

# **Vontier Corporation (VNT) Q2 2024 Earnings Call Transcript**

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**Body**

Vontier Corporation (VNT)

Q2 2024 Earnings Conference Call

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Company Participants

Ryan Edelman - Vice President, Investor Relations

Mark Morelli - President and Chief Executive Officer

Anshooman Aga - Senior Vice President and Chief Financial Officer

Conference Call Participants

Julian Mitchell - Barclays

Joe Ritchie - Goldman Sachs

Nigel Coe - Wolfe Research

David Ridley-Lane - Bank of America

David Raso - Evercore ISI

Robert Mason - Baird

Presentation

Operator

Good morning, ladies and gentlemen, and welcome to the Vontier Second Quarter 2024 Earnings Call. At this time, all lines are in listen-only mode. Following the presentation, we will conduct a question-and-answer session. [Operator Instructions] This call is being recorded on August 1, 2024 and a replay will be made available shortly after.

I would now like to turn the conference over to Ryan Edelman, Vontier's Vice President of Investor Relations. Please go ahead.

Ryan Edelman

Thank you. Good morning, everyone, and thank you for joining us on the call this morning to discuss our second quarter results. With me today are Mark Morelli, our President and Chief Executive Officer; and Anshooman Aga, our Senior Vice President and Chief Financial Officer. You can find both our press release, as well as our slide presentation that we will refer to during today's call on the Investor Relations section of our website at investors.vontier.com.

Please note that during today's call, we will present certain non-GAAP financial measures. We will also make forward-looking statements within the meaning of the federal securities laws, including statements regarding events or developments that we expect or anticipate will or may occur in the future. These forward-looking statements are subject to risks and uncertainties. Actual results might differ materially from any forward-looking statements that we make today, and we do not assume any obligation to update them. Information regarding these factors that may cause actual results to differ materially from these forward-looking statements is available on our website and in our SEC filings.

With that, I'd like to turn the call over to Mark.

Mark Morelli

Thanks, Ryan, and good morning, everyone. Thank you for joining us. On today's call, I'll provide a high-level overview of our performance in Q2 and an update on strategy execution as we navigate the current dynamic environment. Anshooman will then provide a deeper dive into Q2 results and conclude with our 2024 outlook update before we move into Q&A.

Let's get started with a summary of the quarter on slide three. Second quarter results were below expectations in a challenging quarter. Elevated macro uncertainty delayed customers' project timing and discretionary spending, impacting orders and shipments at the tail-end of the quarter.

Our fueling and alternative energy businesses both declined mid-single-digits organically, driven by order delays, which pushed shipments into the third quarter. Through July, we've recovered over $20 million of our Q2 shortfall. We continue to see convenience retail operators grow their CapEx budgets. We're also seeing larger new-build projects take priority as the pace of the smaller refresh and retrofit activity slows near-term.

Market activity continues to be healthy, as new site construction projects soak up resources and shorter-term refresh projects push out. Our repair solutions segment also declined mid-single-digits amid a larger-than-expected pullback in discretionary spending by service technicians. While technician wages and employment remain strong, prolonged inflation, macro and election uncertainty and broadening consumer weakness in the U.S. are impacting buying decisions.

We continue to perform well against industry benchmarks, but sales for discretionary product lines slowed more at the end of the quarter and will likely remain under pressure until interest rates move lower and were through U.S. election uncertainties. Despite the headwind from order delays and lower book and turn business, core order growth was approximately 1% and our book-to-bill remained above 1, consistent with the first quarter.

Margins decreased on lower volumes. However, gross margins are up year-over-year as we delivered solid price/cost and productivity and our new product launches are gaining traction with customers. We estimate the headwind from lower volumes equates to more than 100 basis point headwind relative to our guidance range. Given the incremental macro pressures we saw in a couple of our end markets at the end of Q2 impacting order timing, we're lowering our outlook for the full-year.

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As you know, we are pursuing a business simplification program as part of our strategy. We are accelerating actions to optimize our cost structure and have identified $12 million of in-year savings. This is incremental to the $50 million run rate savings we delivered in 2023. Our balance sheet remains strong, bolstered by a solid cash flow generation profile.

We paid down $100 million in debt year-to-date, reducing our net leverage to 2.7 times. We also repurchased roughly $38 million in shares in Q2. We will prioritize share buybacks in the second-half of the year, including an expected accelerated share repurchase program. Anshooman will provide some more details in a moment.

Turn to slide four. As we manage through near-term market dislocations, we remain focused on what is within our control and positioning Vontier for the future. To that end, we continue to execute our connected mobility strategy and driving value-creation through our three pillars, which we outlined at our March 2023 Investor Day. Our strategy is about operational excellence and accelerating growth, capturing secular growth opportunities in our end markets as we deliver more connected, integrated solutions solving high-value customer problems.

