

# **Crane Company (CR) Q2 2024 Earnings Call Transcript**

Seeking Alpha - Earnings Call Transcripts

July 31, 2024 Wednesday

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**Length:** 7332 words

**Byline:** SA Transcripts

**Body**

Crane Company (CR)

Q2 2024 Earnings Conference Call

July 30, 2024 10:00 AM ET

Company Participants

Jason Feldman - Vice President, Treasury & Investor Relations

Allison Poliniak - Senior Vice President of Investor Relations

Max Mitchell - President & Chief Executive Officer

Richard Maue - Executive Vice President & Chief Financial Officer

Conference Call Participants

Damian Karas - UBS

Megan Makini - Deutsche Bank

Matt Summerville - D.A. Davidson

Nicholas Lipinski - Vertical Research

Justin Ages - CJS Securities

Jordan Lyonnais - Bank of America

Adam Farley - Stifel

George Bancroft - Gabelli Funds

Presentation

Operator

Good day, and welcome to the Crane Company Second Quarter 2024 Earnings Conference Call. At this time all participants have been placed on a listen-only mode and the floor will be opened for your question following the presentation. [Operator Instructions]

I'd now like to turn the call over to Jason Feldman, Senior Vice President of Investor Relations, Treasury and Tax.

Jason Feldman

Thank you, operator. And good day, everyone. Welcome to our second quarter 2024 earnings release conference call. I'm Jason Feldman, Senior Vice President of Investor Relations, Treasury and Tax. Before we get started, I'm delighted to introduce Allison Poliniak as our new Vice President of Investor Relations. Many of you know her from her time as an analyst following the industrial, technology and transportation sectors. She brings a wealth of experience into the role and we're happy to bring her on board. I will continue to oversee the investor relations function, but over the next few months, as she assumes primary responsibility for investor communications, I'll be spending more of my time with tax, treasury and M&A.

Allison, let me pass it on to you.

Allison Poliniak

Great. Thank you, Jason. So good morning everyone. I'm excited to be here and look forward to connecting with everybody in the next few weeks. As Jason mentioned, I spent the last 18 years as an analyst at Wells Fargo covering the industrial, technology and transportation sectors. That gave me the opportunity to analyze and learn from a lot of great companies, their unique growth strategies, their approaches to drive productivity and sustainable profit improvement, as well as their approach to M&A. A lot were successful, but some were not. All that gave me -- has given me great insights as I step into this role.

I have been considering making this move to the corporate side for some time. However, there were three key qualities that the company needed to have for me to join. One, a strong strategic growth vision that I supported that would take the company to the next level. The second is a sound and achievable M&A strategy that would complement that vision; and third, the ability to have a voice as both the inorganic and organic strategies evolved. There were a few opportunities that I did walk away from over the years because those companies did not have those qualities.

Crane, however, did tick all those boxes for me. Add to that the respect I had for the management team and it was an easy decision for me to join, and with a little over a month into the role, I can tell you that I'm certainly not disappointed. What I have found is a strong culture focused on executing the team's strategic vision with significant opportunity, both organic and inorganic, to grow Crane and continue to move the earnings profile higher. So on that, let's get started. On our call this morning we have Max Mitchell, our Chairman, President and Chief Executive Officer; and Rich Maue, our Executive Vice President and Chief Financial Officer. We will start off our call with a few prepared remarks, after which we'll respond to questions.

And just a reminder, the comments we make on this call will include some forward-looking statements. We refer you to the cautionary language at the bottom of our earnings release and also in our annual report 10-K and subsequent filings pertaining to forward-looking statements. Also during the call, we will be using some non-GAAP numbers, which are reconciled to the comparable GAAP numbers in tables at the end of our press release and accompanying slide presentation, both of which are available on our website at www.craneco.com in the investor relations section.

So now, let me turn the call over to Max.

Max Mitchell

Thank you Allison. Welcome and thank you again for joining Crane and we look forward to much improved performance versus the last person in the role. I'm joking, Jason. Good morning, everyone. Thanks for joining the call today. Yet another excellent quarter with results outperforming expectations.

Adjusted EPS was $1.30, driven by an impressive 9% core sales growth, reflecting strength across both aerospace electronics and process flow technologies. That growth was paired with strong leading indicators with core orders up 7% and core backlog up 10% compared to last year, and confidence in our outlook for 2024 remains high. Based on the strength in the first half, we are raising the midpoint of our full year guidance by $0.15 and narrowing our outlook to a range of $4.95 to $5.15, which reflects 18% EPS growth at the midpoint. We have fairly strong direct line of sight to delivering that 18% earnings growth.

