

# **Luxfer Holdings PLC (LXFR) Q2 2024 Earnings Call Transcript**

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**Body**

Luxfer Holdings PLC (LXFR)

Q2 2024 Earnings Conference Call

July 31, 2024 08:30 AM ET

Company Participants

Kevin Grant - Vice President of Investor Relations & Business Development

Andy Butcher - Chief Executive Officer

Steve Webster - Chief Financial Officer

Conference Call Participants

Steve Ferazani - Sidoti

Presentation

Operator

Good morning. My name is Todd and I will be your conference operator today. Welcome to Luxfer's Second Quarter 2024 Earnings Conference Call. All lines have been placed on mute. After the speaker's prepared remarks, we'll hold a question-and-answer session.

Now, I will turn the call over to Kevin Grant, Vice President of Investor Relations and Business Development at Luxfer. Kevin, please go ahead.

Kevin Grant

Thank you, Todd, and good morning, everyone. Welcome to Luxfer's second quarter 2024 earnings conference call. This morning, we'll be reviewing Luxfer's financial results for the second quarter ended June 30, 2024. I'm pleased to be joined today by Andy Butcher, our Chief Executive Officer; and Steve Webster, our Chief Financial Officer.

Today's webcast is accompanied by a presentation that can be accessed at luxfer.com. Please note any references to non-GAAP financials are reconciled in the appendix of the presentation.

Before we begin, a friendly reminder that any forward-looking statements made about the company's expected financial results, are subject to future risks and uncertainties. We undertake no obligation to update any forward-looking statements whether as a result of new information future events or otherwise. Please refer to the safe harbor statement on slide 2 of today's presentation for further details.

During today's call, we'll be providing adjusted second quarter 2024 financial results that exclude Graphic Arts based on our strategic review decision to divest that business.

Now, let me introduce Luxfer's CEO, Andy Butcher. Please turn to slide 3. Andy, please go ahead.

Andy Butcher

Thank you, Kevin, and good morning, everyone. Thank you for joining us. The Luxfer team made steady progress and continue to deliver good results in the second quarter. While we face challenges in certain markets, we achieved sequential improvement in sales two consecutive quarters of sequential profitability and we delivered solid cash flow throughout the first half of 2024, reflecting our success in enhancing our financial performance.

Sales for the quarter came in at $91.8 million, a 10.5% increase from Q1 2024, but is still down 9.6% year-over-year, as we continue to see variable demand across markets. The sequential recovery in defense applications and the strength in SCBA markets is encouraging. While the overall market remains soft, we are making headway.

We achieved an adjusted EBITDA of $17.3 million, a 65% improvement from the previous quarter and reached adjusted earnings per share of $0.39. Solid underlying business performance was complemented by the recovery of $5.1 million of historical legal costs with both the timing and the amount exceeding previous expectations. We delivered $8.9 million in operating cash this quarter, maintaining a healthy balance sheet with a net leverage of 1.6 times.

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Looking ahead, we have a steady outlook for the remainder of 2024 and expect to accelerate our momentum in 2025. The trajectory in the first half of the year positions us well to meet our full year guidance. We will continue to manage our resources carefully to both navigate ongoing challenges and capitalize on recovery trends as they develop. These operational and investment decisions are positioning Luxfer for long-term growth.

Now I'd like to give a quick update on our comprehensive strategic review with a focus on the sale of the Graphic Arts business.

Please turn to slide 4. Actions taken in favorable market conditions are gradually repositioning the Graphic Arts segment to improve following the losses experienced in 2023 in the first quarter 2024. The competitive process to sell this business is now reaching its detailed final stages. We are currently working closely with a potential buyer.

We are targeting completion of the sale as early as the third quarter which will thereafter enable us to concentrate fully on our core operations and growth areas. We've made further adjustments to asset valuation to reflect the expected net proceeds from the sale.

Meanwhile, we continue the important work to enhance our Gas Cylinders and Elektron segments by reducing costs and executing profitable growth opportunities driven by innovation and strategic investments. We also remain vigilant in assessing market conditions with optionality to maximize future shareholder value.

