Orion Group Holdings

Q3 2024 Earnings Call

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CORPORATE PARTICIPANTS

Margaret Boyce - *Investor Relations*

Travis Boone - *Chief Executive Officer*

Scott Thanisch - *Chief Financial Officer*

PRESENTATION

Operator
Good morning, and welcome to the Orion Group Holdings Third Quarter 2024 Financial Results Conference Call. All participants will be in listen-only mode. Should you need assistance, please signal a conference specialist by pressing the "*" key followed by "0." After today's presentation, there will be an opportunity to ask questions. To ask a question, you may press "*" then "1" on your telephone keypad. To withdraw your question, please press "*" then "2." Please note, this event is being recorded. I would now like to turn the conference over to Margaret Boyce, Investor Relations. Please go ahead.

Margaret Boyce
Thank you, operator, and thank you all for joining us today to discuss Orion Group Holding's third quarter 2024 financial results. We issued our earnings release after market last night. It is available in the Investor Relations section of our website at oriongroupholdingsinc.com.

I'm here today with Travis Boone, Chief Executive Officer, and Scott Thanisch, Chief Financial Officer. On today's call, management will provide prepared remarks, and then we will open up the call for your questions.

Before we begin, I would like to remind you that today's comments will include forward-looking statements under the federal securities laws. Forward-looking statements are identified by words such as will, be, intend, believe, expect, anticipate, or other comparable words and phrases. Statements that are not historical facts, are forward-looking statements.

Our actual financial condition and results of operations may vary materially from those contemplated by such forward-looking statements. Discussion of the factors that could cause our results to differ materially from these forward-looking statements are contained in our SEC filings, including our reports on Form 10-Q and 10-K. With that, I would now like to turn the call over to Travis. Travis, please go ahead.

Travis Boone
Thank you, Margaret. Good morning, everyone, and thank you for joining our third quarter 2024 conference call. I'll start with an overview of our third quarter results and market update and then I'll turn it over to Scott to cover our financial results.

For the last few quarters, we said that we expected momentum to pick up strongly in the back half of this year, and that did play out in the third quarter. Total revenue came in at $226.7 million and Adjusted EBITDA was $15.2 million, a 62% improvement year-over-year. The $15.2 million in Adjusted EBITDA is higher than the $9.6 million we reported in the entire first half of this year. In fact, 59% higher.

Our top line growth was largely driven by the ramp up of our Pearl Harbor and Grand Bahama projects now that the project delays have been resolved. Also, a number of projects that began during the summer contributed to the strong quarter. Our third quarter results demonstrate the level of profitability our business can generate as we scale and grow. For the full year, we are on target to deliver Adjusted EBITDA in the range of $40 million to $45 million for 2024, which would greatly exceed the $24 million reported in 2023.

We won $116 million in new contract awards in October that will start in the fourth quarter. Here's a few examples of our recent wins. First, Marine was awarded a $30.6 million marine subcontract to support Skanska USA to construct a temporary trestle for the Portage Bay Bridge project, for the Washington State Department of Transportation. This work is expected to begin in the fourth quarter of 2024 with a construction duration of approximately six months for the first phase. We were also awarded an $8.5 million contract for the Port of Houston's Turning Basin North Wharf 16 Bulkhead Repairs. The start date is slated for the fourth quarter of 2024 and will run through the middle of 2025.

In our Concrete business, we won a $18.2 million subcontract award to Harvey Builders for the Ritz Carlton Residences in The Woodlands, Texas. The project is expected to begin in the fourth quarter of 2024 and will extend approximately two years. Our Concrete business continues to win and deliver data center projects.

We now have completed or are working on 29 separate data center projects. We have placed over 300,000 cubic yards of concrete for a total of $176M in revenue on these projects. We are currently working 14 active pursuits. Our strong relationships with key general contractors, our strong performance, and our industry leading safety record are all contributing factors to our success on data center projects.

We have recently received several industry safety awards including the Florida Transportation Builders Association Safety Excellence Award for the NASA Causeway Bridge Project, three awards from the American Society of Concrete Contractors, the Liberty Mutual Insurance Company Gold Safety Award for Outstanding Safety Performance, and two awards from the Associated General Contractors of Houston. These awards exemplify our commitment to safety across our business. Our teams have completed over 9200 site observations so far this year to provide leading indicators and prevent incidents from occurring. Currently, our Total Recordable Incident Rate, or TRIR, is around 0.70 through October. The average TRIR in the construction industry is 2.40. We are proud of our performance on safety and are committed to our people going home safely at the end of every day.