Our revised guidance continues to assume somewhat muted industrial activity with aerospace electronics, commercial OE sales growth solid, but at a slightly lower levels given the changes with OE build rates. We also assume that the aerospace electronics supply chain continues with similar issues with only very gradual further improvement as the year progresses. But this is also becoming more of the normal state of play honestly, at this point in time. If those assumptions prove conservative, we are structured to be able to satisfy any unexpected upside demand.

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We've had a strong first half. Our strategy is working. The team is executing, driving improved earnings through its growth and commercial excellence initiatives. We successfully completed three acquisitions over the last year and with continued progress on our existing M&A funnel. We expect additional opportunities to become actionable over the next few quarters, primarily smaller and mid-sized transactions. While we are working on a number of transactions at the moment, we see the opportunities weighted towards the end of '24, in the first half of 2025, given the expected timeline for known processes.

Longer term, as we reiterated during our annual investor day last quarter, we remain confident in a 4% to 6% long term core sales growth rate from resilient and durable businesses with solid aftermarket, substantial operating leverage on top of already solid margins today that should lead to double digit average annual core profit growth with upside -- with potential upside from capital deployment, and with virtually no net debt, the capital deployment opportunity is significant.

Let me highlight a few recent wins and continued success in the quarter, starting with aerospace electronics. We previously highlighted our wins on NGAD 6th generation fighter aircraft and our strong position on prototype and demonstrator programs. In the quarter, we also saw significant progress on the CCA or collaborative combat aircraft portion of this unmanned platform, across a number of our solutions.

On another significant UAV program unrelated to the CCA, we've also had early success with our landing solution. Other significant negotiations continue to further solidify our already strong position on the next generation demonstrator programs for military and tactical hybrid electric ground vehicle platforms where our high power, unidirectional and bidirectional power conversion capabilities are best in class, and we continue to receive significant order support -- orders supporting the known and expected ramp up of the multiple large ground based radar programs we've been awarded and that will be entering full rate production over the next two years.

On the longer term technology development front, we continue to make great progress on our SmartStem long range wireless advances. We've already deployed this solution on a recent demonstrator program with a large commercial OE, and our latest version of this solution has a new user friendly app interface that gathers critical tire pressure and temperature measurements quickly and accurately with simplified installation using wireless technology that has significant weight savings by eliminating wiring.

In our landing solution, we also continue to move away from bespoke architectures towards more standardized and modular solutions that are easier to adopt and customize quickly based on our customers needs, significantly cutting development time and cost. The landing team has also made continued progress advancing our technology for electric brake control actuation, moving quickly towards technology readiness level six by 2025, and positioning us extremely well for the next narrow-body platform that will eventually be developed.

And on the acquisition integration front with Vian, we are already seeing sales synergy opportunities. We have a strong existing customer relationships in the aerospace fluid solutions market with our vein pump technology that Vian did not have to the same level and we are now leveraging Vian's G rotor pump technology capabilities to bid and win on opportunities we couldn't effectively address before the acquisition. Stronger together combined and winning already.

Overall, another strong quarter for A&E, both in reported results as well as in our activities supporting current and future growth. And just last week, our outstanding A&E team had another very successful air show at Farnborough, UK, meeting with key customers and suppliers, solidifying alignment on a number of key growth initiatives and next month I look forward to spending a few days with the A&E team as we enter our annual strategy review process, looking at new strategic initiatives from the very near term to well into and beyond the next decade.

Moving to process flow technologies in the quarter. Great traction in our wastewater pump business with our new high efficiency envy motor platform and new higher horsepower offerings introduced late last year on track to double sales for that overall product platform. This year, we're also gaining share in the hydrogen sensing space with our newest pressure transducer technology.

Our solution in this space has superior precision and reliability in hydrogen fuel cell applications where we're seeing significant growth opportunities, and again on the acquisition integration front with CryoWorks, we're seeing significant early successes working together in driving sales synergies, particularly in cryogenic space launch fueling applications. We've already booked 7 million in orders this quarter with four different customers, primarily for new rocket launch facilities supporting new satellite constellations with cryo works, differentiated capabilities and large bore insulated piping. We are leveraging our combined sales and marketing capabilities to pull through our valve portfolio as well.

