

# **Graham Corporation (GHM) Q4 2024 Earnings Call Transcript**

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**Body**

Graham Corporation (GHM)

Q4 2024 Earnings Conference Call

June 7, 2024 11:00 AM ET

Company Participants

Deborah Pawlowski - IR

Daniel Thoren - President & CEO

Christopher Thome - CFO

Conference Call Participants

Joe Gomes - Noble Capital Markets

Dick Ryan - Oak Ridge Financial

Gary Schwab - Valley Forge Capital Management

Graham Madison - Water Tower Research

Presentation

Operator

Greetings. Welcome to the Graham Corporation's Fourth Quarter Fiscal Year 2024 Financial Results Conference Call. At this time, all participants are in listen-only mode. A question-and-answer session will follow the formal presentation. [Operator Instructions] Please note, this conference is being recorded.

At this time, I will now turn the conference over to Debbie Pawlowski, Investor Relations for Graham Corp. Debbie, you may now begin.

Deborah Pawlowski

Thank you, Rob, and good morning, everyone. We certainly appreciate your time today and your interest in Graham Corporation. Here with me on the call are Dan Thoren, our President and CEO; and Chris Thome, our Chief Financial Officer. Dan and Chris are going to provide their formal remarks, after which we will open the line for questions. You should have a copy of the fourth quarter and full year 2024 financial results that were released this morning. If not, you can access the release on our website at ir.grahamcorp.com. You will find there as well the slides that will accompany today's discussion.

If you turn to Slide 2, I will review the Safe Harbor statement. You should be aware that we may make some forward-looking statements during the formal discussion, as well as during the Q&A session. These statements apply to future events that are subject to risks and uncertainties as well as other factors that could cause actual results to differ materially from what is stated here today. These risks and uncertainties and other factors are provided in the earnings release as well as with other documents filed by the company with Securities and Exchange Commission. You can find those documents on our website or at sec.gov.

During today's call, we will also discuss some non-GAAP financial measures. We believe these will be useful in evaluating our performance. However, you should not consider the presentation of this additional information in isolation or the substitute for results prepared in accordance with GAAP. We have provided reconciliations of non-GAAP measures with comparable GAAP measures in the tables that accompany today's release and slides. We also use key performance indicators to help gauge the progress and performance of the company. These key performance metrics are orders, backlog, and book-to-bill ratio. Their operational measures and a quantitative reconciliation of each of these is not required or provided. You can find the disclaimer regarding our use of key performance metrics at the back of our deck in the supplemental slides.

I should also point out that we do post on our website supplemental data information regarding orders, revenue, and backlog that you might find useful, as well as another tab this quarter that will help to provide you historical adjusted EPS and adjusted EBITDA, which the form of reporting has changed that Chris will discuss more fully during the call.

So with that, if you would please advance to Slide 3, I'll turn it over to Dan to begin. Dan?

Daniel Thoren

Thanks, Debbie, and good morning, everyone. Steady execution on our strategic plan that we laid out two years ago has resulted in strong financial performance and meaningful progress towards our long-term goals. In fiscal 2024, we achieved record revenue and orders, a step change improvement in profitability, and strong cash flow. Our improved performance, strengthened balance sheet, and increased financial flexibility has enabled us to make meaningful investments to further grow the business both organically and inorganically. We eliminated our debt and also refinanced for more flexibility and lower rates. We believe these results validate the effectiveness of our strategic growth and profitability initiatives.

The most important driver of our success has been our strong relationship with the U.S. Navy. During the year, we completed and shipped the remaining two first article units, which were heat exchangers for the naval nuclear propulsion program used in the Columbia-class submarine and Ford-class carrier programs. Importantly, we have taken the lessons learned throughout the first article process to enable greater production efficiencies, and along with better pricing on subsequent orders, expand our margins.

The Navy expansion in Colorado has also been successful, resulting in higher production rates to support the Mark 48 Mod 7 Heavyweight Torpedo Program. The higher volume translated into operating leverage to drive profitability as well. At the core of our company are our employees. We have strategically expanded our workforce with targeted hires, while advancing our team through comprehensive development programs. Additionally, we have refined our leadership structure, resulting in improved execution and outstanding performance, as demonstrated by our recent results.