At this time, I'll turn the call over to Steve to discuss our second quarter results in greater detail and update on the 2024 guidance. Steve?

Steve Webster

Thanks, Andy and good morning, everyone. I'd like to start this morning by reviewing our consolidated financial results and bridges for the second quarter 2024. Please note that any non-GAAP numbers I refer to are on an adjusted basis excluding the Graphic Arts business.

Let's turn to slide 5. Looking at the top of the slide. While our sales of $91.8 million reflect a decline from prior year, we saw a 10.5% improvement from the prior quarter. Adjusted EBITDA for the second quarter reached $17.3 million with margin at 18.8%. This represents a significant uptick from both the previous year and the last quarter.

Additionally, our adjusted earnings per share rose to $0.39 from $0.29 in the prior year and $0.20 in the first quarter highlighting our improved profitability. Stronger underlying business performance was boosted by historic legal cost recovery this quarter contributing approximately $0.15 per share.

Shifting to our balance sheet and cash. Cash flow from operations was solid generating $8.9 million and our free cash delivered $6.2 million. We maintained strong liquidity ending the quarter with improved net debt of $69.9 million and leverage around 1.6 times.

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Looking at the sales bridge our revenue was $91.8 million compared to $101.5 million last year. Here we experienced a $9.4 million volume decrease from general industrial and defense applications along with a $0.4 million foreign exchange headwind. We were nonetheless encouraged by the sequential growth of $8.7 million.

Now turning to the profit bridge. Our second quarter adjusted EBITDA was $17.3 million up $2.9 million from the previous year. This includes a $6.4 million benefit from legal and other items and a $1.9 million benefit from price and net deflation. Our adjusted EBITDA margin improved to 18.8% from last year's 14.2% and the prior quarter's 12.6%.

Please turn to slide 6 for a detailed review of Elektron's second quarter financial results. Elektron's second quarter of 2024 shows a strong turnaround in profitability despite year-over-year sales and end market headwinds. The business has improved for two consecutive quarters with manufacturing efficiencies maintaining its margin profile.

Adjusted EBITDA margin reached 29.5% up over 1000 basis points due to legal recovery. Without this margin would have been approximately 17.4% down from around 20% a year ago but up 40 basis points sequentially demonstrating our team's effectiveness in enhancing efficiencies and managing costs.

Despite lower year-over-year sales, we saw quarter-over-quarter improvement especially in defense applications within the defense first response and health care markets, improved demand in transportation was offset by lower general industrial. While overall market demand remains challenging, the business has improved from its low in the fourth quarter and we remain positive about the long-term outlook.

Now please turn to Slide 7 for a detailed review of the Gas Cylinders' second quarter financial results. Gas Cylinders demonstrated continued growth in Q2 with sales of $49.8 million, up 2.7% year-over-year and 9.7% from quarter 1. This growth was primarily driven by the self-contained breathing apparatus market. The margin profile is stabilizing with long-term contracts signed in Q4 of last year.

Gross margin improved by 80 basis points to 16.7%, while adjusted EBITDA margin slightly decreased to 9.8%. Enhancements to cost structures and efficiencies are taking hold with sequential adjusted EBITDA up 19.5% and margin up 80 basis points. Defense First Response and Healthcare sales increased year-over-year, driven by demand for lightweight SCBA and medical cylinders. Transportation demand slowed particularly for hydrogen alternative fuels and the general industrial market remains challenging although there were some positive signs with a moderate sequential improvement this quarter. We are encouraged by the increased revenue and profitability in Gas Cylinders and the prospects for long-term profitable growth.

Now please turn to Slide 8 for an update on our full year 2024 financial guidance. As a reminder, our 2024 guidance does not include the Graphic Arts business. We are cautious regarding the short-term revenue outlook, but we have raised our financial guidance to reflect the recent recovery of historical legal costs amounting to $5.1 million.

Our update now shows an increase in our projected adjusted EBITDA to be between $47 million and $50 million, with stronger adjusted diluted EPS ranging from $0.90 to $1 and higher free cash flow now anticipated to be between $24 million and $27 million. We continue to emphasize maintaining a robust balance sheet and enhancing our free cash flow, allowing for continued investment in growth opportunities, while also paying down debt and returning cash capital to shareholders.

