

# **Chart Industries, Inc. (GTLS) Q4 2023 Earnings Call Transcript**

Seeking Alpha - Earnings Call Transcripts

February 28, 2024 Wednesday

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**Length:** 8088 words

**Byline:** SA Transcripts

**Body**

Chart Industries, Inc. (GTLS)

Q4 2023 Earnings Conference Call

February 28, 2024, 08:30 AM ET

Company Participants

Jill Evanko – Chief Executive Officer

Joe Brinkman – Chief Financial Officer

Conference Call Participants

Rob Brown – Lake Street Capital Markets

Marc Bianchi – TD Cowen

Roger Read – Wells Fargo

Arun Jayaram – J.P. Morgan.

Craig Shere – Tuohy Brothers

Graham Price – Raymond James

Eric Stine – Craig-Hallum

Alexa Patrick – Goldman Sachs

Barry Haimes – Sage Asset Management

Presentation

Operator

Good morning and welcome to Chart Industries, Inc. 2023 Fourth Quarter and Full Year 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 Friday, March 29, 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 facts 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, Julie, and good morning, everyone. Thank you for joining Joe Brinkman, our CFO and me to walk through our record fourth quarter and full year 2023 results. Our results shown are from continuing operations. I refer you to our earnings release for reported results.

For purposes of our discussion this morning, when referring to the fourth quarter 2022, full year 2022, or any quarter of 2023 comparative period, all metrics are pro forma for continuing operations of the combined business of Chart and Howden. This includes Howden, excludes Roots and excludes November and December of 2022 of the divested American Fan, Cofimco and Cryo Diffusion businesses. Information on divestitures completed in 2023 can be found on Slide 4.

Starting on Slide 6, as a reminder, we closed on the acquisition of Howden on March 17, 2023. We have exceeded both our original year one commercial and cost synergy targets ahead of the one-year mark. Commercial synergy awards to date of approximately $530 million also exceeded our year three commercial synergy target. We have achieved over $181 million of cost synergies to date.

The Howden acquisition has also contributed many other benefits, including less reliance on big LNG projects, more aftermarket service and repair, less cyclicality, broader geographic diversity, and less customer concentration. In 2023, our top 10 customers made up about 25% of our sales, whereas in 2021 and 2022, they comprised 39% and 38% on a chart standalone basis.

In the Q4 2023, we had record orders, backlog, sales, gross profit, gross profit margin, operating income, operating income margin, EBITDA, EBITDA margin, adjusted EPS and reported an adjusted free cash flow. Our highest reported gross margin quarter ever in the fourth quarter of 32.9% contributed to our reported Q4 operating margin of 21% and EBITDA margin of 21.7%. When adjusting for primarily Howden related integration and deal associated costs, adjusted EBITDA margin was 24.2%.

Sales of $1.02 billion was a record quarter as well, the only quarter to date that we have exceeded $1 billion, and in a few minutes, Joe will talk about other throughput activities that we have underway to further drive this ahead. Q4 sales were up sequentially 13% and 12.5% compared to Q4 2022. While we surpassed the $1 billion mark and set numerous profitability records as I just described, we had anticipated higher revenues related to revenue recognition timing in the quarter. Our year end net leverage ratio of 3.35 was supported by an increase in cash on hand and debt pay down totalling approximately $291 million in Q4. As part of our Howden integration, we executed a plan to align our legal entity structure with our integrated operations. This resulted in a positive impact on our effective tax rate and sets us up for future back-office synergies, efficient and flexible cash management and an anticipated future steadier sustainable tax rate.

Our fourth quarter of 2023 results compared to pro forma Q4 of 2022 and sequentially to the third quarter of 2023 can be seen on Slide 7. The far righthand column shows the changes in each metric year-over-year. Orders are up over 28%, reported gross margin increased 540 basis points, adjusted EBITDA increased by 64% and adjusted EBITDA margin by 760 bps. Q4 2023 adjusted earnings per diluted share were $2.25. Fourth quarter free cash flow was $110 million and adjusted was $120 million. Joe will speak to the details in a moment.

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The middle column on Slide 7 shows that every metric increased sequentially in the fourth quarter compared to the third quarter of 2023, even when considering that the third quarter included an entire quarter of Cofimco, American Fans and Cryo Diffusion results, whereas the fourth quarter only included one month of these as they were divested the last week of October 2023.

Q4 also contributed to a record full year, as you can see on Slide 8. Including the Howden stub period, pro forma full year 2023 sales were $3.66 billion. Strong operational margins throughout the year, including all of our Howden ownership quarters being above 30% reported gross margin contributed to full year 2023 gross margin as 31%.

As we look to 2024 and we'll have a section on this coming up here, in summary, we anticipate that each of our segments and each of our regions, which are Americas, Europe, Middle East, Africa, APAC, India and China will each grow sales compared to 2023.

