

NASDAQ:MTRX Q1 2026 Earnings Call Transcript

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Operator | Conference Operator:

Good morning, and welcome to the Matrix Service Company conference call to discuss results for the first quarter of fiscal 2026. Currently, all participants are in listen-only mode. Later, we will conduct a question and answer session, and instructions will be given at that time. If you require assistance at any time, please press star 11 on your telephone. As a reminder, this conference call is being recorded. I'd like to turn the conference over to today's host, Ms. Kelly Smyth, Senior Director of Investor Relations for Matrix Service Company.

Kathleen Smyth | Senior Director, Investor Relations:

Thank you, Marvin. Good morning, and welcome to Matrix Service Company's first quarter fiscal 2026 earnings call. Participants on today's call include John Hewitt, President and Chief Executive Officer, and Kevin Cavanaugh, Vice President and Chief Financial Officer. Following our prepared remarks, we will open the call up 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](https://www.matrixservicecompany.com). As a reminder, on today's call, we may make various remarks about future expectations, plans and prospects for Matrix Service Company. They constitute forward-looking statements for the purposes of the Private Security 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 utilize 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, we will be participating in the Sidoti and Company year-end Virtual Investor Conference on December 10th and 11th, 2025. We will also be participating in the Northland Capital Markets Growth Conference on December 16th. This conference is also virtual. If you would like additional information on this event or would like to have a conversation with management, I invite you to contact me through Matrix Service Company Investor Relations website. As we shift our focus to safety, I want to underscore its vital importance to our business. At Matrix, safety stands as our foremost core value. And as Mr. Hewitt frequently emphasizes, nothing outweighs the physical and mental well-being of our employees, subcontractors, clients, and others who may be present at our job sites or in our offices. This is not simply about compliance. It's about continuously cultivating an environment where safety is ingrained in our culture. Every one of us deserves to feel safe at work and return to home to our families and loved ones at the end of the day. And while safety is always the right thing to do, it's also a business imperative. It strengthens our competitive edge, enabling us to bid on and secure vital projects, foster lasting client relationships, and attract and retain top talent. Our clients trust us to execute their projects safely and with unrivaled quality. This trust is something we value, and we hold ourselves accountable to the highest standards. By maintaining our unwavering commitment to safety, we position Matrix not just as a leader in engineering and construction, but as a dependable partner dedicated to excellence and care. I will now turn the call over to John.

John Hewitt | President and Chief Executive Officer:

Thank you, Kathleen. Good morning, everyone. We begin fiscal 2026 with strong execution, resulting in double-digit revenue growth and our highest quarterly gross margin in over two years. This performance reflects the continued maturation of our backlog, and a disciplined approach we've taken to project bidding and delivery. Bidding activity remains healthy across our segments, and we saw a solid level of new awards. Our opportunity pipeline also remains robust for not only near-term projects, but several large multi-year projects with anticipated award dates beginning in late fiscal 2026 and into fiscal 2027. Based on our first quarter performance, our strong backlog, and the visibility we have today, we are reiterating our full-year revenue guidance of \$875 to \$925 million. Typically, the first quarter reflects a seasonal slowdown in demand for maintenance and repair services. This year, that was largely offset by increased activity on larger projects. Our mix of project work drove gross margin improvement, representing our best quarterly gross margin in more than two years. We expect continued margin improvement as we move through fiscal 2026, supported by a conversion of backlog to revenue. Award activity in the quarter was stable, resulting in a book to bill of 0.9, and we ended the quarter with a total backlog of 1.2 billion. During the first quarter, we removed approximately 197 million from backlog related to two projects. While Kevin will provide more detail in his remarks, These removals do not reflect a reduction in demand, changes in the market, or business performance issues. In both cases, the clients changed their commercial strategy and neither project had mobilized. Importantly, the removal of these projects from our backlog does not impact our Q1 results or full-year guidance. We continue to be disciplined in our bidding and contracting efforts to ensure our project risk and financial return profile meets our standards. Now let's talk about our markets and what we see in the organic opportunities that will drive the business. First, our total opportunity pipeline currently sits at \$6.7 billion, with the majority of those opportunities in storage and related facilities for LNG, NGLs, and ammonia, which feed our storage solutions and utility and power infrastructure segments. We continue to see a steady level of incremental bidding opportunities supported by strong investment and domestic infrastructure and a favorable regulatory environment. Growing demand for sustainable and reliable power is creating significant project opportunities upstream from the massive investment in data centers and advanced manufacturing, among other expanding electrical consumers. So whether it is LNG for backup fuel or peak shaving, upgrades to existing LNG facilities, new base load or backup power generation, or substation upgrades and new construction, our business will benefit from these investments in this critical infrastructure. And while the timing of awards can be fluid over the coming quarters, we expect that the level of awards will be similar to what we saw during the first quarter. This award portfolio will be made up of mid-sized projects on top of our normal cadence of small projects and maintenance. These projects will reinforce our strong backlog, continue to provide more predictable revenue flow, and build our resource base as the business grows. One recent example is the award of a balance of plant construction at the Delaware River Partners multi-use port facility in Gibstown, New Jersey, that will support growing export demand for NGLs, including propane and butane. This award, which was taken into backlog in the first quarter of fiscal 2026, follows a fiscal 2025 award associated with the construction of a large full containment dual-server storage tank at the same facility. These two projects represent our ability to provide integrated delivery for complex storage facilities, which is a key differentiator for the business. As we move into late fiscal 2026 and into fiscal 2027, we anticipate a reacceleration in award activity for larger multi-year projects, which we are currently in the process of pursuing. In our process and industrial facility segment, Our strategic focus is to expand our markets, client base, and footprint to build backlog and revenue while executing safely with high quality and financial outcomes. Actions include strengthening our position in core geographic markets, realigning our business development resources with our growth priorities, and leveraging our strong customer relationships to expand organically. Focus areas include repair, maintenance, turnarounds, and small cap projects in various process industries, including refining, chemicals and renewable fuels, mining and minerals in support of the demand for non-ferrous metals and rare earth minerals, thermal vacuum chambers where we hold a dominant position, as well as various natural gas value chain opportunities. We are positioned to capture opportunities in this segment and deliver improved results over the long term. With projectivity continuing to build due to the steady conversion and replacement of we are highly focused on ensuring that we deliver consistent performance for our customers in the highest level of quality and safety. The recent changes to our

