

# **Chart Industries, Inc. (GTLS) Q2 2024 Earnings Call Transcript**

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**Body**

Chart Industries, Inc. (GTLS)

Q2 2024 Earnings Conference Call

August 2, 2024, 8:30 a.m. ET

Company Participants

Jill Evanko - President & CEO

Joe Brinkman - CFO

Conference Call Participants

James West - Evercore ISI

Ben Nolan - Stifel

Marc Bianchi - TD Cowen

Manav Gupta - UBS

Eric Stine - Craig-Hallum

Rob Brown - Lake Street Capital Markets

Pavel Molchanov - Raymond James

Ati Modak - Goldman Sachs

Walt Liptak - Seaport Research Partners

Martin Malloy - Johnson Rice

Craig Shere - Tuohy Brothers

Sherif Elmaghrabi - BTIG

Presentation

Operator

Good morning, and welcome to Chart Industries, Inc. 2024 Second Quarter Results Conference Call. All lines have been placed on mute to prevent background noise. After the speakers' remarks, there will be a question-and-answer session. The company's release and supplemental presentation were issued earlier this morning. If you have not received the release, you may access it by visiting Chart's website at www.Chartindustries.com . A telephone replay of today's broadcast will be available approximately two hours following the conclusion of the call, until Sunday, September 1, 2024. The replay information is contained in the company's press release.

Before we begin, the company would like to remind you that statements made during this call that are not historical, in fact, are forward-looking statements. Please refer to the information regarding forward-looking statements and risk factors included in the company's earnings release and latest filings with the SEC. The company undertakes no obligation to update publicly or revise any forward-looking statements.

I would now like to turn the conference call over to Jill Evanko, Chart Industries' CEO. Please go ahead.

Jill Evanko

Thank you, Joelle. Good morning and thank you for joining Joe Brinkman, our CFO, and me, to walk through our second quarter 2024 results. We are executing consistently and on the path to our reiterated medium-term financial targets, including organic sales CAGR of mid-teens, mid 30% gross margin, adjusted diluted EPS growth CAGR of mid 40%, and free cash flow conversion to attain our target net leverage ratio range of two to two and a half. For all periods referenced, all metrics are pro forma for continuing operations of the combined business of Chart and Howden, unless otherwise noted, which also excludes all assets divested in 2023. Starting on Slide 5, I would point you to the far right hand column of the table showing the growth in each metric from the second quarter 2023 to second quarter 2024. We had numerous all-time historical records in Q2. These included all-time record reported sales, backlog, gross profit, gross margin, operating income and margin, EBITDA, and EBITDA margin. All the associated adjusted metrics for these are also all-time records. Orders were $1.16 billion, an increase of 12%, and an increase of about 40% excluding big LNG. Demand remains robust. In a few slides, we'll take you through some examples of key wins in the second quarter, including a $40 million data center win for our air-cooled heat exchangers and record orders for carbon capture, metals, mining, water treatment, and field service. Record sales of $1.04 billion increased 18.8%. Repair service leasing, or aftermarket segment, as we use for shorthand, was about 35% of our second quarter sales. We had record reported gross margin of 33.8%, and record reported operating income of $167.8 million or 16.1% of sales. This was also a record $225.7 million when adjusted for specific items, primarily related to the Howden integration, and consolidation and restructure of our Asia Pacific region into our Middle East and Africa region, resulting in 21.7% record adjusted operating margin.

Record reported EBITDA of $229.6 million was also a record 22.1% of sales. When adjusted, EBITDA margin was a record 24.7% of sales. We are focused on simplifying metrics. Therefore, we have included the negative impact of the mandatory preferred dividend in our adjusted diluted EPS, which was not included in prior periods, nor was it in our prior outlook. So, compared to the prior outlook, the second quarter adjusted EPS had a negative $0.14 impact from that, and our updated full-year guidance compared to prior has a negative $0.60 impact from that - from this definitional change, which has no impact on the underlying business, nor anticipated operational performance. Reported diluted EPS of $1.10 when adjusted was adjusted diluted EPS of $2.18, which again, includes that negative $0.14 impact of the mandatory preferred dividend, and $0.04 of negative foreign an exchange. Our June 30th net leverage ratio of 3.26 has declined from 4.08 since closing on Howden five quarters ago. We'll discuss cash in more detail in a moment.

Turning to Slide 6, our four key takeaways are shown here, which we'll touch on throughout the deck today. On Slide 7, you can see both the increases in each metric year-over-year, as well as the sequential increases in each metric from Q1 to Q2 2024. Every segment and every region sales increased year-over-year, and there were record sales in both the RSL and Specialty Products segments in the second quarter 2024.