Our fourth quarter was our highest ever order quarter in our pro forma history with over $1.2 billion of awards received. Slide 9 shows pro forma orders and backlog trends. The fourth quarter was the highest order quarter of the year for both Cryo tank solutions and heat transfer systems.

Repair service and leasing orders were over $328 million marking our three full quarters of Howden ownership having RSL orders each above $315 million. This reflects the growing adoption of our aftermarket programs to both Howden and Chart legacy installed bases and the increasing pull through of our original equipment customers to aftermarket. In 2023, RSL orders for the full year were up 25% and our long-term service agreements and framework agreements increased more than 4% year-over-year.

Just a few comments about the diversity of our 2023 year-end backlog. Space exploration, carbon capture, hydrogen and helium, brazed aluminium heat exchangers, and HTS systems all have record backlog as of the end of the year. Combined, these end markets account for approximately half of our total backlog. RSL is just under 14% of total backlog and CTS just under 9%. The remaining approximately 27% comprised of the rest of specialty products as well as HTS air coolers and VRV heat exchangers.

We have seen a surge in demand for Howden screw compressors driven by food and beverage refrigeration, emissions reduction via flare gas recovery and expansion of methane compression. The year end 2023 backlog for this particular product is two times prior year, contributing to our higher than historically typical backlog coverage for the year. As we have shared, we have a significantly below 1% cancellation rate of backlog.

There's a theme that we're seeing across many of our markets of increasing project size and engineering content. A few comments by end markets of what we're seeing to start 2024, starting with industrial gas. In EMEA, our pipeline is strong, we had an excellent January of orders and project sizes are increasing. For industrial gas in the U.S. and the rest of the world, the commercial pipeline remains strong, inclusive of hydrogen opportunities. While we expect a "strong quarter" for CTS orders compared to other first quarters in prior years, Q1 is typically and still expected for this end market to be our lowest quarter of the year.

In energy markets, we are seeing moderating North American demand, which is offset by increasing international inbound since the beginning of the year. The global market for LNG continues unabated. As the United States pauses, the rest of the world accelerates. This is evident in our commercial pipelines for Big LNG and small scale and floating LNG, which can be seen in the appendix on Slide 28. As of now, we have 30 potential Big LNG projects in our pipeline, including 15 international opportunities for potential IPSMR usage. Both of these metrics increased from Q3 year end 2023. Similarly, since the beginning of this year of 2024, small and floating potential projects in our commercial pipeline increased about 4.5%, mainly driven by additional international opportunities. In the case of Qatar, we do have potential opportunities to participate, including with cryogenic equipment, compression, debottlenecking and process technologies.

Our near-term prospects, we believe are on heat rejection optimization on existing facilities and potential pretreatment heat exchangers for expansion plants. Specialty products demand is consistently strong and we're also seeing increasing potential project sizes as a theme in many of these end markets as well. Marine has an increasing commercial pipeline, in part due to our upcoming jumbo tank capacity at Teddy 2 as well as multiple Howden air lubrication opportunities.

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SpaceX market remains robust. HLNG over the road vehicle tank activity is increasing, albeit not at prior levels, but certainly, outlook is better than the past two years' actual activity. As of yesterday, Q1 2024 quarter to date, we've booked orders for HLNG vehicle tanks that equate to more than 50% of last year's full year HLNG vehicle tank sales.

Mining and metals markets remain very strong, driven by global demand for electrification and a push to reduce carbon footprints using DRI processes, hydrogen and metals and other solutions such as our VentSim offering. Our mining and metals pipeline of opportunities identified has increased approximately 10% pro forma year-over-year. CCUS activity is also increasing with our small-scale Earthly Labs offering going international and again, in this end market, project sizes for potential Chart content are getting larger. Hydrogen pipeline remains active. We're paying close attention to U.S. Timing specifically related to hydrogen hubs and IRA clarifications. Internationally, there's also increasing traction, including the recent European Commission approval of €6.9 billion in state aid for development of the hydrogen value chain.

We are excited to announce that last week, we were awarded a significant hydrogen compression solution within the renewable hydrogen industry. Using Howden's reciprocating compression technology, this is the largest single compressor award in dollars in Howden's 167-year history. It's also a synergy win as the solution includes Chart legacy pressure vessel equipment and finally, as we like to see, it brings with it the future opportunity for installation and post installation monitoring.

Aftermarket service and repair is off to a consistent start quarter-to-date with multiple customers across end markets, in particular in Europe. In the Americas, we entered 2024 with RSL backlog a bit better than normal and quoting activity remains strong.