Pillar one, optimize our core is about further optimizing our cost structure to expand operating profit margin. We rely heavily on VBS and the 80/20 principles embedded in our focus and prioritization program. While we continue to reduce our global dispenser platforms, we're also focused on subsystem and component harmonization. As an example, we're reducing our hydraulic configurations by half. We've also reduced our manufacturing footprint by over 600,000 square feet with more opportunities for reductions.

Recently, we've opened a new center of excellence in India covering engineering, IT and other support functions. While improving our capabilities, this is enabling us to reduce overall product development and support costs by nearly a third. Our incremental cost reductions are indicative of the runway of opportunities to continue to simplify our business.

Pillar two, expanding our core is about leveraging our current market positions to accelerate growth with a focus on driving share gains through innovation and improving product vitality. We're seeing significant interest in our new FlexPay 6 offering, a fully-integrated connected and flexible payment solution that is uniquely positioned as it incorporates the most up-to-date payment card industry standard, PCI 6.

As an example, we are currently deploying FlexPay 6 to an existing large global retailer to enable a fully-integrated personalized loyalty program designed to drive customer engagement and higher in-store traffic across their entire North American footprint. Further VIS or our vehicle identification system solution, which leverages smart hardware and cloud-connected technology to create an automated payment security offering, continues to gain traction. We were recently awarded a multi-year contract to supply this technology to fueling retailers in the Middle East, and we're currently rolling this out.

And we have a strong pipeline of iNFX-based flexible retail solutions, which continues to build. We are currently in late-stage pilots with several leading retailers in North America. Customer interest in these pilots is strong and extends beyond our initial focus on payment to incorporate loyalty programs and site management applications. We are encouraged by our growing pipeline of opportunities.

Pillar three is focused on pursuing opportunities to expand into adjacent markets with solutions leveraging new and existing offerings. We recently received our first sizable order for our new turnkey EV charging solution, Konect, which is targeted at supporting our large installed-base of C-store customers. The pipeline is growing rapidly.

The build-out of our EV charging infrastructure continues to accelerate, particularly across Europe. We continue to convert charge point operators to our Driivz platform. Through the first-half of 2024, we doubled our ports under management year-over-year to over 85,000, and we're well on track to achieve over 100,000 ports under management by year-end.

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Although we are seeing some near-term weakness in our markets, we are well-positioned in durable attractive end markets with long-term profitable growth opportunities. Our leading market share positions, business simplification opportunities and cash generation profile are bolstering our position and we expect to capture even greater operating leverage as demand accelerates.

With that, let me turn the call over to Anshooman to walk you through the details of the quarter and our updated outlook.

Anshooman Aga

Thanks, Mark, and good morning, everyone. I'll start-off with a summary of our consolidated results for the quarter on slide five. For the second quarter, we reported $696 million in total sales for a core decline of approximately 3%. As Mark noted, sales were impacted by order timing at our environmental and fueling solutions segment and our alternative energy business, as well as lower discretionary spend impacting repair solutions.

Book-to-bill was above one in all three of our segments, with each reporting low-single-digit order growth year-over-year. Adjusted operating profit margin declined by approximately 60 basis points year-over-year, as contributions from positive price/cost and productivity were more than offset by lower volume. This resulted in adjusted EPS of $0.63 for the quarter. Adjusted free cash flow was $26 million, reflecting higher inventory due to the shipment delays and unfavorable linearity of revenue.

Turning to our segment results, starting on slide six. Environmental and fueling solutions core sales declined 5% year-over-year. Shipment delays negatively impacted sales by approximately $30 million, with over half recovered in July. Dispenser sales declined compared to the prior year. Large convenience store operators are prioritizing new-build projects, which have longer construction cycles. Some of this is at the expense of shorter-term refresh and retrofit projects, which is temporarily impacting volume growth, both in the quarter and second-half of the year.

Aftermarket parts sales increased high-teens in the quarter. We continue to leverage a large and expanding installed base and focus on high-value components, accelerating growth in this high-margin offering. Sales of environmental solutions also grew during the quarter, with low-double-digit order growth benefiting from global regulatory tailwinds.

Segment operating profit margins expanded 60 basis points, as we were able to offset lower volumes with positive price/cost, strong supply chain management and operational productivity.

Turning to slide seven. Mobility technologies core sales increased 1% in the quarter, driven by strong demand for payment and enterprise productivity solutions in the convenience retail market, offset by ongoing weakness in our car wash business. Invenco delivered another strong quarter, reporting low-double-digit sales growth. Orders were up nearly 20% for the second consecutive quarter.

Sales for alternative energy solutions declined mid-single-digits, as $6 million of shipments pushed from June and was recovered in July. Demand for our compressed and renewable natural gas solutions remains robust, with orders up 20% in Q2. We expect this business to return to mid-teens growth in the second-half and deliver low-double-digit growth for the full-year.