We're pleased with our operational margin expansion, as you can see on the page and again on Slide 8, which shows the gross margin dropping through to operating profit and margin. The incremental second quarter 2023 to second quarter 2024 operational margin improvements increased meaningfully, and all metrics shown on Slide 8 were records this quarter. Reported gross margin was a 310-basis point improvement. Adjusted operating margin grew 490 basis points, and adjusted EBITDA margin increased 330 basis points. It's important to note that we do have more room to expand margin ahead. We will continue to execute further cost synergies. We have established Chart business excellence and associated Six Sigma continuous improvement activities throughout the organization, and we continue to anticipate and execute on further productivity and throughput improvements ahead.

Both cost and commercial synergies have been a key part of our operational margin expansion being ahead of schedule. As you can see on Slide 9, we have exceeded both the size and timing goals of our original year three commercial synergy target, which was $350 million by March of 2026. As of yesterday, we have achieved $924 million of commercial synergies, and are well on our way to the $1 billion mark, which we anticipate to hit in the third quarter 2024. Cost synergies are tracking ahead of schedule toward our original year three target of $250 million, with $223 million already achieved. We expect to pass the three-year target by the end of 2024. In the second quarter of 2024, we combined our Asia Pac, India region with our Middle East, Africa region, achieving further back office synergies. Going forward, we are accelerating the localization of products, utilizing our global footprint.

Slide 10 shows some examples of the breadth of our Q2 commercial wins, including compressor packages for a direct reduction iron for DRI application. We are seeing an increasing number of those opportunities in DRI, including this being our second consecutive quarter of orders in new greenfield applications. We also received an order for cryogenic storage tanks for a semiconductor company as they continue to manufacture more in the United States, another benefit of our global manufacturing footprint as nearshoring trends occur. Q2 also continued our streak of strong orders that individually were each over $1 million, with 147 of those in the quarter, and 24 first of a kind orders. This diversity of awards also reflects our commercial pipeline's breadth across end markets, products, solutions, and applications. This gives us the opportunity to have a relatively consistent order rate as we have shown over the past 12 months, with book-to-build consistently above one. The third quarter 2024 activity has started strong, with RSL booking a $10.5 million order for Power Africa power station spares. And further orders from this customer totaling over $25 million, are expected to be awarded in the second half. In July, we also received an order for approximately $27 million for a significant petrochemical project in Asia Pac. Space exploration orders in July totaled $19 million. Additionally, Airbus has awarded us a contract to fabricate a liquid hydrogen inner vessel subsystem to integrate into an Airbus ZEROe physical demonstrator program.

We are able to serve the breadth of the end markets applications just discussed without having to change our manufacturing operations. For example, we manufacture compressors at multiple locations globally, and they serve traditional energy applications, as well as specialty markets, including hydrogen and carbon capture. On Slide 11, you can see examples of our equipment that are used across molecules, from traditional energy to energy transition to specialty markets. Because of this, we do not foresee a material impact to our outlook as a result of the US presidential election, regardless of administration. Our ability to serve multiple applications in end markets with these existing manufacturing capacities, along with our synergies between Chart and Howden, are the primary drivers of our commercial pipeline of opportunities for the next three-years, being at an all-time high, over $23 billion.

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We expect to further increase the pipeline from data centers and artificial intelligence, cooling and storage needs given the energy-intensive environment as shown on Slide 12. As mentioned earlier, in the second quarter, we received an award from a data center provider for approximately $40 million for air-cooled heat exchangers for heat rejection, the starting point with the key customer that we anticipate will continue to expand volume ahead. The data center and artificial intelligence opportunity for us, specifically based on three gigawatts of data center addition per year, is approximately $500 million, and it can expand from there to heavy industrial chilling using Howden's leading screw compressors. We anticipate also that our Tuf-Lite IV fan offering will be a key part of data center cooling applications. You can see our Tuf-Lite IVs in action in the photo in the middle right of Slide 12, which is at a location in Texas. In this photo, you can see the uniquely designed backwards sweep characteristic, which improves efficiency and resiliency. Tuf-Lite IVs are another good example of the same equipment being used in multiple end markets, and you'll see this again in a few slides on LNG. In the second quarter, we booked two separate US LNG export facility customers' orders to utilize these fans in their terminals, and we are very proud to support Cheniere's debottlenecking efforts with our Tuf-Lite IV fans at both their Sabine Pass and Corpus Christi locations.

