NASDAQ:MTRX Q3 2025 Earnings Call Transcript

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Operator | Conference Call Operator:

Good morning and welcome to the Matrix Service Company conference call to discuss results for the third quarter of fiscal 2025. Currently, all participants are in a listen-only mode. Later, we will conduct a question and answer session and instructions will be given at that time. As a reminder, this conference call is being recorded. I would now like to turn the conference over to today's host, Ms. Kelly Smyth, Senior Director of Investor Relations for Matrix Service Company. Please go ahead.

Kelly Smyth | Senior Director of Investor Relations:

Thank you, Didi. Good morning, and welcome to Matrix Service Company's third quarter fiscal 2025 earnings call. Participants on today's call include John Hugh, a President and Chief Executive Officer, and Kevin Cavanaugh, Vice President and Chief Financial Officer. Following our prepared remarks, we will open up the call for questions. The presentation materials referred to during the webcast today can be found under Events and Presentations on the Investor Relations section of MatrixServiceCompany.com. As a reminder on today's call, we may make various remarks about future expectations, plans, and prospects for Matrix Service Company that constitute forward-looking statements for the purposes of the Private Securities Litigation Reform Act of 1995. Actual results may differ materially from those indicated by these forward-looking statements because of various factors, including those discussed in our most recent annual report on Form 10-K and in subsequent filings made by the company with the SEC. The forward-looking statements made today are effective only as of today. To the extent we use non-GAAP measures, reconciliations will be provided in various press releases periodic SEC filings, and on our website. Finally, all comparisons today are for the same period of the prior year, unless specifically stated. Related to investor conferences and corporate access opportunities, Matrix will be participating in the Sidoti MicroCAP Virtual Conference on May 21st and 22nd, and will also be participating in the CIFL Cross-Sector Insights Conference on June 3rd and 4th in Boston. If you'd like additional information on these events or would like to have a conversation with management, I invite you to contact me through the Matrix Service Company Investor Relations website. Turning now to safety. At Matrix, our people take pride in the fact that our work shapes a brighter future, enhances quality of life, and generates lasting value for our employees, partners, shareholders, and the communities we serve. We do so by engineering, constructing, and maintaining energy and industrial infrastructure that elevates the standard of living, not just here, but around the globe. This infrastructure is essential for powering our homes, fueling transportation, supporting businesses, and providing the foundational elements for producing clothing, medicine, technology, recreational activities, among many other things. To fulfill our objectives on our work sites, and in our offices, we must maintain a steadfast commitment to the safety as our leading core value and prioritize quality execution in our work. This week, we join our clients and others in the construction industry for the Construction Safety Week 2025, marking the 12th annual industry-wide initiative dedicated to highlighting the importance of safety in the workplace. At Matrix, our safety culture is rooted in a genuine concern for the mental and physical well-being of our people. It shapes our expectations and forms our leadership and is vital to our ability to realize our mission. On behalf of the company's leadership team, I would like to express my gratitude to the employees for our commitment and responsibility in safely pursuing our mission.

Operator | Conference Call Operator:

I turn the call over to John.

Didi | Conference Call Moderator:

Thank you, Kelly, and good morning, everyone.

John Hugh | President and Chief Executive Officer:

