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Q2 2023 Earnings Call
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Officers and Speakers
Mark Schuck, Senior Vice President of Investor Relations
Brad Archer, President and Chief Executive Officer
Eric T. Kalamaras, Executive Vice President and Chief Financial Officer

Analysts
Scott Schneeberger, Oppenheimer
Stephen Gengaro, Stifel
Greg Gibas, Northland Security

Presentation

Operator: Hello, and welcome to the Target Hospitality Second Quarter 2023 Earnings Call. All participants will be in listen-only mode. (Operator Instructions) Please note, this event is being recorded.

I would like now to turn the conference over to Mark Schuck, Senior Vice President, Investor Relations and Financial Planning. Please go ahead.

Mark Schuck: Thank you. Good morning, everyone, and welcome to Target Hospitality's second quarter 2023 earnings call.

The press release we issued this morning outlining our second quarter results can be found in the Investors section of our website. In addition, a replay of this call will be archived on our website for a limited time.

Please note the cautionary language regarding forward-looking statements contained in the press release. This same language applies to statements made on today's conference call. This call will contain time-sensitive information as well as forward-looking statements which are only accurate as of today, August 9, 2023. Target Hospitality expressly disclaims any obligation to update or amend the information contained in this conference call to reflect events or circumstances that may arise after today's date, except as required by applicable law. For a complete list of risks and uncertainties that may affect future performance, please refer to Target Hospitality's periodic filings with the SEC.

We will discuss non-GAAP financial measures on today's call. Please refer to the tables in our earnings release posted in the Investors section of our website to find a reconciliation of non-GAAP financial measures referenced in today's call and their corresponding GAAP measures.

Leading the call today will be Brad Archer, President and Chief Executive Officer; followed by Eric T. Kalamaras, Executive Vice President and Chief Financial Officer. After their prepared remarks, we will open the call for questions.

I'll now turn the call over to our Chief Executive Officer, Brad Archer.

Brad Archer: Thanks, Mark. Good morning, everyone, and thank you for joining us on the call today.

Our record setting second quarter results reflect the positive momentum we have sustained over the past year. We have established significant operational flexibility and scale, enabling us to appropriately match customer demand while continuing to generate strong financial results.

We continue to benefit from our material expanded presence, providing critical hospitality solution to the U.S. government. This intentional focus has resulted in over 70% of second quarter revenue being derived from committed contracts backed by the United States government, with 78% of second quarter revenue having minimum revenue commitments. These elements supported over $368 million of discretionary cash flow over the last 12 months, representing an impressive discretionary cash flow yield to revenue of over 61% over that time.

This materially enhanced operating platform has allowed Target to efficiently serve its world-class customers while positioning the company to quickly respond to strategic growth opportunities all while continuing to generate impressive operating income.

In our HFS-South segment, we have remained focused on providing premium full-service hospitality solutions to our world-class customers, many of whom have been customers for over a decade. As a result, Target continues to benefit from consecutive quarterly increases in customer demand, resulting in an 18% year-over-year increase in utilization with consistent customer renewal rates of over 90%, which we have enjoyed for over seven years. We continue to benefit from the strong demand fundamentals and the more fully optimized network we have created over the past year. These elements have supported a more normalized pricing environment, and we anticipate continued positive momentum in the coming quarters.

Regarding our government segment, our purpose-built portfolio of assets continue to serve the critical humanitarian aid mission they were designed to support while exceeding the expectation of our partners in the U.S. government since our first community was established in 2014. Target's communities are frequently visited by the agencies they serve, as well as adjacent agencies and consistently received the highest government ratings on all of their operating specifications and metrics. This is a testament to the world-class solutions we have created to serve the specific needs of the U.S. government's humanitarian mission.

Regarding our existing Pecos Children's Center community, as we previously announced, several key milestones have been achieved related to securing long-term contract for this community. Our existing nonprofit partner was awarded an indefinite delivery, indefinite quantity contract, which establishes the contracting vehicle required by the U.S. government to appropriately fund multiyear contract awards.