Another end market that our products serve is nuclear and SMR, as you can see on Slide 13, and this is a market that is gaining traction. For us, our applications include fans and SMR applications, and mainly our orders to date have been split between France and North America. As Slide 14 shows, LNG activity continues very actively and globally, including a conscious move of LNG operators to more modular solutions, specifically benefiting our IPSMR process technology. Our big LNG commercial pipeline expanded to 32 potential projects, with 16 potential international projects considering using IPSMR. We announced our liquefaction technology and equipment was chosen for Argent's anticipated 20 MTPA project, which is not yet booked into backlog and not included in our medium-term outlook.

The upper left hand box on Slide 14 shows Q2 2023 pro forma orders to Q2 2024 for total company and for our HTS segment, which shows non-big LNG orders growth for HTS being significant, representing a series of larger orders in the second quarter, including for air coolers and a South American small scale LNG project, to name a couple. In LNG infrastructure, we booked our largest ever order for our Dutch and Czech Republic facility for an LNG regas project. And as of this past week, we have sold 103 LNG trailer orders in China year-to-date 2024, comparing to 25 and 15 for the full years 2023 and 2022.

Slide 15 shows how effectively the RSL or aftermarket segment is executing on our profitable growth strategy plus synergy attainment, which in turn increased RSL to about 35% of our second quarter sales. In the upper left hand table, sales were a record and grew over 26%, and margin was a record 49%, driven by strong field work. Note that this level of RSL margin is not consistently typical. As a point of reference, all quarters to date since we acquired Howden, RSL has been above 43% gross margin, and margins in RSL have been on average 200 basis points higher than pro forma RSL pre-acquisition, driven by cost and commercial synergies. As a result of our fast response to customers and high value add to their operations, there does continue to be upside opportunity and margin benefits ahead in RSL. Second quarter 2024 RSL orders of $312.4 million, increased a half of a percent when compared to the second quarter 2023. The second quarter of 2023 did include three less frequent larger spares orders.

On the right hand side of Slide 15, I would like to point out a few key second quarter wins we had in RSL. We added a three-year LTSA to the business with a CNG station customer, another great synergy example. Item B shown is an award for compressor LTSA in Turkey, and item E is critical heater parts for a power plant in Mexico, a great $6 million win. Both Turkey and Mexico are geographies where we are beginning to see stronger traction and penetration. We have seen great synergistic aftermarket wins to date, yet we do believe that we are at the beginning of these opportunities that exist in the combined business. For example, key legacy Chart customers in refining power and gas production facilities have now engaged with the Howden local aftermarket teams for parts and services for cooling fans and air coolers.

I'll now hand it over to Joe for the financial detail and our 2024 and medium-term outlook.

Joe Brinkman

Moving to Slide 16, you can see our free cash flow first and second quarter results. On the table, we are showing each category of the calculation that is considered operational cash in a period, so that you can tie directly to the beginning and ending balances on the balance sheet. Net cash from operating activities of $115 million includes long-term beyond one-year balance changes that are not reflective of our quarterly operating activity, nor how we provide or previously provided our annual cashflow outlook. Removing those, combined with our $28 million of second quarter 2024 CapEx spend, our comparable Q2 operating free cash flow was approximately $115 million, as compared to our original prior second quarter cash flow outlook of $175 million. The difference is due to two specific inter-quarter items that are cash flow timing that occurred in Q2. These were business decisions that we chose to make to drive stronger customer relationships with key long-term customers and are timing related where cash is expected in the second half of 2024. First, an emergency field service situation arose within the quarter. We dedicated a large field service team from other work to respond, and the associated timing of cash payment will be in the second half 2024. We also had a key customer whose project has a cash milestone in the second half, request that they needed specific steps taken to hold schedule and the related materials purchase occurred earlier than we had previously planned. In the normal course of our larger project business, we achieve a cash positive or cash neutral position.

We continue to see strong margins. Capital spending is declining, as expected, as our significant capacity expansions complete, and working capital continues to be a source of cash, as shown on Slide 17. As we had previously shared in our first quarter 2024 earnings call, we expected $125 million of milestone payments in the second quarter of 2024 for our top four projects, and we collected all of that. As you can see on Slide 17 when considering AR, inventory, AP, and the net of unbuild and customer advances, we have reduced our net working capital from 23% of sales a year ago to 20% of sales in the second quarter 2024. We anticipate our full-year 2024 sales to be in the range of approximately $4.45 billion to $4.6 billion, inclusive of an approximate 1% foreign exchange headwind. Forecasted full-year adjusted EBITDA is in the range of $1.08 billion to $1.15 billion. Our anticipated 2024 full-year adjusted EPS range is $10.75 to $11.75. This range is based on an effective tax rate range of approximately 20% to 21% ,and a diluted share count of approximately $47 million. Free cash flow guidance is in the range of approximately $400 million to $475 million. Compared to our prior 2024 full-year outlook, the main drivers of the change are foreign exchange, timing of sales on larger and longer projects, timing of larger awards received late in the second quarter 2024, having revenue impacts in 2025 and 2026, and a purely definitional change to our adjusted EPS calculation by no longer excluding the negative $0.60 mandatory preferred dividend EPS impact.

