

# **Flowserve Corporation (FLS) Q1 2024 Earnings Call Transcript**

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**Body**

Flowserve Corporation (FLS)

Q1 2024 Results Conference Call

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Company Participants

Jay Roueche - Vice President, Treasurer and Investor Relations

Scott Rowe - President and Chief Executive Officer

Amy Schwetz - Senior Vice President and Chief Financial Officer

Conference Call Participants

Deane Dray - RBC Capital Markets

Andy Kaplowitz - Citigroup

Mike Halloran - Baird

Brett Linzey - Mizuho

Nathan Jones - Stifel

Sabrina Abrams - Bank of America

Joe Giordano - TD Cowen

Presentation

Operator

Good day. And welcome to the First Quarter 2024 Flowserve Corporation Earnings Conference Call. Today's conference is being recorded. At this time, I would like to turn the conference over to Mr. Jay Roueche, Vice President, Treasurer and Investor Relations. Please go ahead, sir.

Jay Roueche

Thank you, Jess. And good morning, everyone. We appreciate you joining our call today to discuss Flowserve's first quarter 2024 financial results. On the call with me today are Scott Rowe, Flowserve's President and Chief Executive Officer; and Amy Schwetz, Senior Vice President and Chief Financial Officer. Following our prepared comments, we will open the call for your questions. As a reminder, this event is being webcast and the audio replay will be available. Please note that our earnings materials do and this call will include non-GAAP measures and contain forward-looking statements. These statements are based upon forecasts, expectations and other information available to management as of April 30, 2024 and they involve risks and uncertainties, many of which are beyond the company's control. We encourage you to review our safe harbor disclosures as well as the reconciliation of our non-GAAP measures to our reported results, both of which are included in our press release and earnings presentation, and are accessible on our Web site in the Investors section. I would now like to turn the call over to Scott Rowe, Flowserve's President and Chief Executive Officer, for his prepared comments.

Scott Rowe

Thanks, Jay, and good morning. We are extremely pleased with our first quarter results, marking a very strong start to the year. We continue to drive improvements in the business and outperformed our own expectations in the quarter. Given the excellent start to the year, we have increased our full year adjusted EPS guidance range to $2.50 to $2.70, which at the midpoint is nearly a 24% increase year-over-year. Flowserve is building on the solid momentum established over the last 18 months, driven by the implementation of our new operating model, improved execution and delivering on our ongoing 3D strategy. While we have made tremendous progress over the period, we believe there is more room for improvement and we remain committed to our 2027 financial targets that we presented last year. Before I get into the results, I would like to thank our associates around the world that share my passion for providing flow control solutions to our customers every day of the year. Thank you for what you're doing to make Flowserve such a great company.

Looking at our first quarter results in detail. We delivered strong adjusted earnings per share of $0.58, a 45% increase over the first quarter of 2023. The progress we have made in operational excellence drove our outsized results this quarter. We generated almost $1.1 billion in revenue, which represents a nearly 11% increase year-over-year. Our 31.7% adjusted gross margin exceeded our expectations and gives us confidence in our margin progression journey. Our adjusted operating income margin of 10.9% was a 260 basis point increase year-over-year. These strong results are notable considering that the first quarter historically tends to be more seasonally challenged.

We have made significant progress improving our results and delivering a more consistent performance on a quarterly basis. The changes we implemented in the organizational design process have taken hold and are providing enhanced speed, improve decision making and further accountability within our seven business units. Additionally, our operational excellence program is gaining traction. We have now trained over 1,100 associates in our enhanced operating model focused on shop floor daily management, problem solving and material planning. The operational improvements that we are seeing today are directly linked to our ability to operate more productively and eliminate waste and inefficiency in our manufacturing processes. We are excited about the progress within our operational excellence program, and we have clear visibility to further improvements. Additionally, as we improve our core operations, we are finding more opportunities to consolidate our global footprint and leverage the scale inherent in our business. We have also made good progress with our product management organization and processes as we have now fully defined our program and our approach. We are largely at the beginning of the product management journey but we can already see the potential with our dedicated teams and improved focus. As we advance the product and portfolio initiatives, we believe we will begin seeing the benefits of these efforts in the back half of this year and into 2025. Overall, we are very pleased with the progress we are making and continue to believe that operational excellence as well as product management and portfolio optimization continues to deliver the 100 to 200 basis points of margin improvement by 2027 that we communicated at last year's Investor Day event.

Turning now to our bookings and market outlook. In the first quarter, our markets remain constructive and we delivered solid bookings of $1.04 billion across all industries. 3D bookings represented nearly 30% of the total and we expect our growth strategy to continue to generate significant opportunities going forward. Similar to the fourth quarter of 2023, our bookings in the first quarter did not include any large projects. Our largest award was around $12 million but we did see a modest number of smaller projects in the $5 million to $10 million range. We were pleased to achieve our ninth consecutive quarter with bookings over $1 billion, considering the first quarter was driven primarily by our core business of aftermarket, MRO and short cycle activities. This core business remained very healthy in the quarter as customers continue to spend money to support higher facility utilization and avoid unplanned downtime with their operations. We are seeing these elevated trends across most of our end markets. Aftermarket generated more than $575 million in bookings, roughly a $25 million increase sequentially and year-over-year, further highlighting the continued demand from customers to keep their assets running and productive. We have now delivered six quarters in a row over $550 million in aftermarket bookings.