You can see our increasing operational margin metrics, including the sequential increase in reported gross profit margin on the left-hand side of Slide 10. The same up into the right trend applies for EBITDA and adjusted EBITDA margin on the right-hand side, reflective of our full solution mix, aftermarket service and repair over 30% of our business, productivity actions, cost synergies and additional volume throughput.

Moving to Slide 11, this shows sequential segment reported results for sales, gross and operating margins for Q3 and Q4 of 2023. CTS, HTS and RSL segments all had record sales in the fourth quarter. CTS and RSL sales were up over 29% and 25% sequentially compared to Q3. Specialty sales did decline sequentially, which was driven by the marine end market, had a full quarter of American Fans in Q3 and not in Q4 due to divestiture, as well as from revenue timing for hydrogen metals and space exploration. We expect all of these to be strong contributors to 2024 sales as we had full year record orders in hydrogen, metals and space.

Each segment did have its highest reported gross margin quarter of the year in the Q4 2023. And finally, we're focused on cost control with the strength in gross margin dropping through to operating margin results in each segment.

Joe Brinkman

Slide 12 shows our cash generated from operations in the Q4 2023 of $130 million netted with $20 million of CapEx, our adjusted Q4 free cash flow is 12% of sales. Our priority has been and continues to be debt pay down and leverage reduction. Our net leverage ratio went from 4.08 in Q1 of 2023 to 3.35 as we exited the year, a meaningful step towards our anticipated and reiterated mid 2024target of 2.5 to 2. 9 and overall target net leverage ratio range of 2 to 2.5.

There were specific outflows of cash in the Q4 2023 that we did not adjust shown on the right-hand side of slide 13. We ended the year with $814 million of liquidity in addition to paying down over $150 million of our Term Loan B in the year. Our weighted average interest rate of 7.8% was down approximately 25 basis points from the end of Q3.

In addition to operational cash focus from our entire organization on our cash culture, we continue to work additional cash generation activities, whether evaluating potential minority investment exits, sale of underutilized real estate and cash repatriation. We reiterate our financial policy and commitment to debt pay down as shown on the bottom right-hand side of Slide 13.

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Slide 15 shows our main material cost input trends. They remain stable and in some cases are trending down. Looking at the lower right hand freight chart, the trend has been up the past few months, yet we have seen pricing levelling in recent weeks and in many of our customer agreements, we passed the freight costs through to them. We are carefully monitoring the Red Sea situation. As of now, we have not seen any major impacts material availability into the plants. We are experiencing approximately 2-to-3-week delay on certain routes. We have three main categories of pricing project pricing, price lists for component sales and price mechanisms and long-term agreements. Over the past three years, we have incorporated price increases to adapt to the increasing cost environment and we have held this pricing. The continuous part of our business is ongoing new certifications, customer site approvals, productivity, automation and what we call Chart Business Excellence or CBE.

This year is no different and includes our Lean Six Sigma training program for our internal team members as well as approximately $115 million to $125 million of capital spend expected in 2024. The CapEx spend includes capacity expansions as shown on the top of Slide 16. We actively manage our cost structure and see further synergies ahead this year inclusive of in sourcing and localization for compressor and Fan products.

Over the next few slides starting on Slide 18, we will walk through the elements of our 2024 outlook range. We anticipate our full 2024 sales to be in the range of $4.7 billion to $5 billion dollars with forecasted full year 2024 adjusted EBITDA in the range of $1.175 billion to $1.3 billion. Free cash flow guidance of $575 million to $625 million is defined as operating cash flow less capital expenditures.

Jill Evanko

Slide 19 shows the sales bridge from 2023 to 2024. The main drivers of the anticipated increase are incremental Big LNG, Teddy 2 backlog converting to sales, stronger than typical backlog coverage as we entered the year and commercial synergies flowing through our shops.

Book and ship represents approximately 40% of our 2024 outlook, lower than normal due to the strong backlog coverage, which brings us to our three main potential drivers to the higher end of our range. Higher book and ship activity throughout the year, large project awards in the first half that begin to generate revenue in the second half and more achievement of additional backlog conversion.

The adjusted EBITDA bridge is shown on Slide 20. The elements of our EPS outlook for 2024 of $12 to $14 per diluted share are shown on Slide 27 of the appendix. We anticipate our tax rate to be approximately 20% and a diluted share count of 47 million to 48 million.

Slide 21 is intended to give you our perspective toward each of our segments end market activity. The transfer system had strong order years in both 2022 and 2023 in the base business as well as with Big LNG activity. We had approximately $385 million of Big LNG related awards in 2023, contributing to year-end HTS record backlog.

The U.S. Biden Administration Department of Energy moratorium on LNG export approvals announced in January of 2024 has begged numerous questions. Let me reiterate a few things. We are molecule agnostic and our technology and equipment service multiple end markets, including traditional energy, LNG, hydrogen and other new energies. Earlier in the presentation, we discussed international macro activity in global energy, so I won't reiterate that here. Although I will remind you about our IPSMR process and associated equipment being chosen for a large IOC's international LNG project. This award is not yet in our backlog and we anticipate the booking to be later this year or in the first part of 2025. IPSMR international margins are extremely similar to North American IPSMR margins as a clarifying point.