I want to begin by reviewing the organizational improvements we are making that represent a shift in the company's operational structure that will address several key business imperatives. Among them, creating a more efficient organization to ensure we deliver on the significant projects and opportunities in front of us, improving the competitiveness of our offering and strategic focus, and benefiting from the greater speed and agility through a leaner, flatter organization. First, we eliminated senior level positions to ensure we have a more efficient and effective organization. Second, from an operating perspective, we have streamlined our engineering and construction services to create a more seamless offering. Specifically, we recently promoted Sean Payne to the newly created position of President of Engineering and Construction. The new position will have oversight responsibility of the company's operating subsidiaries and client services. John joined Matrix in 2012 and most recently served as president of the company's non-union construction subsidiary. John will report directly to me. Third, we are decentralizing elements of our business development organization to create a more integrated sales and operations function. The large EPC projects get a significant amount of attention across the enterprise during the proposal process. These projects are critical to our growth strategy But the foundational services of our business in small capital construction, construction only, turnarounds, maintenance, and repair are equally important to the baseload revenue for the company. Directly reconnecting the business development teams to the P&L leaders will create more momentum, opportunities, and awards for this part of our revenue platform. These foundational services deepen customer relationships, build bench strength, and keep us competitive. Overall, this reorientation of the business development function will improve capture rates, growth strategies, and ultimately revenue across the company. Finally, the company has begun the process of winding down our northeast transmission and distribution service line. This piece of our ongoing electrical business was competitively disadvantaged due to a mismatch in scale and constrained geography. Growth and scale was highly dependent on capital and strategic investments that do not currently fit the company's direction. While this may seem sudden, the lack of sufficient wards throughout the year confirmed our decision to exit the service line. That said, Matrix has been in the electrical services business in the Northeast, Mid-Atlantic, and Ohio Valley for over 20 years and will continue to provide services to our utility, energy, and industrial customers as they face rising demand for electrical infrastructure. This infrastructure includes power generation, backup fuel supply, midstream energy infrastructure, manufacturing expansion, substations, and data centers, to name a few. The electrical infrastructure market presents strong growth potential, and its capital investment demand aligns better today with our long-term business performance targets. As Matrius continues its progress toward a return to profitability with marked improvement in its financial performance, we must continue to the future i am confident this new structure will enhance communication accountability and collaboration throughout all levels of the organization in line with our strategic priorities we remain committed to delivering sustainable long-term shareholder value by building a resilient growth-oriented platform that meets the evolving needs of our customers from a market outlook perspective we are also closely monitoring the impacts of evolving u.s trade and environmental policies that have introduced a heightened level of macroeconomic uncertainty. While the underlying demand environment remains strong, some clients may elect to delay final investment decisions, and in turn, project starts as they assess the potential impact of these policies on project economics, including uptake agreements with global partners, as well as supply chain and operational costs. However, we believe this uncertainty to be temporary. Specific to existing projects and new awards, our contract formats and proposal discipline generally protect us from pricing risks created by the tariff activity. In addition, we are actively collaborating with our customers to find cost optimization opportunities. We're also optimizing our own supply chain by making advanced purchases where we can, working closely with our current suppliers, and exploring additional supplier options. This proactive strategy enables us to remain agile and responsive to market changes and ensures we continue to provide outstanding value to our customers. At the same time, several of our energy clients have stated that their intentions are to fund, start and complete as many infrastructure projects as possible over the next four years to take advantage of the more relaxed regulatory environment and higher demand for energy products both domestically and abroad. Considering the current macroeconomic environment and our decision to exit the transmission and distribution business, we believe it is prudent to revise our fiscal 2025 revenue guidance by 10% to $770 to $800 million, which Kevin will discuss in more detail during his remarks. Please note, our revised guidance continues to reflect quarter-over-quarter growth as we finish the year, as demonstrated by the 20% to 25% growth in the second half of fiscal 2025 compared to the first half. across the energy and industrial markets we serve, energy-related infrastructure spending remains elevated. The elevated level of spending is supported by an estimated 45% increase in U.S. LNG export demand, as highlighted by the EIA in its recent annual Energy Outlook. Furthermore, the EIA Outlook also projects an 8% increase in demand on the 38 trillion cubic feet of natural gas over the next six years in response to rapidly growing domestic and international demand for LNG and other natural gas-related products. This outlook underpins our $7 billion pipeline of project opportunities, which gives us confidence in achieving a sustainable and profitable growth trajectory as we move into fiscal 2026 and beyond. As a reminder, many of the projects we are currently pursuing are expected to be bid and awarded within the next 12 to 18 months, And once awarded, they will unfold over multi-year construction timelines, providing us with long-term revenue visibility and improved earnings consistency. Now turning to the quarter. Revenue volume continued to accelerate, culminating in our highest quarterly revenues in two years as project activity ramped up throughout the period. As typical for our fiscal third quarter, we also benefited from elevated activity in our refinery services business. The company grew backlogged by nearly 8% sequentially to over $1.4 billion on 301 million of project awards, resulting in a book-to-bill of 1.5. This also increased our year-to-date book-to-bill to a 1.0. Storage and Terminal Solutions accounted for $205 million of the quarterly awards, which increased its backlog to $848 million, the highest level in the company's history. The quarter activity included a project for the engineering and construction of multiple storage vessels for propane, butane, and related NGL products. We're also seeing strength in the process and industrial facility segment, which had 59 million in awards, primarily in our refinery services business. Overall, our strategy remains anchored around three pillars, the win, execute, and deliver. Through this framework, we will continue to focus on project discipline with the right clients, commercial structure, and timing of delivery. Apply our resume and brand leadership to not only our core markets in energy, industrial, and power infrastructure, but also expanding into new high-value verticals. Delivering projects safely, on time, on budget, and with high quality. And enhancing operating leverage to drive strong profitability, cash generation, and disciplined capital deployments. As you look ahead to the fourth quarter, we believe the momentum exiting the third quarter, combined with the strategic actions I spoke of earlier, will support improved fixed cost absorption, better operating leverage, and resulting in positive adjusted EBITDA. Furthermore, we are confident that potential near-term project awards, some of which are insulated from recent macroeconomic developments, will help us end the year with a full year book-to-bill ratio of round one. With that, I now turn the call over to Kevin.