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In addition to the improvements around the defense side of our business, we've also gained better insight and leverage on the commercial side and captured better pricing power to expand our margins. The acquisition of P3 Technologies is a great example of our strategy to add complementary technology to expand our turbo turbomachinery solutions and enhance our engineering and development team. We have successfully integrated P3 into our Barbara Nichols operations.

In addition to providing the manufacturing capabilities to help scale the business, we plan to leverage their patented technologies to further deepen our reach into existing space, defense, and new energy markets, while increasing market diversification with the technology solutions for the medical industry. Another highlight of fiscal 2024 was the $13.5 million strategic investment we received from a major defense customer to expand and enhance our Batavia, New York production capabilities. Design on the new facility is nearly complete and we expect to break ground in July. This expansion provides the capacity we need to support the U.S. Navy's shipbuilding schedule and meet expanded scope requests.

The pie charts on Slide 4 visually depict the diversity within our served markets and the evolving market mix over the past three fiscal years. The impact of our strategic initiatives is clearly evident. Since fiscal 2021, our revenue has nearly doubled with a noticeable shift towards the defense sector and the addition of space. Furthermore, the other category now includes new energy and medical markets. Overall, the diverse industry mix underscores our strategic approach, ensuring resilience and mitigating risk.

With that, let me turn it over to Chris for the financial details. Chris?

Christopher Thome

Thank you, Dan, and good morning, everyone. As a reminder, our full-year results include approximately five months of operations from P3 Technologies, which was acquired in November of 2023.

I will begin on Slide 5. As you can see, we had strong growth for our fourth quarter of fiscal 2024 with sales of $49.1 million, which was a quarterly record. This was up 14%, or $6 million, over the prior year and included $1.2 million of incremental sales from P3. Sales of $27.2 million to the defense market were up 43% for the quarter. Also contributing to our overall sales growth was a 22% increase in aftermarket sales. Of note, our aftermarket sales, which was historically from the refining and petrochemical markets, now includes more meaningful defense aftermarket sales, given our expanded defense business and our efforts to provide full life cycle solutions for our customers.

P3's contribution to sales to the space market helped to offset lower revenue due to the loss of a customer in April of 2023, due to its bankruptcy. Going forward, we have now cycled through that one customer's impact on our space business. U.S. sales for the quarter were 86% of total revenue, and it continues to reflect the magnitude of our US-based defense business.

Looking at the full year, you can clearly see the effectiveness of our strategic initiatives. We achieved record sales of $185.5 million in fiscal 2024, which was up $28.4 million or 18% over fiscal 2023. In fact, our compound annual growth rate over the last two years was 23%. This growth has primarily been organic and has been driven by defense and aftermarket demand.

Turning to Slide 6, gross margin expanded 930 basis points to 25.9% in the quarter and 570 basis points to 21.9% for the year. Both periods reflected higher volume and a related improved absorption. Higher margin aftermarket sales also played a role, as did margin accretive sales from the P3 acquisition. Lastly, we benefited through the year from improved execution and pricing on our defense contracts.

Turning to Slide 7, you can see our strong performance is translating to our bottom line. I should point out that we have made a change to the way we calculate adjusted net income. Beginning in the fourth quarter of fiscal 2024, we no longer exclude the Barbara Nichols supplemental performance bonus. Prior period results have been adjusted to reflect this change on a comparable basis, and you can see a supplemental data sheet filed with the SEC and provided on our website for additional history of adjusted net income and adjusted net income per diluted share.

Net income in the fourth quarter of $1.3 million compares with a net loss of $481,000 in the fourth quarter of 2023. This equated to $0.12 net income per share and $0.15 of adjusted net income per share for the fourth quarter of fiscal 2024. Full-year net income significantly improved to $4.6 million from just $367,000 in fiscal 2023. Earnings per share for fiscal 2024 was $0.42 and adjusted EPS was $0.63, a 163% increase over the prior year.