Sales at our car wash technologies business, DRB declined mid-teens in the quarter, largely as anticipated, driven by continued lower demand in our point of sale and control systems tied to new tunnel car wash sites. This was partially offset by low-double-digit growth in recurring revenue, led by strength in service and aftermarket. Our DRB project pipeline continues to push to the right, given prolonged higher interest rates.

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Notably, our backlog for 2025 continues to build, exceeding our level for the back half of this year. Segment operating profit margin was down approximately 140 basis points versus the prior year, due primarily to unfavorable mix and ongoing R&D investments at Invenco.

Finally, on slide eight, repair solutions core sales declined 5% in the quarter. There was a meaningful pullback in service tax discretionary spend in the month of June. As an example, tool storage sales declined just over 25% in the month. Sales within diagnostics were up low-single-digits, which is a testament to our new product vitality with last year's Max 5 launch continuing to capture market share. Segment operating profit margin declined approximately 500 basis points, driven by lower volumes as well as the timing of bad debt reserves year-over-year.

Looking at our balance sheet and capital deployment on slide nine. During the quarter, we retired our 2024 maturity and ended the quarter with a net debt ratio of 2.7 times, in line with our target of 2.5 times to 3 times. We also completed approximately $38 million in share repurchases in the quarter and $60 million year-to-date. Our balance sheet is healthy with strong liquidity with over $300 million in cash on hand and an undrawn credit revolver.

We continue to believe there is a significant valuation disconnect relative to our long-term growth, profitability and cash generation potential. In the second-half, we expect to deploy a significant amount of the free cash flow we generate to buybacks, including our near-term intent to enter into a $100 million accelerated share repurchase program.

With that, let me provide an update on our thinking for the third quarter and full-year. I'm on slide 10. We expect the macro-environment to remain challenged near term amid continued uncertainty and consumer weakness with higher rates and U.S. elections continuing to delay customer order decisions and discretionary spending. We anticipate top line performance to remain pressured under this scenario, and now expect Q3 core growth to be in the range of minus 2% to plus 2% with margin down 80 basis points to 110 basis points equating to EPS in the range of $0.67 to $0.71.

For the full-year, we expect revenue in the range of $2.9 billion to $3 billion, which reflects a 1% core decline on the low-end and approximately 3% growth on the high-end. With more of our incremental cost actions to benefit the fourth quarter, we anticipate operating margin flat with the prior year to up 50 basis points. EPS would be in the range of $2.80 to $3.00.

Recognizing this is below our prior guidance and with a wider range, we believe our current outlook reflects an appropriate level of conservativeness based on what we are seeing and hearing from customers and channel partners. We thought it would be helpful to provide more transparency into the moving pieces of the top line guide.

We've included slide 11 to help bridge you from the prior sales guidance midpoint to our updated 2024 midpoint of $2.95 billion. Operationally, we're lowering our second-half outlook by $110 million, which we break down for you by segment on the slide.

Turning to slide 12, we've bridged our EPS guidance in a similar manner. Dropping through the $120 million reduction in revenue at a standard gross margin equates to an EPS decline of around $0.29. The savings associated with our accelerated cost reductions equate to a $0.06 benefit. Collectively, a lower share count, lower interest and lower tax and other expenses adds back another $0.05 for a net reduction of $0.18 versus our previous guidance midpoint.

With that, I'd like to pass the call back over to Mark.

Mark Morelli

Thanks, Anshooman. We're continuing to transform our business. We're reshaping our portfolio and have executed a balanced capital allocation strategy at overall double-digit returns. With increasing software and aftermarket sales, we've increased our recurring revenue as a percentage of total sales by over 10 percentage points since spin.

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We are enabling the digital transformation of our customers. A great example of this is the traction we are seeing with our Invenco offerings in payments and enterprise productivity. As we connect, manage and scale the mobility ecosystem, we expect our continued portfolio transformation will enable sustainable growth and allow us to deliver top-tier financial returns.

Despite the slower-than-expected macro-environment near-term, we remain confident in our longer-term outlook. Our end markets are compelling , underpinned by durable secular drivers, and we're advantaged given our leading share positions and strong customer relationships.

With that, operator, please turn the line over to questions.

Question-and-Answer Session

Operator

Thank you. We will now begin the question-and-answer session. [Operator Instructions] The first question comes from Julian Mitchell with Barclays. Please go ahead.

Julian Mitchell

Hi, good morning. And...

Mark Morelli

Hi. good morning, Julian.

Julian Mitchell

Maybe just to start, so it looks like your guidance on the top line, I think it embeds sort of a mid-single-digit type increase in sequential sales in the third quarter and the fourth quarter? And so, maybe just kind of help us understand which of the segments kind of leading or lagging those sequential moves and the sort of confidence in that sequential pickup.