organization structure, which we have talked about on previous calls, has enhanced our agility, competitiveness, and performance. These changes, along with strategic actions we have taken over the last few years, are already strong service offering. Position us to deliver on current commitments and complete effectively with substantial opportunities within a robust pipeline. We remain committed to disciplined capital allocation. Our strong balance sheet supports the working capital needs of active projects as these jobs progress through key execution phases. As we return to sustained profitability in the coming quarters, we'll deploy capital thoughtfully, targeting growth opportunities that expand our market share and drive long-term shareholder value. In summary, I'm proud of the team's continued execution as we proceed through this critical chapter of growth for Matrix. We have plenty of opportunities ahead of us, which will not only support this fiscal year, but will continue to create growth in fiscal 2027 and beyond. I am confident that our focus on our core pillars of win, execute, and deliver will serve to drive compounding profitable growth and long-term value for our shareholders and customers alike. So with that, I'll turn the call over to Kevin.

Kevin Cavanaugh | Vice President and Chief Financial Officer:

Thank you, John. The first quarter of the year went about as we anticipated from an operating results balance sheet, cash flow, and project award perspective. Revenue of \$211.9 million represented a 28% increase compared to \$165.6 million in the first quarter of fiscal 2025. This is mainly due to growth driven by larger new construction projects in the storage and terminal solutions and utility and power infrastructure segments. We expect this revenue growth to continue as we move through the rest of fiscal of the fiscal year. Consolidated gross profit increased 82% to \$14.2 million in the first quarter compared to \$7.8 million in the prior year. With strong project execution in both periods, the gross profit increase was the result of revenue growth as well as improved construction overhead recovery. Consolidated gross margin improved to 6.7% versus 4.7% in the first quarter of fiscal 2025. SG&A expenses were 7.7% of revenue or \$16.3 million compared to 11.3% or \$18.6 million in the same quarter last year. The \$2.2 million decrease is primarily the result of the efficiency improvement changes implemented by the company over the last two quarters. The company will continue to work to leverage SG&A to its 6.5% target as revenue grows while also investing in resources when needed to support strong market demand and growth in our business. As expected, the company incurred 3.3 million of restructuring costs in the first quarter related to the efficiency efforts mentioned. The company has completed the bulk of restructuring activities and expects minimal restructuring costs during the remainder of fiscal 2026. For the first quarter of fiscal 2026, The company had a net loss of \$3.7 million, which includes a \$3.3 million of restructuring cost as compared to a \$9.2 million net loss in the first quarter last year. GAAP EPS was a loss of 13 cents compared to a 33-cent loss in the prior year. Excluding the restructuring cost, adjusted EPS was nearly break-even at a loss of 1 cent in the first quarter. This performance reflects the operating leverage inherent in our business model and is consistent with the expectations that we have previously communicated, which is that we expect to achieve break-even on a GAAP net income basis at a quarterly revenue level of 210 to 215 million. Adjusted EBITDA in the first quarter was a positive 2.5 million compared to a loss of 5.9 million in the first quarter of last year. Moving to the operating segments, Let's start with storage and terminal solutions, which represented 52% of consolidated revenue. First quarter revenue in this segment was \$109.5 million compared to \$78.2 million last year. The \$31.2 million or 40% increase continues a trend which began in fiscal 2025 and was driven by LNG storage and specialty vessel projects. We expect this growth trend for storage and terminal solutions segments to continue as we move through fiscal 2026. Segment gross profit increased by 1.8 million, or 38%, in the three months ended September 30, 2025, compared to the same period last year due to higher revenue volume. The segment gross margin of 5.9% for the quarter was consistent with the segment gross margin of 6% in the same period last year. Gross margins for the segment continued to be primarily impacted by under-recovery of construction overhead costs, which we expect to improve as activity on projects currently in backlog increases through the remainder of fiscal 2026. Moving on to the utility and power infrastructure segment, which accounted for 35% of consolidated revenue. First quarter segment revenue increased 33% to \$74.5 million. compared to \$55.9 million in the first quarter of fiscal 2025, benefiting from higher volume of work associated with LNG peak shaving and power delivery projects. Segment gross profit