We are actively pursuing several significant projects and are excited about the opportunities ahead. With our pipeline quadrupling from $3 billion last year, we're confident that our diverse markets will accelerate revenue growth. We see this project flow beginning to ramp up in 2025, but we expect 2026 will be the year when we see transformational growth. In preparation for the growth we see coming, we are focused on making investments in people and equipment that will help us capture and deliver the large volume of projects in our pipeline of opportunities.

The recent hurricanes in that hit the southeast have been devastating to large numbers of people and businesses. Our condolences to all those impacted by these storms. We are fortunate to have had only very minor impacts to our people, equipment, and projects. We were able to resume work on our projects quickly and we have picked up several emergency repair projects in Florida.

In closing, we are very healthy across our business. We are delivering at higher margins. We have dramatically improved our cash and liquidity position. We are profitable, and we have a strong growth trajectory over the coming years. Our extraordinarily talented people are all united in their excitement and commitment to continuing to build our company and capturing the market opportunities ahead. Now I'll turn the call over to Scott for a review of our financials. Scott?

Scott Thanisch

Thanks, Travis, and good morning, everyone. Our third quarter generated strong results with revenue increasing 35% over last year to $226.7 million and Adjusted EBITDA increasing 62% to $15.2 million. As we indicated earlier this year, the Pearl Harbor and Grand Bahama projects ramped up in the third quarter and we also had the start of one project that was slated for the fourth quarter accelerate into Q3. This combined to deliver results above our expectations for Q3.

Like last quarter, our revenue mix continued to shift with Marine revenue up 73% and Concrete revenue decreasing 1%. As we have said, the Marine opportunity is immense, and we are intensely focused on winning that work. Our Concrete segment was relatively flat on the top line, but we're winning our fair share of quality projects that meet our disciplined bidding standards of delivering attractive margins.

Consolidated third-quarter gross profit margin increased to $27.1 million or 11.9% of revenue, up from $19.1 million or 11.3% of revenue in the same period last year. The 60-basis point increase in consolidated gross margin was primarily due to improved pricing and execution in both segments.

SG&A expenses were $20.8 million, up from $17.1 million in the comparable period. As a percentage of total contract revenues, SG&A expenses decreased to 9.2% from 10.2%. SG&A dollars increased due to compensation, business development, and legal expense, in addition to one-time costs of process improvement initiatives.

Turning to profitability, adjusted net income was $5.6 million or $0.16 per diluted share in the third quarter, compared to adjusted net income of $1.0 million or $0.03 per diluted share in the prior year period. The third quarter net income included $1.4 million or about $0.04 per diluted share of adjusted items. And GAAP net income for the third quarter of 2024 was $4.3 million or $0.12 per diluted share. EBITDA for the third quarter was $13.5 million and Adjusted EBITDA was $15.2 million. Our Adjusted EBITDA margin was 6.7%, up from 5.6% last year.

During the third quarter, Adjusted EBITDA margin in the Marine segment was 8.2%, compared to 9.0% last year. And Adjusted EBITDA margin in our Concrete segment was 4.3%, up from 2.4% in the third quarter last year. As a reminder, our goal is to generate Adjusted EBITDA margins in the low-double digits for our Marine and high-single digits for our Concrete segment. We have been pleased with the progress of our Concrete segment since they returned to EBITDA profitability last year.

Everything starts with winning the right jobs with good margins. With this better starting point, our project teams have implemented new field practices focused on delivering projects to the customer more efficiently and at better-than-bid margins. Our Marine segment executed well in the quarter, with significant increases in activity on our largest projects.

Moving on to bidding metrics, in the third quarter, we bid on approximately $1.2 billion worth of opportunities, of which we won $159 million in the quarter. This resulted in a contract-value weighted win rate of 13.4% and a book-to-bill ratio of 0.70 times for the quarter. As of September 30, our backlog was $690.5 million, compared to $758.4 million at June 30, 2024 and $877.5 million at September 30, 2023. Breaking out our third quarter backlog, $537 million was in our Marine segment, and $153.5 million was in our Concrete segment.

Turning to cash flow, the business generated $35.2 million of cash flow from operations during the third quarter compared to negative cash flow from operations of $15.1 million in 2023. This huge delta was mainly due to the reversal of working capital on the Hawaii project, which required a cash investment at the start of the project and is now generating cash. We saw most of this reversal in Q3 and Hawaii will continue producing cash going forward.

During the quarter, we took steps to strengthen our balance sheet by raising $26.5 million in a secondary offering. We're now better capitalized and will use the proceeds for general corporate purposes, working capital, and the continued repayment of indebtedness under our credit agreement. We will also be making investments in equipment going forward needed to optimize the demand opportunity ahead. We ended the third quarter with $28.3 million in cash. Total debt outstanding was $28.0 million, and we had no outstanding borrowings under our revolving credit facility at the end of the quarter.