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Lower tax rates for the quarter and for the full year reflected higher tax credits available with higher income and increased investment in R&D. There was also some discrete tax expense recognized in last year's period, as well as a lower mix of income in higher rate foreign tax jurisdictions in the current year.

On Slide 8 is adjusted EBITDA. Similar to adjusted net income, we have made some changes to the way we calculate adjusted EBITDA to remove the add back of the Barbara Nichols supplemental performance bonus. We are also now excluding non-cash equity-based compensation expense, which aligns more consistently with general practice. As with adjusted net income, prior period results have been adjusted to reflect these changes on a comparable basis.

Fourth quarter adjusted EBITDA doubled to $3 million over the comparable 2023 period, while fiscal 2024 adjusted EBITDA increased 56% to $13.3 million. Despite higher SG&A, adjusted EBITDA margin expanded 180 basis points to 7.2% and puts us solidly on track to achieve our fiscal 2027 goal of low to mid-teen adjusted EBITDA margin.

Turning the Slide 9, we had a strong year of cash generation of $28.1 million or more than double fiscal 2023. This further improved our balance sheet, while still making strategic investments, both organically and inorganically. During the year, we paid off our remaining outstanding debt, which included borrowings in support of the P3 acquisition. We continued to have access to a $50 million revolving credit facility, which was amended during the past year to provide greater flexibility to fund our long-term strategic growth goals and reduced our costs.

Capital expenditures of $9.2 million in the year were focused on capacity expansion, productivity improvements, including factory automation, and the start of the ERP implementation at our Batavia facility. CapEx for fiscal 2025 is expected to be between $10 million to $15 million, of which approximately half is related to the expansion of our Batavia facility for our defense business. I should point out that this will also benefit our commercial business.

If you'll now turn to Slide 10, you'll see we had record orders in fiscal 2024 of $268 million, an increase of 32% over the prior year. Our book-to-bill ratio was an impressive 1.4 times. 66% of the orders, or $177.4 million, were largely follow-on orders for critical U.S. Navy programs. Notably though, orders for the petrochemical market increased 55%, while space orders improved 11% to $16.8 million, helped by the addition of P3.

Turning to Slide 11, you'll see that our backlog was up 30% over fiscal 2023, providing several years of visibility given the long lead times of some of our defense contracts. The P3 acquisition added about $6 million to our backlog. The decline on a sequential basis is to be expected as our long lead defense orders tend to be lumpy. Approximately 35% to 40% of our backlog is expected to convert to sales in fiscal 2025 and another 25% to 30% is expected to convert to sales over the following 12 months. The majority of orders that convert beyond 12 months are for the defense industry, specifically the US Navy.

Slide 12 highlights our guidance for fiscal 2025. Given the addition of P3 and our record level of orders, we are expecting revenue to be between $200 million and $210 million for fiscal 2025. This implies top-line growth of 11% at the midpoint of that range. From a margin perspective, we expect continued expansion of our gross margin to a range of 22% to 23%. Additionally, our expectation for SG&A, including amortization, is to be between 16.5% to 17.5% of sales. This includes costs associated with the Barbara Nichols supplemental bonus, equity-based compensation, and ERP conversion costs of approximately $6.5 million to $7.5 million.

The net result is that we expect adjusted EBITDA for fiscal 2025 to be between $16.5 million to $19.5 million, which implies a 35% increase at the midpoint. The range also implies an adjusted EBITDA margin of 9% at the midpoint, or nearly 200 basis point improvement over this past fiscal year. I should point out that our adjusted EBITDA guidance reflects our revised method of determining adjusted EBITDA and only excludes equity-based compensation and ERP conversion costs from EBITDA, but not the Barbara Nichols supplemental performance bonus.

We are delivering continuous improvement and are solidly on track to achieve our long-term fiscal 2027 financial goals. We continue to expect 8% to 10% annualized organic revenue growth per year, which implies $240 million to $250 million in revenue for fiscal 2027, based off our fiscal 2025 guidance we just provided. And with margins improving steadily, we believe we are on track to achieve our low to mid-teen adjusted EBITDA margin goal.