Importantly, the Performance of Work statement, coinciding with the IDIQ contract, materially aligns with the existing specifications and capabilities of PCC. This is significant as our community has established a blueprint for the government's desired Influx Care Facility sites.

Further, in connection with the Performance of Work statement, the government outlined their desire to increase their ICF capacity to accommodate up to 10,000 individuals, requiring a total of three Influx Care Facility contract awards, or two in addition to the established PCC community.

As the government has continually stated, additional humanitarian housing capacity is urgently needed to manage the increasing number of unaccompanied children arriving into the U.S. These ICF sites are critical to the U.S. government and paramount in their ability to adequately support surge capacity in excess of existing shelter capacity, which has remained static for many years.

In response to the government's stated desire to increase their ICF capacity, we have partnered with multiple established government service providers and jointly submitted several solutions for new ICF sites. These new ICF sites are in addition to the established PCC community and our ongoing relationship with our nonprofit partner.

In summary, we have positioned Target to participate in a much larger Influx Care opportunity set than just PCC. We remain committed to our existing nonprofit partner and the exceptional community and service offering we have jointly created at the Pecos facility. We have also expanded our strategic government service partnerships and jointly submitted several bids across numerous geographic locations for the creation of new ICF solutions for the U.S. government.

I'll now turn the call over to Eric to discuss our second quarter financial results, expanding humanitarian focus and capital allocation initiatives in more detail.

Eric Kalamaras: Thank you, Brad.

In the second quarter, we continued to benefit from our established operational scale and ability to align with customer demand and consistently deliver strong financial results. Second quarter 2023 total revenue was $144 million, and adjusted EBITDA was approximately $91 million. Our government segment produced quarterly revenue of approximately $101 million, compared to $75 million in the same period last year. The significant increase was attributed to the expanded PCC community.

Our HFS segments delivered quarterly revenue of $42 million, compared to $35 million in the same period last year. This increase was driven by sustained momentum in customer demand for Target's premium service offerings. [Recurring] corporate expenses for the quarter were approximately $9 million, and we anticipate recurring corporate expenses will remain around $9 million to $10 million per quarter for the remainder of the year.

Total capital spending was approximately $16 billion, with the majority related to expanding our government portfolio in anticipation of the government's request to increase their ICF network

capacity. We expect a more moderate pace of capital spending through the remainder of the year, excluding potential acquisitions or government contract awards.

We ended the quarter with $70 million cash and $195 million of liquidity, with 0 borrowings under the company's $125 million revolving credit facility and a net leverage ratio of 0.4x.

As it relates to the outstanding senior notes, we continue to evaluate a range of liability management initiatives focused on further strengthening our financial position while balancing the expanded pipeline of strategic growth opportunities. This approach is centered on maximizing financial flexibility, enabling us to quickly react to value-enhancing growth opportunities as they arise.

Before we discuss the specifics around our expanding humanitarian opportunities, I would like to touch on the Influx Care Facility concept and its intended purpose in serving the government's humanitarian mission. As a reminder, the government has a network of shelter capacity that consists of smaller facilities located across the United States. Of these facilities are a fraction of the size of Target's existing PCC ICF community. The government utilizes the shelter facilities to address their humanitarian housing solutions for unaccompanied minors prior to occupying Influx Care [service].

Influx Care Facilities are intended to manage surge capacity beyond the U.S. government's existing shelter capacity. However, PCC and the government's desired Influx Care network capacity play a critical and necessary role in supporting this humanitarian mission. Due to the small size of individual shelter sites, the government has focused on its efforts in increasing Influx capacity that is urgently needed to manage the increasing and consistent numbers of unaccompanied children entering the U.S. that could strain the government's shelter network.

Simply stated, the influx Care Network is an essential element, allowing the U.S. government to appropriately manage and surge capacity in an efficient, humanitarian and seamless manner. As a result, the occupancy at government Influx Care Facilities, including PCC, will fluctuate with meaningful changes in occupancy over any given period of time.