Our global network of Quick Response Centers, combined with our commitment to serve customers with speed and high levels of service continues to ensure our aftermarket franchise remains a competitive advantage. While project bookings were comparatively light in the quarter, we recently announced two large project awards in April that together exceeded $150 million. The awards support the aggressive capital build out in Saudi Arabia for Phase 2 of the Jafurah gas production facility in the Amiral greenfield petrochemical facilities. We have extensive experience in the Middle East and have strong, long standing relationships with these EPC customers and the end user. Additionally, both of these projects will have significant aftermarket entitlement with mechanical seals, pump parts and services that we are fully prepared to capture given our local presence and strong customer relationships. Furthermore, we won both of these projects with a more disciplined, selective bidding process that should deliver better execution and enhanced marginality commensurate with the complexity of this type of work. The value of these awards will be reflected in our second quarter results.

Looking now at bookings by end market. Our traditional markets remained healthy in the quarter, including bill and gas and chemicals. While most of our end markets were comparable in dollar size to last year, we were pleased to deliver 7% growth in our power bookings. This is an industry that is beginning to look more attractive for Flowserve. Power demand in mature markets like Europe and North America has been reasonably flat for several decades. However, with the ongoing electrification trend and now the substantial growth in data centers to support energy intensive AI processing, the demand for electricity is projected to grow significantly over the next decade. Flowserve has considerable exposure to the power industry and has generated roughly $450 million per year in traditional energy like coal, natural gas, hydroelectric and nuclear where water and thermal management is critical as well as new forms of power generation, such as concentrated solar power, wind and hydrogen with advanced flow control equipment. We expect there will be a meaningful investment in capacity expansion and new generation in the years to come across all forms of power generation, renewables, hydrocarbon based and nuclear power. We are excited about the potential growth in the power sector and we are well prepared to capitalize on this growth with both new equipment and aftermarket parts and services.

As we look ahead, our market outlook remains positive. Our MRO business and aftermarket franchise remains strong as we expect existing refining, chemical and power facility utilization will likely continue at high levels for the foreseeable future. Furthermore, we are encouraged that our 12 month project funnel is up 10% year-over-year including a 25% increase in both the energy transition and power markets. We will continue to remain selective in the larger projects that we pursue to ensure that we can successfully deliver for our customers and drive the appropriate margins for Flowserve over the full life cycle of the project. From a regional perspective, we have continued visibility into project opportunities in the Middle East as well as Asia Pacific and South America. From an MRO and aftermarket outlook, we are seeing ongoing strength in North America and we are beginning to see more positive signals from our European customers. We believe the macro environment and outlook remains favorable for the flow control space. Like everyone in the industry, we continue to monitor geopolitical unrest that is causing concerns in various parts of the world. But at a high level, we remain optimistic about our overall outlook and we see positive signals driven by key global megatrends from energy transition and decarbonization, to energy security and regionalization to electrification and power driven in part from AI and data centers. As we've seen each quarter over the last few years, our book-to-bill ratio will vary quarter-to-quarter. But we continue to expect that our full year book-to-bill ratio in 2024 will exceed 1.0 and that we'll exit the year with a larger backlog than where we began the year. This backlog visibility provides support for continued revenue growth into 2025. I will now turn the call over to Amy to address our first quarter results in greater detail. Amy?

A - Amy Schwetz

Thanks, Scott. And good morning, everyone. As Scott has outlined, we delivered very strong first quarter results and, in some cases, record performance that continued our positive momentum, driven by strong backlog conversion, margin enhancement and cost control as well as by improved working capital efficiency, we generated record operating cash flow for the first quarter at $62 million. We truly appreciate our associates' efforts and dedication, which helped us achieve this positive outcome. We also generated the highest sales levels for our first quarter in more than 10 years, drove adjusted operating margin to 10.9% and delivered adjusted earnings per share of $0.58. Our adjusted operating margin increased another 40 basis points sequentially from the seasonally strong fourth quarter levels, further demonstrating our continued progress towards our long term financial targets. Our reported earnings per share was $0.56, which included only $0.02 of net adjusted expenses, highlighting the quality of our earnings and cash generation this quarter. Altogether, we are off to a very encouraging start to 2024. The strength of our first quarter results and positive outlook for the remainder of the year resulted in an increase to our full year adjusted earnings guidance range to $2.50 to $2.70 per share. At the midpoint, this represents a nearly 24% increase compared to last year.

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Let me provide some color on the phasing of our guidance for the balance of the year. We have taken steps to smooth the seasonality of the business. This includes our performance on projects like the first phase of the large Jafurah project where we delivered the highest quarterly revenues in the first quarter that we expect from the project of the year, serving to remove some of the large calendar swings in our business. And although we still expect the fourth quarter to be our highest sales and earnings quarter of the year, we expect less differentiation in revenue from the first quarter to the second and third. The $150 million plus of project awards we announced last week have potential to provide some incremental contribution in the fourth quarter. And as Scott mentioned, our continued progress on operational excellence and product management should also provide opportunities for margin expansion in the second half of the year. Let me now turn to the quarter in greater detail. With our improved performance, we delivered revenue of $1.1 billion, an 11% increase over the prior year, comprised of FCD's and FPD's growth of 14% and 10%, respectively. We also generated strong top line growth in both original equipment and aftermarket with revenue increases of 14% and 8%. We were very pleased to see all regions contribute to our double digit sales growth with notable year-over-year improvement in the Middle East in Africa, Europe and North America of 28%, 18% and 8%, respectively.