We have included Slide 20 as a bridge from first half 2024 actuals to the second half 2024 adjusted EBITDA outlook. On Slide 22, you can see our reiterated medium-term financial outlook through 2026. Given the breadth of our end markets and applications, we have multiple macro growth drivers, including energy access, growing need for energy, given the increasing artificial intelligence trends, and the continued era of natural gas with energy transition. Our medium-term financial targets are underpinned by continued throughput and productivity activities underway, anticipated further and additional cost energy achievement, and normalizing capital expenditures. We are already in the neighborhood of our midterm gross margin goal based on recent results. Additionally, this medium-term outlook doesn't include any big LNG projects that were not in our backlog as of September 30 of 2023. There are several known big LNG project awards not currently reflected in our backlog and not assumed in our guidance metrics, including IPSMR for an international oil company's big LNG project, Argent's facility, and the Driftwood 27 MTPA export terminal, which is already permitted. These three big LNG projects that are not yet in backlog total approximately $1.5 billion of Chart content. The medium-term all looked also excludes future benefits from the US Hydrogen Hub projects. Just this week, the DOE's Office of Clean Energy Development finalized the second of seven projects that will receive funding. We anticipate to sequentially grow sales in 2025 and 2026 each in double digits, continue our margin expansion, and generate more cash with capital expenditures as a percentage of sales in the 2% to 2.5% range.

To conclude, we are well on our way to our medium-term financial targets and would like to take this opportunity to thank our one Chart global team members for their efforts, and for doing so safely, delivering our quarterly lowest rolling 12-month total reportable incident rates of 0.42. Joelle, please open it up for Q&A.

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Question-and-Answer Session

Operator

[Operator Instructions] Your first question comes from James West with Evercore. Your line is now open.

James West

Hey, good morning, Jill. Morning, Jeff. So, Jill, I wanted to dig in on your cooling solutions. So, obviously, we know Chart very well as an LNG liquid compaction provider and a producer, or sorry, a company that that's known for its energy solutions and LNG solutions, but a lot of your compression and other equipment, especially the Howden equipment, is now being, as you alluded to in your prepared remarks, starting to be used in data centers and SMRs and things like that where you need to keep things cooler, not hotter. And so, I'd love to hear kind of how you're thinking about those parts of your business and what the opportunities could be.

Jill Evanko

Yes, thanks, James. We're very excited about that because it's really - this is an expanded addressable market for us and something that we have the equipment and the solutions already being produced for other applications, and they're perfect for the data center and the energy-intensive artificial intelligence arenas. So, air-cooled heat exchangers are really mission-critical to these applications. We have the ability to build horizontal, vertical. The one board that we referenced from the second quarter of $40 million is actually a uniquely designed air cooler, so our own design for that application. Then you get into fans. So, fans work across these end markets too. Fans are critical not only for the cooling in data centers, but also to your point on the nuclear side of things. In July, we received almost a million dollars of orders for fans for nuclear applications. So, you can see that gaining traction as like you said, they may need to get cooler. On the Howden side, absolutely, especially as more heavy industrial occurs. So, we're really excited about the screw compression capabilities that we have on the Howden side because that's perfect for chilling when we talk about heavy industrial chilling applications, which again goes to these energy-intensive increasingly larger size projects that you're hearing about on a daily basis.

James West

Right. And then maybe just a quick follow-up for me. Did I hear correctly that you think the data center opportunity based on, I think you said three gigawatts is $0.5 billion or so?

Jill Evanko

Yes, so that's our near-term, next three-years based on the three gigawatt. And then yes, as the heavy industrial chilling expands, we anticipate that that can add another $600 million to $800 million of addressable market for us, which is really targeted to the Howden side of the business.

Operator

Your next question comes from Ben Nolan with Stifel. Your line is now open.

Ben Nolan

Yes, thanks. Hey, Joe, Jill. So, hey, so with respect to the guidance, appreciating that there's always moving parts and things can go wrong or whatever, but there's been a couple of times now that slippage has sort of led to the need to change the guidance a little bit. Can you maybe talk through how you're thinking about maybe handicapping the timing of projects and maybe how that is baked into what your revised guidance says?