Now turning to our expanded humanitarian community opportunities and ongoing organic growth initiatives. To meet the desired ICF network capacity for unaccompanied minors, the United States government has indicated their intention to award a total of three ICF contracts, supporting a population of up to 10,000 individuals. As it relates specifically to PCC, we believe the existing community and the solidified relationship with our nonprofit partner will remain a critical solution to the government's ICF capacity.

Further, the alignment of existing PCC specifications and capabilities with the desired government ICF blueprint provides additional confidence as we work through ongoing contract discussions. We remain pleased with the progress and anticipate additional contract specifications to be finalized later this year.

In addition, Target has strategically partnered with another established government service provider and has jointly submitted several proposals supporting approximately $1 billion of

cumulative capital deployment to create additional highly customized and purpose built ICF solutions for the United States government. Importantly, these proposed solutions expand numerous geographic locations, providing the U.S. government with maximum flexibility as they determine the desired location for new ICF sites.

As a reminder, Target recently acquired strategic humanitarian assets in anticipation of this request of the U.S. government. These assets have been proposed as a viable solution to meet the government's desired increase in ICF capacity. Further, Target's established presence providing these critical and highly customized solutions to the U.S. government is an essential element, and we believe positions Target advantageously to pursue these additional ICF opportunities.

We are excited about the opportunity to expand our critical humanitarian service offering to the U.S. government and in aid in its humanitarian mission. We continue to evaluate an active pipeline for strategic growth opportunities.

Company is providing 2023 financial outlook, which includes revenue between $550 million and $580 million, adjusted EBITDA between $346 million and $365 million. And excluding acquisitions, 2023 capital spending should approach more normal levels between $25 million and $35 million per year, predominantly focused on organic growth capital.

As we discussed, by their very nature, ICF facilities are designed to support a dynamic population and can experience meaningful fluctuations in occupancy over any given period of time. The range of 2023 revenue was flat to the adjustment of anticipated variable service revenue associated with PCC community only for the remainder of 2023.

As it relates to Target's strategic initiatives, Target is pursuing an expanding pipeline of growth opportunities and partnerships. These opportunities are designed to jointly leverage Target's operating expertise with contract vehicles that will create a number of solutions across various U.S. government agencies for projects that support national defense, energy transition and humanitarian projects. As previously stated, Target is prepared to allocate over $500 million of net growth capital to these high-return opportunities over the next several years.

We are pleased with the progress of discussions for many of these large-scale projects and look forward to providing additional updates in the coming quarters as the opportunities hopefully progress.

With that, I'll turn the call back over to Brad for closing comments.

Brad Archer: Thanks, Eric.

Our record-setting second quarter results are a testament to the operational efficiencies and scale we have created, enabling us to appropriately match customer demand while simultaneously generating strong financial results.

We are well positioned and excited to participate in the expanding Influx Care opportunity set. We are confident in the exceptional community and service offering we have jointly created with

our leading national nonprofit partner and that PCC will remain a critical solution for the U.S. government.

In addition, we believe our new partnership and the numerous ICF solutions we have proposed create an exciting opportunity to potentially expand our critical service offering to the U.S. government. We are well positioned and remain focused on pursuing this expanding pipeline of growth opportunities while continuing to accelerate value creation for our shareholders.

I appreciate everyone joining us on the call today. And thank you again for your interest in Target Hospitality.

Questions and Answers

Operator: We will now begin the question-and-answer session. (Operator Instructions) Our first question comes from Scott Schneeberger of Oppenheimer.

Scott Schneeberger: For my first question, I'd like to inquire, I guess, Eric this would be for you, the guidance range adjustment, low end and high end. What does that contemplate for occupancy at the Pecos Facility?

Eric Kalamaras: Scott, when we look to modify the outlook, the revisions that we stated were specifically related to the variable services revenue. So as we think about going forward, specifically for 2023 at this point, we and our partners certainly were anticipating higher variable occupancy there than what we would have received for the first part of the year.