Our sale of the East-West Jones property did not close in September as anticipated due to a delay in the buyer's due diligence. We remain engaged with this buyer and other interested parties. With declining interest rates, we believe we can turn this valuable asset into cash for growing our business, and our stronger balance sheet and liquidity gives us more flexibility and time to strike the right deal.

For the full year 2024, we are on target to deliver revenue in the range of $850 million to $900 million and expected Adjusted EBITDA in the range of $40-$45 million. With the additional shares from our secondary offering, this translates to a range of -$0.10 to $0.04 for GAAP EPS and $0.11 to $0.22 for adjusted EPS.

As we prepare for 2025, we have already executed some important initiatives that will enhance our company's efficiency and productivity. During the third quarter, we hired a leader to head our newly created procurement group. This individual will serve the whole company by achieving economies of scale through more efficient and coordinated procurement of materials and resources.

Over the last few quarters, we've been implementing new IT tools and processes for our operations and our back office. These tools will share information and provide insight into the progress of our projects, improving our ability to effectively manage these projects on the ground. We've also been migrating our business segments to the same financial platform, which will greatly improve our line-of-sight across the entire business. This implementation is largely complete and now in the testing phase with a handful of projects. We plan to 'go live' in January so we can start the new year on the new systems. We're prepared and excited for 2025 and plan to provide our outlook for the year when we report our year-end results in March. With that, we'll open up the call for questions.

QUESTION AND ANSWER

Operator
We will now begin the question and answer session. To ask the question, you may press "*" then "1" on your telephone keypad. If you're using the speakerphone, please pick up your handset before pressing the keys. To withdraw your question, please press "*" then "2." At this time, we'll pause momentarily to assemble our roster. Our first question will come Aaron Spychalla with Craig Hallam. You may now go ahead.

Aaron Spychalla
Yeah, good morning, Travis and Scott. Thanks for taking the questions. Maybe first for me, can you just kind of give a little bit more detail on the bidding environment? You know, backlog was down a little quarter over quarter. I know you've talked about, you know, exiting the year with

higher backlog. Sounds like you're starting to see the bidding activity pick up here. Funding start to hit the market. But was just hoping you could elaborate a little bit on that.

Travis Boone
Good morning, Aaron. Yeah, so the bidding environment has been strong. I wouldn't say it's hot, but it's strong. Been holding steady. As you can tell from our backlog, we've been, you know, keeping a fairly backlog -- fairly steady backlog throughout the year. It's we've got several big pursuits that look like they're lining up for the first quarter for awards. So it's looking like a fairly steady year. And then, you know, like I said, quite a few lined up for 2025, so generally good and getting stronger.

Aaron Spychalla
All right. Thanks for that. And then, you know, just maybe on the Navy in particular, can you give us an update there on, you know, just how you're thinking about that opportunity progressing, what that can look like for you here in the coming years?

Travis Boone
Sure, still very bullish about Navy opportunities in the Pacific. Lots of big opportunities out there that we're lining up for. You know, a year ago, we thought there would be a couple of big pursuits with the Navy and 2025. Looks like with the way congressional funding rolled out, some of those will be probably later in 2025.

So you know, as far as big Navy opportunities, I think they're -- while there's, you know, we're, like I said, still very bullish about the opportunity over the next five years or more, the big opportunities that we're looking at will likely be late in ‘25 for pursuits.

Aaron Spychalla
All right, understood. And then just maybe last for me on CapEx, can you kind of talk about the outlook there, as you look to kind of bring in more equipment to capitalize on this opportunity, how you’re thinking about it for this year and as we look towards 2025 as well?

Scott Thanisch
Yeah, we've been, you know, looking at ways in which we could acquire some of the equipment that we think will drive our growth in the future, and have our eyes on a few items. I think we can find ways to complete those transactions in the very near term, we're going to be looking for ways to do that. We've got a strong balance sheet and good liquidity right now to make those investments. So we anticipate that we're going to be increasing our CapEx spending going into next year as a result of that drive to kind of prepare for growth.

Aaron Spychalla
All right, understood, thanks. Thanks for the color. I'll turn it over.

Scott Thanisch
Thanks.

Travis Boone
Thanks. Aaron,

Operator
Our next question will come from Julio Romero with Sidoti and Co. You may now go ahead.

Julio Romero
Great. Thanks. Hey, good morning, Travis and Scott.

Travis Boone
Hey, Julio.