Kevin Cavanaugh | Vice President and Chief Financial Officer:

Thank you, John. Revenue growth continued in the third quarter, increasing 21% to $200.2 million compared to $166 million in the third quarter last year. The growth was driven by the storage and terminal solutions and utility and power infrastructure segments, partially offset by reduced revenue volumes in process and industrial facilities. Gross margin was $12.9 million, or 6.4% in the quarter compared to 5.6 million or 3.4% for the third quarter of fiscal 2024. I will discuss drivers for that improvement when I get into the second results, but want to provide an update here on the impact of under recovery of construction overhead costs. As a result of the revenue growth in the quarter, the impact of under recovered overhead decreased to 280 basis points This compares to 370 basis points last year and is the lowest level in two years. As the revenue ramp continues, construction overhead will become fully recovered and the negative impact on margins will be eliminated. SG&A expenses were $17.7 million in the third quarter compared to $19.9 million for the prior year. The decrease is primarily due to lower cash settled stock-based compensation expense. For the third quarter of fiscal 2025, the company had a net loss of $3.4 million, or $0.12 per share, compared to a net loss of $14.6 million, or $0.53 per share, in the third quarter of fiscal 2024. Adjusted EBITDA proved to break even in the quarter, compared to a loss of $10 million in the third quarter last year. Moving to the segments, storage and thermal solution segment revenue increased 77% to 96.1 million in the third quarter compared to 54.3 million in the third quarter of fiscal 2024. Higher revenue is being driven by an increased volume of work for specialty vessel projects. Gross margin was 3.9% in the third quarter of fiscal 2025 compared to 4.3% in the third quarter of fiscal 2024. Although higher revenue has resulted in improved leverage of our cost structure, Segment gross margin continues to be impacted by under recovery as we allocate more resources to this segment in anticipation of continuing revenue growth. Additionally, the third quarter of fiscal 2025 was negatively impacted by lower than anticipated labor productivity on a crude terminal project that is nearing completion. Excluding the margin adjustment on this project, the year-to-date project execution The storage and thermal solution segment would have been within our 10 to 12% target. As quarterly revenue continues to increase, the company expects to achieve full recovery of construction overheads and the targeted gross margin range. Utility and power infrastructure segment revenue increased 27% to $58.7 million in the third quarter compared to $46.1 million in the prior year period. benefiting from a higher volume of work associated with natural gas peak shaping projects. Gross margin was 9.4% in the third quarter compared to 3.1% for the third quarter of fiscal 2024 due to strong project execution and improved construction overhead cost absorption. Costs as an industrial facility segment revenue decreased to 45.4 million in the third quarter The fiscal 2025 compared to $65.6 million last year, primarily due to lower revenue volumes resulting from the completion of a large renewable diesel project. The company believes this reduction is temporary given our strong backlog and opportunity funnel. Gross margin was 8.3% in the third quarter compared to 2.7% for the third quarter of fiscal 2020. Last year's gross margin was impacted by an accounting adjustment on a refinery maintenance contract. Last quarter, I discussed some keys to our financial performance. Before we move away from operating results, I want to review those keys and our long-term financial targets. First, revenue level is critical to our earnings. Revenue growth started in the second quarter and continued in the third. We anticipate revenue growth to continue, reaching $250 million and above. Second, project execution has been strong, producing overall direct project margins that are approaching our target range. focus on project execution continues, and the margin opportunity within our $1.4 billion backlog and our $7 billion opportunity funnel continues to support a long-term consolidated gross margin target of 10% to 12%. Third, the company continues to proactively manage its cost structure and is taking additional steps to improve our operating effectiveness, as John discussed. This will enhance our competitiveness and allow for continued improvement in the leverage of our cost structure. Construction overhead recovery has been a significant issue that is improving and will be eliminated based on anticipated revenue growth. Leverage of SG&A will also improve due to flattening of the organization as well as revenue growth driving toward our target of 6.5% of revenue. Finally, the combination of these items will drive the improved performance toward