And so I think as we look at it going forward, we're not assuming that there's any variable services revenue at this point, which I think is prudent based on what we've seen. And I think it's safe to say that we've all been somewhat surprised like that. But having said that, nothing has changed about how we view the contract or, certainly, its durability going forward.

I think as we think about going and looking at all the opportunities we have ahead of us, when we think about the upside of the outlook, there's certainly a lot of opportunity where we can certainly fit towards the high end of that, just depending on the cadence and timing of as to when those opportunities satisfy themselves.

Scott Schneeberger: And obviously, yes, not activity at Pecos at the moment. Could you just -- given what we've seen with flows this summer and maybe compare and contrast that to recent years past, just give us an update on seasonality considerations. And is there -- it doesn't sound like it's baked into your guidance, but what you've seen with flows and your conversations with the government, do you anticipate a chance of utilization prior to year-end?

Eric Kalamaras: Sure. So I think it's too early to say. Let me say this. I'm never going to say that we're not going get increased RMC there. I mean, I think that's always the optionality. If you recall, we can get just a week's notice as to what the government plans to do there to increase that. In fact, I would say even going back into early summer, we were having daily calls in and

around Title 42 about potentially putting material occupants at that site. So look, that's always a possibility at any given point in time.

I think it's really a function of what's happening. So let me give an example. So when we were looking at Title 42, there was a tremendous amount of demand, really, across a number of entry points. And so I think what has happened is perhaps that's upended the timing a little bit. And so we'll just have to wait and see how that ebbs and flows over time. It's really hard to really predict.

Brad Archer: Yes. And I think maybe just to clear the air on the variable piece and utilization as it sits today. I think it's really important to bifurcate those two because if you look at utilization where we sit today, in Pecos, there is no correlation between utilization and the ultimate need for 10,000 ICF beds. The need is there for insurance, for the government. They looked at this three years ago. They did Pecos. They're moving in now to adding additional facilities as we've said in our release. But there's no correlation when you look at how many -- kids, if you will, are sitting in there today and the need and the change in how they're envisioning this.

There's a difference on -- once they're there, we can all look at order flows and see that and say, okay, they're going to -- is there going to be variable? There will absolutely be some variable. There has for many, many years. But this is for influx capacity.

Scott Schneeberger: All right. Thanks Brad. I appreciate that. Going up a level. Some discussion on this call about the government looking at not just Pecos, but a couple other locations.

And I guess, not that you'll be able to answer this with certainty because you don't know what your -- the government customer will ultimately do. But do you get a sense from your discussions with them that

[Audio Gap]

In isolation, or are all these three there? And does it feel more like the government may put them all together? It makes it final decision and --

Brad Archer: Scott, I don't know if --

Scott Schneeberger: That's it, Brad.

Brad Archer: I don't know if it's on our end or your end, but you were breaking up. But we caught probably 30%. But I think what you were asking, do you think all 10,000 beds, basically, would be awarded, or is this in isolation. I'm not -- I didn't hear the whole question. So if you can hear me good, let me just give you an update on what we think about the IDIQ process. Can you hear us okay?

Scott Schneeberger: Yes. I heard everything you said if you can hear me. And you got the question. Do you think Pecos will be awarded in isolation an extension? Or are all three being grouped together as the government considers it for its award?

Brad Archer: Yes. And let me give everybody just an update on where we're at in the IDIQ process. Last call, we had just received a Performance of Work statement. And literally right before our call, we did not have time to go through it. Now in our release, you see they're asking for 10,000 total beds, three separate facilities. And they need that. In conversations with them, we worked on our bids with our partners for the past several months. We submitted Phase 1 technical proposals a few months ago. The government goes in, they grade your proposals, they look at your partnerships, how you're going to actually take on the job and get it done.

We were selected to move forward with all of our bids into what they call Phase 2 pricing. Phase 2 is the last phase of this bid before an award. So there's -- important to note, there's a limited number of companies that were selected out of Phase 1 to move into Phase 2. All of our bids were pushed into Phase 2. We submitted our bids on July 26, our pricing for Phase 2. So now it's a waiting game on when this gets awarded. We're being told fourth quarter would be the award.

