

# **Matrix Service Company (MTRX) Q3 2024 Earnings Call Transcript**

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**Body**

Matrix Service Company (MTRX)

Q3 2024 Earnings Conference Call

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Company Participants

Kellie Smythe - Senior Director of Investor Relations

John Hewitt - President and Chief Executive Officer

Kevin Cavanah - Vice President and Chief Financial Officer

Conference Call Participants

Brent Thielman - D.A. Davidson

John Franzreb - Sidoti & Company

Brent Thielman - D.A. Davidson

Presentation

Operator

Good morning, and welcome to the Matrix Service Company Conference Call to discuss results for the Third Quarter of Fiscal 2024. Currently all participants are in a listen-only mode. Later we conduct a question-and-answer session and instructions will be given at that time. As a reminder, this conference call is being recorded.

I would now like to turn the conference over to today's host, Ms. Kellie Smythe, Senior Director of Investor Relations for Matrix Service Company.

Kellie Smythe

Thank you, Justin. Good morning, and welcome to Matrix Service Company's third quarter fiscal 2024 earnings call. Participants on today's call include John Hewitt, President and Chief Executive Officer; and Kevin Cavanah, Vice President and Chief Financial Officer.

The presentation materials referred to during the webcast today can be found under Events and Presentations on the Investor Relations matrixservicecompany.com. As a reminder, on today's call, we may make various remarks about future expectations, plans and prospects for Matrix Service Company that constitute forward-looking statements for the purposes of the Private Securities Litigation Reform Act of 1995. Actual results may differ materially from those indicated by these forward-looking results, forward-looking statements because of various factors, including those discussed in our most recent annual report, the Form 10-K and in subsequent filings made by the company with the SEC.

To the extent we utilize non-GAAP measures, reconciliations will be provided in various press releases, periodic SEC filings and on our website. Related to investor conferences and corporate access opportunities, Matrix will be participating in the upcoming Stifel Cross Sector Insights Conference on June 4th and 5th in Boston. If you would like additional information on this event or would like to have a conversation with management, I invite you to contact me through the Matrix Service Company Investor Relations website.

Before I turn the call over to John, I would also like to share our safety moment. At Matrix, there is nothing more important than the safety and health of our employees, both physical and mental, and that's why safety is our number one core value. On our last call, John highlighted the work being done across our industry and at Matrix to identify and provide support for addressing mental health issues, especially given the significantly higher level of suicide experienced in the construction industry when compared to others.

But mental health issues are something we all grapple with at one time or another in our lives. As the month of May is Mental Health Awareness Month, we thought it would be a good time for a reminder that each of us should periodically take time to assess our own mental health, just as we do our physical health. In doing so, it's important to identify the root causes of any issues we may be experiencing and above all, remember, it's okay to ask for help.

At Matrix, our people are our greatest asset, by ensuring the mental and physical well-being of our people, we are better equipped to do the important work our customers and shareholders count on us to deliver.

I will now turn the call over to John.

John Hewitt

Thank you, Kellie, and good morning, everyone. We delivered mixed third quarter results. Execution performance was good. We maintained our record backlog. The opportunity pipeline continues to be strong and liquidity expanded. However, revenue was a low point for the year driven by the convergence of three key issues.

First, the conversion of backlog to revenue on some of our major projects continue to push to the right. This shift does not represent an uncertainty in the projects proceeding, but it does highlight the complexity of finalizing large capital construction project contracts and the impact our clients have on the timing of those project starts. We expect these projects to finally begin contributing additional revenue in Q4 and grow in a more meaningful way throughout fiscal year '25 and beyond.

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Second, a long-term multi-decade refinery client changed its spending priorities and contracted labor demand in the third quarter and for the balance of the current contract. And finally, there were 2 areas of softness in our core markets. Crude tank new build and maintenance and repair in the Lower 48 as well as electrical infrastructure in our predominantly Northeast sector. In both cases, we believe this softness is transitory and will begin to firm up moving into fiscal '25, given the market dynamics we are seeing and how we approach those markets.

In short, we expect revenue to improve from here and continue to build through fiscal 2025. As this increased volume of projects and backlog and new awards convert to revenue, we expect to drive improved fixed cost absorption and margin expansion toward our historical double-digit levels. Backlog in the third quarter increased nearly 75% on a year-over-year basis, and we held our all-time high of $1.45 billion driven by a diverse mix of high-value multiyear projects that will support improved profitability moving into fiscal 2025.