Shifting to margins. We generated adjusted gross margins of 31.7%, the highest level in four years and representing a 130 basis point increase year-over-year. This margin improvement was driven by our enhanced operating model and ongoing focus on operational excellence. We expect this in combination with our product and portfolio optimization efforts will expand margins even further as we progress towards our 2027 target level. By segment, we were particularly pleased to see FPD realize a 32.9% adjusted gross margin, representing a 100 basis point year-over-year improvement despite significant revenue growth from original equipment. On a reported basis, the first quarter consolidated gross margins also increased 90 basis points to 31.2% despite net adjusted items within cost of sales increasing by $4.3 million versus the prior year. First quarter adjusted SG&A increased about $7 million compared to last year to $229 million. Despite this dollar increase, adjusted SG&A as a percent of sales declined by 150 basis points year-over-year to 21.1%, driven by the strong top line leverage during the quarter and our ongoing cost control actions. On a reported basis, first quarter SG&A decreased year-over-year by $16 million to $228 million, driven by lower realignment expenses as part of our operating model implementation. Our adjusted operating income in the quarter was $118 million, an increase of $37 million year-over-year, which delivered an adjusted operating margin of 10.9%, a 200 basis point expansion with an incremental margin of 35% year-over-year.

As I noted earlier, this quarter's adjusted operating margin was also 40 basis points higher than what we delivered in the fourth quarter of last year, demonstrating that our improving operating cadence has minimized the sequential top line reduction. These results should position us well in our path to our 2027 adjusted operating margin target of 14% to 16%. At the segment level, FPD led the way by delivering its highest adjusted operating margin since the formation of this segment in 2019, which at 14.9% marked a 270 basis point year-over-year improvement. FCD also increased its adjusted operating margin by 30 basis points compared to last year. FCD typically has the greatest variance in operating margin between its highest margin quarter of the year and its lowest, which is largely a result of product mix. In the first quarter, this weighed on FCD's margin and it will likely continue to do so in the second quarter, but we expect to see significant margin improvement in FCD's adjusted operating margin during the latter half of the year. On a reported basis, first quarter operating margins increased significantly some 460 basis points year-over-year to 10.4% benefiting from the $19 million reduction in adjusted items as well as realized margins within our FPD and FCD segments. Operating leverage further contributed to the improvement. Our first quarter reported and adjusted tax rates were approximately 20.5% and right in line with our full year tax rate guidance of roughly 20%. Our ETR in 2024 is expected to be higher than a year ago when we saw the release of discrete valuation allowances in certain jurisdictions.

Turning now to cash flow. We delivered a first quarter record with operating cash flow of $62 million, driven by earnings growth and improved primary working capital as a percentage of sales. Our cash conversion cycle accelerated by approximately 13 days compared to the first quarter of 2023. As a percent of sales, we improved our first quarter adjusted primary working capital by approximately 440 basis points to 28.4%. After experiencing higher working capital needs for much of the last 18 months, we are pleased to continue reducing our working capital investment as a percent of sales closer to our target of 25% to 27% as our planning capabilities improve and supply chains and lead times further normalize. Capital expenditures were $14 million during the quarter, which when subtracted from operating cash flow, also brought free cash flow to a first quarter record at $49 million. The first quarter also saw uses of cash of $28 million for dividends following our 5% increase in the quarterly dividend and a $15 million term loan reduction. We also restarted our share repurchase program this quarter for the first time since 2021 as we begin to deliver on our capital allocation commitment from the 2023 Investor Day of buying back at least the sufficient number of our shares annually to offset equity compensation dilution.

As we look to other potential uses of cash in the year, the opportunities in our inorganic pipeline continue to be very robust. We remain interested in targets that drive long term returns by further accelerating our 3D strategy, providing opportunities to leverage our scale and allow for effective integration with our broader business while meeting our financial criteria, namely, the expected returns must exceed our average cost of capital as well as be margin and cash EPS accretive. While we are actively looking at several opportunities currently, we will maintain our discipline. When considering the strategic use of capital, our enduring framework aims to continue to direct investment dollars to the highest long term return options regardless of the alternative. In closing, we are proud of the results we delivered this quarter. We see opportunity for continued margin improvement and earnings per share growth moving forward and we are intently focused on achieving those objectives. Let me now return the call to Scott.

Scott Rowe

Great. Thank you, Amy. Let me now offer a few comments on our 3D strategy. We remain committed to further diversifying the portfolio into attractive markets like specialty chemical and water in supporting existing customers and their energy transition initiatives, as well as participating in new energy technologies like hydrogen. We have made significant in roads with our 3D strategy and we believe that it will continue to drive outsized results in the current environment. While we are well suited to serve our customer base today, we are continuing to invest in our product and service offerings, including through potential inorganic opportunities that further build out the portfolio to support these diverse markets and the new emerging sources of energy. Let me spotlight a few 3D examples from the first quarter. I'll start with Diversify, where our bookings remained very healthy in the first quarter of 2024 as we continue to apply our portfolio into end markets that present an above average growth profile. During the quarter, we were awarded a contract from a major international chemical company to supply our valve technology for their specialty chemical smart plant of the future located in China. This award brings valve and actuator bookings on this project to over $50 million as we secured frame agreements for control valves and automated ball and plug valves throughout the facility. We utilized our project life cycle support program to secure a larger portion of this project, bringing feed support, project management, installation services and long term operational support to the customer. This award is just one example of our efforts to further diversify and increase our exposure to the growing specialty chemical end market.