Jill Evanko

Sure, absolutely. And let me reiterate the revised guide here, the $4.45 billion to $4.6 billion on the top line, and then adjusted EBITDA of 1.08 to 1.15. If you look at those margins, that's EBITDA growth year-over-year of 44 plus percent, and that's top line sales growth in the 20% range. So, challenge that against the performance to date, the way that we look at it and we feel really good about an all-time record quarter that we had in the second quarter, the trajectory that the business is on, posting 24.7% adjusted EBITDA margins in the quarter. Clearly, at this point in the year, we have better line of sight to those timings of the projects that - in particular, the orders that came in the first half and the associated timing to those orders. And so, this is our look at where we sit today, where we think is in the very reasonable, achievable target range here. And obviously, I challenge anybody to put our growth metrics against other companies in our end market industries. But with that said, we felt like we needed to give a range that we felt was very achievable, given the fact that we have had timing shifts. Ours is not a quarterly business, and therefore we looked to build some of that kind of inevitable quarterly movement into our updated full-year guide. The other thing I would just make sure to point out here is that our medium-term targets are unchanged, right? So, we said our sequential growth is going to be sequential in 2025, sequential in 2026, and those medium-term targets don't include that $1.5 billion for those three big LNG projects. They don't include any future US hydrogen hub anticipated opportunities. So, again, we felt like that we know enough at this point in the year based on the timing of orders and based on the fact that our business is becoming more project-oriented and there was movements between quarters, that we needed to bake some of that into the year's outlook.

Ben Nolan

Okay, I appreciate. And just maybe as a follow up, as you're sort of going forward, do you expect to maybe handicap that a little bit more, or any thoughts about sort of strategically how you think about doing it?

Jill Evanko

Yes, I mean, I think, listen, we always put a range out that we think we can achieve with factors that could get us to the high end of the range. Clearly, as we have delivered these record results, which in the second quarter, again across the board, we're well on our path here. So, even with a more handicapped outlook, to your point, we're still on the trajectory to be ahead of our medium-term targets, which is where we sit today. And so, even with a little handicapping into that methodology, then we feel like we're still going to deliver what we said we were and not have to revise the current period because of timing shifts. So, yes, to be very direct in your answer.

Ben Nolan

All right, I appreciate it. Thank you, Jill.

Operator

Your next question comes from Marc Bianchi with TD Cowen. Your line is now open.

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Marc Bianchi

If I look historically on a pro forma basis, it looks like at least EBITDA's kind of flat. So, if that's the case, I guess here for third quarter, it would require a pretty sharp increase for fourth quarter, but maybe you could just talk us through the back - how the back half is expected to unfold.

Jill Evanko

Sure. Good morning, Marc. The first part of your question was cut off, so just to make sure I'm answering the question, how the back half is expected to unfold in terms of our outlook?

Marc Bianchi

Yes, EBITDA for the third quarter and free cash flow for the third quarter. And then if those follow historical trends, it would seem to imply a pretty sharp increase in the fourth quarter, but maybe they're not going to follow historical trends.

Jill Evanko

Okay. Yes, thanks for the clarification. The fourth quarter has historically been a very strong quarter for us, and we anticipate that to be similar this year yet. Again, sequential growth is what we anticipate through the back half. In addition, there's a slide in our deck on Page 20 that walks from the first half to the second half, pointing to specific conversion from various different projects in the backlog as well as big LNG as well as our cost synergies. So, Q4 should hold true, but should not be what a hockey stick as you have seen sometimes in the past. On the cash side, we would expect the third quarter cash to be positive and fourth quarter has to be positive. We have very specific looks at the timing of the billings in the third quarter based on how they roll out within the quarter and same for the fourth. So, I would say fourth quarter will be stronger than third quarter, yet we're going to continue to see sequential improvement as we go here through the back half of the year.

Marc Bianchi

Okay. So, 3Q free cash flow is better than 2Q is what I think I heard. And then on the EBITDA side, it sounds like 3Q EBITDA ought to be better than 2Q as well, just because there's sequential improvement throughout and it's not as big of a hockey stick.

Jill Evanko

Yes, so that's how we're thinking about first half, second half, exactly like that. So, I think you captured certainly the sequential anticipated improvement on the EBITDA side. Obviously, there's a lot of factors in cash flow that go into play here. So, but we do - even with the third quarter, unsecured interest payment, we do anticipate cash to be a positive.

Marc Bianchi

Okay. Thanks, Jill. I'll turn it back.

