Orion Group Holdings

First Quarter 2024 Earnings Conference Call

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CORPORATE PARTICIPANTS

Margaret Boyce - *Investor Relations*

Travis Boone - *Chief Executive Officer*

Scott Thanisch - *Chief Financial Officer*

PRESENTATION

Operator
Good morning and welcome to the Orion Group Holdings First Quarter 2024 Earnings Conference Call. All participants will be in listen-only mode. Should you need assistance please signal conference specialist by pressing the star key followed by zero. After today's presentation, there will be an opportunity to ask questions. To ask a question, you may press star then one on your telephone keypad. To withdraw your question, please press star then two. Please note this event is being recorded.

I would now like to turn the conference over to Margaret Boyce of Investor Relations for Orion. Please go ahead.

Margaret Boyce
Thank you, operator, and thank you all for joining us today to discuss Orion Group Holdings first quarter 2024 financial results. We issued our earnings release aftermarket last night. It's available in the investor relations section of our website at Oriongroupholdingsinc.com. I'm here today with Travis Boone, Chief Executive Officer of Orion and Scott Thanisch, Chief Financial Officer. On today's call, management will provide prepared remarks and then we'll open up the call for your questions.

Before we begin, I'd like to remind you that today's comments will include forward-looking statements under the federal securities laws. Forward-looking statements are identified by words such as will, be, intend, believe, expect, anticipate, or other comparable words and phrases. Statements that are not historical facts are forward-looking statements. Our actual financial condition and results of operations may vary materially from those contemplated by such forward-looking statements. Discussion of these factors that could cause that risk to differ materially from these forward-looking statements are contained in our SEC filings, including our reports on form 10-Q and 10-K.

With that, I'd now like to turn the call over to Travis. Travis, please go ahead.

Travis Boone
Thank you, Margaret, and good morning, everyone, and thank you for joining our first quarter 2024 conference call. We'll start with a quick overview of our first quarter results, as well as providing more color on the tremendous opportunities before us. Then I'll turn it over to Scott to cover our financial results. We generated first quarter revenue of $160.7 million dollars and adjusted EBITDA of $4.1 million. We are continuing to focus on increasing our margins. We expect revenue to build throughout the year with our current backlog and strong pipeline of opportunities.

In addition to first quarter being our seasonally slowest period, revenue was affected by reduced activity on two major projects related to scheduling impacts outside of our control. These delays should not impact the critical completion of these large projects under contract, or the total anticipated revenues or margins generated from these contracts. It is normal on construction projects for unexpected delays to occur. We have strong project teams that are nimble and able to respond quickly to get the projects back where they need to be. We expect to recover this work in the upcoming quarters with strong momentum in the back half of the year.

Based on the activity level that we are seeing for our services, especially in marine construction, we are reiterating our full-year 2024 expectations for revenue in the range of $860 million to $950 million and adjusted EBITDA in the range of $45 million to $50 million. We entered the first quarter with a solid foundation and a much healthier business. After our hard work transforming the business throughout 2023, we are now in a position to reap the benefits. We have put disciplines, processes and procedures in place.

Expectations are crystal clear for our teams, and everyone is aligned on the same mission, delivering predictable excellence through outstanding execution. We invested in strategic growth and have vastly improved our business development team and processes. Finally, we strengthen the balance sheet and monetize non-core assets. These changes are driving energy and momentum throughout the organization.

The best way to measure opportunity is our pipeline and account of all potential projects we might pursue. In just over a year, our pipeline of opportunities has grown from $3 billion to over $11 billion. The increased volume in large part reflects the investments we've made in our business development efforts that are gaining real traction. In addition, the marine construction industry is exploding, and we are intensifying our attention on that market. In the coming years we believe demand for specialized construction could exceed supply. The diversity of both projects and funding sources overlaid with our geographic footprint and areas of expertise gives me great confidence in our ability to win new contracts and drive growth.

Given the number of quality projects in this space that fit Orion's unique capabilities, our energy and focus will mainly be on capitalizing on marine construction opportunities. We expect dredging to remain an integral part of our marine business as we grow, but it will be a smaller portion of our revenue in comparison to marine construction. Strong secular trends are driving these opportunities, and here are some examples.

First, the $1.2 trillion infrastructure bill will provide a multi-year catalyst for public sector projects such as transportation funding, ports, waterways, water infrastructure and bridges, among other things. The government has planned $6 billion for ports and waterways and $174 billion for roads, bridges and major projects. We are just beginning to see these funds start to flow and believe they will drive more projects in 2025 and beyond.