Julio Romero
Maybe to start on -- hey, good morning. On the concrete side, specific to data centers, you mentioned you completed or are working on 29 separate data center projects. Maybe, if you could help us frame that figure a bit is that 29 projects kind of post COVID to date, year to date? And maybe any frame of reference of, how did that -- how does that compare to prior periods.

Travis Boone
Yeah, that's a total number that we've worked on over the last probably five years or so. A large number of them, though, have been in the last couple of years. And this year we've been bidding and working on more than ever. So it's been a pretty, pretty rapid increase, starting kind of last year. I don't know the exact number, honestly, for this year, but it's been quite a few of them.

Some of them have been very large. Some of them been on the smaller side and we've got, I think, 14 active pursuits right now. Most of those are in North Texas, but there's also several in other states outside of Texas, where we're, you know, going with key partners who have asked us to follow them into other states. So the environment on the data center side of things is pretty hot. You may remember, I think three months ago, I said we were at 24, so there's been 5 of those added in the last few months. So it's been, been quite heavy active on the data center side. And again, besides, size ranges vary pretty, pretty significantly. Some are some are small. Some are very large.

Julio Romero
Got it. That's very helpful there. And then, you know, I wanted to ask about the really impressive cash flow you did in third quarter. Scott, I think you mentioned much of that was due to Hawaii generating cash, and that Hawaii Cash Generation should continue in 4Q. And so just given that expectation, how do you kind of -- how should we be thinking about cash flow for Orion overall to shake out in the fourth quarter?

Scott Thanisch
Yes, we did have a great cash flow quarter, and it kind of lined up the timing on some of that Hawaii revenue as well. So I think that we're going to continue to see cash thrown off of the Hawaii project. We won't see a fourth quarter Cash Generation, you know, at the same levels in the third quarter, but still generating nice cash flow on the operating line as we finish out the year.

Julio Romero
Okay. Excellent. And then just last one for me would be kind of staying on cash, a little bit is you have a bolstered balance sheet. You generated really strong cash. And you talked about earlier, about, you know, some CapEx deployment for your growth plans. If you could just give us a quick kind of refresher on, you know, how you're thinking about capital allocation overall, you know, kind of growth versus debt repayment versus other in the near term, and kind of just size that up for us there.

Scott Thanisch
Yeah. So, you know, obviously, with the stronger balance sheet that we have after the secondary offering and the strong cash flow that we've achieved in the third quarter, we're thinking about the

ways that we ought to be structuring our capital going forward. You know, our net debt right now is zero, so we have options that we can think about the ways that we can move forward. We do think that with our improved credit position and stronger balance sheet that we've got a pretty good hand to play as we talk to our existing lender about how we modify the agreement to move forward to make it better suited to give us the flexibility we need for growth. We see a lot of opportunity to potentially put money into equipment in the near future, and I think that that's going to be able to drive the top line and earnings faster. So, you know, we want to generate internally the cash flow that we need to drive those investments, and that's our primary focus.

Julio Romero
Excellent. Well, thank you for all the color, and I'll pass it along.

Travis Boone
Thanks, Julio.

Operator
Our next question will come from Min Cho would B Riley Securities. You may not go ahead.

Min Cho
Hi. Good morning, Travis and Scott.

Travis Boone
Morning.

Scott Thanisch
Morning, Min.

Min Cho
So just a question on potential impact from the hurricanes. Can you talk about any positive or negative impacts on your business? I know you talked about some emergency work in Florida post the hurricane, but I'm assuming that's more kind of 4Q. Wondering if there's any negative impact to your concrete margins, specifically.

Travis Boone
No, we don't anticipate. I mean, we were, you know, we were -- the last hurricane kind of was teed up on Tampa, and then made a slight turn to the south, which was fortuitous for our business. So we, we were spared major impacts to our yard and our equipment and our people, quite frankly, and our project. So that was a few days of kind of shut down while in preparation for the storm. And then, after the storm was over, we were able to get right back to work. And pretty minimal impact.

You know, we had, we had a, you know, some a little bit of roof damage in our yard. And, I mean, it was very minor type damage that we had. Didn't even meet our insurance deductible range. I mean, pretty, pretty minor stuff. So we were very fortunate to escape two major storms, pretty, pretty well. And again, you know, people able to give it right back to work. And so it was good for us. And then there were some damage to some of our customers' facilities in the -- specifically in the Tampa Bay area that we've, we've been helping them with and kind of jumping in to help them. None of them are, you know, huge major projects, but able to help our customers in time of need is important to us.

Min Cho

Okay, that's good to hear. Just wondering. I mean, it sounds like you're kind of reiterating your pipeline of opportunities around $13 billion. Just wanted to make sure that was still the case, and if you're seeing kind of any increased opportunities, especially on the data center work.