In decarbonize, we generated solid bookings, including several small projects awards in nuclear and the LNG markets. Over the past few years, we have had success with several first of its kind carbon capture and storage or CCS projects. During the first quarter, Flowserve was awarded another contract for a new CCS facility in Europe. By supplying both pumps and valves, Flowserve demonstrated the power of our comprehensive flow control portfolio. The project will capture CO2 from several different industrial facilities in the region, which will then be transported and pumped into empty natural gas fields beneath the North Sea for permanent storage. We are excited to provide the critical flow control equipment for the substantial and impactful project. Lastly, on digitize, we believe our ability to digitize our products and leverage our large installed base and aftermarket capabilities with our Red Raven IoT offering will better position Flowserve to provide true solutions for our customers through monitoring and predictive analytics. We are instrumenting our pumps, seals and valves to better optimize our customers' facilities. In the first quarter, we added nearly 100 assets to the Red Raven monitoring portfolio and now have 25% more assets on the platform than this time last year. We also received an award to monitor failsafe electric actuation in a critical service environment. Over 50 of our Limitorque electric actuators were seamlessly integrated with our Red Raven solution and are destined for an offshore wind project in Norway and will receive ongoing condition monitoring from Flowserve.

In conclusion, our first quarter results, combined with our outlook and expectations for the rest of 2024, should position Flowserve incredibly well for the rest of the year and support the increase in our full year adjusted EPS guidance. We are confident in the macro themes of energy security, energy transition and increasing power demands, and we are well suited to capture both large projects like the $150 million plus awards we booked in April, and further grow our higher margin aftermarket business and MRO activities supporting our large installed base. We are excited about the opportunities ahead of us to profitably grow our business and we are more optimistic today in our ability to deliver at least 150 basis points of full year operating margin improvement in 2024 compared to last year. Over the longer term, operational excellence, including roof line consolidation, combined with our product and portfolio management, should drive our operating margins even higher. We believe we're in the early phases of these initiatives and we have a clear path to achieving the commitments we presented at last year's Analyst Day. Overall, our strategy is working and we remain committed to further capitalizing on opportunities in the market today and into the future to deliver long term value creation for our customers, associates and shareholders. Operator, this concludes our prepared remarks. We would now like to open the call to questions.

Question-and-Answer Session

Operator

[Operator Instructions] Our first question comes from Deane Dray with RBC Capital Markets.

Deane Dray

Maybe we could start with the composition of the orders. I always find that to be really helpful. You said they were smaller size. Just kind of what does that tell you about the pipeline of demand, talk about the win rates and any impact from selectivity?

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Scott Rowe

So we'll talk projects, large projects, which are primarily on the pump side, but this certainly applies for some of the large projects in valves. In the quarter, our largest award was $12 million and we saw several smaller ones in the $5 million to $10 million. And as we've communicated over the last couple of quarters, we've laid out a framework called selective bidding to make sure that we're bidding on the things that we can win that we can execute that can deliver the margins that we expect and have the aftermarket entitlement that we deserve once that equipment is installed. And so that process has now been in place for a couple of quarters and we're seeing tremendous results. And so I think there's been a lot of activity. I'd say we probably passed on some of the projects that we could have potentially worked on. But what we're seeing now is nice solid growth. The April awards are two great examples of that. The Jafurah 2 project, which is a follow-on to the work that we already have with Jafurah 1. So that's in Saudi Arabia. It's a gas production facility. We know the customer well. We've got margins in that project that are right in line with what we've done in the recent year. And then the Amiral project is similar. So again, Aramco is the biggest partner there, and we're confident in that project, our ability to deliver and we like the margins that we're going to obtain in that project as well. And then when we look on the go-forward Dean, we've got really good visibility to projects. Our overall project funnel is up 10% year-on-year. And so that gives us visibility across kind of the whole globe on projects that are $1 million and above. The biggest part of that funnel that's up is energy transition is greater than 25% year-over-year. The power sector is over 25% and oil and gas is up about 13%. And so again, really good visibility to larger sized projects as we work through 2024 and into 2025.

Deane Dray

And then for Amy, this is a fabulous free cash flow quarter for you. I see it's a record. So congrats to the team. How quickly can the working capital improvements go from here? I appreciate you're setting a target but there's still room for improvement there. But how quickly can you proceed along that target line?

Amy Schwetz

I'd start by saying that we're encouraged by the improvement that we've seen in working capital, particularly in the first quarter. We're not happy yet. So we still have work to do. And Scott and I are focused on the teams reaching that 25% to 27% target as a percentage of sales early so we can then reset the bar to kind of make our way closer to best-in-class in this space. And maybe let me talk a little bit about how we see the path to get there. So I think that most importantly, cash flow starts with earnings and increasing earnings via margin expansion like we've done in the first quarter makes our AR collection efforts that have been happening over the past several years even more effective. I think that operational excellence and what we're doing in that space is critical. So we're focusing on working capital through improving our planning capabilities, which in turn will increase our inventory velocity and is an area that I think we'll start to see come through later this year. Scott touched on selectivity on large projects and that also includes the cash profile that we see on those projects. So part of that selectivity needs to be around cash as well. And then finally, I'll touch on portfolio management because I think with the new operational model that we have in place, our focus on growing the business in the right areas like continuing to expand our aftermarket also improves our collections profile over time. So to summarize, I think, one, we see this as a big opportunity. Secondly, we see an opportunity to hit that longer term target earlier and we're going to focus on making as much progress as we can in the current year.

