a challenge, we're ready to go.

However, that's not always the case for some of these larger projects, EPC firms, big customers, lots of suppliers, getting their resources and, I guess, in their camps, ready to go for these larger projects is what we're hearing is creating a little bit of the delays is that these large projects are waiting for all of their suppliers, maybe even including themselves to be ready to be deployed to go and install and do the heavy work associated with these projects. So if there's one area that I guess we would say, and I think, we've been saying this now for several months, maybe certainly this year, is that certain resource delays and availability are causing a little pause in these larger projects.

Now that probably means that there's going to be a quarter where there's an oversized bookings for a number of companies and potentially including ours. You know -- and time will tell because we still have a very good visibility to these large projects. Like I said, this year and as we head into 2025, we see a number of jobs that we feel well-positioned to win.

So look, we don't think there's a lot of economic change. In fact, maybe there could even be a pause associated with people waiting to see what happens on the regulatory front associated with the election could be a pause related to interest rates coming down and commodity costs coming down. So I think you bring all those things into the mix, and these large projects are just taking -- they're more complicated and they're taking the right amount of time to get everything organized.

Rob Brown

Okay. Yes, makes sense. Thank you. And then I think you talked before about, sort of, the size range of these projects. Could you remind us of what the sizes are sort of these projects in the range, I guess? And how do those flow through over what period of time does that drive revenue for you?

Todd Gleason

Rob, we're seeing in our pipeline now, the size of large jobs growing, and we used to think $20 million to $30 million was large. We're now talking about opportunities in the $60 million to $100 million range. The scope and scale of a lot of we're beginning to talk about with energy customers and coal to gas conversions, data center backup power supply build out, hydrogen supply opportunities, supporting electrolyzer plants are just becoming eye-wateringly in large.

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And so I'd say the median is moving up on us quarter-over-quarter as we think about what a large needs. But the impact has historically been nice -- book a nice project, runs for anywhere from four, six, sometimes eight quarters, depending on how quickly the plant gets commissioned and is running. And we recognize revenue consistently and generate cash consistently over a multi-quarter period. They generally -- these projects generally follow a similar milestone progression, and we manage them with our teams across regions.

Rob Brown

Okay. Thank you. Great. I will turn it over.

Operator

Thank you. One moment for our next question. Our next question comes from the line of Gerry Sweeney from Roth.

Gerry Sweeney

Good morning Todd, Peter, Steven. Thanks for taking my call. I'm just going to stick with power since everybody else's, but a slightly different question. Just curious as to maybe how many projects are out there and maybe it would be good to even understand what really differentiates you?

And then finally, not surprised there's probably some resource delays there, et cetera. But are you seeing an actual margin opportunity since there are so many projects out there maybe you can start ratcheting up the margins on these projects?

Todd Gleason

Yeah. A couple of questions there. I'll start with the -- no, that's great. It's all -- we get it. We'll start, I guess, with the volume of projects and then we'll kind of maybe try to blend it the answer associated with -- do we feel that there's maybe some pricing or margin opportunity, which, of course, any company would want to make sure that we're taking advantage of our leadership position and defend our pricing and maximize our ability to utilize productivity as we go through this.

So, look, I think over the last few years, our energy related projects with respect to power have been good. They have grown, and they have been -- we have benefited from those healthy markets. But over the last few years, we would maybe typically look at three to four project opportunities of large size and pursue those and be rewarded the appropriate number for us as a well-positioned provider of the types of emissions or separation, filtration solutions or acoustic silencing, noise management solutions that we and only a few competitors can provide for these very large complicated important power projects.

We would probably say now we could be looking at over the next 12 months, a dozen jobs that we would consider large, so three to four times the number. And like I said, we're seeing more activity, not less, in other areas like nuclear and geothermal, where you need very specific certifications and experience, reference sites, not many nuclear facilities are looking for unproven suppliers. They're looking for the pieces of equipment, service models, solutions and, of course, the resources to do those types of work.

So we're -- again, and specifically in power, the magnitude of it has gone up multiples in terms of the pipeline. And that looks to be a multiyear sustainable level. I think that others in the power space are talking about it a fair amount. GE Vernova, Siemens Energy, et cetera, are certainly indicating their well-positioned portfolio as the power investments are coming online.

And then our acquisition of Wakefield 1.5 years ago or so has also extended and expanded our position in providing industrial solutions for data centers and for other power related backup power, acoustic management solutions, and that's a business that we have more than doubled in 18 months, expect to and are optimistic that we have tremendous growth and opportunities associated with our ability to expand its footprint with a smart investment with respect to capital and hiring resources.