Anshooman Aga

Yes, Julian, maybe I'll get started. Yes, sequentially, revenue will increase from Q2 to Q3 and then again in Q4 . Also, that's a little bit of a typical seasonality. When you look at revenue growth, we will have revenue growth in mobility technologies, both Invenco had strong orders in Q2. They've been up close to 20% now two quarters in a row. So we should see continued growth in our Invenco business. Also ANGI, our alternative energies business, orders were up 20% in Q2. They did have 6 million of shipments that pushed out of June into July itself, that business should have good high-teens to -- mid-teens to high-teens growth in the second -- in the third quarter.

Repair solutions will probably be flat, maybe slightly down sequentially. And Q3, we continue to see that the U.S. consumer is stretched, the higher interest rates, higher inflation is impacting technicians, even though technicians are at record employment, record wages. We've seen them scale back and we ran as part of our diligence survey with multiple -- over 1,000 technicians and also with our franchisees. And that's also what we're hearing that despite working the same or more amount of hours, despite wages being up, they are scaling back because of the high-cost of living.

And then the fueling business should also step-up both in Q3 and Q4, again spend a lot of time doing channel checks and voice of the customers, while some people are prioritizing new to industry and new to industry locations, both greenfield and brownfield continue at a high rate. They have scaled back a little bit on the refresh and retrofit projects, but our customer discussions have led to us believing in our guidance.

Julian Mitchell

Thanks very much. And then just my follow-up on the sort of profit -- operating profit level. So I think you're guiding sort of third quarter, you've got the margins down year-on-year close to 100 bps. It looks like the fourth quarter is back, up year-on-year on the margin front and with a pretty big sequential margin increase in Q4 as well. So I realize on the sequential side, there's some typical seasonality element there. But maybe just trying to understand, it doesn't look like Q4 margin has a lot of tailwind sort of built into it in the guide. Maybe just flesh those out a bit, if it's simply volumes or anything else in there.

Anshooman Aga

Yes, Julian. So yes, volumes do step-up from Q3 to Q4, which definitely helps. But also the 12 million of incremental cost that we talked about in the prepared remarks, that's heavily weighted towards the fourth quarter just from a timing perspective. So that definitely helps our Q4 margins. Sequentially, from Q2 to Q3, our margins will step-up about 90 basis points and then the step-up again in Q4. It's -- also from a compare perspective, Q3 last year was our highest margin quarter. So there is -- Q3 is a tough year-on-year compare.

Julian Mitchell

Great. Thank you.

Operator

The next question comes from Joe Ritchie with Goldman Sachs. Please go ahead.

Joe Ritchie

Hey. Good morning, guys.

Mark Morelli

Good morning, Joe.

Joe Ritchie

Hey. Mark, my apologies if I missed it in your prepared comments. But can you just double-click a little bit more on this like the timing of the order delays that impacted the quarter? What exactly was going on there? And then you referenced this recovery of greater than 20 million in July. What's the expectation for the rest of the quarter? You expect -- you're anticipating more recoveries going forward? And how do you expect to get that?

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Mark Morelli

Yes. Absolutely. Happy to elaborate there, Joe. Look, there's no question we saw some uncertainty in some of the macro that affected some of our end markets late in the quarter. So essentially, this was at GVR and it was also at Matco. And so let me break it down for you. So inside GVR, we had -- as you may remember, a very strong Q1, 10% organic growth. And when we rolled into April, all of our -- we're very close to our customers, a lot of our channel checks, and also working with our distributors who do construction in the industry. They were very busy, very significantly over year-over-year in terms of the construction and the build-out.

So we've seen actually a strengthening in the new construction, which is an appreciable part of the convenience store market in North America and that continues to build out, which is very good for the medium and longer term. But what's happening in the softness is there's uncertainty and sort of the pacing of the refresh retrofit market, not to be confused with maintenance aftermarket parts, which is very much up.

But these smaller projects, folks are pushing out a bit. And so, it's really a pacing issue and we were sort of wrong on that timing on the pacing that developed late in the quarter. So just on that point, what happened in July, it's just a rate issue. Those were all fulfilled in July, most of them and a little bit now in August.

And so, what we're doing with our forecast is we're offering a more prudent outlook that I think is more responsible, given that order rate and timing while we see the new construction build and there's lots of opportunities for convenience operators to continue there.

On the macro front, they came off a record expo in Q1. They were up low-double-digits. They saw kind of across the board even high-ticket items were selling quite well, the new launch of diagnostics that Anshooman made reference to, as well as toolboxes, which we watch very closely was up 15% in Q1, kind of heading into Q2 and kind of tailed off at the very end of the quarter, mostly on discretionary items that service technicians are not buying as much at a rate. So June actually dropped off 25% on toolboxes.

And so that is one of the areas where there's macro uncertainty that is impacting the consumer confidence that service technicians are more in the medium to lower-end of the income range in the United States and they're being impacted by higher inflation costs. Certainly, there -- the cost that is impacting the family is impacting them. But longer term, there's great drivers on macro and we're watching those as well. Vehicle models traveled are up. Also, the total age of the car parc at 12.6 years. And we did a survey -- we're very close to our customers there, but we also did a survey to help corroborate some of the information we get from our channel checks.