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With that, I will pass the call back to Dan.

Daniel Thoren

Thanks, Chris. On Slide 13, I'll highlight our strategic and operational priorities that we expect to enable us to deliver on our long-term goals. Engaging with our customers to develop full lifecycle product opportunities is a top priority. We are seeing the results of this effort in the progress we have made with our defense aftermarket business. New equipment opportunities in the Middle East and India are growing along with aftermarket from equipment installed in the past. We are also developing a more proactive aftermarket plan for China for equipment we've supplied over the last 15 years.

We are pleased with our progress in R&D, which is focused on improving the operational efficiency of our products, to drive competitive advantage, and to support our and our customers' sustainability initiatives. Continual improvement on the shop floor has been a focus with initiatives originating from and led by employees. New operations leadership in Batavia has been highly effective, and our investment in automated welding equipment for complex Navy jobs is estimated to save several weeks in scheduling.

These investments stem from our expanded capital program that will continue to support growth initiatives in all of our businesses. With no debt on the balance sheet, we are focused on investments that fuel growth and maximize shareholder return. This is both organic and inorganic initiatives. Early returns on capital investments over the past two years have been promising, aligning with our expectations. Our CapEx plan for fiscal 2025 is to invest approximately 5% to 10% of revenue. We are targeting projects with expected ROIs greater than 20%, further underscoring our commitment to growth, profitability, and creating shareholder value.

We believe in involving all stakeholders in enhancing our operations. This includes increased community engagement, supplier development, and ongoing training and apprenticeship programs to support our associates. Moving forward, our nearly $400 million of backlog and the rising demand from the Navy for expedited projects and broader objectives create an exciting time for our Graham team. I want to thank all of our associates who made fiscal 2024 such a success and who are as passionate about our future as I am.

With that, Rob, we can open the call for questions.

Question-and-Answer Session

Operator

Thank you. At this time, we'll be conducting a question-and-answer session. [Operator Instructions] Thank you. Our first question today will be coming from the line of Joe Gomes with Noble Capital Markets. Please proceed with your questions.

Joe Gomes

Good morning, congrats on the quarter and the full year.

Daniel Thoren

Thanks, Joe.

Christopher Thome

Thanks, Joe.

Joe Gomes

I wanted to start just on some of the estimates you had put out previously, or guidance kind of you put out previously, and just wanted to get a little more color here. So like SG&A as a percent of revenue for the year, I think came in a little over 18%, the forecast was 16% to 17%. Just looking for a little more color there. On adjusted EBITDA, you originally had talked about it being $15 million to 16 million or 9% of revenue came below that, but it was all of that just due to the change in calculation there, or was there anything else there?

Christopher Thome

Yeah, good question, Joe. So our SG&A percentage in the quarter was a little bit higher than our normal run rate and a couple of factors that were driving that is the Barbara Nichols supplemental earn-out bonus that you just referred to, as well as just a general overall increase in performance-based compensation, which is directly tied to our results. So as our results improve, the performance-based compensation goes up.

Additionally, professional fees were also up in the quarter. So I would say the current quarter's SG&A percentage was a little bit higher than normal. As you saw from the release today, we are projecting 16.5% to 17.5% next year, as that still includes the supplemental bonus for Barbara Nichols.

On an adjusted EBITDA basis, you're absolutely correct. Last quarter, we guided %15 million to $16 million. But that included the -- or that excluded the impact of the Barbara Nichols bonus. But it did not exclude stock-based compensation. So during the quarter, as I mentioned in my comments, we tweaked the way that we do the calculation. So on an apples-to-apples basis, if you back out the Barbara Nichols performance bonus of $4.3 million -- I'm sorry, if you add back $4.3 million for the Barbara Nichols earn-out bonus, and if you back out ERP -- or I'm sorry, stock-based comp costs, which was not in our previous guidance, we actually would have been at $16.2 million of adjusted EBITDA, which was just above the high end of the range.