And we see opportunities in other international regions with that business now that we wouldn't have seen 1.5 years ago.

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So I would say we're seeing multiples of the market versus a year ago or two years ago. And yes, look, I think will pricing and will gross margins be vastly different than before. I think they'll be healthy. I don't think that we have an opportunity here. We're not certainly planning to try to have an opportunity where price is our focus. We want to be a great partner with our customers. We want to be in the right projects for us where our expertise is valued and we can price accordingly.

And then -- but we do think that as we get these large projects, our ability to leverage that scale to do very good areas around project management, execution, productivity, sourcing, logistics management we can get productivity if we know the jobs are ours and we can start to position for it.

So I think for our customers, they're going to see similar pricing, which is always appropriate for us and for them. But for our ability to execute and deliver additional margin expansion versus maybe years past, we're just, I think, a better, more efficient operating organization, and we expect to generate some benefits through our own productivity initiatives.

Peter Johansson

And Gerry, one area that Todd didn't include in his summary of the project pipeline is the addition of numerous nuclear opportunities. Nuclear has rebounded or recovered, shall I say, in the last three to four quarters, where it's now on many companies in many countries, radar screens. They're looking to have all potential sources of electricity to support electrification goals, decarbonization goals and support reindustrialization.

Q – Gerry Sweeney

Got it. Todd, you mentioned earlier, when you're talking about pipeline, I think specifically around power, the size grew from maybe $20 million to $30 million to now $60 million to $100 million in terms of what your definition of a large project is. Is that project the size of the project getting larger? Or is that more of a function of maybe some recent acquisitions, bolt-ons that you're able to gain more wallet share or share of the project size?

Todd Gleason

It's scope of the project. They're just bigger, bigger machines, more of them producing more gigawatts. It's all -- I said last quarter, I'll say it every quarter until I'm probably at the end of the decade. It's all about the electrons.

Q – Gerry Sweeney

All about the electrons.

Todd Gleason

All about the electronic. However, they're being produced. It's a bumper sticker wait to happen. But we're confident, look, we do think as we have invested and grown our resources in India as we've invested and grown our resources in the Middle East -- a great team, great leadership, very dedicated employees. As we now have capabilities in Korea and East Asia and Southeast Asia that we never had before as we continue to add Wakefield and more European, Western European capabilities. And so we've always been well positioned in a few of those markets, especially North America, US power, et cetera.

So yes, acquisitions do expand our overall pipeline. But for these big jobs, these jobs that used to be $40 million, $50 million would have been their max. Now there's $60 million to $100 million. It's really the scope of the job. It is converting coal fired to natural gas, but then expanding that to also have solar and wind and other backup power and peaker power and other applications that might not have been in a singularly focused power application. Now they're doing sort of multi-fab, these are bigger, more complicated jobs. And look, there's a need for it. Data centers and digitization and of course, just more need for comfort, air conditioning, heating, et cetera, it's a tremendous demand cycle.

Q – Gerry Sweeney

Got it. Okay. I've probably taken up too much time as it is, but we have a follow-up. So thanks, guys.

Todd Gleason

Thanks.

Operator

One moment for our next question. Our next question comes from the line of Jim Ricchiuti from Needham and Company.

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Jim Ricchiuti

Hi. Thanks, good morning. Maybe moving to some of the more mundane aspects. You talked about customer-driven delays. And I'm wondering if you could maybe size that for us? And do you expect these delays to catch up on some of these delays in Q3? Or is that potentially slip into Q4?

Todd Gleason

Revenue recognition-related delays that are due to principally either customer review, customer approvals or reaching a level of design-free that's necessary to issue purchase orders to our suppliers are merely revenue postponements. And that then rolls into the third quarter, fourth quarter subsequent periods. So that's not revenue loss, it's revenue deferred. And Jim, so those -- we do expect that will be a benefit to the third quarter and potentially the fourth quarter.

In terms of customers taking longer to move from notification to formal award, that dynamic does produce and then we're going to see in this year a much more – a much larger back end of the year in terms of revenue. We recognized 43% of the full year outlook in the first half, that implies 57% of our outlook will be in the second half, and these customer dynamics are a portion of that, not all of it by any means, we have projects that were naturally planned that way.