Our backlog bookings and bidding activity remained very strong as we enter the fourth quarter, which has already produced additional specialty vessel storage bookings. This is also our 11th consecutive quarter with a book-to-bill greater than or equal to one, led by robust demand within our Storage and Terminal Solutions segment where book-to-bill was 2.5% in the third quarter compared to 1.3% a year ago. We continue to maintain strong fitting discipline consistent with our strategic focus on profitable organic growth.

Our opportunity pipeline clearly supports the long-term trend to maintain a strong backlog. While the financial impact of the timing of project starts are a reality for our industry, it is important to keep in mind that the work will get built and that the underlying demand thesis remains unchanged. Matrix is in the right markets at the right time with the right expertise and strategy to drive value creation for our shareholders.

I'll ask Kevin to provide more detail around the third quarter results, and then I'll provide more color on our outlook for the business entering fiscal 2025 and why we remain confident that our business is moving toward a positive inflection of profitability over the coming quarters. Kevin?

Kevin Cavanah

Thank you. As John indicated, the results for the third quarter were mixed. Project awards and backlog were in line with our expectations. We generated awards of $187 million in the quarter, and a book-to-bill of 1.1. The most significant award was another large specialty tank project. This increased backlog in the Storage and Terminal Solutions segment to $738 million, a new record high and an increase of 150% versus the prior year period. This also allowed us to maintain our consolidated backlog at a record high of $1.45 billion.

While our backlog continues to strengthen, it has taken longer than previously anticipated for our consolidated operating results to improve. Total revenue was down to $166 million, an 11% decrease compared to the prior year period. We anticipate revenue improvement as we move from the third quarter into the fourth quarter.

We have previously discussed that the growth in our backlog has been fueled by long-term construction projects, which have an inherent lag between the time a project is awarded and when it begins to have a material impact on revenue. While these contracts make up a significant portion of the backlog, the contribution to revenue has been minimal in fiscal 2024. We expect the Storage and Terminal Solutions and Utility and Power Infrastructure segments to drive growth as we move forward.

Our gross margin in the third quarter was 3.4%, up 100 basis points over the same period a year ago. Our third quarter performance would have been almost 600 basis points higher on gross margin rate, but for two factors. First, low revenue resulted in under-recovered construction overhead which negatively impacted gross margins by almost 400 basis points. Second, we were impacted by reduced labor demand and turnaround services in the final year of a three-year refinery maintenance contract, which is currently up for renewal. The accounting for this change was applied retroactively over the life of the contract and therefore, impacted our consolidated margin by 200 basis points in the quarter.

Moving down the income statement. SG&A was $19.9 million in the quarter. We continue to benefit from organizational efficiencies achieved over the last several years. However, stock compensation expense increased $2.5 million in the quarter due to a 33% increase in the share stock price. This expense increase is related to cash-settled stock awards issued in previous periods. Expense associated with these awards is variable and fluctuates with changes in our stock price.

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For the third quarter of fiscal 2024, we had a net loss of $14.6 million or $0.53 per fully diluted share. As previously discussed, the primary driver to the loss was the low revenue, which is [indiscernible] increase.

Moving to the operating segments. In the Storage and Terminal Solutions segment revenue was $54 million in the third quarter as compared to $52 million in the prior year period. We expect higher revenue as we move forward and into fiscal 2025 as large specialty storage project awards transition through contracting, engineering, project planning and into field construction. Gross margin was 4.3% in the third quarter, an increase of 590 basis points over the prior year. This increase related to strong project execution throughout this segment, including specialty storage projects, allowing a return to double-digit direct gross margins. However, both periods were impacted by underrecovered fixed costs due to low revenue. In the current quarter, this negatively impacted gross margins by almost 700 basis points.

Revenue is expected to increase in this segment beginning in the fourth quarter, significantly reducing the impact from underrecovered overheads. In the Utility and Power Infrastructure segment, revenue was $46 million in the third quarter compared to $35 million a year ago. Segment revenue is beginning to benefit from the start of previously awarded LNG peak shaver projects, which we expect to increase as we move forward. The power delivery portion of this segment is currently experienced in a softer market in the Northeastern geographic area we serve.