increased by \$5.5 million, or 419%, in the first quarter, compared to \$1.3 million in the same period last year. The growth resulted from the revenue increase and an improved gross margin, which increased to 9.1%, compared to 2.3% in the same period last year. The margin improved due to strong project execution and construction overhead cost recovery as a result of higher revenues. Finally, the process industrial facility segment accounted for 13% of consolidated revenue, or \$27.9 million, in the first quarter of fiscal 2026, compared to \$31.4 million in the first quarter last year. As John discussed, The market presents good opportunities in this segment to improve the revenue level. Segment gross profit decreased to 5.6 million or 28 percent in the three months ended September 30, 2025 compared to the same period last year. The segment gross margin was 5.1 percent for the quarter compared to 6.4 percent in the same period last year. The decrease is primarily attributable to an unfavorable change in the mix of work. Segment gross margin in both periods were impacted by under recovery of construction overhead costs due to low revenue volumes. Moving to the balance sheet and cash flow, as expected, cash decreased in the first quarter, ending at \$217 million, down \$32 million from the start of the quarter as the company continues to make progress on the large projects and backlog that were in a prepaid position. Exiting the quarter, The balance sheet and liquidity remain in a strong position with liquidity of \$249 million and no outstanding debt. We will continue to proactively manage the balance sheet and have the financial strength and liquidity needed to support the positive earnings inflection we anticipate as we progress through fiscal 2026. Now, let's discuss project awards and backlog. Project awards in the first quarter were consistent with what we anticipated They totaled \$187.8 million for a 0.9 book-to-bill, with the storage and terminal solutions segment accounting for \$136.1 million of the awards. As John mentioned, during the first quarter, we made the decision to remove two projects, totaling \$197 million from backlog. Neither of them impacting our fiscal 2026 revenue guidance. Each project reflected a different situation. The first and largest was within our process and industrial facility segment and was formally awarded to us in late fiscal 2023. Our scope of work on this project was construction only and the start of field work had already been delayed by over a year due to slow progress on scoping, design development, and engineering, which is outside our responsibility. Just recently, the owner decided to adjust its execution and contracting structure which resulted in their decision to re-bid the construction portion of the project. The project will be re-bid in packages later this year, and we intend to submit bids on certain aspects of our original scope. That said, due to this change, we removed the original awarded project from our backlog consistent with our backlog recognition policy. The second project was in our utility and power infrastructure segment. In this case, the project was formally awarded in the fourth quarter of fiscal 2025. Subsequently, the client sought to modify the terms and conditions of this agreement in a way that significantly increased our risk on the project. This change was inconsistent with both the as-bid basis of our proposal and our commercial policies. As a result, the award was rescinded and we removed it from backlog. After removal of these two projects, backlog remains strong at \$1.2 billion and is supportive of our revenue guidance of \$875 to \$925 million. When we started the year, we mentioned that we were going into the year with 85% of our revenue booked at the midpoint of our guidance range. As a result of awards during the first quarter, this percentage has decreased to more than 90%. I'm sorry, the percentage has increased to more than 90%. and we continue to be confident in our ability to achieve our revenue guidance. The improvement in our consolidated revenue combined with continued focus on execution excellence and leverage of our construction overhead and SG&A cost structures will allow us to return to profitability as the fiscal year and make us and make significant progress towards the achievement of our long-term financial targets. This concludes our prepared remarks. We'll now open for questions.