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As mentioned on previous calls, we continue to convert customers to our FK Trix product from competitors due to its reliable zero leak capabilities and fugitive emissions compliance. We also continue to win share with pharmaceutical projects given the superior reliability and capabilities and higher operating temperatures with our diaphragm technology. Excellent progress on all fronts by the process flow technology team.

And here too, I'm eager to visit many of our sites next month and review all our exciting strategic growth initiatives. Let me now turn the call over to our CFO rich Maui for more specifics on the quarter and some more details on our guidance. Thank you max and good morning everyone.

We drove 9% core sales growth in the quarter with strength across both primary businesses delivered with strong core operating leverage adjusted operating profit increased 22%, driven by volume, productivity and strong net price, and adjusted EPS also beat our expectations. Leading indicators were also strong, with core FX neutral backlog up 10% and core orders up 7% compared to last year, notably better than expected, particularly at process flow technologies.

Another strong quarter reflecting our focus on accelerating core growth along with our consistently differentiated execution. Hey, I shared my excitement over the last several quarters over how far we have come at Crane. But from the wise words of Jeff Daniels, as Harry done in the classic emotional drama, Dumb and Dumber, according to the map, we've done only 4 inches. A lot of opportunity and excitement ahead for Crane as we head to Aspen. Getting into the details, I will start off with second comments that will compare the second quarter of 2024 to 2023, excluding special items, as outlined in our press release and slide presentation, and then I will comment on our 2024 outlook for each segment and for our overall P&L.

Starting with Aerospace & Electronics. Despite the headlines, no material change in the end market conditions relative to our expectations, again, no material change relative to our expectations. On the commercial side of the business, aircraft retirements remained very low due to high demand and limitations on aircraft deliveries resulting from an aging fleet that requires more aftermarket parts and service.

On the defense side, we continue to see solid procurement spending and a continued focus on reinforcing the broader defense industrial base given heightened global uncertainty today. Overall, just a continuing solid demand environment. That strong demand was reflected in our second quarter growth rates with sales of $231 million, increasing 22% compared to last year with 16% core growth and a 6% benefit from the Vian acquisition.

Despite the continued high level of sales growth, our record backlog of $815 million increased even further, up 21% year-over-year, including 12% core growth and the 9% contribution from the Viant acquisition. Sequentially, core FX-neutral backlog increased 2%. In the quarter, total aftermarket sales increased 33% with commercial aftermarket sales, up 28% and military aftermarket up 47%. OEM sales increased 17% in the quarter with 27% growth in commercial and up 6% in military. Adjusted segment margins of 23.8% increased 360 basis points from 20.2% last year, primarily reflecting higher volumes and productivity. Looking ahead to the remainder of 2024, we are maintaining our sales guidance with core sales growth at 12% for the full year in addition to a 4.5% favorable benefit from the Vian acquisition.

That guidance assumes continued strong sales levels, consistent with Q2, albeit at a decelerating year-over-year growth rate as the comparisons are more challenging in the second half. While comparisons can create some noise on quarterly growth rates, as we outlined in our May Investor Day event, we expect this year's 12% core sales growth rate to be followed by continued strong for growth in 2025 and for the remainder of this decade. We are, however, raising our full year margin guidance slightly to 22.2%, up 20 basis points from our prior view. That does assume a moderation in margin rates in the second half, driven primarily by mix, which we don't expect will be quite as favorable as it was in the first half as OE deliveries continue to increase. Margin guidance reflects core leverage, excluding Vian of just about 40%, a little higher than prior guidance and overall on track for another outstanding year.

At Process Flow Technologies, we remain well positioned to continue to outgrow our markets and our market outlook is now a little more positive than it has been over the last several quarters. While we continue to see some softness in the European chemical and general industrial markets, we see continued strength in North America and China projects, particularly in chemical, and we expect this trend to continue. Given the improved performance, we are raising our sales and margin guidance for the year to reflect better-than-expected strength in our orders and backlog year-to-date. In the quarter itself, we delivered sales of $298 million, up 13% driven by strong core sales growth of 7% in the quarter, along with a 7% benefit from the Vian and CryoWorks acquisitions with a slight offset from the unfavorable foreign exchange we saw.