Cryo Tank Solutions not only has Teddy 1 and 2 additional capacity coming online in the near term, CTS also ended 2023 with the highest order in sales quarter of the year. Engineering projects and service opportunities with our main CTS customers have been picking up since the beginning of the year and some of our industrial gas customers have shared with us that they are looking at their 2024 standard equipment forecast more optimistically than they were last summer.

Specialty Products end markets have momentum from macro tailwinds as well as chart specific activities. Examples of this include recent growing interest in deploying hydrogen at much larger scale than we have seen in the past few years. We are now speaking with Japanese, Middle East and European companies looking to build larger production facilities than ever discussed before for hydrogen, inclusive of potentially 300 ton per day liquefaction. Specific to us, we have received multiple certifications for our products in specialty applications, giving us first mover and only approved supplier advantages in some cases, such as with our liquid hydrogen trailer certification in South Korea.

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Additionally, via our Howden integration, we are taking existing products into new geographies, including just recently executing our first MOU for Earthly Labs small scale carbon capture with UK based CO2 hub. We're also taking our existing products into new applications, including a recent win where we re-engineered an industrial refrigeration compressor for a vapor recovery application to reduce emissions associated with upstream, onshore oil and gas. And we shared information earlier about aftermarket.

We've already discussed what's shown on Slide 22 throughout our remarks today and we've worked to have balanced these considerations in our 2024 outlook. A few considerations for our first quarter of 2024 are on slide 23, given that it is the first quarter of the combined business. Similar to prior years in both the Chart and Howden businesses, as we move from the last quarter to year to first quarter, we anticipate our general trend of seasonality. This expectation is furthered by the timing capacity productivity that Joe talked about earlier.

We have our semi-annual interest payments for our long-term debt in the first and third quarter of 2024 and this is estimated to be approximately $73 million in the first quarter. Q1 has other specific cash uses including CapEx related to the completion of Teddy 2, timing of bonus and tax payments as well as our annual insurance premium payment.

We're reiterating our medium-term financial targets on Slide 24. As a reminder, our outlook in the medium term does not include any additional Big LNG projects that were not included in our September 30, 2023 backlog nor awards related to the U.S. DOE's $7 billion hydrogen hub investment that lies ahead.

To conclude on Slide 25, we spent less time today than in the past on new customers, first of a kind and other chart differentiators. Yet these metrics are as strong as ever, including booking orders with 322 new customers in 2023, receiving 54 patents, logging 106 new first of the kinds and booking orders with over 67% of our partners that we executed MOUs with in 2022 and 2023. We continue to partner via new MOUs and one such in Q4 was with Coca-Cola to improve their ESG goals by evaluating our carbon capture technology at their bottling facilities.

We have exceeded our own greenhouse gas emission reduction target this past year and have received numerous new certifications for our products and facilities. None of this would have been accomplished without the mighty focused and positive efforts of our OneChart Global team members. So thank you to each of you.

And now Julie, please open it up for Q&A.

Question-and-Answer Session

Operator

Thank you [Operator Instructions]. Our first question comes from Rob Brown from Lake Street Capital Markets. Please go ahead.

Rob Brown

First question is on the commercial synergies. You've seen some pretty strong momentum there. How much sort of can you see that momentum continue? I assume it can add other segments, but just how much more room is there in commercial synergies?

Jill Evanko

Thanks for the question, Rob. I would say first of all, we've been very pleasantly surprised at which the continued momentum of commercial synergies has occurred across the last 11 months. Certainly, earlier and more often than what we had originally anticipated, which is shown in the fact that we exceeded our year three original commercial synergy target. The nice part of the commercial synergies is that they're coming from multiple different avenues. So that ranges from Chart legacy customer relationships where we're pulling through Howden equipment, vice versa and some of the things that I described on taking existing products into new geographies and applications just to name a few. I think there's a lot of runway ahead, for us and we're seeing that pipeline remain above $1 billion of potential commercial synergy awards here in the coming few years. And so, I think that combined with the fact that we're seeing larger engineering and project sizes as a whole and having this full solution of all of our mission critical equipment under our own umbrella really stands to serve us well here in the coming years as well as the coming decades.

Rob Brown

Okay, great. And then just a little bit of detail on carbon capture, you mentioned some momentum there. Are you sort of -- are you seeing larger activity there or is still relatively small? And when do you see that sort of expanding?