Didi | Conference Call Moderator:

or long-term targets.

Kevin Cavanaugh | Vice President and Chief Financial Officer:

Moving to the balance sheet, our distal approach to capital allocation remains a cornerstone of our strategy. Working capital management has been strong throughout fiscal 2025. Net cash provided by operating activities was $31.2 million during the third fiscal quarter and $76.8 million year-to-date. Cash flow activity during the year has also further strengthened our balance sheet. Available liquidity has increased to $247.1 million as of the end of the quarter. Liquidity is comprised of $185.5 million of uninsured cash and $61.5

million of borrowing availability under the credit facility. The company also has $25 million of restricted cash to support the credit facility, and our debt position remains at zero. We will continue to proactively manage the balance sheet and have the financial strength and liquidity needed to support the execution of our backlog and to deploy capital toward opportunistic organic growth. Before we open the call for questions, I want to touch on outlook. As we noted in our press release, second half revenue levels have been impacted by the timing of awards in the third quarter, as well as the uncertainty around macroeconomic and environmental policy. In addition, Full-year revenue has been impacted by our transmission distribution business, which we are now exiting. The full-year revenue impact of exiting this business is approximately $15 million. As a result, we reduced revenue guidance for fiscal 2025 by 10% to $770 to $800 million. Even with this reduction, this implies continued strong year-over-year growth of over 20% in the fourth quarter and a return to profitable performance. Our backlog and revenue growth is coming from larger, multi-year projects. As a result, we expect to operate at or above these levels, revenue levels, for the foreseeable future. This, combined with the changes we are making to improve operating effectiveness, should lead to strong bottom-line results and the achievement of our long-term targets. This concludes our prepared remarks, so we will open it up for questions.

Operator | Conference Call Operator:

Thank you. To ask a question, please press star 1-1 on your telephone and wait for your name to be announced. To withdraw your question, please press star 1-1 again. Please stand by while we compile the Q&A roster. And our first question comes from John Fransrap of Sidodian Company. Your line is open.

John Fransrap | Analyst, Sidodian Company:

Good morning, everyone, and thanks for taking the questions. I guess I'd like to start with the revenue guidance. Kevin, you just said $50 million was baked into that business, I guess, for this fiscal year. Can you just walk us through the decision-making process to exit the business? Is there a potential buyer out there? Will you just wind it down? And what's the relative cost savings from exiting that business?

John Hugh | President and Chief Executive Officer:

I'll give you some of the strategic stuff there, John.

Didi | Conference Call Moderator:

So going into the year, the market for the business was higher than $50 million.

John Hugh | President and Chief Executive Officer:

But because we're, probably simply put, we're too big to be small and too small to be big. And so our competitive dynamics in that business made it difficult for us to win work at acceptable margins. And plus the capital... investment in that business would be dramatically higher than the rest of the company. So it was sort of on our watch list this year that if we were able to pick up some good projects with acceptable commercial terms, then it would modify or at least would guide our decision whether we thought there was an opportunity to continue to grow it or that we needed to sell it or that we needed to just shut it down. So as we moved into that, and what we saw was the opportunity for us to win some nice projects in the back half of the fiscal year, and we didn't win any of them. And so trying to win those projects around the commercial framework that we think is acceptable to the business. So when we started to see that those projects were not going to come into our backlog, we made the decision that we're going to wind the business down, you know, without any kind of a positive looking backlog, it'd be difficult to find a buyer for the business. We're just there picking up equipment and people. So, so we made the decision that we just wind the business down and we'll eventually sell off some of the construction assets that are associated with that business. We still have some, small contracts that we're going to be working on out into fiscal 26, but doesn't represent a lot of revenue. And we're doing that with clients that we do other business with. So we just don't want to, you know, just walk away from those jobs, which you can't contractually anyway. But so we want to continue to support those clients because, again, because they have other work that our electrical business does.