Compared to the prior year, core FX-neutral backlog increased 9% and core FX-neutral orders increased 10%, both driven primarily by North American markets, followed by China. Sequentially, core FX-neutral backlog decreased 1% with FX-neutral orders down 4%, reflecting the strong project orders booked in the first quarter. Adjusted operating margins of 20.5% expanded 50 basis points better than we expected with strong core operating leverage in the quarter, driven by productivity, strong net price and higher volumes offset mainly by the expected dilutive impact of our recent acquisitions.

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Turning to full year guidance for Process Flow Technologies. We now expect 2024 sales growth of approximately 10%, up from our prior expectation of 7% with the increase in our growth view coming from our core operations, which are now expected to be up 4% versus our prior 1% view reflecting year-to-date results and again, continued order strength.

As we discussed last quarter, acquisitions, including both Baum and CryoWorks, will add about 6 points to our full year growth rate. We are also raising our margin guidance for the full year to 20.6%, up 20 basis points from prior guidance considering our revised sales outlook. For context, remember that in 2019, just before COVID, margins at Process Flow Technologies were 13.6%. As we noted before, this is a significant step function change in margins, which is reflective of our efforts to structurally shift the business to higher growth and higher-margin end markets. We continue to see opportunity on this journey through the contribution from accretive new product introductions pricing that is both disciplined and appropriately assertive given the inflationary environment, our continued investments in technology-driven product differentiation and continued productivity.

From a cadence perspective, we still expect third quarter to be the strongest of the year for sales with fourth quarter seasonally a little softer. Margins in the second half should be very similar to the first half of the year. And Engineered Materials sales of $53 million decreased 8% compared to last year as expected. Operating profit margin decreased 270 basis points to 13.9% on the lower volumes.

For the full year, we continue to expect both sales and margins to be flat compared to 2023. Moving on to total company results. In the second quarter, adjusted free cash flow was $57 million, roughly in line with last year. For the full year, we now expect free cash flow in the range of $255 million to $275 million, up $5 million at the low end compared to our prior range. We continue to expect free cash conversion of greater than 90%.

Total debt at the end of the first quarter was approximately $377 million with $229 million of cash on hand, we continue to have substantial financial flexibility with more than $1 billion in M&A capacity today and reaching as much as $4 billion by 2028. While this is more financial flexibility than we have historically had, our capital allocation strategy is unchanged. We will deploy our capital with the same strict financial and strategic discipline that we always have employed, prioritizing internal investments for growth, followed by M&A and returns to shareholders.

Now turning to our 2024 guidance. As Max mentioned, we are raising the midpoint of our full year guidance by $0.15 and narrowed our outlook to a range of $4.95 to $5.15, which reflects 18% EPS growth at the midpoint. Guidance assumes total core growth of 5% to 7%, up 1 point from our prior guidance due to the outperformance of Process Flow Technologies and a 5% benefit from acquisitions.

That 5% to 7% core growth will drive approximately 18% growth in adjusted segment operating profit about 3 times the core sales growth. Turning to the other elements of our full year guidance, we did raise guidance for corporate expense by $5 million to $80 million, primarily reflecting higher compensation expense given our performance to date and outlook but this impact was roughly offset by lower net nonoperating expense now at $20 million, $3 million lower than prior guidance and expectation for a slightly lower tax rate and 23% compared to our prior guidance of 23.5%. Overall, a very strong first half with excellent momentum as we enter the second half.

Operator, we are now ready to take our first question.

Question-and-Answer Session

Operator

The floor is now open for questions. [Operator Instructions] Our first question will come from Damian Karas with UBS. Please go ahead.

Damian Karas

Hi. Good morning, everyone and welcome, Allison.

Allison Poliniak

Thanks.

Max Mitchell

Good morning.

I've got to say those are some pretty big shoes to fill with Mr. Feldman.

Allison Poliniak

I'll do my best.

Damian Karas

I wanted to ask you guys about PSG. That's a pretty notable increase in your sales outlook for the year. Could you just maybe talk about that a little bit more. What's really changed in the business versus a few months ago? Do you feel like it's got pretty good visibility? Or is there maybe still some choppiness on the short cycle side of the business?

Max Mitchell

Yes, Damian, I think we've been consistent in this, too, and we tried to explain it even in giving guidance for the full year. We've looked at historic trends in the cycle coming out of post-COVID. We predicted a little softer market dynamics than what really has played out and particularly in the Americas. So as the quarters have moved on, the -- I wouldn't say it's been a great growth or any specific momentum. It's just the market overall has been much stronger than we had anticipated, where we planned for where we guided for particularly in the U.S. projects seem to be -- from our assumptions now from our original assumptions, projects coming back a little stronger than we had anticipated, particularly in the chemical space. So it's been more of an alignment to what we're really seeing play out versus our assumptions based on the historical view of the forecast.