Operator | Conference Operator:

Thank you. At this time, we'll conduct a question and answer session. As a reminder to ask a question, you'll need to 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 the line of John Frenzreb of Sidonian Call. Your line is now open.

John Frenzreb | Analyst, Sidoti & Company:

Good morning, everyone, and thanks for taking the questions. I just want to start with where you finished about those two projects. It doesn't seem like there's much in common with them, and it seemed like the start dates were probably due in 2027, if not later. But I am curious if that suggests that the competitive landscape, as one was rebid and one of the terms were changed a bit, the competitive landscape, so we're getting a little bit tougher for larger projects out there.

John Hewitt | President and Chief Executive Officer:

I don't think so. I don't think both those situations were... really not associated with, you know, as you pointed, the competitive landscape. I think it's just the way the larger project, as Kevin had said, you know, we've been in our backlog for almost two years, and there was a lot of scope and design changes that were going on between the owner of the project and our client. And I think the ultimate client, the owner, decided that they were going to just change their execution strategy and try and do it a different way. And then the other project, really, I frankly applaud our teams for not being sucked into taking a job that had a much higher risk component, certainly one that we were not – not given additional remuneration for it to take on that risk. And I think we were able to make that decision to do that because there's a significant amount of opportunities in the marketplace for that kind of work where we've got a very strong brand position. We've got a very strong position in those markets. And so I think at the end of the day, it was a positive thing, particularly when neither one of those projects really impact our fiscal 2026.

John Frenzreb | Analyst, Sidoti & Company:

Got it, got it. And, John, I might be reading too much into this, but I think in your prepared remarks you mentioned that midsize projects are growing, but later in your prepared remarks you said that you look for a reacceleration of large project work. Did I hear that properly? And if so, what's the timing of when you expect, you know, large jobs to be let out again?

John Hewitt | President and Chief Executive Officer:

Yeah, I mean, we put some pretty large projects into our backlog 18 months ago. And so just the timing, the development of the bigger energy facilities, certainly around LNG and NGLs, ammonia jobs, it just takes longer to get those things through a proposal process and development process. And so there's a number of those projects out there that we are tracking. We may be providing... upfront feed work for, maybe some engineering development, scheduling, budgeting, helping some of our core clients in those markets that are continuing to add more infrastructure or planning to add more infrastructure. It's just a timing thing. We're really comfortable about our positioning there. The number of opportunities that are out there that we're going to be able to play a role in and But my comment there is over through this fiscal year, there continues to be a lot of what we call mid-scale projects available to us. I think we announced the DRP project this morning, which went into backlog in our first quarter. Typical kind of projects that we see out there in our pipeline that we're currently bidding on or have bid and that we're working through details with the clients on that. So And each of those projects individually, they're not short-term projects. They may not be a three-year project, but they could be 12 to 18 months. They allow us to continue to maintain a strong backlog, to really build our teams as the bigger projects come down through the opportunity pipeline. And so I feel really good about, A, our ability to continue to maintain a solid backlog and to continue to strengthen the company's operations through a lot of these, what you'd call smaller projects. Now, these projects certainly aren't tiny, but they're not the kind of the mega stuff that, for us, the mega stuff that we put in the backlog 18 months ago.

John Frenzreb | Analyst, Sidoti & Company:

Understood. And just a question on the restructuring. I'm wondering how that changes the breakeven dynamics and if there's any other things that you're thinking about as far as the year ahead, any other kind of actions?

Kevin Cavanaugh | Vice President and Chief Financial Officer:

Yeah, so it does have a good impact on our cost structure, decreases that, which does lower our break-even point. At this time last year, we were talking about it took us \$225 million of quarterly revenue to get to break-even. That's decreased to somewhere between \$210 and \$215 million to get to break-even. Those Those changes also decreased the level of revenue required for us to reach full construction overhead cost recovery. That's now around 250. And it decreased the amount of revenue we need to get our SG&A down to our 6.5% target. That's also down to 250. So that's definitely had a positive impact on the earnings power of the company. You know, as we mentioned, we're We're substantially complete with the restructuring items that would have a cost impact. So there may be some minimal costs that flow through the rest of the year, but it's not much is expected there. With that said, we're continuing to focus on improving the business and have actions and plans in place to address all the issues within the business to continue to focus on returning to profitability and producing the strong bottom line on a quarter-over-quarter basis.