Now, I'd like to turn the call back to Andy. Andy?

Andy Butcher

Thanks, Steve. I now want to take some time with you highlighting the innovation that will help drive Luxfer to future sustainable growth. Please turn to Slide 9. Looking ahead, our focus is on driving profitable long-term growth and preparing for future opportunities. As you know, many of our important internal tools for executing this are embedded in the Luxfer business system, the principles and practices that guide us to serve our customers and deliver sustainable growth and value creation.

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Today, I'm highlighting three key initiatives within this, our cylinders and systems to support growth and use of CNG, the upcoming launch of our new bulk gas transportation modules and the uptake of our UGR-E Flameless Ration Heater. First, we are continuing to deploy our high-pressure tank technology with a market-leading global engine manufacturer, all necessary stock and inventory are now in place for their new CNG product launch positioning us and our systems partner to meet future demand increases. This initiative is expected to drive significant growth and contribute positively to our results, beginning early in 2025.

Second, the development of our next-generation transportation modules, the hydro sphere trailers and the multicylinder packs are also notable growth drivers for 2025. Our initiatives in Clean Energy have included refining the footprint of our North American cylinder operations and constructing our transportation module production facility in the UK. We expect to complete the first modules this year. And indeed, last month, I witnessed the commencement of our new manufacturing operations.

Third, we've seen strong recent market uptake for our innovative UGR-E Flameless Ration Heater launched last year. This product allows simultaneous heating of a meal for a whole team, significantly enhancing operational efficiency. Its utility as an effective interim alternative to field kitchens has been well demonstrated, providing a substantial boost to our Magtech solutions portfolio. This product reinforces our commitment to self-help actions that support our revenue line for the future.

Innovation exemplified by the three initiatives I just mentioned is a critical element of the Luxfer business system and is part of a cohesive plan aimed at achieving significant milestones in 2025. We are excited about the opportunities ahead of us and committed to capitalizing on them.

Now please turn to Slide 10. We are proud of the significant progress we've made amid a challenging market landscape. We have achieved sequential improvements in both sales and profitability, demonstrating our resilience and strategic execution and reinforcing my confidence in our long-term success. We continue to emphasize a strong balance sheet and generating free cash flow supporting our group investments and returning capital to shareholders. We've seen consistent margin improvements from our focus on streamlining processes and optimizing our operations. We will continue to enhance productivity and control costs effectively.

Our clean energy strategies including advancements in CNG and bulk gas transportation are positioning the business for notable growth in 2025 and beyond. The sale of the Graphic Arts business is progressing smoothly and on track to our expectations allowing us to focus on core growth areas. All these accomplishments underscore our commitment to driving value and enhancing performance. We remain focused on delivering results for the remainder of 2024 with a clear path to achieving our full year guidance. Our strategic focus remains on leveraging our materials engineering expertise fostering innovation and delivering sustainable long-term growth.

With that, I'd like to turn the call back to the operator for the Q&A session. Todd, please go ahead.

Question-and-Answer Session

Operator

Thank you. At this time, we will open the floor for questions. [Operator Instructions]. Our first question will come from Steve Ferazani with Sidoti. Please go ahead.

Steve Ferazani

Thank you, Steve. Thanks for all the detail on the call. I did want to ask about guidance because -- and congratulations on the $5 million legal expense recovery. But if we back that out It looks like the high end of your guidance on EPS came down a little bit. And obviously your sales growth is down a bit. Can you give us a sense of what's changed in the last three months in terms we're going slightly more negative in your outlook?

Andy Butcher

Thanks. Thanks, Steve. This is Andy. Let me, first of all, underscore that I'm very encouraged by the progress we've made over the last six months. We have seen the expected initial recovery in demand across certain of our Elektron applications and a robust performance in the Gas Cylinders segment. The operational optimizations we've made have been successful. Our teams are motivated and engaged.