Gross margin was 3.1% in the third quarter compared to 8% in the prior year quarter. The peak shaver proportion of the segment is producing strong gross margins, but that is offset by softness in the power delivery business as well as under-recovery of production overhead costs. This under-recovery impacted gross margins by 550 basis points and is temporary as the backlog is expected to drive higher revenue in this segment beginning in the fourth quarter.

In the Process and Industrial Facilities segment, third quarter revenue was $66 million compared to $100 million in the third quarter of fiscal 2023. The revenue decline is due to a couple of factors: completion of a gas processing project in the prior year and lower refinery maintenance revenue as a long-term refinery maintenance customer has reduced labor demand and turnaround services. The company is also scheduled to complete a renewable fuels project in the fourth quarter, which has been a good contributor to segment results through the fiscal year.

We expect revenue to decrease on both a year-over-year and sequential basis as certain existing projects near completion and we await the start of new projects both in backlog and in our opportunity pipeline. The segment gross margin was 2.7% in the third quarter compared to 3.2% in the prior year quarter. The current year quarter was impacted by a change related to refinery maintenance contract in the prior year quarter was impacted by the completion of a challenging gas processing project.

Now let's discuss the balance sheet and liquidity. We continue to have a strong balance sheet with cash and credit facility availability of $135 million. During the quarter, we generated $25 million in cash flow from operations. We also utilized $4.8 million for capital expenditures, the majority of which was used for the purchase of a fabrication facility.

As of March 31, 2024, we are in a net cash positive position with no outstanding debt. We will continue to proactively manage the balance sheet to support the improvement business. Before I turn the call back to John, I think it is important to note that overall project execution is strong and the earnings improvement expectation we have been talking about remains intact and is just taking the revenue ramp longer to materialize. That ramp is supported by backlog consisting of several multiyear quality projects, strong markets and a robust opportunity.

I will now turn the call back to John.

John Hewitt

Thanks, Kevin. In the fourth quarter and fiscal 2025, we expect to see improvement in top and bottom line results as projects currently in backlog begin to benefit revenue. Together with our work to streamline the company, Matrix is well positioned for material improvement in revenue and profitability.

And as I said in my opening remarks, we are in the right markets with the right expertise and strategy to drive value creation for our shareholders. Matrix is benefiting and will continue to benefit from several megatrends that create demand for infrastructure in the end markets we serve, all of which present a long runway and multibillion-dollar project opportunity pipeline.

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The clean energy transition and demand for lower carbon solutions required to infrastructure, supporting LNG, ammonia and hydrogen and other renewable fuels. This is an area where Matrix is recognized as a leading engineering and construction company and one of the very few with the cryogenic expertise needed to complete this complex infrastructure. The need for system reliability and resilience is also driving demand in the utility and electrical infrastructure space for the use of LNG in both peak demand and backup fuel as well as transmission and distribution substation and other system upgrades.

Our electrical infrastructure expertise provides significant opportunity for organic growth in high voltage transmission, distribution and substation project work as well as industrial electrical projects. The expansion of this business is a key organic growth initiative for our organization and is already gaining traction with expanded clients, being opportunities and geographies.

An important near-term demand driver for such projects is data center growth which is creating substantial incremental electricity load increases. Nearly half of all planned U.S. data center investment is concentrated in unregulated markets such as California, Texas, Virginia, New York, Florida and Illinois. Current industry expectations are for further geographic dispersion of data center investment over time as data center permitting process become more forgiving across regulated markets.

Given our current electrical infrastructure footprint, which is concentrated in the Upper Mid-Atlantic and Northeast, we are well positioned to benefit from incremental data center load growth and the resulting infrastructure investment needs in this geography, specifically related to substations, transmission and distribution. We're also currently cultivating and developing a relationship with data center clients or electrical opportunities in this space will allow us to expand into new geographies.

Global geopolitical instability, the need for energy supply assurance and low-cost feedstock to support manufacturing and other end markets are all creating ongoing demand for hydrocarbon-related infrastructure associated with oil, gas and natural gas liquids, such as ethane, ethylene, butane and propane. As mentioned earlier, all these mega trends have long runways and are expected to drive infrastructure investments for the foreseeable future. Our leading position as a solution provider supporting these infrastructure investments provides us with greater visibility, and it positions us for consistent, profitable growth moving forward.

