NASDAQ:BWEN Q2 2025 Earnings Call Transcript

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Eric Blashford | Chief Executive Officer:

This is a welcome to Broadwind Second Quarter 2025 results conference call. At this time, all participants are on a listen-only mode. A question and answer session will follow the formal presentation. If anyone should require operator assistance during the conference, please press star zero on your telephone keypad. And be reminded this conference is being recorded. I would now like to turn the conference over to your host, Mr.

Tom Cicroni | Vice President and Chief Financial Officer:

Tom Cicroni. Thank you. You may begin. Good morning and welcome to the Broadwind Second

Eric Blashford | Chief Executive Officer:

Quarter 2025 results conference call. Meeting the call today is our CEO, Eric Blashford, and I'm Tom Cicroni, the company's vice president and chief financial officer. We issued a press release before the market opened today, detailing our second quarter results. I would like to remind you that management's commentary and responses to questions on today's conference call may include forward looking statements which by their nature are uncertain and outside of the company's control. Although these forward looking statements are based on management's current expectations and beliefs, actual results may differ materially. For discussion of some of the factors that could cause actual results to differ, please refer to the risk factors section for our latest annual and quarterly filings of the FTC. Additionally, please note that you can find reconciliation of the historical non-gap financial measures discussed during our call in the press release issued today. At the conclusion of our prepared remarks, we will open the line for questions. With that, I'll turn the call over to Eric. Thanks, Tom, and welcome to those joining us today. We continue to advance our strategic priorities during the second quarter. Prioritizing our focus on high value precision manufacturing and markets. While moving toward a leaner or diversified business capable of delivering profitable growth through the cycle. Second quarter revenue increased on both a sequential and year over year basis driven by increased demand from the wind and industrial verticals. In June, we announced the pending sale of our industrial fabrication operations in the Palau, Wisconsin. This represents a meaningful step toward further optimizing our asset footprint, improving our balance sheet flexibility, and sharpening our focus within stable higher margin precision manufacturing verticals. We are on pace to complete this transaction in the third quarter and expect it will add approximately $13 million of cash to our balance sheet. While reducing costs by $8 million annually. Customer activity continues to accelerate with order rates rising 14% year over year to $21 million. Robust demand from power generation and increasing demand from oil and gas customers offset softness in wind, industrials, and mining. These market dynamics reinforce the importance of our diverse customer base, especially during sustained periods of US trade policy uncertainty. Orders within our heavy fabrication business were adjusted to reflect the estimated backlog that will be transferring with the sale of the Manuswap operation. In the second quarter, we also received the final purchase order belief against the long term customer agreement we entered into in early 2023. So new power orders for that customer will add to backlog. During orders continue to rebound, increasing 45%. As we continue to see strength in power generation and some resurgence in the oil and gas aftermarket. In July, this momentum continued as we received a fall on order for $6 million of gearing products for the power generation market. This acceleration in order activity is a direct result of the investments we made in capabilities and quality verification in this business. In Q2 2025, orders within our industrial solutions business remain very strong. More than tripling year over year, driven by strong demand for new gas serving units as well as upgrades and services. We're pleased to have set another record for both orders and backlog in this segment. Operationally, we continue to invest in equipment technology to improve our and improve our profitability. In the second quarter of 2025, margins were temporarily impacted by early production process inefficiencies at our mannus, loss and ebony facilities and lower capacity utilization levels within our gearing segment. We expect profitability to improve as production normalizes throughout the duration of the year. In the industrial solution segment, we are investing in additional manufacturing capacity in order to service our current backlog and the future customer demand in the rapidly growing gas power generation equipment market. Within our heavy fabrication segment, Q2 revenue grew year over year, primarily due to an increase in wind towers and repiling adapters sold offset by lower demand from the mining market. Revenue in our gearing segment fell year over year due to lower demand from the oil and gas gearing market, partially offset by strength in the mining and industrial sectors. We've taken further cost actions to align production capacity with the present demand levels while maintaining the key manufacturing and engineering talent required to accommodate the increasing order intake we're experiencing this year. Within industrial solutions, we saw growth year over year, primarily due to stronger shipments into the new gas turbine equipment market. In summary, the team and business continue to perform well as we sharpen our focus within adjacent higher margin precision manufacturing verticals. Recent strategic actions to the best of our main swap facility will position us for increased balance sheet strength and optionality by reducing overhead costs materially. While the trade policy environment remains volatile, our 100% domestic manufacturing base remains a key competitive advantage, positioning us to partner with Tier 1 OEMs who value our commitment to quality, on-time service, and deep technical expertise. With that, I'll turn the call over to Tom for discussion of our second quarter financial performance. Thank you, Eric. Turning to slide five for an overview of our second quarter performance. The second quarter consolidated revenues of $39.2 million, an 8% increase versus the prior year period. During the second quarter, we restarted Manitowoc tower production for a limited customer run ahead of the planned asset sale and recognized increased requiring revenue in both our Manitowoc and Amblin facilities. Sequentially, revenue was up nearly 7% due to stronger deliveries within our industrial solution segment as we resolved some of the temporary supply chain headwinds that impacted the first quarter. Despite an increase in revenue, second quarter adjusted EBITDA declined to $2.1 million versus the prior year at $3.6 million. Adjusted EBITDA margin dropped to 5.3%, due primarily to lower capacity utilization within our dealing segment, manufacturing inefficiencies associated with the construction of a new larger wind power design in both the Manitowoc and Amblin facilities and additional labor to support increased volume within the wind and power generation verticals. U2 ordered total $21 million, an increase of 14% versus the prior year's second quarter driven primarily by stronger demand for natural gas tubing content serving power generation markets in our industrial solution segment. Turn to slide six for discussion of our heavy fabrication segment. Second quarter orders of $0.2 million were muted given the timing of wind related orders and the fact that we're winding down operations within our Manitowoc facilities. It should be noted that during the second quarter we received purchase order releases satisfying the volume associated with the long-term customer supply agreement that we announced in January of 2023. Going forward, purchase orders received from that customer will again be recognized as orders