Second, ships are much larger today than they were 30 or 40 years ago, the expansion of the Panama Canal allows larger ships to pass through ports. As a result, infrastructure upgrades are required all along the eastern seaboard and the Gulf to expand ports and deepen channels.

The unfortunate Key Bridge incident in Baltimore shines a spotlight on the infrastructure upgrades needed throughout the country to accommodate larger vessels passing through the ports. The US Navy is spending billions in the Pacific Deterrence Initiative to protect US interests. Our projects in Pearl Harbor, where we are a subcontractor to the $2.8 billion joint venture team to build a drydock for nuclear submarines, is the largest construction project in US Navy history, but not for long. The Navy has planned a much larger investment to revitalize the Puget Sound Naval Shipyard and other marine facilities in the Pacific. We have a well-established presence in the Pacific Northwest, and we are now established in Hawaii. We intend to leverage this presence to capitalize on the billions being invested in the Pacific.

In February, I attended the Navy's anchoring ceremony in Pearl Harbor. The Orion team was honored to drive the first ceremonial pile on this critical Navy project. We are now into our core construction activities and pile driving has continued by our crews. We have been a critical part of the team on this high-profile Navy project. Based on our work in Pearl Harbor, we are in a strong position to compete for additional US Navy contracts in the Pacific.

Finally, there is growing construction activity in the Gulf. As I've mentioned before, coastal restoration is a critical need in many areas and there's $10 billion planned by multiple agencies for coastal restoration in Louisiana alone. Coastal restoration work typically includes a combination of both dredging and construction. LNG, methane and ammonia terminals are also being constructed to advance green energy initiatives. These projects are a perfect fit for Orion, which is why we have invested there and opened a new office in New Orleans.

We've been engaged in these projects and expect more work in the future. Many of our long-standing private sector Petrochem clients are also planning major capital projects and we are engaged in planning and design with them, and we'll be building these projects as well. We expect to see project volume ramp up and 2024 through 2025, and the investments we are making to improve our fleet, our systems and our teams will enhance our competitive position.

Turning to our concrete business, we are also seeing strong demand drivers in this segment. Data centers are the necessary infrastructure for artificial intelligence and the number of AI-driven data centers is expected to double in the next year. North Texas now ranks second among US markets by inventory of data centers, with 173% increase in the second half of last year. Orion concrete is well established in this market and to date we have already built or our building 19 data centers in Texas.

Beyond Texas, we're also pursuing opportunities in Utah, Arizona and Nevada through our strong relationships with general contractors working in those states. Our competitive advantage is not only our experience and the high quality of our work, but also our unmatched safety record, which is extremely important to the owners of these data centers. For two years in a row, we have had zero lost time incidents, and we have an extraordinary safety culture focused on our people going home safely every day.

While the data center market is booming, we are seeing headwinds in our traditional developer-driven concrete markets due to the persistently high interest rates. With commercial construction taking a pause, we are shifting our concrete resources to the data center market while it is hot. In summary, we've now set the company up for success and are focused on driving growth for the remainder of 2024 and then in 2025 and beyond. Our leadership and platform are in place to capitalize on the immense opportunity ahead.

Looking forward, we expect the business to accelerate in the second quarter with strong growth in the back half of the year. Before I turn it over to Scott, I'd like to thank our retiring Board member, Richard Daerr, for his 17 years of service on our Board. Richard has been with Orion since going public in 2007, serving as chairman for most of those 17 years. He has been a valuable asset to both management and the Board and will officially step down next month at our annual meeting of stockholders. We wish him the very best in his well-earned retirement. I also want to encourage stockholders to cast your votes and participate in our virtual meeting on May 16th. You can find the details on the materials and on our website.

I'll now turn the call over to Scott.

Scott Thanisch
Thanks, Travis, and good morning, everyone. Starting with our first quarter financial results, we generated revenue of $160.7 million, up 1% over last year. As Travis mentioned, we

experienced a schedule shift during the first quarter in two large projects and expect to recover this work over upcoming quarters in 2024. While total revenue for the quarter remained largely flat compared to last year, the mix of revenue changed dramatically, with marine revenue up 34% and concrete revenue down 32%. This change in mix reflects our focus on marine segment growth opportunities, as well as the discipline bidding standards we adopted to win quality work at attractive margins in our concrete segment.

We have learned to walk away from work that doesn't fit us and direct our energy to projects that deliver solid margins. With the shift towards marine projects, we are also increasing the average size of projects in our backlog. To give you a sense of typical project size, in our marine segment, a $150 million project is right down the middle of the fairway for us. And in our concrete segment, that's about $30 million for a large project. Data center projects in concrete may run between $20 and $50 million.