Operator

Your next question comes from Manav Gupta with UBS. Your line is now open.

Manav Gupta

Good morning. The data center opportunities seem pretty good. Can you talk a little bit more about what you're seeing on the hydrogen side of the business, especially as you're coming to a close of this administration, do you expect more hydrogen hub fundings to be released before November and December? Thank you.

Jill Evanko

Yes, good morning. Thank you for the questions. On the hydrogen side of the business, we have seen a very global set of demand. And so, that's something that's extremely positive. What I also really liked about the second quarter order set in hydrogen for us has been the breadth of the applications that we're seeing. So, ranging from compressors for steel applications to liquefaction applications to onboard vehicle tanks for class eight heavy duty trucks, et cetera. We just saw recently the DOE's announcement for the funding for a second of the seven announced hubs. I would anticipate that you'll continue to see that progress forward, but I would like to reiterate that any future hydrogen hub activity that could benefit us is not built into our medium-term outlook. So, definitely, global hydrogen is continuing to gain traction and be a part of the solution, and the breadth of applications are now starting to hit the end use side of the value chain. So, all of those things are a tailwind to us. And then lastly, just want to continue to hit the drumbeat around the fact that we don't have to change our manufacturing operations. So, much of the same equipment that we build that goes into hydrogen, also goes into traditional energy applications across the board. So, we see multiple different ways we can play in the energy transition itself.

Manav Gupta

Thank you.

Operator

Your next question comes from Eric Stine with Craig-Hallum. Your line is now open.

Eric Stine

So, can you hear me? Just making sure.

Jill Evanko

Hey, Eric, yes, good morning. We can just hear you now.

Eric Stine

Okay, good. A little lag there. So, I just want to come back to Q4 and just thinking about the guide. I mean, are there - because I know - I mean, as the previous question stated, I mean, you've got a lot of moving parts in your business, and obviously this quarter a lot of records, but today will likely take a back seat to the lower guide. So, just thinking about fourth quarter, I mean, are there a number of projects that you are anticipating need to hit in that quarter to meet that guide, or are you contemplating that there is a decent amount of either orders or chance that those orders may slip into 2025? I'm sorry, orders, I mean, revenues, sorry.

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Jill Evanko

Revenues, yes. Yes, so we have very strong backlog and good line of sight too, what's in there and the timing associated with it. So, we're contemplating what we see today based on our current backlog and/or known orders in the third quarter, quarter timing. So, the latter, to answer your question specifically. And thank you also for pointing out the second quarter strong records and the trajectory that we're on, realizing again that it's not - it doesn't have an impact to the medium-term outlook.

Eric Stine

And you would agree, though, with the comment that you - or that you think you are appropriately handing capping that fourth quarter, because you could have stuff further slip as we just think about our confidence in the back half.

Jill Evanko

Yes, we're very thoughtful around the updated guide, knowing that we are at this point in the year and the visibility that we have around the timing of orders that came in late Q2, as well as current backlog. So, yes, we worked to contemplate that and include it, which we felt like, given the timing moves historically that we've had, we've really worked to build that in.

Eric Stine

Okay, thanks.

Operator

Your next question comes from Rob Brown with Lake Street Capital Markets. Your line is now open.

Rob Brown

Good morning. I just want to hit a little bit on the cost plan for the rest of the year and getting to the goals. What steps are to go and how much visibility do you have there?

Jill Evanko

Yes, thank you, Rob, for the question. And definitely tracking ahead of plan on the cost synergies, commented that we expect to be - hit our year-three number by the end of 2024 on the cost synergy side. And there's still quite a bit of opportunity for us, whether that's around the sourcing side. So, we expect to see more synergies from the global sourcing plan that we have in play. There's additional localization opportunities which cut down on freight costs, things like that. We're also in kind of massive agreement contract land of various different renewal cycles that come up, whether that's for services or systems and things like that, that we still have opportunity ahead of us here in the second half. So, we're excited about the fact that we're executing against our original year three target early, but more so that we do continue to see opportunities for further cost synergies ahead.

Rob Brown

Okay. Thank you. I'll turn it over.

Operator

Your next question comes from Pavel Molchanov with Raymond James. Please go ahead.

Pavel Molchanov

Yes, thanks for taking the question. You, you called out the US election in November. Of course, we had a lot of elections already this summer. If we zoom in on the UK where the new Labor government is talking about kind of pushing green hydrogen, among other sustainability initiatives, what's Chart's opportunity with that, particularly given the Howden presence in the UK?