Joe Gomes

Okay, thanks for that clarity, much appreciated. And then when you talk about aftermarket sales, it looks like now you've included some defense aftermarket sales when previously I think it was more towards the refining area and the petrochemical. I'm just wondering why are you including defense now? And do you have a number that is just kind of refining in petro? I think the first three quarters of the year was running in that $9 million to $10 million, even a little bit more than that level. Just wondering what that was for the fourth quarter.

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Daniel Thoren

Yes, so as you know, it's -- part of our strategic objectives is to provide a full life cycle support for our customers. So which includes design all the way up through aftermarket sales. And you are correct, historically our aftermarket sales have been concentrated around refining and petrochemical, but over this past year our defense aftermarket sales, particularly within Barbara Nichols has really grown. So we felt it important to start including that in our aftermarket sales since it's been so significant. So for the year, we were around $35 million of aftermarket sales to refining and petrochemical and about $5 million for defense aftermarket.

Joe Gomes

Great. Thanks for that. I'll get back in queue.

Daniel Thoren

Thank you, Joe.

Operator

Our next questions is from the line of Dick Ryan with Oak Ridge Financial. Please proceed with your questions.

Dick Ryan

Thank you. Also, my congratulations on the strong performance, guys. So, Chris, you talked about the gross margin getting unshackled from the first articles. Will there be any drags on any projects in fiscal 2025 on the gross margin line? Or should we see kind of what we saw in the fourth quarter gradually improving into that range?

Christopher Thome

Yes, so we do still have a small amount of lower margin first article work that's in our backlog. However, as a percentage of the overall backlog, it's much smaller than where it was a few years ago. We would always hope to have a certain percentage of backlog that is first article work, because that just means we're winning new programs from the Navy. So we will always have some, but as a percentage of the overall backlog, it will get less.

As far as fiscal year 2025, we do expect some drag still. But again, it won't be as to the magnitude of what it was in years past, which is why we gave guidance to a higher gross margin of 22% to 23% next year.

Dick Ryan

Okay, great. Thanks. So, Dan, you talked about the investments being made in Batavia allowing for higher capacity, but also you alluded to potentially increasing the scope of business. Can you give us a sense of what that might yield over the next few years?

Daniel Thoren

Yes, absolutely. I won't be able to give you any specific numbers, but I can tell you that the Navy has approached us about producing additional equipment. We know that the Navy is working on the [SSNX] (ph), which is the next generation attack submarine, the design of such. And Graham has a small part in that, helping them to design heat exchangers, but beyond that, the US government really is putting a bunch of effort to develop their supply chain and get ships and submarines built faster. So we're getting opportunities to bid on equipment that we have not built in the past.

So to Chris's point, that -- it's a nice opportunity to get equipment on these long-term strategic programs. And we're going to be pretty careful about overcommitting and not getting into a position of taking on a whole bunch of first articles, but that continual ability to refresh yourselves and grow the business in a controlled manner is exactly what we're looking for. And as we continue to perform for the Navy, I think we're going to get those opportunities. So essentially what that does is, it continues to build our revenue towards our 2027 goals into the $0.25 million range. So we're kind of excited about that. $0.25 billion, sorry.

Dick Ryan

Yeah. So strong orders, obviously 1.4 book-to-bill for the year, not asking you specifically what's in store for 2025, but you announced a very strong couple of orders in energy that we haven't seen in a while. Can you give us a little color on what do you think your visibility is in the energy side and also on the defense side for this year?

Daniel Thoren

Yes, absolutely. So the defense will be lumpy, as you've seen over the last several years. Those orders tend to be in the equipment that we're supplying very significant. And so, when one of those orders hits, it's pretty significant. We've got several in the pipeline. We're expecting some of those to hit this year. But hitting one or missing one could cause some lumpiness. On the Navy side, it's going to be kind of business as usual, a little lumpy. On the refinery petrochem side, what we're seeing, domestically, North America is really moving into a maintenance kind of a mode. And so there are several studies out there that we pay attention to that track how much money will be spent in the North American market in refinery, petrochem. The refinery is strictly maintenance. There's a few new projects, but not many. So we -- to really focus on aftermarket in North America is where we're going and really trying to make sure that we get our fair share of that aftermarket.