Didi | Conference Call Moderator:

That's kind of how we got to where we are. Understood. And the potential cost savings?

Kevin Cavanaugh | Vice President and Chief Financial Officer:

You know, it's more about there are cost savings, you know, but there's also a reallocation of some resources to the electrical instrumentation business that we're keeping. And then I think, you know, that business has been operating at a loss, so that's probably the bigger savings than the cost structure. It was a relatively low overhead business other than the equipment. And the reason for that is that this was a business that we grew organically.

Didi | Conference Call Moderator:

This wasn't from an acquisition.

John Fransrap | Analyst, Sidodian Company:

Okay, fair enough, Kevin. The other part of the adjustments to the revenue guidance was what you said was deferrals. I'm curious, is the entire balance deferrals or some cancellations? And the deferrals, what kind of timing are we talking about now versus three months ago?

John Hugh | President and Chief Executive Officer:

So some of it is a combination of a couple things. You know, one is that one of the major projects that was in the awards for the Q3, which was in storage, you know, we had anticipated actually winning in Q2 and had started negotiating a contract for that project in Q2. And as we moved into Q3, you know, we thought that that project would get awarded in January. and that we'd be able to get engineering started, we'd be able to get our procurement for all the plate steel associated started, and probably get on site and start doing some of the civil work. So we had expected an earlier award and revenue flowing from that project impacting this fiscal year's revenues. But we actually don't sign the contract to the very last day in March. And so basically what that did is pushed all the majority of what we thought was going to be some revenue off that project into June and probably into fiscal 26. So that's one thing. And that's just about how long it took to put the contract together, which is not necessarily unusual. And then we got another project that we've been Kind of verbally selected on that one of his off takers for that client is in the is on the other side of the ocean and with some of the trade stuff is going on. There's been a though they've been a delay and getting that off take sold. We think that delays over with and are expecting you know that project to move forward here. You know within the next within this quarter or the first quarter 26 so. Other than that, I mean, I think it'd be unreasonable for us to assume that these uncertainties around the tariff issues and finalization of environmental policy in a regulatory environment isn't keeping clients a little bit hesitant in some cases on how they're going to spend their capital dollars. But I can tell you we've had several of our core clients tell us very strongly that their intentions are over the next four years to spend as much money as possible on their energy infrastructure and what they perceive to be a much easier regulatory environment. And so we're excited about that, excited about us being able to take advantage of that opportunity because, A, because of our strong relationship with these clients, and two, because of the kind of services and strong brand position we have in those markets.

Didi | Conference Call Moderator:

Got it, John.

John Fransrap | Analyst, Sidodian Company:

And one last question. You mentioned that you're targeting smaller jobs. Can you talk a little bit about what you think the opportunity profile is as you reengage in some of those smaller projects, maybe size it for us and timeline it when you expect to start hitting on them?

John Hugh | President and Chief Executive Officer:

Yeah, so we, I mean, we as an organization, our history in our organization has always been a mix in the portfolio of maintenance work, turnaround work, small capital projects, construction only projects mixed in with one or two large capital EPC jobs. So and we continue to see the opportunity for these larger EPC projects to continue to enter the backlog and probably for us in a more thoughtful way that they fit into our execution plans and our resource availability. But that doesn't minimize the need in our business for this smaller activity that I've laid out. And I think, you know, part of our change in the development structure is we've sort of lost touch with that a little bit. I think these larger projects get a lot of attention from the organization. But we need those smaller projects. They build relationships with clients. They help us to build and strengthen our execution teams. They're great for brand recognition. They eat overhead. And so we just need to do a better job of pursuing and winning those smaller, what I'm calling foundational elements of our business moving forward. And so some of the actions, strategic actions we've taken are directly related to our desire to be better at that than we have been over the past 18 months.