And we know that service technicians are going to buy less tools, but they're going to preference productivity items. We saw actually diagnostics continue to increase in the quarter and specialty tools also eked out again. So we know that in -- even in this kind of backdrop, if you can offer more productivity offerings, but we've reflected more of this softness, more of this uncertainty. Once we get past the election on Matco, I think that's going to be a -- release some of the uncertainty there. Certainly interest rates are going to help because folks are living off some of their credit card expenses. So, we think both these are near-term issues that we're reflecting with the prudent guide.

Joe Ritchie

Thanks. Thanks, Mark. That was great and detailed. The one -- the one follow-up I would have for you is that like, look, I think the market is hoping for a few rate cuts potentially by year-end. I guess as you kind of think about the sensitivity of your business to rates and then ultimately what that means for getting back to that 4% to 6% organic growth range, is there any color that you can kind of give us on that specifically?

Mark Morelli

Yes. I think there are certain elements of our business that are certainly impacted by rates, certainly Matco, the service technicians are linked to U.S. consumer there, the uncertainty on rates, no question plays into it. We know that talking with our customers and by the way, we're helping our -- and working very closely with our customers as they roll-out their projects. They're very confident in the new construction build-outs. By the way, these are multi-year projects. This is not an industry that's overcapacity. New venues work much better in the market. They tend to gain more consumers that come to their sites.

And so, there's a very successful new build-out activity and that continues to go at an enhanced rate and there are good returns there. But interest rates might be some of the apprehension in the market, anticipating rate cuts. If you're able to throttle maybe more of the smaller refresh retrofit ones, then it's no question being affected by the timing. And that was something that we didn't foresee as much as maybe perhaps we should have, but I think we're offering that in a prudent guide going forward.

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Anshooman Aga

I'll also add that our DRB business is impacted by the higher interest rates from a new-build perspective. The economics of the car wash are impacted by the higher interest rates. And the pipeline of projects remains strong. People are really interested in this, and we're also starting to see some of this where the backlog for 2025 is already higher for DRB new systems versus the back half of this year with the expectations that interest rates are going to start coming down next year.

Mark Morelli

One thing, Joe, that's encouraging for us is when we are able to compare ourselves to industry benchmarks that are out there, whether it be on Matco where we think we have very favorable compares where we're gaining share. Also on GVR year-to-date, we feel like our leadership position here will come our way, particularly because we are much better positioned in the major players out there in the marketplace and they're continuing to build out that strength there bodes well for growth.

And so, we're very encouraged by that. And we think we're also able to demonstrate coming into this mid-part of the year that we're gaining share in environmental, which is some pretty obvious compares there. And environmental is early innings on a tank upgrade cycle and we're looking at good growth the back end of this year.

So we also have some product launches that are coming that we're gaining traction on in Invenco. So that business is doing much better than it did in prior years and is actually posting double-digit growth and we feel very encouraged by that build-out of that pipeline. So lots of things where our strategy is intact and we feel very encouraged by, but this soft sort of spot in the market and the pacing of the market were reflecting in our guidance.

Joe Ritchie

Perfect. Thank you, guys.

Mark Morelli

Thanks, Joe.

Operator

The next question comes from Andy Kaplowitz with Citigroup. Please go ahead.

Unidentified Analyst

Hey. Good morning, guys. It's actually [Jose] (ph) here on for Andy.

Mark Morelli

Good morning, Jose.

Unidentified Analyst

So for my first question, from your updated sales guidance, it seems like you're expecting mobility to be kind of in the high low-single-digit, low mid-single-digit range for the year. Despite DRB sounding like it went more or less as you expected, when do you see mobility revenues really begin to inflect back to your longer-term high-single-digit range? Could you talk about the path you're seeing there?

Mark Morelli

Yes. I think where we see that's quite encouraging, Jose, is around the pipeline of activity, particularly around Invenco. We have the this new payment kit called FlexPay6 that we talked about that's building strength in the market and we're -- we are very encouraged by the uptake there. In effects, which is being piloted with a number of larger customers is also making great progress. And we have enterprise productivity that also includes this, what we referenced also in the earnings call called VIS. And so, that business we think demonstrates a really good growth driver in mobility technology.

The other thing is that in DRB, the backlog there is certainly being impacted by pushouts in the interest rate environment. But there's not building of inventory in the channels. We're able to take advantage of a lower interest rate environment fairly quickly in that business and it's a leadership position where we're launching new products this year, both to build out of Patheon, as well as a recent announcement of a product line called Catalyst that helps businesses be more productive in car wash.

So that business is a great business. It's just going to take a step back from a very strong 20% to 25% growth rate that we've seen in the last couple of years, but it's a little bit of a digestion period with lower interest rates. So, we feel mobility technologies platform is great. If you look over the last couple of years, it's been making significant progress building out that platform and it's not going to grow as much as we anticipated in the near term, but we do anticipate it coming back to growth based on the strategy that's in place.