Breaking it down further, let me add more color and highlight near-term opportunities in just a few of our end markets. We have the unique ability to bring together the cryogenic storage and balance of plant infrastructure under one brand name, which is valued by our clients. Currently, a significant part of our backlog is comprised of projects that support growing demand for LNG and NGLs.

In the utility and power industry, small to midsized peak shavers are an increasing critical component for ensuring system reliability and resilience. They allow gas utilities to meet increasing demand resulting from both community and industrial growth as well as peak demands during severe weather events. They provide a means for supply in remote locations with energy and addressing areas restricted by a lack of natural gas pipelines or bottlenecks and existing pipeline infrastructure. And finally, they allow utilities to buy gas at lower spot prices during periods of decreased demand in store for future use.

LNG bunkering facilities and other supply chain infrastructure are integral to the lower carbon and clean energy transition, specifically in the maritime industry, the International Maritime Organization of 2023 strategy on the reduction in greenhouse gas emissions from ships means that more and more commercial vessels, such as container and cruise ships are being converted or built to run on LNG, creating increased demand for bunkering facilities. This lower carbon fuel is also being used in heavy transportation, such as rail trucking.

Small to mid-scale LNG facilities have also been an attractive investment for companies entering the energy market as third-party suppliers to both utility and maritime organizations and to individual companies and aerospace, rail and trucking for their own use. In addition to significant projects already in backlog, our teams are actively monitoring more than 13 near-term LNG projects. These opportunities include small to mid-scale facilities as well as infrastructure upgrades and replacements. In NGLs, our teams are currently at work on multiple infrastructure projects that support ethane, ethylene and other NGLs, and we expect to book several additional awards for NGL projects in the next couple of quarters.

Beyond these near-term awards, we continue to see significant infrastructure opportunities, supporting both domestic and international demand for NGLs as the U.S. has become the global low-cost stable producer of these hydrocarbon byproducts. Currently, our teams are actively monitoring 17 near-term NGL projects.

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We've also seen an increase in project opportunities supporting the storage, processing, production, loading and distribution of hydrogen and hydrogen derivatives such as ammonia from natural gas and other feedstocks. Overall, our opportunity pipeline remains strong at $6.1 billion, a key indicator of the strength across all of our end markets and our ability to continue our long-term trend of backlog stability and growth. While projects move in and out of our pipeline based on the decisions made by owner operators as well as other factors out of our control, in general, the projects we are currently monitoring are expected to be bid and awarded within the next 18 months and on average, represent projects that will require an 18- to 30-month timeframe to deliver.

Over half of the projects in our opportunity pipeline support specialty vessels, storage and terminal services. In summary, as the current infrastructure investment cycle continues to gather momentum. We remain highly optimistic and believe we are uniquely positioned to drive continued growth while creating long-term value for our shareholders.

I now open the call for questions.

Question-and-Answer Session

Operator

Thank you. [Operator Instructions]. One moment for our first question. And our first question comes from Brent Thielman from D.A. Davidson. Your line is now open.

Brent Thielman

Hey, thanks. Good morning, John, Kevin, Kellie.

John Hewitt

Good morning, Brent.

Brent Thielman

Yes, first question is just on the -- I guess the outlook for process and industrial facilities. How long do you think some of the softness in the business results persist before we start to see a return to growth? And what might drive that, John?

John Hewitt

So it's on process industrial facilities. First of all, we've got some good backlog already. There's a significant project that was awarded, I think it was in fiscal '23, that will start here mid-fiscal '25. That will drive it. And then when you look at the funnel of project opportunities, PIF, there are really good opportunities across the board now. So how quickly do those get awarded? So I think we're looking at a short-term period where that segment is not growing, but then longer term, I think the prospects are strong.

Brent Thielman

Okay. And I guess just taking this all in, if we think about the shorter term. Does some of the moving pieces in that business group now impact sort of your view of the return to profitability in the fourth quarter or maybe a return to positive EBIT just given what seems to be the opposite in some of the business groups that seem to be ramping up?

John Hewitt

Yes. So obviously, the move out of revenues from one period to the next has changed our outlook for the fourth quarter that has not changed the outlook of the long term. So when we think about the fourth quarter, we're expecting strong revenue growth for the Storage and Terminal Solutions segment and the Utility and Power Infrastructure segment. As said earlier, the Process and Industrial Facilities will be down, but that will be outweighed by the growth in the other.