Jill Evanko

Yes, great point. And we do have a good strong presence in the UK with Howden on the compression side, and we see multiple opportunities in that particular geography. Recently met with folks locally in the UK, both public and private companies that are looking at not only the green hydrogen project opportunities, but also around their industrial PCUS parks. There's also some planning for water treatment types of opportunities. So, we are very well positioned in the UK, and thanks to Howden's presence there, we have the connections to getting the projects as early as possible. So, see that as additional potential upside from what we had been seeing previously.

Pavel Molchanov

Thanks very much.

Operator

Your next question comes from Ati Modak with Goldman Sachs. Your line is now open.

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Ati Modak

Hi, good morning, team. Jill, we saw a recent transaction in the LNG and equipment sort of process business in the market. Can you compare and contrast the various components of your LNG offerings with that? And are there similar opportunities for you to acquire that could be attractive?

Jill Evanko

Thanks, Ati, for the question. And there's been a lot of LNG activity in the market, whether that's NFE's Fast gas, which uses IPSMR, whether that's Woodside's definitive agreement to purchase Tellurian's Driftwood, Tellurian and the Driftwood Project, or Venture Global getting their FERC approval. So, lots of activity, but I think what you're referring to is Honeywell's purchase of AIR Products' APCI. And what I would say is, what we've seen comparing and contrasting generally IPSMR to other technologies, is the move to more modular. And that's really what IPSMR'S sweet spot is, with modular being limited plot space needs, also the ability to have higher efficiencies in many cases and partner up with e-drives and other ways to make LNG cleaner and greener. So, what I would say is that we have - we feel great about our process technologies that are currently in the portfolio, whether that's IPSMR, which is organically developed, or our cryo technologies for hydrogen helium, which links up really well on heavy hydrocarbon renewal or NRU. So, in terms of technologies, we feel great about how ours stacks up against the others. So, wouldn't look - we don't see any particular things out there with respect to this that we need into the portfolio. And the other kind of ad hoc item here is just the fact that if there are things that we want to add to the technology, we have an exceptional liquefaction engineering team in-house that does organic product development. And so, there's a lot of behind-the-scenes R&D happening here too.

Ati Modak

Appreciate the color. Thank you, Jill.

Operator

Your next question comes from Walt Liptak with Seaport Research. Your line is now open.

Walt Liptak

Hey, thanks. Good morning. Wanted to ask about the timing issue and try and get a little bit more detail about - I think this was in the HTS segment that you saw some of the timing issue. And I think in the past, that's from my experience with following you guys, it's been sort of like a business where you get your lead times, your projects get the time schedule and it's been pretty seamless. I wonder if you could clarify which segment the timing issue was in. And two, was it more a matter of when the orders came in during the quarter, that they came in late, or was it something with the customer schedules changing around?

Jill Evanko

So, what I would say is, we have more larger projects happening across the business than what you would've had two or three-years ago, which would've primarily been HTS. We have larger projects happening across the segments. Obviously, RSL is aftermarket spares, service repair. So, that's not really impacted by this, because we're really looking at specialty and HTS, if you were looking at the brunt of the changes. I would say that you can't really compare to a couple of years ago or a few years ago because of the fact that there's so many more across the business that is a great thing because it gives us good medium visibility, but yet there are - 60 or 90 days in a period is not really this type of business. So, it's difficult to pinpoint that exactly down. What I would say is there's a couple of other factors that go into it. Like you said, the timing of orders within a quarter. We had heavy order activity in the month of June, but the other part of it being that things move around, customer schedules move around, inputs from the supply chain move around, that drive, and priority changes within a quarter that move where you have to shift some engineers to work on something that is a higher priority based on customer needs. So, all of those things together drive timing between quarters.

Walt Liptak

Okay, got it. And then I wondered too, maybe at a - and this may not impact, but in the geographic region when you looked at those timing issues, it sounds like China with the trailers, that's going well for you, but I wonder if you could talk about just kind of regionally where the timing issues are showing up. Thanks.

Jill Evanko

Well, our two biggest regions are Americas and Europe. So, that's where the brunt of the larger project activity happens. And between those two regions would be where I'd focus. China and what we now call AMIA, so Asia Pac, India, Middle East, Africa, those are a little more book and ship-oriented businesses as well.

Walt Liptak

Okay, great. Okay, thanks much.

Operator

Your next question comes from Martin Malloy with Johnson Rice. Your line is now open.

Martin Malloy

Good morning. I wanted to ask about RSL this morning. That segment has been doing extremely well, and just trying to get a better sense in terms of the sustainability of the results there. And maybe now that you've had it for a while, or since the acquisition, if you could maybe speak to some of the initiatives that you see out there that maybe you're thinking about pursuing to continue to drive the growth there, and maybe some update on your thoughts there for the growth.