Anshooman Aga

I'll just add that if you look at that mobility technology business, the businesses in that segment are on track with our longer-term projections, except for DRB, which this year is holding back to growth. DRB, going into next year, will be an easier compare at least for the three first -- last three quarters of the year. So that should inflect back to a growth next year. And DRB, yes, it stepped back this year, but it's still a great business and a good acquisition. When you think about it, cumulative for the time we've owned it, it's about $50 million to $60 million above from operating profit perspective to our acquisition case and it's still tracking at or slightly above our acquisition case this year.

Mark Morelli

Yes, Jose, one other piece of that platform I'd like to highlight, it is a smaller piece, but it's made really good progress and we're pretty confident in it. It's ANGI. This is the compressed natural gas, renewable natural gas, also layering in some hydrogen orders and shipments there because we've launched that product line. That business, if you look back a couple of years ago, it's 50 million. It's going to be more than 100 million this year. And it's a longer-cycle business. So we're almost fully booked for the year. We're fully booked for Q3. And that business has been digesting a very strong growth rate of over 30% growth.

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So for us, that's managing a growth business. There's a bit of order timing in the quarter. But when you look at Q3, we're fully booked. We're clearly deploying VBS there with our growth capacity that needs to be put in place. But compressed natural gas and renewable natural gas and a couple of orders now coming in on hydrogen, meaning hydrogen is longer term, but a great position. But clearly, what we see here is very good build-out and uptake from customers and just ramping that growth.

Unidentified Analyst

Got it. I appreciate the color there. As a follow-up, I saw on one of the slides, you called out high growth in recurring revenue in the quarter for DRB. Could you take a moment and fill us in on where you're at in terms of recurring revenue now for the company. You guided 30% to 35% by 2026. I would surmise that recurring revenue is still very important to Vontier, not to mention it's usually higher margin. So a, are you on track on the near-term...

Mark Morelli

I'm sorry, Jose, to cut you out there at the end. Can you repeat that in?

Unidentified Analyst

Yes, sure. I was just saying -- no worries. I was just saying, are you still on track for that in the near-term? And is that 30% to 35% still the right estimate to think about?

Mark Morelli

Yes. So I'll add some color and see if Anshooman also wants to jump in. If you look back at our portfolio since then, recurring revenue is up about 10 points. And what's really important there is not only did we shed some of the business that the tower equipment business as an example, not a lot of recurring revenue in it. So about 150 million of shedding of those type portfolio assets.

But we've also built -- our SaaS businesses are certainly growing. The ones that we just talked about here iNFX, which has a very strong pipeline and build out inside of our Invenco business is a clear example. Teletrac Navman is certainly doing better. And inside of DRB and which is specifically you asked that color, where we've been in the process of launching our new Patheon product, which is fundamentally turning that into a SaaS-based recurring revenue.

And we have more than 1,000 software engineers in our business now, which is a big departure from where we were a couple of years ago. So, we're pretty encouraged on that. I will also say the aftermarket parts business in GVR has been a big focus. And that 20% growth last quarter, there was some inventory channel issues in the prior quarter, but this has been a major initiative for us to really attack the aftermarket much more concerted in the GVR business.

And we're benefiting from a larger installed base there based on the build-out, which is clearly advantaged here, but we also have new programs like refurbishment of electronics and we're also penetrating new distribution territories. So, we have a very focused management team on aftermarket as a percent of our sales for GVR. That's definitely on an upswing and we see real legs there as well.

Anshooman, did you want to add any color?

Anshooman Aga

Yes. I'd just add that we are definitely on track for our 2026 targets that we put out at Investor Day from a recurring revenue perspective. And as we innovate and we drive productivity for our customers, that also leads to higher recurring revenue. Simple example is over-the-air updates with FlexPay 6. So that really is a big driver of productivity for our customers, but also a good source of recurring revenue in the future. iNFX has recurring revenue. So we're well on track and we're making good progress and recurring revenue continues to grow.

Unidentified Analyst

Got it. Thanks for the time, guys. Appreciate the detail.

Mark Morelli

Thanks, Jose.

Operator

The next question comes from Nigel Coe with Wolfe Research. Please go ahead.

Nigel Coe

Thanks. Good morning, guys. Hope all is well. Thanks for the question. Just a couple of quick ones on some of the details. I apologize if you already covered these. On the environmental delays, and I understand you've recovered some of those in 3Q, was weather a factor there? Was it labor availability? Maybe just some comments on that?

And then on Matco margins, I think you mentioned timing of reserves. So I'm just wondering how the credit quality is tracking at Matco and whether some of the declines you're seeing, is it demand-driven or maybe you're being a bit more selective perhaps with in light of credit quality? So any comments there would be helpful as well.