And look, could these be staggered? They absolutely could be. These are very large, very big bids. So even with some of those, could a #3 go on a little bit further than the fourth quarter? It absolutely could. But look, I definitely think there's an award happening in fourth quarter. How many? We will see. But definitely, there could be some staggering of the award just based on how large they are.

Operator: Our next question comes from Stephen Gengaro of Stifel.

Stephen Gengaro: A couple of things from me. And I just think just first, one clarification. The 10,000 beds, is that -- are they designed for children and staff? Or is that just the unaccompanied minors' portion?

Eric Kalamaras: Yes. There's definitely more to go here. This is just for children. This doesn't account for what we would have to supply for our partners and our own workforce for housing. So at the end of the day, at each of these facilities, just like Pecos, there would be a number of beds also on top of this for staffing.

Look, some of them are different. It depends on -- I'm not, for competitive reasons, not going to tell you where these are located and what we bid. But some might be closer to a city, where you can actually have something there. But there will be a number of extra rooms, if you will, and some fairly substantial, depending on what locations they pick, would add to this number for us. And the contract would get bigger.

Stephen Gengaro: Okay. Thanks. And then --

Eric Kalamaras: That make sense?

Stephen Gengaro: That does make sense. Yes. Thanks. And then two other things. First, you addressed this to an extent, but I'm just curious. So when we're looking at these fact sheets that tell us utilization has been 0 for several months. And then we are trying to triangulate that into long-term demand, which you had noted on the call earlier was a flawed approach.

When an unaccompanied minor enters the country, maybe it would be helpful for us to the extent you can, what are the different paths for this unaccompanied minor? And at what points would you be utilizing an Influx Care Facility versus the other parts of the system?

Brad Archer: Yes. And let me -- I'll let Eric jump on this, but let me say, it's not so much a flawed approach in how you look at border crossings that eventually happens to become influx. I'm saying it's probably the flawed approach for the need. If you're looking at just, that for the need of these facilities. These needs are much deeper than just looking at, if you will, what's coming across today.

They've known they've had this issue for many, many years. This is their solution for many, many more years because influx is going to come. Trying to put your finger on when that happens is the million dollar question, if you will.

But what we do know -- so that's my thing, that those you can't correlate those two. So hopefully, that --

Stephen Gengaro: I got you. No, that makes sense.

Eric Kalamaras: And to further expound on that, I think as we have [likely] discussed before, it's really a function -- the movement into influx is really a function of the strain, if you will, on the shelter capacity.

So there are approximately 9,000 beds within the shelter system. And so at a certain level -- and now those tend to be small across a number of states. And so it can be easy at times for those to potentially get strained and to have too many occupants in any given site. At that point in time, there's obviously some logistical maneuvering that the government will do. But beyond the shelter capacity, once it gets to a certain threshold level, they'll start moving into influx.

So right now, we're -- let's say we're about 70%, 75% occupied within the shelter system. At some level above that, then they start moving and shifting into influx. So I would say that it's not that far away, but it still hasn't happened yet.

I think regardless to Brad's point, this is an insurance policy regardless of what the shelter capacity occupancy looks like at any given point in time because to the extent it does exceed that, you absolutely need the influx to help, to offset immediately. So it's not something where the government can wait, which is the whole purpose around the IDIQ and this discussion. So hopefully, that gives you a little bit of additional context as to how that process works.

Stephen Gengaro: Yes. Great. And then just one final. And I know this is small, and you may not want to comment specifically. But when we look at the government revenue for the quarter, the numbers that we get based on the knowns that we have, which are probably not perfect, was that the utilization of the ICF was in the low 30s in the first quarter. But we also -- there also was some revenue contribution in the second quarter despite what I thought was an empty facility. Am I thinking about that wrong? Or is there still some -- and, I mean, some variable revenue?

Eric Kalamaras: Yes. I don't think -- look, it's a couple of things. One, we [haven't] specifically talked about the variable contribution per quarter. But I think if there were any, it wasn't that much. We can talk about [indiscernible] and dig into it further.