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Do you want to add anything, Rich?

Richard Maue

The only thing I would add just in terms of the last three months, again, I would just reiterate, not so much changing just that continued momentum. So that one more quarter under our belt coming out of the first quarter really just allowed us to say, hey, there's no reason why we shouldn't be able to hit the revised guide. So we feel pretty confident here, Damian, as we close out the year and as we think about 2025, frankly.

Damian Karas

Understood. That's helpful. And I think it was Slide 9. There's a comment in there that you're well positioned to ramp it macro environment for mix. Could you just elaborate a little bit on your thinking there?

Max Mitchell

I think we've got, in general, balanced in terms of capacity from a facility standpoint, our ability to leverage our existing resources from an efficiency standpoint as well as being able to ramp up if required. The sum of supply chain dynamics that we see. As we see continued improvement, we feel well positioned to leverage any demand.

Damian Karas

Okay. Terrific. Thanks guys. I'll pass it along. Best of Luck.

Max Mitchell

Thanks, Damian.

Richard Maue

Thank you.

Operator

Thank you. Our next question will come from Scott Deuschle with Deutsche Bank. Please go ahead.

Max Mitchell

Good morning, Scott.

Megan Makini

Hi, great. This is Megan on for Scott, sorry.

Max Mitchell

[Multiple Speakers] How are you?

Megan Makini

Good. My question is for Max. Can you characterize where you're seeing the most growth in commercial aftermarket right now? Is it mostly on the engine side, like on the ETF or is it more well balanced across platforms? Or is it more balanced across airframe versus engine? Any thought there would be helpful.

Max Mitchell

Yes. We're seeing it -- it's broad. It's not necessarily just engine. So from our point of view, and how we -- our solutions, right? Our fluid management is seeing a nice uptick given what's happening with engines certainly. But it's pretty equally spread across our freight control solutions as well as sensing. So it's fairly widespread is the way we're thinking about it and the way we're seeing it, if that helps.

Megan Makini

I appreciate it. And then one more question, if I can. Rich, can you characterize the price realizations at both segments?

Richard Maue

Sure. So in the quarter, not too much different from what we were experiencing in the first quarter for aerospace and defense. A little bit more than a third of the growth in the quarter came from price. And on the Process Flow Technologies side, it's about mid-single digit in the quarter. Again, fairly consistent with the first quarter and I would say even consistent with how we're thinking about things moving through the balance of the year.

Megan Makini

Got it. Very helpful. Okay, I can pass it on. Thank you.

Max Mitchell

Thank you.

Richard Maue

Thank you.

Operator

Thank you. Our next question will come from Matt Summerville with D.A. Davidson. Please go ahead.

Matt Summerville

Thanks. A couple of questions. First, maybe just to piggyback off that last one. The price capture you're seeing in TFT and putting that in the context of where you're at with deploying 80-20 in that business. I guess I'm trying to understand, maybe using a baseball analogy, what inning are we in, in terms of Crane realizing at least relative to historical standards, this above trend level of price capture and do that same level of price capture continue down the road? Help me understand that a little bit more.

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Max Mitchell

Well, to try and answer it in that -- using that context, Matt, in terms of innings. From our CBS standpoint, I think it's just important to start off with what do we drive. We drive a balance of Crane Business System, which starts with strategy execution, technology, commercial excellence, we drive -- I think we're pretty darn good from a lean deployment standpoint on so many fronts. And so 80-20 is just one of many approaches and tools that we use across the business to drive outstanding customer satisfaction growth holistically within 80-20 within deploying a more focused approach at analyzing the product lines, analyzing customer segmentation with a view towards overserving customers as well as making conscious decisions about pricing for value, so forth.

I think we're very good. I think we continue to get better. I would probably say the game is never over. So probably baseball is not the best analogy, it is a game that continues. But let's say, we're in the third, fourth inning kind of framing, which is going to -- and we've been at it for a good three to four years now. So there's significant contribution, as I think about it moving forward, in balance in concert with everything else that we drive, where others may just myopically drive a very, very laser-focused on only 80-20. So hopefully, that puts things in context a little bit.