John Fransrap | Analyst, Sidodian Company:

Okay, well, good luck with that. I'll get back into queue. Thank you, gentlemen.

Didi | Conference Call Moderator:

Thank you.

Operator | Conference Call Operator:

Thank you. And our next question comes from Brent Tailman of DA Davidson. Your line is open.

Brent Tailman | Analyst, DA Davidson:

Hey, thanks. Good morning. John, real big picture question here. I mean, you've been through your share of cycles in the past and value of your perspective here. But look, the geopolitical macroeconomic environment today, you take what you're seeing now, you look at prevailing commodity prices to some degree influence how your customers spend. I guess my question is, John, I mean, how is all this stuff that we're seeing in the market, how do you think it might influence what your customers may end up doing here not necessarily in the short term but but thinking medium term is all of this ultimately a positive driver for your business i just you know love your perspective there well i think you know what there's tariffs or no matter what it is we see in the media there's a lot of rhetoric running around both out of the washington dc and out of the media houses and across the globe

John Hugh | President and Chief Executive Officer:

So I think it's difficult for all of us, whether you're a business leader or a normal citizen, to figure out what the future looks like. But for me, I think, and what we hear from our clients, I think they're adding some more thoughtfulness to what their capital plans are. But I think overriding all of that is the, not only domestically, but globally, the demand for energy is continuing to rise. That demand has got to be met. It is not necessarily going to be 100% met by renewable energy sources. You've got huge electrical infrastructure needs in the U.S. alone to fuel the growth in power demand. And so I think irrespective of all the terrorist things settled out, which I personally think will get settled out here over the next three or four months, think we're still going to see a lot of infrastructure put in place. We're going to see this huge demand globally for NGLs coming out of the U.S. and for LNG because, I mean, face it, the demand for energy is growing, like I said, and it supports a higher quality of life around the globe, and there's a lot of instability in the energy sources, and people are going to be looking to the U.S. to provide that stability. So I'm I'm pretty bullish and confident in the markets that we're in with our brand position, particularly around specialty vessels and specialty vessel storage and infrastructure, that we're going to play a strong role in that as we look out to the future.

Brent Tailman | Analyst, DA Davidson:

Yep. I appreciate that. And then I guess another one, Kevin, this might be more for you, but And there's been an expectation for sort of a progressive ramp in volume and revenue as the fiscal year's played out. And I think maybe more specific to storage, I mean, you had terrific growth compared to last year, but the growth was somewhat muted relative to the previous quarter. So, as you kind of look at the fourth fiscal quarter, is there enough confidence here that we should see that segment step up? I think that's sort of critical to support the outlook. And I guess maybe the question is, are you seeing the critical jobs moving forward now in that segment that really should contribute here?

Kevin Cavanaugh | Vice President and Chief Financial Officer:

Yeah, so you're right. The revenue was, you know, in Q3 was pretty consistent with Q2. Part of that was just timing of procurement. Now, when we're looking at 4Q, I'm expecting to see a really strong growth cycle. in the storage and terminal solutions segment. So, I think that is supportive of the outlook. I think you'll also see some growth in utility and power infrastructure. You know, process and industrial facilities took a step up this third quarter. I would expect it to be somewhere close to that same level here in the fourth quarter. So, the combined should have a strong upward movement

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revenue level for 4Q. Got it. I think that'll benefit overhead recovery and the gross margin percentage in a significant way. Perfect. Okay. That's all I had. Thank you.

Operator | Conference Call Operator:

Thank you. This concludes our question and answer session. I would now like to turn it back to Kelly Smyth, Senior Director of Investor Relations, for closing remarks.

Kelly Smyth | Senior Director of Investor Relations:

Thank you. As a reminder, we will be participating in the Sedoti Microcap Virtual Conference on May 21st and 22nd. We'll also be attending the Stiefel Cross-Sector Insights Conference on June 3rd and 4th in Boston. Additionally, if you'd like to have a conversation with management, please contact me through the Matrix Service Company Investor Relations website. You may also sign up to receive Matrix news by scanning the QR code on your screen. Thank you for your time.

Operator | Conference Call Operator:

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