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The new capital projects in refinery are really going to be mostly in India and Saudi Arabia. So we are very committed to our India group and working to strengthen that group going forward to really go after that Middle East-India type of work. China is slow. China just really hasn't come back. And so China, we're continuing to have that group look at the China market for new opportunities, but also having them now refocus a little bit more on aftermarket in China because we've been in China for 15 plus years. So making sure that we're getting the aftermarket out of China is important and then that China sales group is going to be focusing a little bit more on Southeast Asia and some opportunities that we're seeing there.

So bottom line is, we're seeing this in certain parts of the world, some opportunities and in where there's not new capital opportunities, we're going to go -- double down on our aftermarket. So the proactive approach is really important and the refinery petrochem business will remain very important for Graham going forward.

Dick Ryan

Good. Thank you for that, and again, congratulations.

Daniel Thoren

Thank you.

Operator

Our next questions is from the line of Gary Schwab with Valley Forge Capital. Please proceed with your questions.

Gary Schwab

Yes. Hi, Dan and Chris. [Ditto] (ph) confirmation, great execution across the board. I have just a quick update. You mentioned automated welding a couple of times on the call. That automated welder that you ordered back in 2022, that's in and operating?

Daniel Thoren

Yes. So what we're doing with -- we've got a couple now in plant. So we're developing new solutions for some of the challenging welds that we've got on some of the Navy programs. We're really liking the results. Chris and I actually got to go down to the floor and watch it operate. It's a fantastic machine that is -- it's measuring a lot both visually and from sensors as to what's going on with the weld as that goes around. It is programmed such that it can continuously weld and so you see a lot of reduction in time that is spent welding a particular segment. And essentially, after you get done and you go back and you do some NDT x-ray, for instance, to verify the quality of the weld. If you pick up something within the x-ray, then you can go back to the data and see exactly what happened when. And it's going to really change, especially some of the really complex welding that we do, and make it a lot more -- a lot less art and a lot more science.

And so, we're really excited about what we're seeing thus far in our development efforts. And hope that we can apply more of those. Now, as part of this Navy investment, we ordered seven more. And so, we're expecting some pretty significant automation within the Navy programs, and then we'll also apply it to our commercial programs in the situations where the automation can really provide some benefit.

Gary Schwab

That sounds great. Can you add some color? Where are all those machines going? Are any of them going in the original plant or are they all going to have to go into the new plant?

Daniel Thoren

They'll be mixed between both. So some of the space that we're currently doing, the Navy program that will move into the new building, will allow for installation of some of those machines in that old space. So it'll be a mix of both.

Gary Schwab

Now you said you're going to start Batavia, the new plant in July. When do you think it'll be finished? And are you going to operationally phase it in or do you expect -- how is that all going to work?

Daniel Thoren

Yes, so we break ground in July and in our current schedule shows that we get a certificate of occupancy basically a year later, June, July of 2025. But we're going to be able to start to utilize some of the equipment that has been funded by the Navy beforehand. So for instance, we were able to get some rolls that enable some of the rolling of the big plates that we use around here. And that roll is in-house. We're modifying the building that it'll be installed in today. And we expect that the rolls will be up and functioning here in the next month or so. And some of the automated welders, obviously we're going to be able to start to set those up as they come in and as we have time to work to develop some of these new welding processes. So it'll be a very, very -- a lot of in parallel kind of activities while the building is being built. The Navy wants us to go, go, go. And so we are.

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Gary Schwab

Yes, they're really pushing. Have you designed additional open space in the new facility if the Navy wants you to keep going, or do you have to build another plant once this is set up? How is that going to work?

Daniel Thoren

Yes, so we've got a kind of a long-term strategic facility plan for Batavia that -- the first building is one of potentially three kind of side-by-side buildings that we could put together to enable more capacity for Navy programs. And so, we're thinking longer term, just like the Navy is, just like those multi-decade programs are. And as the need and our ability to continue to serve the Navy continues to grow, then we can grow our campus accordingly.

Gary Schwab

So you have room for two more buildings on your facility, at your facilities there.