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Jill Evanko

Yes. What I would say on that is we're seeing increasing size of the awards that we're getting for our small-scale carbon capture. So that sounds a little bit paradoxical when you say that, but we're getting more content and some of the smaller scale is going into more facilities or a little bit larger in size. Our original Earthly Labs CCUS offering was the OAK which was very small scale and now we have the ELM. So, we're kind of moving up and trying to meet our CCC SES technology somewhere in the middle between the large scale small, small scale.

On the larger scale which I think is really what your question is around, the technology for larger industrial applications, I would say that we're seeing an increasing pipeline of opportunities and an increasing number of pre-FEED and FEED studies, yet we haven't yet seen, a full level of kind of commercialization and consistent activity in that larger scale industrial. A lot of conversations happening in that realm, whether that's ranging from the MOU I just described with Coca-Cola or through to quite a bit of commercial pipe on the larger end in the Middle East areas in Saudi. So opportunities, but definitely not on the large scale seeing that consistently flowing into the order book yet.

Operator

Your next question comes from Marc Bianchi from TD Cowen. Please go ahead.

Marc Bianchi

Hey, thanks. I wanted to see if we could get any more precision on the expectation for first quarter. If I look back at the pro forma decline, EBITDA was down about 7% in the first quarter of 2023. Is that the right range? And then similarly with free cash flow, you called out a couple of incremental headwinds that are unique to the first quarter. Would you expect free cash flow to still be positive in the Q1?

Jill Evanko

Hey, Mark. Good morning. So let me take the back end of your question first. We specifically called those out because we certainly got feedback in, I think it was summer of last year that people were surprised at the timing of the semi-annual interest rates, interest notes and things like that where it was kind of the first time we were going through year one related to these particular timings of cash outflows. So, we wanted to give specificity there. We're not going to give a specific number, but what we would say is there's plenty of items that we called out that are in Q1 that won't repeat in Q2 and going forward, as well as I think your point on the first part of your question kind of normal seasonality. I would say normal seasonality is a bit moderated now given the over 30% of our aftermarket service repair being part of the business. So, Howden kind of has mitigated it, but it hasn't eliminated it.

Marc Bianchi

Got it. Okay. Well, thanks. I'll leave it there.

Operator

Your next question comes from Roger Read from Wells Fargo. Please go ahead.

Roger Read

I think what I'd like to dig into just a little bit, you went through some of the details of it on the 2024 outlook in terms of the revenue. So, if we look at the $5 billion sort of expectation for revenue, we'd be looking at backlog covering a little over 50% depending on kind of the range of 4.7 to 5. You mentioned half one, 2024 four orders could help and greater backlog conversion. I'm just curious book and ship as well, but of those three, like which of the three is most likely to help you out? And at what point do you think you have enough visibility on bids that are out there right now to feel good about that half one 2024 orders potentially helping you out on the higher side?

Jill Evanko

Roger, you gave me a tough one there. So, I'm going to take it apart a little bit.

Roger Read

I'm going to ask that question because there's a lot of pieces in it. So I'll leave it there afterwards.

Jill Evanko

Okay. All right. So, let me answer part one of the question around kind of which of those three do I see as the most likely to help toward the higher end of the range and what I'd say is, it's always easy to answer the what's in our kind of in our backlog today, so existing backlog converting through the shops. The other part -- so that would be my number one answer. My number two answer would be, around the larger projects that we could book in the first half, especially as we see more engineering content on that and so that would be my number two. And then my number three would be more book and ship just because it's harder to have visibility till it actually comes in the door. So, the positive there and why we called it out specifically was we've built the walk in certainly high growth in that range, but we've built the walk with lower book and ship than typical, but that's really because we've got so much backlog going through our shops. So, there's a balance there and a trade there.

And then to answer the question on visibility to kind of those first half category two questions that could convert in the second half. So given the larger and increasing project size in our pipeline of commercial identified opportunities, it is hard say, we are going to definitely this $50 million, $75 million order within the next two weeks, although the commercial team should be listening and they have a target in a bogey. With that said, I think we'll have pretty good visibility to that by the time we report our first quarter earnings kind of what we're seeing there in those types of projects, so end of April.

I think you have one more piece of your question, Roger, that of kind of coverage going forward needed on bookings. And we've shared before, but I think it's worth noting again that on average across the year we expect to be above 1 on book to bill.

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Roger Read

Okay. Yeah, that's helpful. And my apologies to putting a target on the back of the commercial guys there.

Jill Evanko

Hey, nice work. I appreciate you.

Operator

Your next question comes from Arun Jayaram from J.P. Morgan. Please go ahead.

Arun Jayaram

I want to focus on Slide 8 and help us think about the different trends between pro forma orders and backlog. Your pro forma orders were down 2.8%, but backlog grew a lot 24%, which gives you more visibility on 2024. Help us think about the dynamics of what the delta between those two trends, so to speak?