Targeting these larger projects ultimately gives us better revenue visibility over longer time periods. We also gain efficiencies in managing resources for a large project versus many small projects. Our goal is to have a more reliable and predictable revenue stream. Three to four large projects rolling out over a one to two-year timeline would help dampen some of the quarterly revenue fluctuations driven by job starts and completions. At this time last year, we had just a couple of large projects in our opportunity pipeline. Today, our business development team is pursuing over 20 of these type of projects.

First quarter gross profit margin increased to $15.5 million dollars or 9.7% of revenue, up from $5.8 million or 3.7% of revenue in the first quarter of last year. Both segments increased both gross margin dollars and gross margin percentage over the prior year. The 600-basis point increase in consolidated gross margins was primarily driven by improved pricing of high-quality projects and improved execution in both segments. SG&A expenses were $19 million, up from $17 million in the first quarter of 2023.

As a percentage of total contract revenues SG&A expenses increased to 11.8% from 10.7% last year. The increase in SG&A dollars reflected greater spending in IT and business development, as well as higher legal costs to pursue project-related claims. We are on track with our IT implementations and over the next several months, we will be rolling out new tools and processes for our operations and our back office. We're implementing software tools that share information and provide status of projects, improving our ability to effectively manage projects on the ground. And migrating our business segments to the same financial platform will deliver efficiencies and greatly improve our line of sight across the entire business.

Turning to profitability, we reported and adjusted net loss of $4 million or $0.12 per diluted share in the first quarter, compared to an adjusted net loss of $10.3 million or $0.32 per diluted share in the prior year period. This result excludes $2.1 million or $0.07 cents of diluted earnings per share of non-recurring items. Our GAAP net loss for the first quarter of 2024 was 6.1 million, or $0.19 cent loss per diluted share. EBITDA for the first quarter was $3 million and adjusted EBITDA was $4.1 million. Adjusted EBITDA margin was 2.5%, up from negative 2.6% in the prior year period.

Moving on to bidding metrics. In the first quarter, we bid on approximately $1.1 billion worth of opportunities, winning $155 million. This resulted in a contract value weighted win rate of 15.4% and a book to bill ratio of 0.97 times for the quarter. As of March 31st, our backlog was $756.60 million compared to $762.2 million at December 31st of 2023. Breaking out our first quarter backlog, $569.9 million was in our marine segment, and $186.7 million was in our concrete segment.

In April, we have been awarded an additional $42 million for new marine segment project work and $59 million for concrete segment work. We continue to deliver on our promise to improve profitability by implementing a more disciplined bidding process and winning quality work at attractive margins. During the first quarter, adjusted EBITDA margin in the marine segment was 0.9% up from negative 1.6% last year. Adjusted EBITDA margin in our concrete segment improved to 5.7% up from negative 3.5% in the first quarter last year. As a reminder, our goal is to generate adjusted EBITDA margins in the low double digits for marine and high single digits for concrete.

Turning to the balance sheet, as of March 31st, we had $4.6 million in cash with negligible outstanding borrowings under our revolving credit facility. Our plan to monetize non-core assets is on track. We are working on completing our $34 million land sale contract for our East/West Jones property, with an expected close in June. With the completion of this transaction, in total we will have unlocked over $60 million of value from our balance sheet to reduce debt and invest in growing our business.

We are increasing our CapEx spending over 2023 to upgrade our fleet and be prepared for accelerated growth through 2025 and beyond. To give us more flexibility to make these investments, we have amended our credit agreement to lower our minimum fixed charge coverage ratio covenant to one-to-one for the remainder of 2024 and reduce our June 30 prepayment from $15 million to $10 million in conjunction with a one-year extension. Our first quarter SCCR was 1.32 to one.

As Travis mentioned, we anticipate growing our backlog and the top line substantially over 2023 and expect revenue to ramp up in the back half of the year. At the same time, we plan to continue to improve margins by managing the business more efficiently and productively. For the full-year 2024, we reconfirm our guidance both for anticipated revenue in the range of $860 million to $950 million and expected adjusted EBITDA in the range of $45 million to 50 million.

With that, we'll open up the call for questions.

Operator
We will now begin the question and answer session. To ask a question you may press star then one on your telephone keypad. If you are using a speakerphone, please pick up your handset before pressing the keys. If at any time your question has been addressed and you would like to withdraw your question, please press star then two. At this time, we'll pause momentarily to assemble the roster.