Travis Boone
Definitely the data center work is like every day there's more coming in. The Data Center work is definitely, as I said earlier, pretty hot and continuing to pick up. As far as our pipeline goes, it's definitely holding strong. I don't the exact number is, but it's in the 13 --

Scott Thanisch
-- Yeah, 13, 14 range --

Travis Boone
-- $13, $14 billion range. So lots of, lots of good opportunities lined up for, you know, the next couple of years.

Min Cho
Okay, perfect. And then just a final question on kind of your SG&A outlook. So it sounds like you're definitely investing in equipment through CapEx, and you mentioned investing in people as well. Any guidance in terms of what we should expect in 4Q as a percentage of revenue or in dollars, and looking out into 2025, as well?

Scott Thanisch
Yeah, we expect the dollar figure in the fourth quarter to be kind of similar to what it was in the third quarter. As we complete our investments in systems and process changes, it should be at about that level. And then going into next year, then we'll give you a little more guidance then as to what that looks like.

Min Cho
All right. Thank you.

Scott Thanisch
Thanks, Min.

Travis Boone
Thanks, Min.

Operator
Again, if you have a question, please put “*” then “1.” Our next question will come from Jason Ursaneror with Bumbershoot Holdings. You may now go ahead.

Jason Ursaner of Bumbershoot Holdings
Good morning. Thanks for taking my question. It was a rough end of the World Series last night had James Earl Jones recently passed away in September, and just got me thinking about Field of Dreams and that famous speech. You know, it's like the growth will come, Travis. They're going to come to the Gulf, the Pacific for reasons they can't even fathom. You know, turn up your doorstep, give you the money. But so being serious --

Travis Boone
-- If you build it, they will come, right?

Jason Ursaner of Bumbershoot Holdings
Well, it doesn't seem like there's any contention on the demand side, longer term, which I think is pretty rare and desirable, I would say, in this market. But so the real question kind of seems to be coming down to execution and credibility and the ability to do the jobs, the people, the equipment, the bidding expertise. So assuming you can capture the market opportunities that are ahead for the next year or the next decade, sounds like maybe even longer, I guess, what's still giving you the confidence sitting here today or what is your confidence level that that's going to translate into some of the profitability metrics and margin expectations that you previously laid out, or maybe will be laying out, particularly in the in the marine segment?

Travis Boone
My confidence is unchanged. If anything, it’s higher than it was a year ago. So really confident about the market and our ability to capture it, and our ability to capitalize and kind of continue to improve our margins and performance as we scale our business and grow. So we're, you know, we're headed for some really great things. You know, I think this, the one thing that is, you know, for -- I think from the investor side, there's some, you know, concern when, you know, we have a year like this one, where there's some things, you know, didn't quite go our way, but everything played out like we said it would. Right?

We we've been saying from the beginning of the year is going to be slow, a slow first half and a really big second half. And that's exactly how things are playing out. And you know, construction is a bit of a lumpy business, and but we're going to take it as, you know, take things as they come, and capitalize on every opportunity we can and minimize the downside every opportunity we can. So I think we're feeling really good about things going forward and looking forward to building this company into what it can be, and kind of capitalizing on potential.

Scott Thanisch
Yeah, and this is a different company than it was two years ago, and the investments that we've made in improving the operational performance and improving our ability to go win work and drive business, I think it's really starting to pay off and bear fruit. We're just excited to see that continue.

Jason Ursaner
And just maybe, what have you guys communicated in terms of potential margin expectation on the marine segment at a certain scale? Trying to go back at some of the quarters, kind of, what was the target level there?

Scott Thanisch
Yeah, the target levels that we've talked about the low double digit, even the margins for the Marine business, we see that as being kind of at the scale where, you know, we expect to be over a billion dollars in revenue in the near future. So once you kind of get to that level in size, and you get the operating leverage from spreading our fixed costs over more projects, then that's when we'll see those markets.

Jason Ursaner
Awesome. All right. Well, thanks. Thanks very much, and congrats on a nice quarter.

Travis Boone
Thanks, Jason,

CONCLUSION

Operator
Again, if you have a question, please press “*” then “1.” It appears there are no further questions. This concludes our question and answer session. I would like to turn the cost back over to Travis Boone for any closing remarks.

Travis Boone
Thanks. Thank you all for joining our call today. I want to take this time to thank our employees for all their hard work and spending, you know, working a lot of hours out in the elements and enduring a lot of different factors, including weather and other things. So thanks to our employees for everything they do every day, and thanks to all of our stockholders for believing in us and having confidence and what we can do. We look forward to speaking with all you guys again next quarter.

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