Jim Ricchiuti

And Peter, just the way you're seeing the business, is there the potential that it's even more weighted into Q4 this year, just given what...

Peter Johansson

Historically, our business has had large Q4s. Q1 is typically our lightest Q4, our heaviest in Qs 2 and 3, they kind of -- maybe they ping pong back and forth. But we do have that operating norm in our business. So Q1 being lighter and Q4 being heavier. It also leads us to have heavier EBITDA delivery in the fourth period.

Jim Ricchiuti

EnviroCare, congrats on that issues about $13 million of annualized $24 revenue. Is that mix similar to your mix, where 55%, 60% of the revenues come in the back half? Or is it more linear?

Todd Gleason

No, that business, as we understand it now, is more evenly distributed as we diligence that business and came to understand kind of their project and revenue recognition processes with a 30% weighting to aftermarket, that's very steady. And they've got a small service component, which tends to be steady as well.

So we're talking about 65% of their revenue. And that's -- we felt that was evenly balanced across the year. It can swing up or down a few points by quarter, but it's not going to drive, it's not going to change our overall quarterly balance of revenue significantly.

What it will contribute, though is revenue in the third and fourth quarter where we didn't have revenue from Envirocare in the first seven months of the year. So that will exacerbate the shift. But next year, it won't have a demonstrable impact.

Jim Ricchiuti

And last question, just in general, the M&A pipeline. It's been kind of quiet things picking up with this. What's your -- how would you characterize the environment right now? And the potential to do more of these smaller deals that look like, they could be quite attractive.

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Todd Gleason

The environment is very active, whether it's private businesses or sponsor owned businesses or corporate carve-outs. The activity in the market is very, very high, much higher than a year ago even higher than the first quarter.

We're very selective. We work on -- we feel a lot of inbounds, but we work on very few as we narrow them down through our valuation process. But the pipeline is active, the pricing environment is positive, and the asset quality continues to impress us.

And we remain -- so all of that is positive. And we have said and we'll continue to say, we've done a great job and our business leaders have done a great job of building these relationships. We then advance those discussions.

We have very exciting opportunities that we believe, if it makes sense for them, the company that we look to acquire and us, if it fits our operating model, if it fits our culture and we can obviously find win-win transaction, then we'll create a win-win transaction and we'll win together going forward.

And we'll invest in all of our businesses that we've acquired. We've invested in growth. We've grown. We are excited about those opportunities. But we're also very consistent with the fact that if it isn't a win-win or if it's not a good cultural fit, we'll walk away and we'll walk away as friends.

And we've had a number of those in the last year, which is why it's taken them a little bit of time to I think, get to the place in our pipeline where we have win-wins going forward. And so that's our focus.

We're not going to deviate from our strategy just to make an acquisition, as you can imagine. I don't -- not suggesting that other companies do that, but let's just say that it happens where people feel the pressure to close transactions. And we feel that we can be selective.

Jim Ricchiuti

Okay. Thank you.

Operator

Thank you. One moment for our next question. Our next question comes from the line of Bobby Brooks from Northland Capital Markets.

Bobby Brooks

Hey. Good morning guys. So you called in the prepared remarks, …

Todd Gleason

Hey, Bobby.

Bobby Brooks

Hey, so you guys called out in the prepared remarks, improving -- that an improving business mix is going to be a tailwind for margins going forward. Could you just discuss what that improving mix contains?

I know short cycle is a tailwind for margins. But it seems like the mix would tilt more towards long-cycle stuff going forward, just given the commentary. And I know that, that traditionally.

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Todd Gleason

Bobby, I think the statement was that it benefited us in the first half.

Bobby Brooks

Well, but if you do look year-over-year?

Todd Gleason

I think. So sequentially, if -- well, let's just answer the question, I guess. With respect to the improving mix, yes, you're on to all of the right themes, Bobby. So first of all, the comment was associated with year-over-year. And so if you look at the third and the fourth quarter, our expectation is and remains that the investments and the productivity that we have been generating in the first half of the year that, that mix year-over-year will continue to be a benefit.

And so yes, you're also right in the question that we might have still a larger percentage of long cycle versus short cycle, which typically is not the mix benefit, but we are going to have more short cycle year-over-year in terms of dollars, and we also would say that our long-cycle businesses have higher margins in them. And that's a factor of a number of discrete things.