Our first question comes from our first question comes from Julio Romero from Sidoti and Company. Please go ahead.

Julio Romero
Thanks. Hey. Good morning, Travis and Scott.

Travis Boone
Hey, Julio.

Julio Romero

Hey, guys, I wanted to start with talking about marine and wanted to talk about the increasing number of bidding opportunities there. Specifically, if we could go into the magnitude of the US Naval defense spending opportunity. You guys talked about the Pearl Harbor project and how you expect it won't be the largest US Navy project for long. I guess if you can help us understand kind of how big the opportunity is relative to the past.

Travis Boone
I can tell you, based on what we've compiled, it's tens of billions in in the Pacific. We don't know the exact number. I'm not sure it's actually been published. We just know by pulling together parts and pieces of different projects that we're aware of, it's a very large number, in the multi-billions.

Julio Romero
OK. Got it. And then, talking about the concrete business, can we just talk about your shifting focus to data centers for a bit? Maybe help us understand how much of trailing 12-month sales and concrete are from data centers, and maybe what percentage of concrete revenues do you anticipate that makes up a year from now?

Travis Boone
So, I don't have the number off the top of my head, but we've done--I know our biggest contract to date in concrete was a data center that was roughly $55 million that we did, that we signed last year that we're completing this year, and there's several others. As Scott mentioned, kind of on the call there, the range is typically $20 million to $50 million and we've been seeing quite a few of the opportunities spring up here in the last couple of years, especially. And as we've completed more and more of those, we've kind of gotten involved in more of them and so it continues to ramp up here as the AI-driven infrastructure is kind of hot at the moment.

Julio Romero
Got it. And then just if you can help us understand how a data center project is maybe a little different than your traditional concrete project. From a concrete contractor perspective, would there be some incremental complexity or specialization of the project? And does that lend itself to hopefully higher bid margins for that type of project?

Travis Boone
It's not necessarily that it's super different work than what we already do in concrete. We do a lot of a lot of complex concrete work in our concrete business on a regular basis. And it's pretty similar to what we do, is just put together a slightly different for a data center, but it's very similar work to what we kind of normally do. Typically, as far as we've performed pretty well on the data centers that we've done. Not going to speak to specific project metrics, but generally speaking, we've done very well on our data center work.

Julio Romero
Understood. We'll, I'll pass it on, and I'll hop back into queue. Thanks very much.

Scott Thanisch
Thanks, Julio

Travis Boone
Thanks, Julio.

Operator

The next question comes from Alex Rygiel from B. Riley. Please go ahead.

Alex Rygiel
Thank you. Good morning, gentlemen. A couple of quick questions here. First, the commercial concrete segment margins were very positive. Congratulations about that, but how confident are you that that's going to continue?

Travis Boone
Thanks, Alex. Yeah, that's a good, good question. Yeah. We're confident in that business. As you know, we've done a lot of work over the last year and a half or so, being more disciplined about what we pursue in our concrete business, being more disciplined about our minimum bid margins, and then improving our ability to deliver the projects profitably. We're pretty confident that we can continue to perform well in our concrete business based on the discipline we have and how we're approaching the work and feel very good about delivering strong margins in that business, whether it's exactly that number or something. Part of that will be market driven and part of that will be other things, but generally speaking, we feel good about our concrete business continuing to perform profitably.

Scott Thanisch
Yeah. I do think the first quarter was a little bit higher than average, just based on the contracts that completed during the timeframe. So, I wouldn't necessarily take Q1 and then run that out the rest of the year, but we do expect that we continue to see year-over-year price progress on our margins as we go forward.

Alex Rygiel
That's perfect. And then can you remind us what your CapEx budget is for 2024? And maybe talk about a couple of the larger components within that?

Travis Boone
The CapEx budget for the year. Yeah. So, maintenance CapEx needs that we always have every year, and we've typically talked about that being about $15 million a year for resets and just normal maintenance on our fleet. And then we've talked about investments that we're making to grow our fleet, about $30 million in a dredge build program over the next couple of years. So that's kind of the things that we have in mind right now. There may be, according to the opportunities, some shift of dollars, but I think those are probably the quantities that you should expect going forward.

Alex Rygiel
Super helpful. And then lastly, can you remind us what the timeline for the Pearl Harbor project is moving forward now? Sort of when do you think (Inaudible) construction activity, and how long does it last for?

Travis Boone
Yeah. So, we'll be kind of fully ramped up and operating at kind of peak capacity near the middle of this year, until let's call it the middle of next year before kind of starts ramping down somewhat in the latter half of next year.