Daniel Thoren

Yep.

Gary Schwab

Are you running at a close to 100% capacity now? Can you add some color to that?

Daniel Thoren

There's always room for more capacity. It's can you man it, right? So we're running generally two 10-hour shifts. And ideally, you could run three, but it's really tough to man that. So I would say that there's still capacity on the people side and I will say that our welder training program is continuing to really benefit us and I think that we graduated 15 here this last Thanksgiving, and they're hitting the production floor now. Our summer class is going to be starting up here in July. Our January class that is coming close to the end, I think, has 12 or 18 people in.

So I mean, we're really working hard on the people side of it. So we expect somewhere between 20 and 40 new welders coming out of that program every year going forward. And we're getting a really nice name around Western New York about Graham does a nice job of training new employees and it's a great place to work. So, gosh, we're feeling very fortunate to be able to both get the people and have space to continue to grow. Arvada is doing the same thing, Barbara Nichols. They've also got a strategic program for their facilities. And they just rolled out an apprenticeship program for machinists, which is going very well too. So lots of good things going on, Gary.

Operator

Thank you. [Operator Instructions] The next questions is from the line of Graham Madison with Water Tower Research. Please proceed with your questions.

Graham Madison

Hi, good morning everyone. Again, congratulations on the progress you guys have made in the last few years. One question on the EBITDA guidance, what gets you -- it's a nice step up from last year, but what gets you to the higher end of the range versus the lower end of the range? Is it just something -- is it just as simple as the leverage from the additional revenue or there are some other initiatives that could move the needle there?

Christopher Thome

For the fiscal year 2025 guidance?

Graham Madison

Yes.

Christopher Thome

Well, it really comes down to execution, right? As you know, we have $400 million -- nearly $400 million of backlog, so it really just comes down to execution. So, do we get all the materials in time? Are we able to hire and train? Dan just walk you through enough direct labor in time? As you know, we are a direct labor business, so as our direct labor goes, so does our revenue, and we know this past year, we grew our direct labor almost 10%, and we have budgeted another 10% increase for next year, which, as you know, in this environment, it's not necessarily easy to do. But the HR teams have done a great job in executing and bringing people on board. And again, it really just comes down to execution.

Graham Madison

All right, great. Thank you. And then, in the last call you talked about P3 and getting some traction in the cryogenic pumps. Is there any LNG terminal outlook in your forecast for that market, or is that a possibility that should things change post-November, since we're looking at potentially a lame duck president one way or the other, the likelihood of the LNG ban being lifted?

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Daniel Thoren

Yeah, we're not that exposed to the LNG market. Barbara Nichols makes a few liquid natural gas pumps, but they're not in production environments. I would say that the more likely opportunity for us is really on the hydrogen side. And so, we've been working quite a bit with several different companies as they develop solutions for the hydrogen economy. It'll be a slow rollout, so we don't look at that as an immediate high growth opportunity, but something that we definitely want to be on the ground floor, such that, when it does go, that we're in a great position.

I would say that we may not have gotten on the ground floor with the big LNG push, and that's why we're not expecting any significant impact on the LNG side.

Graham Madison

All right, great. Thank you. And thank you for the color on the hydrogen. Certainly enough money is being pumped into that sector. So the opportunity will be there. Thanks so much. I'll jump back in a queue.

Operator

Thank you. At this time, we've reached the end of our question-and-answer session. And I'll turn the floor over to Dan Thoren for closing remarks.

Daniel Thoren

Thank you, Rob. Thank you all for joining us today. If you would like an opportunity to speak with us in more detail, we will be participating virtually in two upcoming conferences, the Sidoti Small-Cap Conference on July 13th and the Northland Growth Conference on June 25th. I'm sorry. Sidoti is June 13th, Northland is June 25th. As always, please feel free to reach out to us at any time and we look forward to talking with you again after our first quarter of fiscal 2025 results. Enjoy your day.

Operator

This will conclude today's conference. You may disconnect your lines at this time, and we thank you for your participation.

**Load-Date:** June 7, 2024

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