So as you think about jobs in, let's say, separation filtration now with Transcend with great aftermarket, when you look at some of the industrial water businesses that we've been building organically and inorganically over the last few years, higher margins in industrial water and more consumables and more replacement for parts and et cetera, that are just ongoing. All of those things trend up. If you look at even areas that might be small for our entire P&L, but are a little bit more weighted in the second half, like applications for the U.S. Navy, Department of Defense, et cetera. Those are higher margin. Some of the energy jobs that we have been winning and that are smaller or higher margin in our Thermal Acoustics business, for example.

And then in other applications, while they are somewhat long cycle, they're in that sweet spot of size for us that is still higher margin versus the average long-cycle jobs. So it's not one thing, Bobby, I guess, is my bit long answer here. It's a number of modestly sized factors that each of them contribute a little bit more to margins year-over-year. And I think that's our focus.

Again, we're not a quarterly company. We certainly produce quarterly revenues and quarterly results, but we don't think of sequential as our main driver and our main value creator. It is a 6 to 12-month cycle organization still. But we are -- we're very keen to the margin expansion year-over-year as it's still being very much in our wheelhouse.

Bobby Brooks

Understood. That's great color. And then just kind of piggybacking on that. You mentioned in one of your answers to Aaron's question on gross margins that you guys are better positioning the portfolio for higher -- better positioning the portfolio for higher margins is key. Is that just kind of the stuff that you just touched on? Or could you maybe just explain what does that -- what is better positioning the portfolio mean in terms of higher margins? And how does CECO plan on doing so?

Todd Gleason

Yes. So I think -- well, look, I think we'd probably be -- and you even asked it as if we might give a redundant answer. And I think the -- I think our short answer is yes. Look, it is all the -- it's all part of our operating model that's going to continue to drive that margin expansion.

We signaled that over the last year, we've been investing in our platforms and in key corporate resources to get after opportunities and operating excellence. And it's the classic components of supply chain, purchases, making sure that we are getting pricing, adding people, resources to lean enterprise. We've had more lean boot camps over the last six months than we did at any time in the company's history prior to that probably.

And these are getting up to all of our facilities, looking at safety, quality, delivery, cost, the playbook of lean is now being adopted much more consistently across our operating model. And so it is these small wins, if you're improving the cost of poor quality and you're eliminating that scrap, you're eliminating that rework. These things just show up in margin, because we have higher delivered margins than even we anticipated in our bookings, et cetera.

So for us, it's about a whole bunch of singles and doubles, not home runs, including the acquisitions. It is incentivizing people differently this year for more margin expansion. We said that over the last few years, the pendulum, and I like to use that as a visual, was leaning a little bit more on growth organically and growth inorganically, still heavily incentivized on growth, which is why our outlook is low-double-digit growth, which is mostly organic.

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But this year, we have a slightly more weighting towards driving margin expansion, and we have more people incentivized specifically on productivity and margin expansion. So, it is a playbook that for us, Bobby and for everyone out there. It evolves, it advances. It doesn't radically change. And so the evolution and the advancement of our playbook this year is to just apply more incentivized pressure on our ability to go after that 15% EBITDA margins, which we believe are inside our organization today and will continue to do organic and inorganic activities to ensure our delivery of those mid-teen EBITDA margins. But we're not going to try to do it overnight. It's going to be a slow, steady, sustainable rate that we expect to win, and those are the types of things that we build on every quarter.

Bobby Brooks

Understood. And just last one for me. So, you guys mentioned $4 billion. The pipeline is now $4 billion. That's a $500 million increase from the last call. I was just curious on how much of that increase is new jobs entering the pipeline? And how much of that is due to the delays in projects that you guys have called out that in normal circumstances likely would have already been booked or just decided?

Todd Gleason

Well, we've had at least -- let's just go with -- we've had at least $50 million worth of jobs that we hoped and expected might have been a -- would have been very unlikely to have been in the beginning of the year, but we had an expectation that they could have been in the second quarter. And it could be much high. It could be $100 million worth of jobs. They have now extended into the second half of the year. So that's a number that we can point to, because we know the projects specifically on those.

But I think getting from $3.5 billion less than a year ago to $4 billion that is also just our reference sites now in industrial water, which we didn't have before, us having global expansion in markets like India that open up another $50 million worth of pipeline for us to go and pursue. And frankly, I think we would say that there are some end markets that we've mentioned that had a great in 2021, but then 2022 and 2023 things sort of pause, and they're coming back a little bit in various general industrial. So, there's ebbs and flows here. But I'd say $50 million to $100 million is associated with jobs it just pushed out. The rest is us just continuing to expand into new markets geographically or kind of now some other markets coming back into favor in what could be the second half of the year, but certainly as we roll into 2025.