Alex Rygiel
Perfect. Thank you very much.

Operator

The next question comes from David Storms from Stonegate Capital. Please go ahead.

David Storms
Good morning. Just hoping we could start with the current backlog. It had a nice jump. You mentioned roughly $100 million since the end of the quarter. Was this a timing thing? Was this just one big win that came through? Kind of what drove that backlog jump?

Travis Boone
It was just a timing thing we had. It wasn't one specific win that drove that. There were quite a quite a few wins in both concrete and marine that drove that number. And so, it wasn't one specific project, which is a good thing, right? It's not just driven by one. I think that's kind of a pretty good run of wins there that that drove that number.

David Storms
Understood. Thank you. And then just on the scheduling delays that you mentioned, are you able to give us a sense of maybe the magnitude of that and the spacing of any catch up? Should we expect most of that to be in Q2, or will it kind of be equally spread out through the remainder of the year? How should we be thinking about that?

Travis Boone
Yeah. It'll be spread out through the remainder of the year. Some of it, I think on of the projects, most of the ketchup will happen in Q3, and the other one will be probably sort of some in Q2, and then more in three and four.

David Storms
Understood. And then just one more for me. Your press release mentioned that your opportunity pipeline has almost quadrupled. Are there any specific initiatives that you're onboarding to try to capture obviously as much of this pipeline as you can?

Travis Boone
We've been in progress for the last year plus, working on quite a few things to capture that market. We had a pretty strong sense that it was going to be improving significantly, which has driven a lot of the investment in work that we've been doing over the past year plus, David. So it's been not necessarily that we're starting something new now. We've already been working on it for quite some time as we saw the market starting to blossom.

David Storms
Understood. Thank you for taking my questions and good luck in the second quarter.

Travis Boone
Thanks, David.

Scott Thanisch
Thanks, David.

Operator
Again, if you have a question, please press star then one. And our next question comes from Josh Zoepfel from Noble Capital Markets please go ahead.

Josh Zoepfel
Good morning, guys, just filling in for Joe this morning.

Travis Boone
Hi, Josh.

Scott Thanisch
Good morning.

Josh Zoepfel
Hey. So, you guys talked a little bit about Hawaii. It seems to be obviously having some delays, but can you guys just provide any just really additional color on Grand Bahama project? How's that looking?

Travis Boone
It's looking very good. That one had some delays with a subcontractor, but kind of moved some non-critical path work to the right. They got they got a little delayed on some other things and we'll be starting up a little later on their portion of the work than we had anticipated but it was, again, non-critical path work and it didn't impact the schedule of the project or any of our work. It just sort of delayed their work until the end of the second quarter.

Josh Zoepfel
OK. Perfect. And obviously, there hasn't been a lot of time between the fourth quarter and now, but can you kind of speak on the judging environment? You guys mentioned, kind of it'll pick back later, in the later half of this year, but you guys still kind of expect that?

Travis Boone
Well, I'd say we're optimistic that it will start picking back up later this year. We haven't seen signs of it yet, but it's kind of the same sort of status it has been for a little while at this point. Again, we're optimistic that things will start clicking a little a little more regularly with the quarter here later this year.

Josh Zoepfel
OK. Perfect. And then this is I guess the last one that I'll squeeze in here. I guess, in the SG&A, obviously, it's higher than we kind of anticipated. Should we kind of expect this to kind of continue throughout the year, this kind of run rate?

Scott Thanisch
Yeah. I think that this absolute dollar amount is probably a good run rate to use going forward as we continue to incur some costs related to claims, and as we make the most of our business development opportunities by investing in that function.

Josh Zoepfel
All right. Perfect. Yeah. Thank you, guys, so much for taking my questions.

Travis Boone
Thanks, Josh. And while we wait for more calls, it might be a good time to say, there was a typo in our press release that went across the wires and that was to the balance sheet, which it had had an incorrect current debt number. That has been corrected in the 8-K which was filed with the press release there.

Operator

Again, if you have a question, please press star then one. There are no more questions in the queue. This concludes our question and answer session. I would like to turn the conference back over to Travis Boone for any closing remarks.

Travis Boone
Thank you. Thank you, everyone, for joining today. We appreciate your time. I guess, in closing, I just want to thank all of our employees who are working really hard in our business every day to work safely and to work profitably and bring the best that they can to work every day. I also want to thank our shareholders for continued confidence in us and look forward to continued growth in the company here going forward. Thanks, everyone.

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