So I think when you're thinking about the fourth quarter, it will be strong sequential growth over the third quarter, and it will get back to the level we were at in the fourth quarter of last year. So will we get to profitability in the fourth quarter? I don't know that we'll get there all the way. I think we'll make a significant move towards that. And then as we move into fiscal '25, those revenues will continue to ramp in those two segments. And again, profitability is -- we're still looking at '25. Will it be in the first quarter, second quarter? I think we can get there in the first half of the year.

Brent Thielman

All right. That's helpful. Maybe just the last one, I guess I want to come back to this, John. The recent trends in the electrical portion of the utility business sort of seeing counter to what the demand is or could be as you sort of indicated in your remarks. Any sense from customers what's happening there right now? And when that actually become more of a tailwind for that piece of the business?

John Hewitt

Yes. I think a couple of comments and thoughts there. I think you probably -- if you've seen some of our larger peers that operate in that market saw some softness in the beginning of this calendar year as well. For us, it's probably a little bit more impactful for us, because of our smaller geographic footprint. And so we've seen some spending dynamic changes with our core client base in our geography related to the -- not necessarily the number of project opportunities, but the size of them has gotten a bit smaller. And so that opens the door up for more competition.

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I mean, I think we're being very thoughtful about how we price those projects that we price those projects within a range where it meets our expectations for return on those projects. So we're doing some things there to expand our client base, move into some clients that we've done limited amounts of work for in the past that have a larger spending, a slate of projects in front of them, both in quantity and quantity, quality and individual size of projects.

So -- and the other thing I would tell you, Brent, is this is probably not least unique for us. I mean I think we've seen in our history, I mean, we've operated in that area for 20, 25 years. And we can -- we occasionally see these cycles through the utility market in that area. And so this is a bit of a down cycle for us. I mean a similar thing happened to us right after Hurricane Sandy. We had a lot of our local clientele there. Spent a significant amount of money to not only repair from Hurricane Sandy, but also to upgrade your systems in the next couple of years was a pretty severe downturn in their spending activities.

So it's the -- overall, for us, it's unfortunate that that kind of thing happened. At the same time, we've got major projects sliding to the right. And you have -- as I said in my remarks, you got this convergence of those things happening all at once and created a downward pressure on the revenue in the third quarter. But we feel pretty strong and comfortable that, that's -- all those things are going to reverse themselves here as we move out over the next couple of quarters.

Brent Thielman

Okay. I appreciate. I'll get back in queue.

John Hewitt

Thank you.

Operator

Thank you. And one moment for our next question. And our next question comes from John Franzreb from Sidoti & Company. Your line is now open.

John Franzreb

Good morning guys. And thanks for taking the questions. I'd like to start, John, where you just left off. I'd make sure I understand this. The cyclical downturn you referenced in the electrical utility market, that's a quarter or two phenomenon? Or are you saying that it may be longer in duration than that?

John Hewitt

I think it's -- I think we're in the middle of it now. I think we started to see some softness earlier, but we thought that was -- there was still plenty of opportunities out there for us. And so we have to do what we normally do and adjust our approach to the market when we see these cycles and downturns, but they can't turn it around overnight.

And so we're doing, like I said, doing some things to expand our footprint in our Northeastern region, expand our client base and I think that we're going to be able to -- we may not, in our base client spending, we're not going to be able to deal with those changes until that cycle for them turns around. But we're doing it by how we address the market and where -- what parts of the market we're addressing.

Kevin Cavanah

I think one of the things to remember when we're thinking about timing on electrical and the power delivery work is that we're also moving into the summer months and the summer months can often be at a time when our customers will be naturally spending less just because it's peak power demand [indiscernible].

John Franzreb

Right. Makes sense, Kevin. And in regard to the large projects that are shifting to the right, I'm curious if there's any commonality on why they are being delayed, have you seen anything along those lines?

Kevin Cavanah

No. The commonality is probably in the process of getting from an award to contract completion and into a position to be able to start, whether that's their internal governance processes, whether that's review of scope in those projects in both -- in some of those projects getting to contract completion that has been also been an additional scope for us. And so -- it sort of feels like there's a phenomenon happening that's different than pre-COVID where the amount of time it took to get from an award to a final contract for us to be able to start, it sort of feels like it's gotten longer.