and incremental backlog. Second quarter revenues of $25 million are up 27% versus the prior year quarter driven by an increase in Zinn power section sold as we restarted Manitowoc power production on a offset by lower demand for mining customer. Despite an increase in revenue, second quarter segment adjusted even if it was flat versus prior year at $2.8 million due to the manufacturing headwind previously mentioned. Turning to slide seven, year orders of $6.8 million were up over $2 million versus the prior year period. Of note, we received follow-on orders from a significant customer serving the power generation market, whom in July we subsequently announced a multi-year supply agreement for gearing products to be used in natural gas turbines. In addition, oil and gas order growth accelerated for the second quarter in a row as we may be benefiting from on-shoreing in reaction to recent U.S. trade policies. Segment revenue was $7.3 million. Up sequentially, but down over $3 million versus the prior year quarter, recognized an adjusted EBITDA loss of $0.1 million driven by lower revenue and reduced capacity utilization. Turning to slide eight, industrial solutions recorded nearly $14 million of orders during the second quarter surpassing the previous $10 million record achieved last quarter. Segment participates in the natural gas power equipment industry, which is experiencing a significant resurgence driven by the increasing demand for reliable and flexible power supply. Segment backlog also fits a new record high of nearly $30 million at the end of the second quarter, eclipsing the previous record of $23 million, citing Q1. This quarter represents the third quarter with record order and backlog levels. Q2 segment revenue was $7.4 million, up 30% sequentially as much of the supply chain had been impacting shipments in the first quarter were resolved during Q2. Revenue was up 14% versus the prior year second quarter, but adjusted EBITDA of $0.7 million was down slightly from the prior year due to a lower margin mix of products sold, as well as additional overhead to support increased production volume. Turning to slide nine, the end of the second quarter with total cash and availability on our credit facility of approximately $15 million. Line of credit borrowings increased during Q2 to support a nearly $14 million increase in operating working capital. This working capital increase was driven most notably by our deposit balance returning to more normal operating levels while our inventory levels increased in response to higher wind related production levels. We expect that inventory levels will decrease in the third quarter. Finally, with respect to our financial guidance, in connection with the pending asset sale of Man's Lock and related operations, we are suspending our previously issued financial guidance for the full year 2025. We intend to reinstate new financial guidance, excluding contributions from Man's Lock upon closing of the transaction which is expected during the third quarter of 2025 consistent with prior expectations. That concludes my remarks. I will turn the call back over to Eric to continue our discussion. Thanks Tom. Now allow me to provide some thoughts as we move into Q3. We continue to refocus production capacity towards stable recurring revenue streams across the verse end markets with recent yearning wins in the power generation markets and growing opportunities in a large utility scale natural gas turbine. We continue to see robust quote activity in both gearing and the industrial solution segments. In our gearing segment, we continue to execute a strategy to move beyond traditional gearing for other precision machine products. The recent pleasurable orders we received from the power generation sector are evidence that a strategy is working. We're pleased with the increasing level of customer activity we're seeing in various new markets including infrastructure support such as cement plants and aggregate material processing among others. In industrial solutions, the giving and growth of the natural gas turbine industry is having a positive commercial impact on our business. In Q2, we eclipsed the quarterly bookings record that was previously set in Q1 2025 by over 3.5 million dollars and established a new record quarterly backlog. Due to strong demand for power worldwide, our key customers are adding significant production capacity in order to meet both the and foreseeable future demand. In order to take full advantage of the significant growth opportunity within our industry, we're investing in the necessary personnel and equipment such as adding robotic welding, expanding painting and the shearing capacity, and upgrading testing equipment to meet the higher demand level and to maximize our growth opportunities within this dynamic market. We believe that our current actions will position us to capitalize on the opportunities to grow and expand within this high growth market. In our heavy fabrication segment, we've expanded our service and commercial teams for our clean fuels TRS line to better serve the DJ basin and Bakken regions. This includes adding a cold weather performance package for the climate in each region. Our L70 low flow unit has performed well in field trials and is now available to purchase, lease and rent. The addition of this product complements our current product offerings, which are the medium and high flow units, to meet the various gas delivery requirements of our customers. We've just completed our first field startup on a medium flow M125 export unit through a key distribution partner. And we're excited about the opportunities that this could bring over time. We believe that domestic onshore wind power activity will continue at its present rate, three, 2026. We are encouraged by the continued momentum in the wind requiring market as we are seeing sustained demand from our OEM customers for the adapters we manufacture, which are required to upgrade most LAC turbines. In our view, the recent policy announcements from Washington provide clarity for our customers, which they need to confidently move forward with projects. We have good visibility for tower production through the balance of 2025 and into 2026. In summary, I'm pleased with the order growth and strategic actions we've taken this year as we continue to demonstrate strong execution of our strategic priorities. Our divisions are well positioned to support the nation's growing need for power generation and infrastructure improvement, which we see as long-term opportunities for us. Our quality, quick response, and ability to solve complex manufacturing challenges for our customers continue to help us win new opportunities, notably within the engineering and industrial solutions businesses. We're reducing our cost structure, investing wisely, and taking strategic actions to refocus our resources toward higher value and growing end markets. We value our people and are committed to keeping them safe, fulfilled, and productive. All of our plants are U.S. based, so we're prepared to capitalize on any opportunities afforded by the pro-domestic manufacturing quality backdrop afforded by the current administration. We're encouraged that our order intake continues to grow, positioning us for improved utilization of a manufacturing footprint for the rest of the year and into 2026. As we strengthen our foundation for steady, profitable growth, serving the power generation, infrastructure, and other key markets with high quality, precision components and proprietary products that capitalize on improved demand in the years ahead. With that said, I'll turn the call over to the moderator for the Q&A session. Thank you. At this time, we'll be conducting a question and answer session. If you'd like to question, please press star one on your telephone keypad. The confirmation phone will indicate your line is in the question queue. You may press star two if you'd like to remove your question from the queue. For participants using speaker equipment, it may be necessary to pick up your handset before pressing the star key. One moment