Jill Evanko

Yes. Thanks, Arun, for your question. So, I'd point you also on the slide to row two of orders ex-Big LNG year-over-year pro forma that grew in the low single digits. So that's one of the dynamics there where in 2022 I think we had about $620 million of Big LNG related orders and 2023 it was $385 million in that range. So that's one dynamic contributing there. The other is around kind of as these project sizes into backlog get larger and with more engineering content that gives us more visibility, but yet it also has the dynamic of kind of the timing of when things go through the shops after engineering releases occur, if there's design changes in that engineering phase, that really kind of contributes to the timing of the flow through. And we've attempted here today in the bridges and in the frameworks that we've included in the deck to give you the elements of the law to the low and high end of the range. And we also have worked really, as I said, on balance to incorporate those 2024 considerations that are shown later in the deck, in particular as we have had revenue move between quarters and years. So we're really working to kind of give that visibility, so everybody can make really educated decisions on they want to model this.

Arun Jayaram

Great. My follow-up is on the bridge, you expect a $230 million revenue uplift from Big LNG in the Teddy 2 facility. Can you help us think about because I don't think Teddy 2 will be operational until 2Q if I'm not mistaken. Can you help us think about the revenue potential from those two? Just trying to think about the trajectory of revenue growth as Teddy 2 comes online, I think in 2Q.

Jill Evanko

Yes, Joe Teddy 2 is coming online early Q2.

Joe Brinkman

Yes, early Q2 certificate of occupancy imminently. But yes, we'll be operating early very, very early Q2.

Jill Evanko

And we have good backlog coverage there for 2024 already. I think the other couple of points that are incorporated in that figure are around I don't think we called it out of Teddy 1, but Teddy 1 got certified by one of our major customers to do bulk tanks.

Joe Brinkman

Yes. And cryogenic railcars as well.

Jill Evanko

And that's in backlog?

Joe Brinkman

In backlog.

Jill Evanko

And then lastly, the Big LNG, we didn't give a specific year-end backlog, but this is just a portion of our year end 2023 Big LNG backlog that we expect to flow through in 2024. I do think that to one of your colleagues' questions earlier that this is an area that if we can get more throughput through the shops, has certainly the availability of backlog to benefit 2024. And maybe the heart of your question is that how do we think about the year unfolding from Q1 to Q4? And while we don't give quarterly guidance, we certainly expect that Q1 will be the lowest quarter of the year and sequentially rolling out as the year goes on with the brunt of Teddy 2 revenue rec in the second half of this year, whereas Big LNG is a little more balanced now till the end of the year.

Operator

Your next question comes from Craig Shere from Tuohy Brothers. Please go ahead.

Craig Shere

So first, the fourth quarter was very strong on the margin side. And while revenues into this year are softer than originally guided, margin or the margin percent looks stronger and free cash flow is effectively unchanged. Can you provide more color around this margin and cash flow strength?

Jill Evanko

Yeah. Thanks for the questions, Craig. What I would say is that, we definitely expected higher revenue rec in Q4 yet. We're pretty pleased with 13% sequential growth Q3 to Q4, the first time the pro forma business being over $1 billion. Actually, it's the first time the pro forma business being over I think $910 million or something like that. So, all in all, we've attempted to in the range for 2024 account for the fact that we do have timing shifts between quarters, especially as these projects get larger and larger. In terms of the margin strength, very pleased with the performance. That's really reflective of in no particular order, our repair service and leasing business, not only the profile of the gross margin, but also the consistency of it being a grower in the business. That was something that originally there were skepticism -- there was skepticism around whether that business could grow 10% and given the year-over-year pro forma order growth in RSL of 25% plus, we have good visibility to that kind of margin profile continuing in 2024. The other elements of the margin profile contributions are really around the larger project mix and we see that continuing to be consistent. And more and more of the annualized cost synergies that have been achieved to date, flowing through the actuals and the reported.

And then your question about free cash flow, I will point you to the starting point of the EBITDA outlook that we provided and then we've in the appendix have a slide that walks you through the elements of our framework for the other pieces and parts that walk down to the free cash flow inclusive of the $115 million to $125 million of anticipated CapEx.

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Craig Shere

Great. Thanks. And my second question is around LNG. On Slide 28, are you basically saying that there is a bit of a falloff in the domestic opportunities as long as this pause is sustained. But international is more than filling in for that. So, you're kind of pulling in on what you anticipate as opportunities in the U.S, but globally you're as strong or stronger than before. And finally, in that, is anything in your Big LNG order book, maybe a one-off order, still exposed to any final regulatory certification, export authorization? And if you do have a straggler like that, can you describe any kind of order cancellation protection you'd have?