Jill Evanko

Yes, thanks, Marty. And we're very, very pleased with RSL and the aftermarket side of the business. Pointing to just the margin performance, which we would attribute to bringing Howden's best practices across the Chart legacy business in this particular area, as well as to the commercial synergies that we've seen with having field service proximity to where our customers' install base is, those have been really strong wins. so far, but we're in early innings. We see a lot more opportunity to continue to expand the RSL growth. And that ranges anywhere from the digital offering to the LTSAs across our customer base, to further rationalization on the pricing models. And that's kind of driving where we initially - five quarters ago when we closed on Howden, had about 30% of our revenue in RSL. Obviously, it fluctuates between quarters, but this quarter at 34.7%, we were pleased with that, as well as the margin expansion opportunity there. I'm not going to drive you to say that every quarter is going to be in the high 40% gross margin because that really does depend on mix and the segment between field service and spares. Yet there we do see meaningful opportunity to continue to grow this segment and grow its margin.

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Martin Malloy

Thank you. I'll turn it back.

Operator

Your next question comes from Craig Shere with Tuohy Brothers. Your line is now open.

Craig Shere

Good morning. Thanks for taking the question. On the free cash flow bridge on Slide 16, I'm a little confused, if you could elaborate about what exactly the long-term balance sheet changes, not reflective of quarterly OCF refers to. And the next two lines sound like they're kind of like headwind second quarter, but should kind of be tailwinds into the second half, and trying to square that with the reduced guidance for the full year.

Jill Evanko

Sure. So, primarily in the long term, these are balances for activities outside of one year. And when we talk about our cash guide, we talk about a one-year outlook. Primarily in there is changes in deferred tax. And then the next two lines are related to the two specific projects that we talked about, or Joe referred to on the call here. They are specific things we did in the quarter when customers had a need and we responded to it so that we once again continue to build that relationship and have those opportunities with these particular two customers. And these will be certainly cash tailwinds in the second half. But when we looked at the outlook for the second half and the full year combined on cash, we had a change to our EBITDA outlook for the full year. So, that flows through. And then we also looked at our cash conversion that we felt was achievable based on the fact that we have timing moves and built some of that in as well to the guide.

Craig Shere

Great. Thank you.

Operator

Your next question comes from Sherif Elmaghrabi with BTIG. Your line is now open.

Sherif Elmaghrabi

Hey, good morning. Thanks for taking my questions. Hopping on a little bit late here, so I apologize if it's been asked, but in the past, I believe talked about large scale IPSMR orders being roughly 30 million per MTPA. So, when it comes to the Origin LNG deal, because that's, I think we said mid-scale LNG, what is the revenue opportunity there?

Jill Evanko

Yes, thanks for the question. So, if you look at the three projects, the three big LNG projects that we don't currently have in backlog, but we know that they will use our technology and equipment, that's Argent, that's Driftwood, and that is the international oil companies' big LNG project that's an international project. Those three combined have Chart content of approximately $1.5 billion, is the way to think about it.

Sherif Elmaghrabi

That's helpful. And then at a higher-level, CCUS drove record ordering in specialty, or it was one of the drivers. So, I'm just wondering if you could speak to that. Are you starting to see orders from industrial scale projects, or is this order flow coming from localized stuff? So, here I'm thinking about an individual refinery or a power plant.

Jill Evanko

Sure, yes. Specialty had a few different end markets that had records that we were very pleased with. And kind of - I don't know if you heard during the prepared remarks, but the DRI end market supporting green applications, et cetera. But specific to CCUS, the scales are getting larger. So, the sizes of the project that we're doing are getting larger in a breadth of end markets as well. So, a little more expanded kind of applications. I would say that it's not yet integrated. There's still one project per customer style activity, but there's more of them happening, and there's more applications in end markets that they're happening in. So, that to us, it's the second sequential quarter that CCUS has been a record in terms of orders. So, the traction is there, gaining steam and very, I would say pragmatic, practical projects that are looking - that are using these applications and our technology.

Sherif Elmaghrabi

Thank you very much, Jill.

Operator

There are no further questions at this time. I will now turn the call over to management for closing remarks.

Jill Evanko

Thanks, everybody, for joining us today, and Joe concluded our prepared remarks, thank you to the global one Chart team for all you do and for executing safely with our rolling 12-month TRIR of 0.42 as of the end of June. So, thanks, everybody, and appreciate your time.

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Operator

Ladies and gentlemen, this concludes your conference call for today. We thank you for participating and ask that you please disconnect your lines.

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