Tom Cicroni | Vice President and Chief Financial Officer:

please while we poll for questions. Our first question comes from Justin Clare with Ross Capital Partners. Please proceed with your question. Good morning.

Justin Clare | Analyst, Ross Capital Partners:

Thanks for the time here.

Tom Cicroni | Vice President and Chief Financial Officer:

Morning Justin. Morning.

Justin Clare | Analyst, Ross Capital Partners:

Morning. So first, I just wanted to start on the guidance. I wanted to see if you could just expand a little bit on the uncertainties that may be created by the Manitowoc sale, whether it's timing related or whether your revenue or margins could be affected by the sale. And then just beyond that, are there any other uncertainties within the business that is making it more challenging to provide guidance for the remainder of the year here?

Eric Blashford | Chief Executive Officer:

Yeah, thanks for your question Justin. I think it's mostly related to timing. There's some uncertainty in terms of when we will close. There's not any uncertainty about closing. The timing is a little up for grabs. So that will impact the amount of industrial fab revenue that we're ultimately able to recognize and realize. So yeah, it's mostly timing. There are also some transitional costs that we'll be incurring as a result of winding down the operations in Manitowoc. So we'll be shipping some materials down to Abilene. We're incurring some legal costs. So we're vetting all that out and we just want to be prudent and accurate with our guidance.

spk00:

Got it. In terms

Eric Blashford | Chief Executive Officer:

of other phenomenon that you're talking about, I don't think there's anything, any other reason why I was, you know, in any other business units that we pulled the guidance.