Jill Evanko

All right. Let me unpack that one. So, what I would say is that since the announcement of the LNG export moratorium that we have seen a meaningful increase in international inbounds. I would say that that didn't actually mitigate anything on the domestic side, although we're saying demand moderating because of the uncertainty around the timing of the pause in the analysis. So let me -- I've addressed the international piece. Let me talk about the domestic piece of the pipeline there. First of all, you've heard the extension of Tellurian's permit to 2029. Cheniere last week discussed that they didn't anticipate trains 8 and 9 be impacted by the LNG moratorium. And then, you go into the international side where Woodside just recently said they expect a 53% increase in global LNG demand in the next decade. Shell just put their LNG outlook out with continuing growth into the 2040s with the specificity that that was expected in APAC. So, I think on balance the U.S. pause timing uncertainty doesn't necessarily change our outlook for domestic in the medium term, but the international inbound since late January have given us confidence that that pipeline is going to continue the way we had seen it prior to the pause.

In terms of the Big LNG backlog. So let me reiterate my thanks to Craig for hosting a call with us on January 28th or 29th after this pause was announced because it allowed us to really discuss the composition of our backlog. And I'm going to wing it on my memory on from Q1 2019 to Q3 of 2023, we had announced $1.055 million in Big LNG related orders and we were privileged to be able to announce all but one of those in terms of the project itself. And so the only one that we hadn't given a specific project to was Q2 of 2023. And we haven't commented on its permitting. But it's all of those projects, including that one, we have received our full and final notes to proceed from our customer.

And then lastly, there are, in the Big LNG contracts specifically, I don't want to answer like the total backlog because you got to get into specific customers and projects and all that, but to the Big LNG backlog there are specific cancellation charges, in particular as, again, we have our FNTPs with all of them as of September 30, which I think was the question.

Operator

Your next question comes from Graham Price from Raymond James. Please go ahead.

Graham Price

Just one from my end and a follow-up prior question. Just thinking about the project delays that were visible in 2023 and then heading into 2024. Of those that you foresee, are they all encompassed in the $200 million customer timing and supply chain number that you quote in the bridge? And just how should we think about kind of air bands around that?

Jill Evanko

Yeah. So, we again, looking back at history and taking all of the considerations on balance, we felt like we should put the low end of the range where it is at the $4.7 billion which the specific project timing is there's a few different components that go into the reasons for those timing shifts. First being -- and these are in no particular order, but they're fairly equally weighted. The first being customer timing or change orders where a design change comes in and so then you can't release it to the shop floor because you got to incorporate the design change. Typically, those actually result in change orders for us. It's just timing of the rev rec associated with it.

The second category, which we've experienced and I would say are learning to incorporate into this outlook is around quarter end vendor progress as we have the business has shifted to that more full-solution business model. So, we have more percent of completion revenue rec, which relies on vendor progress as well. And then the third is around how we think about timing of new orders coming in the engineering related work associated with that. So, as the projects get larger there's more engineering and that's what I would say is the three that encompass what we mean when we say timing of revenue recognition. And we've attempted to incorporate that in that $200 million-ish bar. It's hard to kind of risk adjust that and say like, okay, plus or minus to put a band around it. That's what we've attempted to do with this range.

Graham Price

Okay, understood. And if we think about that range, is there a particular quarter during the year that would be more susceptible, to seeing those delays?

Jill Evanko

Not specific to this item, this topic. I would just reiterate the consideration of our normal seasonality from the Q4 to the Q1, but that's less attributed to this than it is just, the normal business model and our customers' behaviors.

Graham Price

Okay, got it. Thank you. That's it for me. I'll jump back in the queue.

Operator

Your next question comes from Eric Stine from Craig-Hallum. Please go ahead.

Eric Stine

I'm just jumping on late here. I'm sure I'm going to ask a question that's already been asked, but apologies. Apologies in advance. But, so just curious on the orders, I mean, obviously, another great number, specialty for one kind of stands out. Just curious, I mean, is that a number that you would see as sustainable? Is that a number that there maybe was something year end that drove that? And conversely, I mean, is that a number that actually has been limited potential by some uncertainty around the IRA?

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Jill Evanko

Yeah. Thanks for the question, Eric. And, it's not a repeat. So when you look at we were very pleased with our 4th quarter order activity. And you didn't ask this part of the question, but I will point out on the 28th December 2023, we put out a release about LNG related awards. And so that was a nice contributor, in particular the international aspects of those. And then, in specialty itself, if you look at kind of Q3 to Q4, we saw a nice steadiness in the hydrogen and helium end markets and that one did have one larger project in it in the fourth quarter. So, that could be something that is a timing thing between quarters that you don't see that happen. But there's more and more of these larger size projects in the pipeline in a diverse set of geographies. So, we like that ability to start to play in more and more countries. I think we're in 25 plus now in hydrogen. We also saw from Q3 to Q4, an uptick in orders in marine specifically. So, while we saw a sequential decline in marine sales, we saw an uptick in marine order activity. And I do think we're going to continue to see opportunities in that end market whether it's around there's discussions. You got Carnival Cruise Line doing LNG cruise ships. You've got other cruise operators doing first hydrogen vessels. But what I really like about that end market is we've missed a lot of opportunities over the last five years without having this the large enough jumbo cryogenic tank capacity. So, in that end market Joe maybe talk a little bit about marine for jumbos?