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And I'm not sure what that is or why that's happened. But the projects, the major projects, so we have a backlog. There are solid projects. They're going to go. They're approved by our clients, Board of Directors. So there's no risk there. It's just the timing to get through that contracting process that has just gotten longer.

John Franzreb

Okay. All right. That's good to hear. And in regards to the contract -- the service contract that was renegotiated, I believe you said it was 200 basis point hit to segment gross margin. Is that a onetime kind of a hit as that's been retro priced? How should we think about that on a go-forward basis?

Kevin Cavanah

It was -- I think that was a 200 basis point impact to consolidated margins. It was a much more significant impact to the Process and Industrial Facilities segment. That was -- I think you should think of that as a onetime hit primarily, the margin moving forward, it will be a little bit lower. But the big impact in the quarter was really applying this change to this three year contract, and we're in the last year of that contract. So we've really adjusted the margin we've recognized on this previous revenue. It's just something that's consistent with what we see when we're accounting for longer-term contracts and the construction percentage of completion accounting.

John Hewitt

Hey, John, something else there. I mean, so this is not an execution issue. It's not a relationship issue with the client, it's not a performance issue for them. This work is fundamentally reimbursable work over a three-year period. And for whatever reason, our client is contemplating and making some changes on how they're going to spend their dollars in their maintenance activities and turnaround activities, and they make that change and we get caught up in it. And so that's what has led us to we have to reevaluate the size of the entire three year period of that contract. And as Kevin said, we had to make an accounting adjustment because of that.

John Franzreb

Okay. Thanks for that color, John. And I guess one last question, I'll get back into queue. Can you talk a little bit about any potential cost savings or restructuring actions or levers that you could still pull out there as you continue to work your way back to profitability?

John Hewitt

Right. So we -- I mean, we continue to manage our cost structure and find balance between what we have in backlog and the timing of that. We know about the timing of it. What's in our opportunity pipeline, the commitments we're making to clients for those projects. And so we're continuing to do that. But today, we do not have any significant planned restructuring things to do.

We've done a lot of that over the last three years. We've focus the company into the markets and the services we want to provide. That focus has allowed us to build this record backlog. We've exited some businesses. We've sold some businesses. We've gotten out of some properties and some real estate that weren't strategic to the future of the company. And so as we continue to add more backlog and start to roll backlog into revenue, I think we're going to start to see our ability to leverage the consolidated cost structure we have, our shared services organizations that we've built over time. And so I think we feel pretty good where we are. But that's not to say, we will continue to find areas, continue to look for areas in the business where we think we can be more efficient.

John Franzreb

Great. Thanks guys for taking my questions. I'll get back in the queue. Thank you.

Operator

Thank you. [Operator Instructions]. And our follow-up question comes from Brent Thielman from D.A. Davidson. Your line is now open.

Brent Thielman

Thanks. I guess, John, sort of look at the book of business here, it's been a massive increase here over the last 12 to 18 months. And it seems to me, based on your commentary, the environment is even better than it was 12 to 18 months ago and just in terms of appetite to spend by customers, at least in most areas. Your burn rate is going to obviously pick up here at some point. But maybe just your thoughts on the ability to build upon a $1.5 billion book of business here just in context of all those things and the fact that you will be burning more work going forward. I'd be curious your thoughts there.

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John Hewitt

Yes. No, that's a good question. So we think our opportunity pipeline is pretty solid on projects that are going to move forward. The timing of getting -- of winning our fair share of those projects as part of the one of the things that we have to handicap. I think they present themselves in both the timing and the size of those projects will give us the ability to maintain a strong backlog, perhaps even in some cases, build -- continue to build on that backlog.

And I think we've been very -- we've been very fortunate to be able to build over the last almost two years, continue to build on that backlog. Remember that the dramatic increase in backlog has happened since the end of Q4 of 2023. And so I think you've been around us long enough that we've said, don't judge us on backlog quarter-to-quarter. Although it's been great that we've been able to build backlog for the last 11 quarters. But it's more of the long-term trend line.

So like you said, as revenues start to flow out of that backlog, we could have a quarter or to where that book-to-bill could be below one, but then the next quarter could be a dramatic increase at the 20 [ph]. And so the projects are out there, both in quality, quantity and size that we feel we're going to be able to maintain in or build on this backlog as we move through fiscal '25.