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At the midpoint we're up $0.125 on our initial guidance. That's coming from a solid business execution in the first half of the year. And, yes, especially from those $5.1 million legal cost recovery. We're in good shape Steve as we ended the last half of the year.

Steve Ferazani

Okay. Can you talk a little bit you mentioned the CNG engine, which I know a lot of people are very excited about that are involved in it. And have exposure to it. It sounded like you said you think it's a benefit starting in 2025. Any reason to think it could come earlier than that?

Andy Butcher

Yes. We're really excited about this new engine that's coming out. And I'm glad we had opportunity to talk about that a little bit in the prepared remarks. As you know Cummins are in the process of launching this new CNG engine the X15N. It's expected to create the -- in part the adoption of clean fuels and heavy-duty trucks. It's offering extended range and reduced emissions. So we've already seen some increased demand from that. Sales of our high-performance lightweight cylinders for that have already increased by almost $6 million year-to-date 2024 versus 2023.

Now some of that is prebuilt. It's priming the pump for the product launch but we should see strong follow-on demand once the product gets some traction in the marketplace. We're modeling that as a notable opportunity for us in 2025. But yes, it's one of the things that could drive us towards the upside of our guidance if we see some demand in Q4.

Steve Ferazani

Great. And if I could just ask about the gas modules as well as the UK plant. Is that up and running now? And is that also you're thinking more of a 2025 impact?

Andy Butcher

We'll see some benefit from that later in 2024. So the manufacturing facility is all constructed and I saw the first module start to go through that facility just a just a couple of weeks ago. So excited what introducing a very lightweight means of transporting gas in modules might mean to the market for the future. It's our intention to have the first module or modules built this year and indeed the first sale right at the end of this year. So it gives us a slight uptick in 2024.

And then, yes, very excited about that for 2025 and beyond. You'll recall perhaps that the facility has a total capacity for $40 million of modules. We won't see all of that in 2025, but it will be a notable and meaningful contributor to our higher sales in 2025.

Steve Ferazani

Fantastic. Congratulations on getting that up and running. If I could just get one more in update on the timing of the Graphic Arts sale. Sounded like in the commentary you said that business was getting a little bit better. Does that have any impact on pricing? Can you not really comment on that?

Andy Butcher

Steve is running that process for us. Very pleased with how that's going and I'll let him comment on that.

Steve Webster

Yes. I mean as we said in the prepared remarks, Steve, it's probably slightly ahead of schedule in terms of what we said previously. We had said by the end of the year, it's making good progress. So we are working with an exclusive buyer. And we're getting towards the closing stages we believe of that project. So we're certainly targeting it for quarter three. But obviously, these things can slip, but certainly quarter three is most likely I think.

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In terms of price, I mean, you may have noted, we have made some adjustments to the asset value. So, we are expecting it to be slightly lower than our previous expectations. It's important to recognize that this business did lose the best part of $5 million last year and $1.5 million to $2 million in quarter one. It has just approached breakeven.

So there is some sign that it's turning around. But nonetheless, it has struggled a little bit. So we have expected the price to fall a little bit there. We have run a very comprehensive process though of over 100 prospective suitors. So we believe we will get the best price we can for that business in the circumstances.

Steve Ferazani

Great. Thanks for that. Thanks Andy, thanks Steve.

Andy Butcher

Thank you, Steve.

Steve Webster

Thanks.

Operator

Thank you. There were no more questions in the queue at this time. I'll turn the call back to CEO, Andy Butcher for closing remarks.

Andy Butcher

Thank you, Todd. In closing, I'd like to reiterate the significant progress we've made and in a challenging market landscape. We have achieved sequential improvements in both sales and profitability underscoring our resilience and strategic execution.

Our strong balance sheet, focus on operational efficiencies and strategic initiatives in clean energy, position us well for sustainable growth in 2025 and beyond. We remain committed to delivering value and enhancing performance for our shareholders.

Thank you for your continued support and confidence in Luxfer. We look forward to updating you on our progress next quarter.

Operator

This concludes Luxfer's Q2 2024 earnings call. A recording of this conference call will be available in about two hours. A link to a recording of this webcast will be available on the Luxfer website at www.luxfer.com .

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