Justin Clare | Analyst, Ross Capital Partners:

Got it. Okay, I appreciate that added detail there. And then just on industrial solutions, you know, record orders, your backlogs up I think more than 100% here. So just wondering if you could speak to the visibility you have and to additional demand, you know, is your visibility improving in terms of, you know, the when you see orders and the time frame expected for the delivery of those orders? And then maybe you just speak to the capacity you have to fulfill the demand and whether there's anything that you need to do in order to expand.

Eric Blashford | Chief Executive Officer:

Yeah, thanks, thanks Jeff. And this is Eric. I'll take that call. So industrial solutions primarily services the large gas turbine markets and those are over 100 megawatts. The so far this year through through Q2, the market sold 93 units versus 21 units last year at the same time. That's four times up. You know, our customers vary but our largest customer is GE Branova in that and they are dominant in the field. We do see visibility with that customer again based on their reporting for several years out. We do follow that. We do talk to that customer frequently. They're saying that they've got visibility up through 28 and beyond that and they're increasing their own capabilities to produce these turbines. And so that would that would drive demand for us. When we see orders taken in the market it's about a 12 to 18 month lag time before we see orders because it just takes some time for these things to get to get set up. As far as available capacity, we do have the capacity. We've got room in that facility in Sanford, North Carolina. We also have the ability to expand into an adjacent facility and really just become continuing to increase our capabilities. That's where we talked about with our welding, our paint capacity, some machine capacity, some testing capacity and then it's all about material movement. So we do believe we can achieve this increased volume by handling.

Justin Clare | Analyst, Ross Capital Partners:

Got it. Okay. And then just as you expand the business here, wondering if you could speak to the margin profile and whether, you know, as a result of operating leverage you may have, you could see an expansion in margins over time here.

Eric Blashford | Chief Executive Officer:

Yeah, I think that's reasonable to assume. I mean, you know, we have a fairly large fixed cost structure and, you know, the more fixed, you know, fixed cost coverage that we get from increase in revenue, pick up in revenue definitely helps us. So it's for us a big factor in our profitability as utilization.

Tom Cicroni | Vice President and Chief Financial Officer:

Okay. Got it. All right. Thank you. I'll talk you on. Thank you, Justin.

Eric Blashford | Chief Executive Officer:

Our next question comes from Amit Dayal with HCWayne Wright. Please proceed with your question.

Amit Dayal | Analyst, H.C. Wainwright:

Thank you. Good morning, everyone. And, you know, congrats on sort of continuing to, you know, put together good causes despite the lagging together safety. In that context, you know, what else is being done to maybe capitalize on, you know, the growing demand for the power generation type of things? Like, are you adding more folks on the sales side? I just wanted to see, you know, how that pipeline is being built up or, you know, what you are thinking strategically you could take advantage of to, you know, participate maybe in a bigger way in that opportunity.

Eric Blashford | Chief Executive Officer:

Well, thank you. Thank you, Amit, for that question. We have with in our gearing segment really expanded our independent sales rep organizations across the country. We now have pretty good representation west of the Rockies, which we hadn't had before. We brought in some new reps that are actually on our payroll that have specificity in market rights, cement and in aggregates and to a lesser extent power generation. But with regard to taking advantage of that, I think it's capacity increases that we have done in industrial solutions and in the gearing market. Also the TRS, which is a proprietary product within compressed natural gas, we released that product, the L70, which is the lowest volume, lowest power unit, and that's really ideal for backup power supply support. So I think the more that that product is accepted in the marketplace and proven, I think that will help us expand opportunities within power generation.

Amit Dayal | Analyst, H.C. Wainwright:

You mentioned there's a new power order that I'm not sure if that is showing in the backlog you highlighted in the earnings release. How big is this new power order?

Eric Blashford | Chief Executive Officer:

Well we were talking about the manufacturing challenges that we had with a power order, small power order that we were building in Nanosawak. That order was received right late last year and we're producing it this year. That's the one, it's a very large power with very thick steel. It's actually twice as thick as the normal steel we produce. It's presented some challenges for engineers to make sure that those cans that are made out of that thick steel can be moved appropriately to construct a wind power. That's what we're trying to do. One of the things we did say is that at the end of the quarter, quarter two, we have completed the long-term agreement we had with one of our key OEM partners and that had always been in backlog for the last few years and so as we were receiving PO releases against that order, they weren't counting as new orders because the order was already in backlog. Since we've not completed that, new orders, in fact orders that we received in July and beyond, will count as new orders and new backlog. That was also referenced in my prepared remarks.