Matt Summerville

Yes. No, that's very helpful. And then as a follow-up, I think, Max, you mentioned maybe the commercial OEM outlook is a little bit lower. I was hoping you could put a little bit of a finer point on that comment you made in your prepared remarks while also maybe providing an assessment in terms of what you see from an inventory standpoint in the channel? And just overall, what your view is going forward on supply chain and where OE build rates go from here?

Max Mitchell

I think we're moving to -- when you start talking about supply chain-related issues year after year. We reach a point where I believe we're in a new normal, if you will. Post-COVID, it's now 2024. There's been some dynamics that have changed that we're all dealing with that I think we're all dealing with well, we're meeting demand. We're adjusting lead times as necessary. We're satisfying our customers' demand. Is there still a bit of an unmet demand? Is there a -- there -- yes, but I think it means less today. I think there's a new normal about meeting demand expectations.

I don't believe that there is a concern for us related to inventory in the channel. We've always triangulated the best we can on a multitude of factors, not just OEM build rates, but all of our customers and forecasted effectively in terms of what that means for us in being able to deliver. So it gives us high confidence as we're thinking about this moving forward in our growth rates also.

Richard Maue

Yes. No, I would reiterate that or agree with that. I think part of the comment was geared towards, Matt, one of the OEs taking down their build rates slightly. And -- so that was the source of the comment. I would just say that it's not going to have an impact on us here and here in the year. And frankly, our view is that it will not next year or the years after in a material way when you think about the growth profile coming from Crane. So as you, I think, know, much of our growth in the -- I don't know, into 20 -- next year, year after is coming through military as well. So there's a nice mix benefit, if you want to call it that, with respect to any challenges that folks might have as a result of the supply chain in commercial.

Matt Summerville

Thank you, guys.

Max Mitchell

Thanks, Matt.

Operator

Thank you. Our next question will come from Jeff Sprague with Vertical Research. Please go ahead.

Nicholas Lipinski

Hey, good morning. This is Nick on for Jeff. Just wanted to ask about the deal pipeline. It sounds like some things may be actionable later in the year. But are you guys seeing any competition sort of heating up, maybe putting pressure on multiples? Or how are you thinking about that?

Max Mitchell

Yes. Thanks, Nick. Very active, a lot of opportunities, both the things that we've been cultivating for years as well as what's coming out from PE, got some conglomerates that are looking at what no longer makes strategic sense. Some are highly competitive. Some are more cultivated relationships. So we're seeing all of the above. It's very balanced. I'm very encouraged, very encouraged as we're moving forward. In terms of multiples, there's still some upward pressure. Some things are competitive, but we're going to stay disciplined. We're going to make sure that return on invested capital meets our goals. We have a good line of sight to the synergies that we can bring. If a deal makes sense, and we're not afraid to walk away if it doesn't make sense. So I think we feel pretty good overall.

Nicholas Lipinski

Great. Thanks for that. And maybe just one more on flow. You provide any more additional color on individual end markets relative to your expectations and how they're trending projects versus MRO.

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Richard Maue

Sure. So yes, some of this in the prepared remarks, but I'll give a little bit more color here, certainly doing a little bit better than we had anticipated as we move through the year. This is, I think, now the fourth quarter in a row of positive order activity for us, primarily on the project business, largely confined in North America and China and mainly in chemicals and pharmaceuticals, just to give you a little geography and end market, sets us up nicely for the second half and as we think about 2025 in particular.

European Chemical's still quite slow. I would say both projects and MRO, but we think also largely stabilized, right? So we don't think there's further momentum downward at stabilized at a level where we see it today. A handful of project pushouts here and there in North America and China, but we've seen other projects accelerate faster, and that's been a source of some of our confidence overall. And so stronger than expected on the project side. And again, largely in pharmaceutical area, Asia, China for localization and LNG. And then North America, we think some of that activity that's been stronger has been related to reshoring and bringing some manufacturing activities back to the U.S., some of that in semiconductor related to data centers and so forth. So some nice strength there.

So hopefully, that gives you some context. I mean we do have outside of process, our water, wastewater business remains solid and then nonresidential construction in the U.K. remains soft, but we are starting to see that lift up a little bit as we move through the year here.

Nicholas Lipinski

Appreciate the color. Thanks very much.

Max Mitchell

You are welcome.

Operator

Thank you. Our next question will come from Justin Ages with CJS Securities. Please go ahead.