Operator: (Operator Instructions) Our next question comes from Greg Gibas of Northland Security.

Greg Gibas: Congrats on the quarter. When we think about that 10,000-bed number that the government is demanding, how many incremental beds is that? Should we think about that 6,400 current capacity at Pecos and then another, I think, 2,200 that you have in another contract with the government? I mean, how should we think about incremental beds?

And I guess as a follow-up there is the assets that you've acquired that aren't currently contracted with the government, would you say those basically meet the government's needs or requirements, I guess, right now and maybe, I guess, as they stand today? Or would additional capacity or anything requiring capital be required?

Brad Archer: Yes. The facility we acquired, I will tell you, was definitely used in our bid process. So we definitely think it meets some of the needs for this bid. As I mentioned earlier, there will definitely be customer beds, employee beds, if you will, on top of -- on each facility, on top of the 3,000 per facility. I'm not -- again, for competitive reasons, this was an open bid, I'm not going to get into how many that is or how large that is. Just again, would be inappropriate at this time to do that.

Hopefully, we're awarded them. And then we can talk more about how it's built. What's out there is definitely the 3,000 beds for the government. And what we haven't put out is how many other beds we would need to put out for the customer side, for the employee side.

Eric Kalamaras: And Greg, to address the incrementalization of your question, as it relates specifically to Dilley, that's not included here. So everything we're talking about is obviously over and above that.

But PCC is effectively embedded with the net 10,000 number. So effectively, if you think about PCC in of itself, you're thinking about an additional 6,000 --

Brad Archer: But only show 3,000, not the 6,400.

Eric Kalamaras: Right. That's right. That's what I'm talking to.

Brad Archer: Only the kids' beds.

Eric Kalamaras: Correct, just 3,000. So it would be the additional 6,000 for children if that incremental. So hopefully that gives a little bit more clarification.

Greg Gibas: That does. Thanks for clarifying that. And appreciate the color there. I guess just a follow-up on a previous question regarding, I guess, the variable revenue. I guess the reason for the maybe slight guide-down in EBITDA or relation of just less variable contributions you're expecting this year. And I guess overall just wondering what your updated assumptions for variable revenue are this year?

Eric Kalamaras: Well, typically, we see a stronger seasonality in and around the late spring through the summertime. I think a lot of that was pulled forward because of the Title 42. And so -- which, again, was not an expectation that we would have coming into this.

So I think as we look at that and we see that shift earlier in the year than we would have expected specifically [related to] Title 42, then I think it's caused us to re-look at it. And we try to be thoughtful and conservative as to how we provide outlooks. So as a function of that, we just feel it's a prudent and appropriate adjustment to make as we look at the balance [with you].

That being said, there's nothing that says that that can't come back. As I mentioned a moment ago, I mean, [shelter] capacity is 70%, 75%. At some level over and above that, you certainly would look at influx care.

Greg Gibas: Great. Very helpful. I guess lastly, just anything you can share on your new government service provider partner and maybe how they offer new market opportunities versus your existing nonprofit partner?

Brad Archer: Look, I'm not going to go into names. Again, open bid is still out there. We'll tell you, we're very excited about who we partner with. A very large government services firm. This bid really takes in -- it's much larger than what we're doing today. We're going after all of the bid. We've bid on all facilities. Geography-wise, it stretches much further than where we're at. So going in and partnering with a firm like that really made sense.

I will tell you, very happy with the existing partner that we have in PCC. As you know, we're aligned there. We have an 11-year agreement with them on that facility. And we've provided everything they asked for in what they wanted to submit to the government for this bid. But we wanted to go after all of it and try to grow our government business. We think we have the ability to do that with this new partner.

Operator: Our next question comes from Stephen Gengaro of Stifel.