Bobby Brooks

Terrific. Thank you for the call. I appreciate the time. I'll return back to the queue.

Todd Gleason

Thank you. Great, Bobby. Thanks.

Operator

Thank you. One moment for our next question. Our next question comes from the line of Amit Dayal from H.C. Wainwright.

Amit Dayal

Thank you. Good morning guys. With respect to this lower interest rate environment you're anticipating, how should we think about sales cycles may be accelerating for you? Like how does the business change, you've done very well through this higher interest rate environment with interest rates potentially hitting lower, is that opportunity set even bigger for you? Like how should we think about it?

Todd Gleason

It's a great question. I don't know that if I had to circle yes or no, to just that question, yes, it's going to be a driver. No, it's not. I'm tempted to more circle no, because I don't think that our customers purchasing decisions, their CapEx, their growth investments or the regulatory or just their commitment to safety and the environment and their protection of their industrial equipment has much if anything to do with the higher interest rate or the lower interest rate situation.

If interest rates went up a lot or were rapidly declining, then yes, I think there would be some of that. So I think the answer is not a lot of change in our markets as a result of interest rates at the moment. That said, there are certainly some of the delays and maybe some of the future opportunities that have not yet materialized are a little bit of an interest -- I hate to use the word interest and interest rates. But there is a confidence that interest rates are going to come down.

I also think that there's some topics associated with the presidential election. They could be creating budgetary pauses to see what happens with various decisions. They could be associated with the change or the stability of an administrative policy program, et cetera. And so there are factors in the moment that are influencing modestly at least certain projects and certain decisions. They're not incredibly material, but they're out there. We see them and we hear them. So look, for us, I always say as the CEO, if you give us high interest rates, but it's stable, we'll figure out what to do with that. You give us high commodity costs, but they're stable. We'll figure out what to do with that. If you give us lower interest rates or lower commodity costs, great, that's even better, it feels and we'll figure out what to do with that. It's when things are moving around a lot and that uncertainty creates the pause. It isn't high or low, typically that creates the pause. It is all of us waiting to see what's going to happen as a result of things.

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And so if we're anxious for anything, it is just for decisions announcements and things to become more finalized. And so if the Fed wants to tell us exactly what they're going to do with interest rates, that'd be great, because then we can start to plan for that. If we all know the outcome of various policies and restrictions, et cetera, are going to come down the pipeline, that'd be great. So I think for most of us, the knowledge of what's going to end up being a more stable market over the next 6 to 12 months is probably the more interesting factor.

Peter Johansson

And Matt, lower interest rates that are stable is a positive. Todd talked about the market impact. I'll talk about the impact on CECO. We have 100% of our credit is burial rate debt. Every reduction in interest rate is an improvement in our cash generation. The more cash we have and the lower the interest burden we have, the more likely we are to consider new investments, additional acquisitions, investments in growth or alternate uses of that cash. It certainly makes the EPS environment more positive for us as a company. So we have our micro impact, I can define. The macro impact, positive, but I don't think, to Todd's point, it's a big swinger.

Amit Dayal

Understood. Appreciate the color, guys. That's all I have. Thank you so much.

Peter Johansson

Thanks, Amit.

Operator

Thank you. This concludes our question-and-answer session. I would like to turn the conference back over to Todd Gleason for any closing remarks.

Todd Gleason

Thank you. And I'd like to thank everyone for your great questions and, of course, the interest in our information today. Also, importantly, thanks to our CECO global teams. They continue to deliver incredible value for our customers as we protect people, protect the environment and protect our customers' investment in their industrial equipment. Also, once again, I'd like to welcome the great team at EnviroCare International to team CECO. Looking forward to getting to know each of you and working with you closely.

We're going to continue to be active in the working and being out and available with investors. So we hope to see you as we present and have one-on-one meetings at the Midwest Ideas Conference in Chicago in late August, as well as the Jefferies Industrial and Lake Street Conferences in September. We'll be out in other opportunities to meet with investors across the country at various times. So we hope to see you if we're in your town. If you'd like to meet or please contact your representative at those conferences or reach out to us, and we'd be happy to set up a discussion.

With that, I hope you have a great day, a great week and we appreciate, again, your time on the call.

Operator

The conference has now concluded. Thank you for attending today's presentation. You may now disconnect.

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