John Frenzreb | Analyst, Sidoti & Company:

Got it. That was very helpful, Kevin. I'll get back to you. Thank you.

Operator | Conference Operator:

Thank you. One moment for our next question. Our next question comes from the line of Augie Smith of TA Davidson. Your line is now open.

Augie Smith | Analyst, TA Davidson:

Good morning, guys. Thank you for taking the questions today. To begin, can you guys touch a bit more on kind of what projects you're targeting within the gas power project space? In previous conversations, you had mentioned you're looking at some gas power plant work, but kind of more specifically, what are your capabilities there, and how do you see that playing out moving forward? And then is this something we should be considering for fiscal 26? Thanks.

John Hewitt | President and Chief Executive Officer:

Yeah, so if you've been around us for a while, when there was a lot more activity in the late 90s, early 2000s, we as a company and part of our legacy members of our company were involved in a number of the larger combined cycle gas-fired power plant build-out across the country, California, Ohio, into Pennsylvania, so a variety of different areas. So not only as acting as a general contractor on those projects, but in some cases, we would, you know, provide the centerline erection, boiler erection, the mechanical piping systems, and so we have those skill sets reside in the organization, and we have those capabilities. Over the last, certainly the last few years, as that market, you know, flattened out, you know, pre-COVID, you know, those resources were applied into other industries and other markets that were maybe gaining strength. So, So we can see in the current market for power generation and a combination of increased demand for generation, looking for more sustainability, more reliability, and maybe a little cleaner generation moving from coal to natural gas. It

plays very well for us. We have all those construction skill sets to not only have a role in the construction of new power generation, but also to do all the backup fueling, natural gas and LNG, as well as peak shaving terminals. We have a very strong brand position there. If you think about upstream from the new major demand for generation, back up into existing power suppliers. They need to expand their generation resources. They need to make sure they have reliable generation, backup fuel for that generation. All those things are creating project opportunities for us. Frankly, in our opportunity pipeline, I would expect that to grow here over the next year as more power generating related projects come into move from our prospects phase into our opportunity pipeline.

Augie Smith | Analyst, TA Davidson:

Okay, awesome. Thank you for the added color there. And then kind of shifting gears again back to the backlog. So obviously backlog was impacted this quarter by the removal of those two awards. But kind of moving forward, should we continue to view backlog in the \$1 billion plus range? And then kind of more specifically, you guys mentioned that the process and industrial facilities project that was removed was because the client wanted to split it up into multiple bids. Do you guys envision this kind of becoming a pattern with other clients as well, or do you guys think of this as more of a one-off?

John Hewitt | President and Chief Executive Officer:

Yeah, I think that's a one-off situation, at least for the projects that we're involved in. I would say what we're seeing more of a turn is clients that are trying to lock up resources and engineering and construction capabilities. And so in some cases, they are looking at alliances, looking at partnering agreements, looking at better risk sharing through reimbursable kind of contracts. So I think we're in that place in the market right now where it's becoming, I hate to use the term, it's becoming a seller's market. But certainly, I think that pendulum has moved in a little bit in some areas and some regions of the country where you're going to see more contractors getting locked up with owners to get their infrastructure put in place. So I think right now it's a pretty good place to be in, A, to have the kind of brand strength that we have and capabilities in the markets we can perform in. But, you know, not just for us, certainly for, you know, some of our peers as well.

Augie Smith | Analyst, TA Davidson:

Okay. Thank you. Very much appreciated. I'll leave it there.

John Hewitt | President and Chief Executive Officer:

Thank you.

Operator | Conference Operator:

Thank you. I'm showing no further questions at this time. I'll now turn it back to Kelly Smythe for closing remarks.

Kathleen Smyth | Senior Director, Investor Relations:

Thank you. As a reminder, the Sedodian Company year-end virtual investor conference is scheduled for December 10th and 11th. We will also be participating for the first time in the Northland Capital Markets Virtual Growth Conference on December 16, 2025. If you're participating, we look forward to speaking with

you. 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 MTRX news by scanning the QR code on your screen. Thank you for your time.

Operator | Conference Operator:

Thank you for your participation in today's conference. This concludes the program. You may now disconnect.