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Mark Morelli

Yes. So let me comment on the first one. The weather actually did impact ANGI in the quarter. We were pretty constrained with the capacity for growth there. So, we're constantly pushing on growth. So, we got back-end loaded and unfortunately had six tornadoes in Janesville, Wisconsin that where we have our manufacturing facility there. Thankfully, nobody got hurt, but it took labor out of our equation for the last week of the quarter. We're using more VBS to pull in that capacity more and we're in exercising more outsourcing, so that we don't get as back-end loaded, not subjective to that. So we're pretty happy on that activity, but unfortunately was susceptible to that.

And then on the Matco side, we really see a volume here and more bad debt coming through back to maybe more some of the lows we've seen historically. But overall, the margins are holding up quite well inside Matco. There's no question there's been some discounting, but we're also going back to our supply chain and we're getting some more costs out of our supply chain accordingly.

Did you want to add anything there, Anshooman?

Anshooman Aga

Yes. On a couple of your other parts of your questions, from a GVR or environmental and fueling perspective, it wasn't tied to weather or labor constraints. It was just, as we mentioned on the prepared remarks, we had order timing slip out as some of our larger customers have prioritized new-to-industry greenfield, brownfield projects. It's at the expense of retrofit and refresh projects and these shorter-term projects slipped out from a timing perspective.

And then on Matco margins, yes, we are impacted by bad debt reserves. And as I've said in the past, our write-offs have typically created in a somewhat narrow band. And post-COVID when there was a lot of money flushed into the economy, we were actually trading at the low-end of the band. Last year, we kind of moved to the mid part of the band that we trade in and now we're at the high-end of the band that we've typically had from a write-offs perspective. We're averaging about $2 million of higher write-offs a quarter versus last year. It really started turning towards Q4 last year, but we did see a step-up this year.

And that overall credit quality is pretty good over the last couple of years. We've been working to move up the credit quality. When we look at 60-day past-due balances, they are up versus what they were a year or two ago, but they're still below the credit card industry average, which has traded up to about 2.6 times and a 12-year high for the credit card industry. So, we are trading below that from a 60-day past-due. And that's something we continue to manage. The yields on the portfolio are pretty healthy. We yield about 20% interest on the portfolio. So, it's still a profitable piece of our portfolio.

Nigel Coe

Great. Thanks, Anshooman. That's great color. And then just a quick one on the ASR, the $100 million. Any sense on when you might pull the trick on that?

Mark Morelli

Well, our intent is to go forward, obviously in the near term, otherwise we wouldn't be talking about it. We believe that the -- that this is the right way to deploy capital with a good return backdrop for it. So, we're confident that's the right positioning that we'll take advantage of this near-term softening.

Anshooman Aga

And Nigel, we have to wait for the trading window to also open.

Nigel Coe

Right. Yes, thanks. Thanks, guys.

Operator

[Operator Instructions] The next question comes from Andrew Obin with Bank of America. Please go ahead.

David Ridley-Lane

Hi. This is David Ridley-Lane on for Andrew. And I very much appreciate the transparency here. Just a clarification question. On the 12 million of in-year savings on this restructuring actions, about what portion is sort of temporary versus structural? And what I'm really trying to get at is, what do you think is the full year savings in '25?

Anshooman Aga

Yes. About two-thirds of those savings are structural and permanent and then there's some temporary savings in there, obviously.

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David Ridley-Lane

Got it. Thank you. And then just to check back up on sort of the pipeline of Invenco prospects, how those pilot projects are progressing? Thank you.

Mark Morelli

Yes, David, they're progressing quite well. It's something we're pretty close to their large players that see not only the advantages in payment, but also in some of their enterprise productivity more of a site management capability that incorporates loyalty into that as well. So, we're really happy with the progress we're making on Invenco. I think it's a great platform with fitting the needs that the market really has right now.

So I don't think we're coming up with technology that is needed that is out there, that is sort of pie in the sky. This is absolutely solving their high-value problems of running their enterprises better. And so hopefully, we'll be able to update you with that with some press releases here.

David Ridley-Lane

Excellent. Thank you.

Mark Morelli

Thanks, David.

Operator

Next question comes from David Raso with Evercore ISI. Please go ahead.

David Raso

Hi. Thank you. My question is on DRB. I think you made the comment return to growth in '25. And I recall you mentioned earlier in the call about backlog being up. Can you remind us the size of the backlog roughly the sales in that type of business? And I know it depends if projects being delayed, maybe it's higher than normal. But just trying to get a comfort level with '25 returns to growth in part on the backlog, while of course, I appreciate if rates get lowered, hopefully it releases a few projects to get going. But can you help us a bit with the backlog comment?

Anshooman Aga

Yes. So really, if you look at the backlog, there are two pieces to the backlog. One is the recurring revenue piece of the backlog, where we basically for at least a lot of the long-term service agreements and software support agreements, we have 12 months that we put in backlog. And that part of the business remains strong. The recurring revenue grew low-double-digits again in this quarter. So that business is still growing. Now from the new systems perspective, this is a shorter book and turn kind of a business for us, but we have about 20% of the new systems revenue for next year, I would say, in backlog already.