Justin Ages

[Multiple Speakers] How are you doing? Just on PFT, I was hoping you could give us an update on those kind of five focus areas that you've called out before. How much of the sales, how much of margin is related to those?

Max Mitchell

Five focus areas being chemical, water, wastewater, pharma, industrial and hydrogen. From a revenue perspective, it's ballpark, a little bit above 60%. From a margin perspective, I don't know if we have exact numbers, but it's higher than that because of profitability of those businesses is above the segment average. I don't know Max or which of you want to comment specifically about...

Richard Maue

I mean I think we're trying to think -- if you think about what the component of that 60%, right, most of it, a large portion of it is in the chemical space. I think a lot of the momentum that we've been seeing through this year has been in chemical. So that would be the largest contributor. I would say from a margin point of view, I wouldn't differentiate so much across any of them. I think all the profiles are around the margin across themselves, right? There's not one that is an outlier. Pharmaceutical also a key driver for us from a growth point of view as well as margin. And we are seeing nice project orders in Cryo, frankly, as Max mentioned in his prepared remarks. So it's a little bit widespread across that two third of the portfolio that's driving both the growth and the margin profile, if that helps.

Max Mitchell

That's a good question, Justin. We'll sharpen the pencil on that specifically. We haven't done that. So it's an excellent question. But I agree with the comments that I just mentioned. It is in all of those five segments. When we think of -- to further clarify, when we think of hydrogen, the investment for the long term, we continue to march on that technology development. At the same time, if you -- it's more around cryogenics more broadly that we're winning with immediately outside of just hydrogen, but also other liquefied natural gas.

So that's been very successful. Water, wastewater continue to see phenomenal success from the team in this space there through some of the things that I've just highlighted even in terms of the envie product line and others that were satisfying. Pharma, the diaphragm that's continuing to win on new projects. Chemical, we're continuing to get some nice share gains as well with some specific actions we're taking and winning within the channel that I feel really good about. So we continue to see momentum in all of the focused areas you can answer on the specifics of the breakdown.

Justin Ages

No, that's helpful. Thanks. And then one more, if I could. Just on the prepared remarks, on the M&A pipeline back later 2024 right in to be into 2025. So just on capital allocation, are you thinking about any changes in priorities given kind of the amount of capacity you have and maybe the lack of deals this year?

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Max Mitchell

There's so much -- the funnel is so large and so rich that it would take another 12, 18 months, honestly, before I would dramatically change. At this point in time, that's the view. I think we have a significant line of sight to some really interesting opportunities that are either in play now or coming soon that we're going to hold back on that firepower. Now for some reason, we have a lazy balance sheet. And no opportunities exist. Believe me, we're going to be looking at other options. We continue to -- as we have proven in the past.

Justin Ages

All right. That's great. Thanks for taking the questions.

Max Mitchell

Thank you.

Operator

Thank you. Our next question comes from Jordan Lyonnais with Bank of America. Please go ahead.

Jordan Lyonnais

Hey, good morning. You talked about NGAD at the Investor Day, you put a $300 million life program tagged to it. With the downside delayed for the actual [indiscernible], but CCA continuing, does it change your view on what that program could be for incremental for Crane?

Max Mitchell

Well, I think in the short term, meaning the next few years, nothing. I think we're -- a minimal impact, I think we feel pretty solid about our position. Longer term, if there's significant changes in the platform, of course, it could have an impact.

Richard Maue

Yes, I would say if I was just to add, yes, in the near term, as Max mentioned, right, any work we're doing here is funded. So there's not going to be a gap in the P&L. And then that long term, we're on most if not all, of the major fighter platforms. So to the extent that there's a reallocation or whatever -- however else they try to address any potential shift away and we feel like we're really well positioned regardless.

Max Mitchell

So we feel that if that were to be canceled, other things would increase. And we would see that benefit as well.

Richard Maue

Yes, whether that's aftermarket and monetization upgrade programs and the existing fleet where we have a great position or whether it's incremental sales, whether it's the F-35 or the F-15x or whatnot.

Jordan Lyonnais

Got it. And then also to -- for the work that you're doing with CCA, do you see the opportunity for technology tractor for EUVs, we're seeing a lot of that market starting to actually come forward now.

Max Mitchell

Definitely. And our teams are chasing those opportunities today.

Jordan Lyonnais

Okay. Thanks.

Max Mitchell

Thank you.

Richard Maue

Thank you.