Operator

Our next question comes from Andy Kaplowitz with Citigroup.

Andy Kaplowitz

Amy, obviously, good performance in Q1 on the margin side at the 10.9% adjusted margin, but you only raised your guidance for the year greater to 11%, you didn't raise your revenue forecast for the year. I know you mentioned that you'll have a little less seasonality than usual this year, but how should we think about revenue and margin over the next few quarters? And is there some conservatism in your new guide, particularly on the margin side as you really ramp these longer term projects that you're doing?

Amy Schwetz

So certainly, there's been work that's been done to smooth out the seasonality of the business and that's really been a focus on the conversion of the backlog, reducing our lead times and delivery on these larger projects. And so we'll see that play out over the course of 2024. And so we're going to see less variation than normal in revenue between Q1 and Q2. And I would say overall that Q4 will be less of a volume story than what it's been in prior years. And I think in some ways you can see that play out in Q1 with really a good portion of our revenue growth actually being delivered in the first quarter of the year, which is unusual for Flowserve. I think as you look at the actions that are underway and the current backlog mix, it's really pointing to higher margins in the second half versus the first half. So we still see earnings somewhat weighted to the second half of 2024 with probably less of a delta than normal between Q1 and Q2. I think the good news about this profile is that the margin expansion in the second half starts to provide an exit rate that is much more sustainable than what we've seen in previous years. So it's going to put us on solid footing to expand our margins yet again in 2025 on the path to those long term targets. In terms of potential conservatism within our guidance, I would say we'd like to put a plan out to the Street that we have confidence that we can deliver. Our team is always working to get to our long term targets quicker. But this year's plan is one that we have a lot of confidence that we can deliver, and we think provides a lot of value to our shareholders.

Andy Kaplowitz

And then, Scott, can you talk about what you're seeing by geography a little bit more? How would you characterize the sustainability of the Middle East strength beyond Jafurah? And it looked like you had good European bookings along with stable Asia, but maybe you can elaborate on really duration of the cycle at this point?

Scott Rowe

I'll talk about projects first and then I'll hit MRO and then we can talk about duration. So on the project side, the Middle East is still the biggest opportunity for us in the next couple of years. And so we're seeing a tremendous build out of infrastructure and assets. And I'd say for us oil and gas is mostly downstream in the Middle East. And so this is -- the refineries and then also the gas production facilities and oil production facilities, and we see substantial amount of work coming. With that said, though, the Middle East is also building out infrastructure around water, specialty chemicals and other just general industries as well. And so we actually feel really good about all of the industries in the Middle East in this redeployment of profits of the upstream business now redeployed downstream and into other industries. And so we like the Middle East. Obviously, there's some geopolitical risk there in terms of things going on with Israel and Palestine. But at this point, we see almost all of the countries that we're actively involved in, whether that's Saudi, the UAE, Qatar, Oman, reasonable stability, commitments to their kind of 2030 investments and infrastructure, and we feel good about that outlook. And then projects outside of the Middle East, we see Asia Pacific advancing and so there's a lot of work in Asia Pacific, that would be around the chemical space. We're seeing some in the power space for Asia Pacific and then the energy transition side as well.

Projects in Europe and Americas are almost predominantly around energy transition and decarbonization. And so either that's going to be your LNG, your nuclear in Europe, but then how do we decarbonize existing assets in both those. And we're seeing an uptick on our CCS projects. And so as consortium start to figure out how to capture CO2 from emitters and then ultimately transport it to a place of storage, that's a very complex process. We spotlighted award here in my prepared comments but we're seeing more and more of those in our project funnel, certainly in Europe and in the Americas. And then finally, on Power, we think power buildout in America -- in the Americas and in Europe is absolutely going to happen. And so you pick up the nuclear in Europe, but then I'd say all sources of power renewable and traditional in the Americas and in Europe. And then on the MRO side, we've seen continued strength in Americas. And so I feel really good about that and the visibility that we have in 2024 and 2025. And then in our run rate business, we're starting to see an uptick in Europe as well. And so I think Europe is kind of -- I'm not going to say completely bottom, but I'd say there's green shoots of activity. And I'd say our teams are prepared for growth in the back half of the year and into 2025.

And then so the last point was sustainability of this cycle. I'd say right now, we feel really good that we're in kind of the early innings of a multiyear up cycle. Obviously, the oil and gas capital is cyclical. But when we think about the megatrends of the decarbonization and the energy security, I'm not going to say that, that decouples from a cycle, but we've got better visibility to ongoing spending regardless of where we are in the cycle. And then I'd say the emergence of power could also help to mute some of the cyclicality. And so power is just at the beginning of ramping up. This is not going to happen in 2024 or 2025 but it's going to be sustained growth as we go forward. And so overall, net-net, we feel really good about our macro picture. We see the megatrends kind of lining up in a fashion that could deliver long term bookings growth for us and we're going to continue to modify our portfolio to support more diverse markets but then also supporting the decarbonization side as well.

Operator

[Operator Instructions] We'll go next to Mike Halloran with Baird.