David Raso

All right. That's helpful. And rates coming down in your mind, is that simply the projects that have been pushed to the right or just to get across the finish line to go ahead and execute the project? Or do you also foresee from conversations in the channel as rates come down, we go back to private equity consolidating the industry, helping your cause for more professional skilled car washes?

Mark Morelli

Yes. So the backdrop on rates coming down is clearly causes some uncertainty. If you step back and sort of understand the trend that has occurred here, we have a leadership position. The industry is being built-out, but also consolidating. And as you mentioned here, David, that's clearly being impacted. Why would people go forward at that same rate or pace, particularly with rates beginning to come down sometime here in the future? And so what we believe happens as the interest rates improve is that there's also that industry will consolidate maybe not the same rate of build-out of new sites as it did because that was pretty frothy.

And in fact, that was something we didn't anticipate how frothy it would get. But we think that it will go back to kind of a normal growth rate, but also the industry consolidation benefits us. We have the leading point-of-sale system out there with all the major players. And as they buy up smaller players, they're going to want to consolidate this because they're looking at better productivity.

The key that this softness in the market has really shown in the car wash industry is that the benefit accrues to the folks that run a good car wash because that can make a big difference on how much cash flow you generate in a year, if you operate a good car wash. So, you're going to want to consolidate your platform, you're going to want better productivity and this comes our way because we're the leader in the industry and we have the tools that enable them to do that.

David Raso

I appreciate the color. Thank you.

Mark Morelli

Thanks, David.

Operator

The next question comes from Robert Mason with Baird. Please go ahead.

Robert Mason

Yes, good morning. It's Rob Mason with Baird. The -- again, appreciate the added detail. That's helpful. Just some of the bridge on your sales guidance. I just wanted to be clear. In mobility technologies, you seem to be a portioning all of the delta in outlook to DRB. I just wanted to make sure that was the case. And is that kind of a net outlook? Had you made any changes to any of the other businesses? It even sounds like Invenco, I'm not sure if it's trending better than expected or not, but some positive commentary there. So is all of the change just within DRB?

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Mark Morelli

Rob, that's correct. All the changes in DRB, the other businesses are tracking as expected. Invenco should be up high single-digits this year. Our ANGI business should be up low-double-digits. EVolve continues to grow at a pretty good clip rate and then Teletrac business, the turnaround continues to progress well and they should be up low-single-digits this year. So all the other businesses are tracking as expected.

Rob Mason

And then just within Matco, I think you also commented just franchisee growth was flat sequentially. How is the backdrop impacting your ability to bring on new franchisees as well? Any impact there and what the expectations are for the year on -- on that component?

Mark Morelli

Yes, Rob. What we've done with our approach on franchisees and really the end of last quarter into this quarter is we started to make a more discerning look that if franchisees were not contributing as much in sort of that lower-end that we were actually going to focus more on taking them out of the network. And we've had more of a fresh approach on how we attract folks in this market.

I think there's no question that there's a little bit of trepidation with folks stepping into a new business with some of this interest rate macro uncertainty that we hope will clear up post-election regardless of who gets elected. But we do feel like we have a new program underway for the back half of this year that we can hopefully gain traction with and hopefully we'll get the benefits of some improving interest rates and some clear up on the election uncertainty.

Rob Mason

Does that result in net growth this year, Mark, in franchisees year-over-year for the full year, or where do we end up?

Mark Morelli

We're looking at growth in the second-half of the year in terms of how that grows out, Q1 was down, we're flat in Q2. So in terms of -- it's total netting out deposit growth, not quite sure, but it's definitely a flattish outlook for full year. What that means there is a recovery in second-half on franchisees.

Rob Mason

I see. Okay. Thank you.

Mark Morelli

Thanks, Rob.

Operator

Ladies and gentlemen, this concludes our question-and-answer session. I'd like to turn the conference back over to Mark for any closing remarks. Please go ahead.

Mark Morelli

Thanks, Kenneth. We continue to make solid progress in delivering differentiated solutions for our customers as they expand, modernize and decarbonize our footprint. Vontier has a unique competitive advantage within the mobility ecosystem. It is purpose-built, and it is a portfolio of connected hardware and software solutions. We call this our connected mobility strategy, and it places us at the forefront of our customers' digital transformation and it also supports our multi-energy infrastructure needs.

And finally, I do want to make comment that we continue to allocate capital in a responsible way, delivering high-return options that deliver value to our shareholders. And I'd be remiss without talking about the efforts of our teams across the world. I'd like to extend a thanks to our teams as their dedication and their focus of delivering on customers and their incredible efforts to incredibly improve our business as well as it's important to recognize their hard work every day.

So with that, we appreciate your continued interest in Vontier. Have a good day.

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Operator

The conference has now concluded. Thank you for attending today's presentation. You may now disconnect.

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