Amit Dayal | Analyst, H.C. Wainwright:

Okay,

Tom Cicroni | Vice President and Chief Financial Officer:

understood.

Amit Dayal | Analyst, H.C. Wainwright:

It looks like the sentiment around wind, at least from a New York headline perspective, is still a little bit of depressed but from the commentary, it looks like things are picking up for you. How should folks think about the opportunity ahead for you with respect to the wind related business?

Eric Blashford | Chief Executive Officer:

Sure, well the big beautiful bill act did have some challenges in it for renewables as our investors are aware of but one of the things that it did have is the 45x credits that we take advantage of as do others component manufacturers in our market are still in place but they end in 2028 as opposed to a couple years later so I think we could see actually in a pulling in of some orders in 26 and 27 in ahead of that. There's also provision that projects have to start construction by July 4th, 2026 to avoid a deadline placed in service deadline which impacts the TTC, the production tax credit, which benefits developers so again I think certainly in 26 and likely 27 there would be a pull in of orders as developers take advantage of the changes in the tax law.

Tom Cicroni | Vice President and Chief Financial Officer:

That's all I have to say, thank you so much. Thank you. Our last

Eric Blashford | Chief Executive Officer:

question comes from Eric Stein with Crytallum Capital Group. Thanks for seeing with your question. Hi Eric, hi Tom. Hey Eric, morning. Good morning, so maybe just I'm getting back to wind. So you mentioned that you satisfied the original order with GE and I believe that was for or is for the Sunzea project. You know just curious as you think about that going forward and now you know you will be recognizing those orders. What type of what type of demand do you see? Is that part of the visibility you mentioned that you have through 2026 on the tower side out of Abilene? I just knew any thoughts on that would be great. Sure, yeah just remember you know we're one of only several in the U.S. that are qualified to produce for as many OEMs as we are and that's that one particular OEM we had the long-term agreement with is still an important customer of ours. I think in fact the relationship is every bit as strong as ever was. So when I mentioned that we've got good visibility certainly through through 25 into 26 for orders we literally have those those booked through through January 2026 and let's just say very strong customer indications that we will have a good flow throughout the whole year of 2026 of power power

Tom Cicroni | Vice President and Chief Financial Officer:

stands and adapters in Abilene. And you're saying from that customer and

Eric Blashford | Chief Executive Officer:

others or are you more focused on that customer? Well from that customer and others from that customer and others and I would say directionally if we were operating call it a 50-60 percent capacity utilization rate in that plant in 2025 we would comfortably do more like 60 to 80 percent of capacity utilization in that power and adapters from other OEMs.

Tom Cicroni | Vice President and Chief Financial Officer:

That's

Eric Blashford | Chief Executive Officer:

great. Then maybe just having fab as a whole I know that the order level you mentioned you know some of the timing and maybe you did mention this and I missed it but I mean I would think there was some impact related to just some of the variability or certainly related to selling Manitowoc so maybe you know do you sense that there are heavy fab orders that are kind of tensed up and that you would see upon closing or you know how do you view that you know as we think about 3G and the remainder of the year into 2026? You know I would say regarding the orders that we have for Abilene I think the customers received the news quite well. We did have a customer cancel a small adapter order and that customer intended to give to redo that adapter order in Abilene for 2026 production but as far as industrial fabrication orders those orders we're still taking those orders but those orders will be will transfer over to the new operator of that facility. So we delineate between industrial fab those are the crane orders Eric and you got in the construction orders you produced in Manitowoc. As far as Abilene those orders would not impact this particular CRS orders and power and adapter orders seem to be flowing as you as usual. Okay and then maybe last one for me just you mentioned eight million dollars in cost savings related to the plans of Aptature. Can you just remind me the split between cost of goods and objects? I think that would be all in cost of goods sold. That's mostly fixed overhead.

Tom Cicroni | Vice President and Chief Financial Officer:

Yeah okay thank you.

Eric Blashford | Chief Executive Officer:

We have reached the end of the question and answer session. I'd now like to turn the call back over to Eric Blasford for closing comments. Yeah well thank you everyone for your interest and we look forward to getting back with you after our third quarter results to discuss them Have a great day. This concludes today's conference. You may disconnect your lines at this time and we thank you for your participation.