Mike Halloran

Just kind of want to follow-up [Multiple Speakers] I just want to follow up where you left off there, Scott. Maybe just talk a little bit about how you think that this resurgence in power manifests itself to your portfolio more from a product application set? And then how you think about the product portfolio within the power side that you have today, how well that fits where you see that market going over time, other gaps? Or is this an area where you can drive a lot with what you already have or is there more that you need to -- you think you might need to do from an R&D or M&A perspective?

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Scott Rowe

So power is a big market for us. And so we generate about $450 million a year, that's been a pretty consistent rate for as long as I've been here. And so we're starting from a really good spot. And so we've got pumps, valves and seals in the power segment. We participate in all forms of power generation, whether that's coal, natural gas, the nuclear side where we get really good margins for critical service applications. But then we're also doing the new forms of energy in the renewable side like concentrated solar power. I provided an example of offshore wind in my prepared comments where we've got electric actuators in the power generation side of wind. And then you've got the emergence of hydrogen in the coming years as well. And so today, we've got a really strong portfolio to support kind of all forms of power, the traditional side, the nuclear and then also the new forms of energy as well. And I'd say we've got minor offer -- just minor tweaks to the portfolio to make sure that we continue to stay relevant in something like hydrogen. And so in hydrogen, if it's blue or gray hydrogen, we're typically there because it's on the back of a refinery or another potentially a chemical plant. But on green hydrogen, we've got to tweak that portfolio a bit on the pump side to make sure that we're completely relevant. But these aren't like major overhauls to our offering, and the channel to market and the relationships are already there. And so we feel really good about our ability to continue to work with the power players and whether that's the capacity expansion of the existing assets and helping them extend the life or improve productivity but also in the greenfield build out. And so I'd say we put a number out there in the Analyst Day, I'm showing that as a 3.2% CAGR. At this point, I'd say that's probably conservative. I don't have a new number yet. But I'd say overall, we're starting to see some real good activity on the power side on a go-forward basis.

Mike Halloran

And then on the margin line, just kind of a follow up to Andy's question, certainly understand a lot of the commentary you made about back half still being a little behind than the front half on the margin line, but maybe parse out a little bit by segment. I heard in the prepared remarks on the valve business up through the year. Maybe just a little bit more thought on FPD, very strong 1Q, feels like guide is assuming a little bit of softening from that level whether it's mix or something else, but maybe some help on how that sequentially tracks as we look through the year?

Amy Schwetz

So I'll start with FCD. And in the first half of the year, we do see a greater proportion of our revenue coming from products and project related work that have a slightly lower margin profile. And so I would see the biggest margin expansion going from first half to second half based on that product mix and initiatives that are underway to drive that margin higher in the second half of the year and basically take us back to where we were at last year or better from a margin perspective in FCD. FCD has been a great story in the first quarter and I think highlights the fact of what we've been saying about our margin in backlog improving. So if you would have told me that we would have seen the type of margins that we did in the first quarter a couple of years ago, given a 14% growth in OE, I would have said that was a stretch, but that was something that we did in the first quarter of this year. So we're really pleased with that. I think we will see more steadiness in the FCD margins but they will stay elevated over the course of 2024.

Operator

Next question comes from Brett Linzey with Mizuho.

Brett Linzey

Just wanted to come back to the realignment charge. I think took $7.2 million in the quarter. Great to see the ongoing productivity in the face of strong growth, but maybe just talk about the nature of these actions and the payback here. Is there more to do through the course of the year, any context would be great?

Amy Schwetz

So a couple of things with realignment, really two pieces to that. One, continuing actions associated with our new org design as we continue to work that through the system and that piece was much smaller this year than it was last year. And then the second is some ongoing footprint rationalization actions that we continue to make sort of in normal course of business, and this is with an eye towards operating more effectively and margin expansion over time really in both of our segments. We still have roughly, call it, $23 million of potential realignment expense that we've earmarked over the course of of 2024. So a run rate not much different than what we saw in the first quarter of this year, and that's continuing to do these things somewhat in the normal course, get our organizational structure firmly in place the way that we want to, improving efficiency in that way and making sure that we're manufacturing our products where we want to around the world and reducing that capacity where it makes sense. The returns on these projects, I mean, we look at this through the lens that we do anything else. So we're very focused on rate of return, but also on payback. And I would say that generally, when we're making these realignments decisions the paybacks are very strong.

Brett Linzey

And then just a follow-up on the $150 million April project awards. How does that parse out between OE versus aftermarket? And then if you could share anything in terms of the phasing. Amy, I think you said it maybe begins to ship in Q4, but anything in terms of the phasing over the next several quarters?

Scott Rowe

These are both greenfield awards. They're going to show up in our OE bookings. And so two projects, greater than $150 million and you'll see that in the Q2 results. In terms of revenue phasing, both of these are large projects and on percentage of completion accounting and Amy -- I don't think we're going to give exact guidance on when they start come through, but you can give some color on that.

Amy Schwetz

So I would expect, Brett, that we'll start to see some milestones hit in the fourth quarter of 2024. But ultimately, these will be more of a 2025 story from a revenue perspective. And so as we think about the seasonality of the business and what we've tried to do in 2024 and really going back into 2023 to sort of ease some of that traditional seasonality, I think we'll see these two wins come into play in 2025 and help us continue that trend.

Operator

Our next question comes from Nathan Jones with Stifel.