Operator

Thank you. Our next question comes from Nathan Jones with Stifel. Please go ahead.

Adam Farley

Good morning. This is Adam Farley on for Nathan.

Max Mitchell

Good morning, Adam.

Adam Farley

I wanted to follow up on PFT. It sounds really good, continued momentum and markets look good. So maybe if you look at orders, would you expect higher orders in the second half relative to the first half?

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Richard Maue

Yes. So I think it's -- you got to be careful about how you look at orders in PFT just given the project nature of a good portion of that business. So in the first quarter, if you go back. One of the things that we did talk about, we had an outstanding -- this quarter was outstanding as well. But in Q1, it was particularly strong because of some pretty large projects that we booked. So that was the highest quarter we've had in several quarters. But the shipments related to a lot of those orders are going to be for the benefit of future periods, right, not necessarily in the current year.

So if you normalize for that and you look at our order rate here in the second quarter, it was fairly consistent. And then as you look out into Q3 and Q4, I would say Q3 will be similar. And then Q4, we always have a little bit of a seasonal decline. So nothing really to call out specifically other than sort of that maybe abnormal, very strong first quarter that we had.

Adam Farley

I appreciate the color. And then on margins, for both segments, looking at the second half, I mean, should we expect incremental margins in that 35% to 40% range? And if not, what are the variances and what's driving them?

Richard Maue

Yes, we will definitely hit that range.

Operator

Thank you. Our next question will come from Tony Bancroft with Gabelli Funds. Please go ahead.

Tony Bancroft

Thanks for taking my question and I remember a lot of people had changed their Garage Codes after that movie came out. So regarding Farnborough, great seeing you there, just maybe could you give me a quick overview of your feedback from Farnborough, just speaking with customers and, obviously, investors and just anything different than you were expecting. Obviously, there's probably a lot of dynamics going on with international sense demand, reaction to the commercial order rate versus on a year-over-year basis and particularly Paris last year, I know there's a lot of stuff going on with the production rates. But maybe just give me an overall view on what you saw like differently than you're expecting.

Max Mitchell

I would say it met our expectations. I think the feedback, it's around key relationships and engineer to engineer selling. I mean -- and -- the opportunity at Farnborough is not just top-to-top relationships, but also meeting with the teams that are working on technology road maps today as well as moving forward, longer-term discussions, getting insights of continuing to highlight our full portfolio of solutions. So it's -- we had a -- I forget how many, 100...

Richard Maue

150.

Max Mitchell

Seedings that we've had top bottom down, top-to-top some supply chain related, many looking at future opportunities, understanding customers' needs, helping us develop our strategy and strategic road maps, technology development. So I would say that it was very positive and met and exceeded expectations from that standpoint. But no significant surprises, Tony, and no dramatic other insights other than that, I would say.

Tony Bancroft

All right. Great work. Thank you so much.

Max Mitchell

Thanks, Tony.

Richard Maue

Thanks, Tony.

Operator

This concludes the quick Q&A for today's call. I would now like to turn the floor over to Max Mitchell for closing remarks.

Max Mitchell

Thank you, operator. Again, yet another very solid quarter with results outperforming expectations. Our strategy is working. The team is executing, driving improved earnings through its growth in commercial excellence initiatives. Our M&A pipeline is full and we have the balance sheet capacity to execute. During the Olympics right now and the athleticism that's on display, I want to leave you with this thought from the late great San Francisco Giants baseball star, Willie Mays, One of the hardest parts practice is the criticism a player takes from his coaches. Some players think a coach has it in for them when a flaw in style is pointed out. I know that when things start going wrong, for one, I get the coach to keep his eye on me to see what I'm suddenly doing wrong. I can't see it or I wouldn't be doing it in the first place.

At Crane, our leadership constantly practices with detailed hands-on coaching. Our culture thrives on raising the bar of excellence and driving improved customer satisfaction through the solutions we provide. We practice repetition every day with cadence and discipline, always with an eye towards driving profitable growth for our customers first, our associates, our communities and our shareholders.

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On to the second half of 2024. We look forward to seeing many of you in Q3 at conferences and on the road and look forward to updating you again in October. Thank you all for your interest in Crane and your time and attention this morning. Have a great day.

Operator

Thank you. This does conclude Crane Company's Second Quarter 2024 Earnings Conference Call. Please disconnect your line at this time, and have a wonderful day.

**Load-Date:** July 31, 2024

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