Brent Thielman

Yes. And I guess I wanted to ask about the quality aspect of it too, and that I think you mentioned direct margins X the under absorption that you just don't have. I think, are pretty good. As you've seen this sort of climate progress, what's that meant in terms of bid margins? And maybe how does that sort of impact your view of what this business can earn as you start to really execute on this? I mean the -- I know the 10% to 12% growth is the starting point, but are there prospects above that based on what you're seeing on the bids coming through today?

John Hewitt

I think on the projects, especially on the larger projects that are coming through the bid funnel today, I think we've seen a return to more historical gross margin opportunities on those projects. And the risk profile for those projects, our ability to make sure we have the right contingency application, escalation applications has returned to more normalized levels. And so we feel good about that.

I mean we still have projects and do day-to-day maintenance work and small projects as part of our overall portfolio of services that have some lower margins in it, but they're strategic why we do it and client relationships for -- to build workforce, to be able to apply those to other projects and higher added value projects. And so I think we feel pretty good about the opportunity to continue to maintain and build a backlog that's got a margin potential that gets back to our historical levels.

Kevin Cavanah

A couple of other thoughts is that the markets we've got, the backlog we've got that funnel, it supports us eliminating the under recovery issue, which has been probably the most significant issue on gross margin percentage. And it also allows us to -- should allow us to be where we're consistently fully recovering overheads just because of the strength of the markets.

Brent Thielman

Okay. Sorry, one more for me, I guess, it's just on the -- it seems as though there's a recognition that there's going to be increased sort of power demands or loan demand kind of going forward, if that seems to be the rhetoric coming out of utilities. And I guess within all that, maybe more of an emphasis on gas is the sort of bridge for power. I know you guys have picked up quite a bit and peak shaving work, but maybe how you see that market going forward? Can it get better than what it's been for you already? And maybe other ways you guys are sort of positioned around that potential phenomenon in using more gas as a power source.

John Hewitt

Yes, really, I think for us, a mid-step kind of look at it like the crude oil business, the midstream down -- into the downstream, I think we're well positioned there, both from gas processing facilities through storage, through LNG, through NGLs both for domestic use and international use. I mean I think we're really positioned well in the market for gas and natural gas liquid related demand in both globally and domestically.

And so I think our positioning is great. I think our ability to provide internally under one brand to be able to provide the cryogenic storage, design, fabrication and construction as well as our ability to deal with the process elements around the storage. For instance, at peak shaving facilities gives us a unique position in that market. And so we see -- we were looking out pretty far.

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But in the near term, there are other LNG peak shaving opportunities in the market over the next four to six months that we will be -- expect to be bidding and proposing on and we'll -- and those projects are good for us. We've got a great brand and reputation in that. We like the competitive set in those markets who we compete against. And so our expectation certainly is on the larger side of those that we should be able to add more of those projects into our backlog.

But also the other thing that's going on in those markets is there's a lot of repair and upgrade projects that are happening to existing infrastructure for all the same market dynamics which creates even almost even a better opportunity for us, even though they're smaller projects, but our ability to go in and inspect and repair existing storage infrastructure to go in and upgrade liquefaction equipment or boil off gas equipment or other pieces of an existing facility.

Again, with our ability to wrap our cryogenic expertise around that really narrows down the competition of someone that can provide a full engineering and construction solution to our clients. And so again, those aren't necessarily big projects. They could be in the sub-$50 million kind of projects, but they're a number of them out there in the near term. And they provide good opportunity for us, good margins, absorbable overheads. And so I think we're very well positioned from increased demand for natural gas and natural gas-related products.

Brent Thielman

Really helpful. Thanks for taking all the question. Best of luck.

John Hewitt

Sure.

Operator

Thank you. And I'm showing no further questions. I would now like to turn the call back over to Kellie Smythe for closing remarks.

Kellie Smythe

Thank you. As a reminder, Matrix will be participating at the upcoming Stifel Cross Sector Insight Conference on June 4th and 5th in Boston. If you'd like additional information on our attendance at this event or would like to have a conversation with management, please feel free to contact me through Matrix Service Company Investor Relations website. Thank you for your participation and time.

Operator

Thank you. This concludes today's conference call. Thank you for participating. You may now disconnect.

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