Nathan Jones

I'm going to start off with a follow-up on the guidance for margins to ramp up in the second half. With more limited seasonality, I assume that that's going to come more on the gross margin side than on SG&A leverage. So can you talk about what's driving that, if that's the roll-off of some old or lower margin stuff that's in backlog in the first half and the sustainability of that improved gross margin as we go into 2025?

Amy Schwetz

I think really two areas that we're anticipating seeing the benefit in the second half of the year. The first is related to product mix itself. And so kind of a move from the FCD side to a bit more run rate business in the second half of the year versus the growth that we've seen in Q1 and going into Q2 on the project side. The second piece from a margin expansion perspective does have to do with some of the realignment charges that we've taken in the first quarter of the year and really dating back to even last year, and some of that improvement starting to flow through in the back half of the year. At the gross margin level, though, you're correct, Nathan, that's where we would anticipate seeing the lion's share of the improvement.

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Scott Rowe

And then, Nathan, maybe I'll add the two levers that we highlighted at the Analyst Day, right? So the operational excellence and then the product management portfolio optimization. So operational excellence is off to a really good start. We pushed hard on that in 2022. We started to see really good progress in 2023. And now we're really seeing the fruits of that kind of restructuring the refocus and the operational excellence academy, which we now have trained 1,100 people. And so as we continue to drive productivity within the manufacturing site, we're seeing those gross margins start to move up. And again, we're confident that, that will continue. And then on the product management side, this is one, as you know, has taken a longer time than I would like it has definitely been a journey, but there's still substantial opportunities for us. And so when we think about 2023 on product management, with the new org design, we created dedicated project management teams. And so dedicated folks within the seven business units, and then we also created a product family hierarchy. And so we've got a hierarchy of products supported by these dedicated teams. And then we have dedicated product managers now for every single product. And then the other big effort has been the data cleanup to support this product hierarchy. And I'd say we're in the early innings of that. We're focused kind of one business unit at a time. But we're seeing as we kind of really focus on that data, it now allows the product management teams to do the things that they need around pricing, selectivity, channels to market, all -- features and benefits like all that good stuff that they need to be doing as part of their job.

And then finally, is improving the process, right? So now locking in process for pricing, customer selection, channels to market and then the selectivity, which we're calling portfolio optimization, which is, all right, which products are we investing in, which products do we want to continue to harvest from a cash generation perspective and not put more effort into and then which products do we just need to stop doing. And so again, we're kind of at the early phases of that. But going back to answer your question specifically, we expect to start seeing margin improvements from these efforts in the back half of this year but really in earnest in 2025 and beyond. And so we feel like we still have levers to expand margins and we're still committed to that kind of 100, 200 basis points by 2027 for each of the two initiatives, operational excellence and product management.

Nathan Jones

And then I guess my follow-up, I'm going to ask a question on the portfolio optimization. I think you touched on it a little bit there with what you want to invest in, what you don't want to invest in and what you don't want to do. Are there pieces of the portfolio that you would look to divest, to close down? And would they be material pieces of the portfolio or are we just talking about kind of pruning around the edges? And could that be somewhat of a headwind to revenue growth over the next couple of years as you look to simplify that kind of stuff or would you anticipate the investment in the better pieces of the portfolio to offset it?

Scott Rowe

So I'll answer this pretty holistically. I'll start with the 3D strategy. And so we absolutely want to diversify our portfolio and then we want to decarbonize working with our existing customers to make sure that we're there for the long run of decarbonizing their asset and then working on new energies. And so as we think about that, we look at the portfolio in its entirety. And Amy and I and the ELT are having very strategic discussions about what do we want to acquire to make our portfolio more diverse and then potentially what might have to come out to, one, either help find one of those acquisitions or just make our portfolio more optimal to align the strategy. And so I'm not going to go into anything specific, but I would say that we're looking at this more holistically than ever before. And the org design, the seven business units are allowing us to do that in a much better way, in a more objective way to have really good discussions about what's working and what's not working. And then when we think about the portfolio optimization program, we've launched in earnest one business unit at this point. And so we've got our first one in the chute. And I'd just say, let's let the process work. We're going to go through a very disciplined approach in terms of what the offering looks like. We're going to take into account the margins on the products. We'll look at our customers and deciding are they good customers or not so good customers. And then we're also looking at the effort to put those products into the market and saying, okay, is that effort worth the return. And so as we go through that process, I suspect we'll have things that drop out of the portfolio, we'll have things that we might want to divest and then we're going to have things that we want to invest in fully and continue to move that product offering forward.

Operator

We'll go next to Andrew Obin with Bank of America.

Sabrina Abrams

You have Sabrina Abrams on for Andrew. It's nice to see the sort of broad based geographic growth thinking about Asia-Pac being obviously a bit softer and was also a bit softer last quarter. Do you guys have any comment on APAC and China, what you're hearing from customers there and what drives an inflection in that market?

Scott Rowe

I mean China is a difficult place to operate. And we've got a substantial -- well, two substantial operations there, both on the pump side and the FCD side. We continue to do nice work in China and we'll be selective about what we do and when we do it. And we want to make sure that we've got good customer relationships and strong aftermarket. So I'd say that's one when we think about selective bidding. We're pretty selective about what projects we're pursuing in the China market. And then for broader Asia Pacific, I would say Asia Pacific has been the slowest region to come out of kind of COVID and the supply chain challenges and everything else. But I would say it's also one of the single biggest opportunities for us as we think kind of a longer term view of call it five years or 10 years. And so we remain committed and optimistic about what Asia Pacific can bring. There's a lot of investment across many different countries, even beyond China that we know that we can participate. We've got a substantial presence in the region. We've got a good team. And we're confident that we can continue to grow that part of the business.