Stephen Gengaro: Just on the oil patch. Just when we look at activity levels there, I mean, clearly, rig counts are down. Completion activity is likely down in the second half of the year, but it does seem like we're stabilizing and looking at a recovery likely next year. Are you seeing much change in that piece of the business? It doesn't appear so from your guidance, but I just wanted to check that.

Eric Kalamaras: Look, we have said -- we started saying earlier in the year that we were expecting some margin expansion as we -- into the back half of this year. We started seeing that really starting in the second quarter as we saw some additional inflation pressures come down

and some cost containment create some operating efficiencies. So to that extent, things are getting better.

I think as we -- I think really, your question is part of, what does the inflation look like going forward, and is there any real change there? And I wouldn't tell you that we are expecting anything significantly different from that high 70% area utilization that we're at now. I would expect that to continue. Hopefully, the [playback] continues to get better. There is some potential for some consolidation, which is just starting to take a little bit. So that could be helpful to us over time. But look, I would think that there's still some steady, slight growth there. But I wouldn't expect anything material at this point.

Stephen Gengaro: Okay. Thanks. And then just one other quick one on the government. Should we think about the potential structure of contracts to be similar to Pecos, where there's this fixed piece to protect you and keep your assets? You're given your assets for utilization for a long period of time plus some variable portion. Is that the standard structure we should expect?

Eric Kalamaras: So I think the way you think about these contracts going forward is the structure we have with PCC, specifically related to how that was structured from a revenue piece to a variable piece as well as to the capital and the payback portions. I think you should think about those generally being roughly very similar in concept construction.

Operator: Our next question comes from Scott Schneeberger of Oppenheimer.

Scott Schneeberger: I just wanted to touch base on -- it didn't come up much on this call because a lot of the ICF discussion was prominent. But you previously alluded to opportunities across other government agencies. And I was just wondering if you could give an update on some of the non-ICF opportunities you're pursuing, if there are any updates there.

Brad Archer: Sure. So definitely, there's some organic progress being made as far as, I'm not going to get into specifics, but some of the same things we've always talked about from natural resources, also other government services than the ICF piece. We continually are out trying to expand our government piece of the business. There's some even in the HFS side that could happen as well.

But very strong pipeline organically out there. And we continue to say stronger than what we've had in many years past. Again, project's very large. They take time to get done. But we're making headway on some.

Eric Kalamaras: Yes. I think to that point, we have said over the past several quarters that we're continually looking to expand into further regions of the government. I think having the additional partner, having multiple sites, look, we're clearly executing on that. These are big, and I think we want to be thoughtful around what we're looking at here. We're not taking our eye off the ball and continuing to grow the business, really, throughout government.

There are other things that we're working on in addition to these as well, as Brad mentioned, with the government and, of course, with other business and industry. So look, the pipeline is robust. And we look forward to trying to execute on it.

Scott Schneeberger: Great. Thanks. And then last one for me. I heard in prepared remarks, CapEx moderating through the end of the year. But the guidance did increase for the year. Was that all what you were doing in the second quarter, working with that newly acquired strategic asset? Am I point on there? Or is there a little bit more to it?

Eric Kalamaras: No, you're right. Go ahead. Go ahead, Scott. Go ahead.

Scott Schneeberger: No, that's it, and '24 considerations on CapEx after that one.

Eric Kalamaras: Sure. No, you're right. Most of that spending was in the first -- was really in the first half, particularly in the first quarter. So that was the nature of the comment around moderating, really, towards the back half of the year.

As you think about going into 2024, look, I would say at a base level, I would stick with something that looks similar to what we've got for 2023 as well. Then you have -- look, the nature of what we're talking about here on capital spending, look, it could be significant at gross level. But if the structure is what we believe it to be from a capital spending level with the [asset] contracts on a net capital level, they look very similar to what we had this year. So you could have a very big nameplate number, but not such a big number on a net basis.

Operator: This concludes our question-and-answer session. I would like now to turn the conference back over to Brad Archer for any closing remarks.

Brad Archer: Thanks for joining us on our call today, and thanks again for your interest in Target Hospitality. We look forward to speaking again in November on our third quarter call. Have a good day.

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