Joe Brinkman

Yeah, we're seeing a lot of interest as Jill noted with the cruise lines and some ferry ships both on the LNG and hydrogen side. As Jill noted with teddy 2 we really have the capability of building the size tanks that these guys want for the space that they have allocated on the ships. They tend to be really large diameter, but shorter in length than you would traditionally have and just gas storage. So, Teddy 2 really helps us capture that business that we really haven't had the capability of achieving in the past.

Jill Evanko

I would say Eric on average over time, I think it's a sustainable order level. It's hard to say every quarter is going to be consistently at what Q3 or Q4 was for specialty. But again, what I look at is the increasing number of customers and potential customers in that pipeline for specialty. And I did comment as you might not have, heard because it was early in my comments about quarter-to-date Q1 2024. And this is a small number, but it's just one of those little indicators to me that HLNG vehicle tank orders, in year quarter to date have been pretty strong. And I'm not going to get over my skis on that. So, we've built, a fairly low growth for that in 2024 compared to 2023. But I think there's a couple potential that if one doesn't happen in a given quarter or six-month period, there's other end markets. And that really is what I like about the diversity of the composition of both the backlog and the commercial pipe.

Operator

Your next question comes from Alexa Patrick from Goldman Sachs.

Alexa Patrick

Hi, good morning team. When we look at 2024 guide and then look at where street consensus is, there's a delta. What do you think the streets miscalibrating and any color you can give around that would be helpful? Thanks.

Jill Evanko

Well, we've provided what we believe to be an achievable range given all the inputs that I think we feel like we clearly laid out in our walks in the deck. So, I don't think I can speculate on other people's models.

Operator

Thank you [Operator Instructions]. Your next question comes from Barry Haimes from Sage Asset Management. Please go ahead.

Barry Haimes

I had a question on the one LNG order you referenced, Jill, where you've got the notice to proceed, but maybe not all the final permitting was in before the moratorium hit. Was that pulled out of this year's guide or were there any changes to the guide? And if not, could you just talk about the change between the 12 to 14 you have today, which is still great compared with the 14 plus I think that you had on Analyst Day. So, is it just fine tuning and being more conservative or were there some changes in the either in that order or the moratorium or something else that led to that shift? Thanks.

Jill Evanko

Thanks for the questions, Barry. Okay. So let me talk to the first part on the Big LNG. Recall that we sized that Q2 project I was referencing at approximately $200 million-ish. And then we also announced at the end of December multiple LNG related awards that we didn't size, but you can kind of add them up the pieces and parts based on what we've said previously. So, we feel like we're entering the year in a very good place compared to where we were before on the Big LNG backlog. I would also add that those projects again with FNTPs to us they don't they sometimes don't come from the operator themselves. They'll go through an EPC or something like that. So, where our relationship is and the cancellations associated with that, are usually pretty favorable. But it's not even about that in my mind. None of our operators in the U.S. have said that they see any, anything different. They really view this as a nuisance in particular I would say for 2024. But that particular project also does have certain permitting. So, I think you got a lot of positive momentum even on that particular one. But if not, if you wanted to handicap it, then handicap it with what we announced in Q4. Then I would say around, the kind of what's different, we again have laid out all these a lot of detail in the frameworks in the deck and in the last four months since we reported last, there's lots of different macro situations and I'm not sure everybody can account for what's going to happen in an hour from now whether that's around the Red Sea or whether that's around the supply chain or any such thing, but what we've tried to do is give you very transparent clarity on how we see getting from the 2023 pro forma to the outlook. And again, I think what we want to convey is we've got really good diverse composition of our backlog. We've got a lot of self-help productivity, throughput activities and these are kind of going to come online throughout the year. We've got a lot of benefits from the Howden integration, but we also have experience where we see timing shifts. And so, we're really trying to give this low to high end based on those elements.

Barry Haimes

Got it. Thanks so much. Great report and rundown. Thanks, Jill.

Operator

And there are no further questions at this time. I will turn the call back over to Jill Evanko for closing remarks.

Jill Evanko

Just a quick thank you again to our Global OneChart team members for all of your efforts. Thank you.

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Joe Brinkman

Thanks everybody.

Operator

This concludes your conference call for today. [Operator Closing Remarks].

**Load-Date:** February 28, 2024

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