Sabrina Abrams

And then as a follow-up, I think you guys talked about this at your Investor Day a lot too, but thinking about footprint consolidation. When you look at your portfolio and you think about what facilities you want to consolidate, are there particular product lines that you're interested in over others and how do you sort of approach the process of deciding like to consolidate facilities here and there?

Scott Rowe

It really falls under the operational excellence program. And as we continue to make improvements, when we're driving that productivity and eliminating waste within the facility, we're naturally generating extra capacity at that site. And so as we expand that capacity across the whole network, different things become available to us. And so I'd say, every year, we're going to look at doing one or two, some small, some larger, consolidation to make sure that we're leveraging the scale that we have in driving higher production within our roof line and sites. And so that's something we look at every single year. We're in the process of reviewing a couple of new activities at this point right now. And I'd just say, I would expect us to continue that in the years to come. And then when we think about the portfolio side and I answered this in the previous question, but we'll look at each of our portfolio -- each of our product grouping with a more portfolio optimization mindset. And as we make those decisions that could potentially accelerate some of the facility consolidation as well.

Operator

[Operator Instructions] We'll go next to Joe Giordano with TD Cowen.

Joe Giordano

We kind of touched on this earlier on the portfolio question. But can you talk to where you are now on cryo pumps as it would relate to nuclear and hydrogen applications? I know there seems to be a bit of a landgrab going on with competitors for those types of technologies and yourselves have done so, too. So maybe you can just touch on where you are over there?

Scott Rowe

So we've got two cryogenic pump applications that we're working on. One was something that we announced -- what was that a year ago with Chart, where we bought their IP and we're now producing a hydrogen cryogenic pump. And that's for the hydrogen dispensing. So think about like the ability to take from a storage tank or a fueling center and providing dispensing into vehicles or marine assets or things like that. We're getting orders for that, that product is commercialized, we're pretty excited about the opportunities there and we're looking for ways to put that pump into other cryogenic applications in like the production of hydrogen or in the transportation of hydrogen. And so we're pretty excited about that. And then the other cryogenic applications for pumps is in the LNG side. And so that's something that we haven't talked too much about it but we're doing internal new product development on that. We've got a substantial and ongoing initiative there and we expect to be fully commercialized by the end of this year. And so the focus right now is to get this through the technical evaluations to finish the R&D project and to validate the prototypes. And then once that happens, we've got a pretty nice lineup of cryogenic pumping technology that can be used on the LNG side and the hydrogen side.

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Joe Giordano

And then one for Amy. Do we feel comfortable here -- and I guess there'll be some volatility, but is 30% for gross margins at a consolidated level kind of like a floor now?

Amy Schwetz

I think we feel very confident about building from where we're at today. And so I think we're working towards an exit rate that's actually above where we're at today. And really driving a fair amount of that improvement in operating margins that we're working towards in terms of the 2027 targets through the gross margin level. So yes, confidence at 30.

Operator

Our next question comes from Saree Boroditsky with Jefferies.

Unidentified Analyst

This is James on for Saree. I kind of wanted to go back on the book-to-bill, like your commentary on being over 1 for total company in 2024. So can you kind of talk about how you're thinking about the bookings and book-to-bill at the segment level?

Scott Rowe

I'd just say, in general, back to the comments before, we've got really good visibility. And so that aftermarket and MRO run rate continues and we see that both on the FPD side and the FCD side. And so we see that nice base of aftermarket and MRO work continuing to progress throughout the year. And then from a project outlook, again, that funnel is up 10% year-on-year. We've got the $150 million awards coming in April, that will be on the pump side but there's substantial project bookings in the valve side as well. And so they're not as large or maybe as big as what we talk about in the pump side but they're meaningful projects. And we saw a really healthy book-to-bill in FCD to start the year and we clearly expect FCD to be above 1 throughout the full year of 2024, and then same thing on the pump side as well. And so I'd say today, we have more confidence than we did to start the year that we do -- that we'll have a full year book-to-bill of greater than 1.0 to finish 2024.

Unidentified Analyst

And I just wanted to kind of go back on the like large OE projects. I know that you guys are being more selective in terms of the margin, but I believe those still come in at lower margin compared to like the other projects. And you also noted kind of good feasibility in the large project in the product channels. So kind of how are you thinking about the margin impact from the large OE project kind of going forward?

Amy Schwetz

So I'd start by saying kind of doubling down on the point I made earlier, which is that OE was a large component of our revenue growth in the first quarter, and we were able to do so in a very profitable way. So we're getting more confident in -- that the margins and backlog are strong and improving as we had indicated throughout 2023. So really, the key is right now to continue to focus on growing the OE business at those expanded margins, while at the same time, making sure that we're looking after the aftermarket components, aftermarket bookings at $575 million this quarter, nice growth there. So as long as we continue to keep a balanced growth profile between OE and aftermarket, focus on our operational excellence journey, I think we're going to continue to be able to expand our margins while we win that project work.

Operator

And ladies and gentlemen, with no other questions holding, that will conclude today's first quarter earnings conference. We thank you for your participation. You may disconnect at this time.

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