INNOVATE Corporation (VATE) Q3 2022 Earnings Call Transcript

November 2, 2022 4:30 PM ET

Nov. 05, 2022 3:49 AM ET **INNOVATE Corp. (VATE)**

INNOVATE Corporation (NYSE:VATE) Q3 2022 Earnings Conference Call November 2, 2022 4:30 PM ET

Company Participants

Anthony Rozmus - IR Officer

Avram Glazer - Independent Chairman

Wayne Barr - CEO, President & Director

Michael Sena - CFO

Conference Call Participants

Brian Charles - R.W. Pressprich & Co.

Bryant Riley - B. Riley Financial

Nitin Sacheti - Papyrus Capital

Operator

Good afternoon, and welcome to INNOVATE Corp.'s Third Quarter 2022 Earnings Conference Call. [Operator Instructions].

I would now like to turn the conference call over to Anthony Rozmus, with Investor Relations. Please go ahead.

Anthony Rozmus

Good afternoon. Thank you for being with us to review INNOVATE's third quarter 2022 earnings results. We're joined today by Avi Glazer, Chairman of INNOVATE; Wayne Barr, Jr., CEO of INNOVATE; and Mike Sena, INNOVATE's Chief Financial Officer. We have posted our earnings release and our slide presentation on our website at innovatecorp.com. We will begin our call with prepared remarks to be followed by a Q&A session. This call is also being simulcast and will be archived on our website.

During this call, management may make certain statements and assumptions, which are not historical facts, will be forward-looking and are being made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. Any such forward-looking statements involve risks, assumptions and uncertainties and are subject to certain assumptions and risk factors that could cause INNOVATE's actual results to differ materially from these forward-looking statements. Risk factors that could cause these differences are more fully disclosed in the cautionary statement that

is included in our earnings release and the slide presentation and further detailed in our 10-K and other filings with the SEC.

In addition, the forward-looking statements included in this conference call are only made as of the date of this call and as stated in our SEC reports. INNOVATE disclaims any intent or obligation to update or revise these forward-looking statements except as expressly required by law.

Management will also refer to certain non-GAAP financial measures such as adjusted EBITDA. We believe that these measures provide useful supplemental data that, while not a substitute for GAAP measures, allow for greater transparency in the review of our financial and operational performance.

At this point, it's my pleasure to turn things over to Avi Glazer.

Avram Glazer

Good afternoon. INNOVATE achieved another quarter of strong financial results. We grew both our top and bottom line once again, which we have done every quarter this year. Consolidated revenue for the third quarter grew 7.1% and adjusted EBITDA increased 14.7% over the prior year period. It's encouraging to see the sustained growth in the first 9 months of 2022 in the midst of a weaker macro backdrop.

Infrastructure headline results as that business continues to benefit from a strong construction market and delivered revenue and adjusted growth while also expanding margins. The backlog also grew in the quarter, which continues to provide visibility and a pathway to future revenue and cash flows.

In Life Sciences, revenue has grown sequentially each consecutive quarter in 2022. That said, we are navigating challenges in China related to lockdowns, which has negatively impacted our results in the quarter. Despite the slowdown, MediBeacon and R2 continue to make incremental progress. In the third quarter, R2 had 20% revenue growth as compared to the second quarter and has now shipped 215 units globally. MediBeacon patient enrollment is 85% complete with its U.S. pivotal study and is expected to finish the study by year-end. MediBeacon targets its final FDA submission in the first half of 2023.

In Broadcasting, we continue our focus on leveraging the scale of Spectrum station group distribution platform and take advantage of the opportunities by optimizing operations.

I'd like to again highlight the resiliency of each of our businesses. We have delivered growth on the top and bottom lines throughout 2022 despite the challenging operating environment, and I'm confident our teams in each of the businesses will continue to execute our strategy and drive long-term growth and unlock future value.

With that, I'm pleased to turn the call over to Wayne Barr.

Wayne Barr

Thanks, Avi, and thank you all for joining us today. Across our 3 businesses, I'm proud of the results we delivered for the third quarter. By continuing our company-wide focus on operations, we achieved year-over-year growth on a consolidated basis. I will now share some third quarter highlights for each of our operating segments.

At DBM Global, Banker Steel has been a part of DBM for more than a year now, and it's clear that the expected benefits from that acquisition continue to unfold. The expanded scale and footprint has allowed DBM to capture a larger scale of the revenue opportunities associated with increased demand for large construction projects.

Revenue and adjusted EBITDA grew 7.8% and 13.1%, respectively. As we have mentioned on previous calls, we are now starting to see the improved margins as the pandemic-related jobs have started to roll off and jobs sold in the second half of 2021 are ramping up. Adjusted EBITDA margin expanded 30 basis points year-over-year and 120 basis points sequentially.

DBM continues to generate robust revenue while also growing its backlog. Sales in the backlog were $843.8 million for the quarter, outpacing revenue recognized during that quarter once again. As you can see, Rustin and the team have not seen a slowdown in the market at this point and continue to take advantage of the current environment. The heightened backlog continues to give the business great visibility into 2023 and beyond.

Turning now to Life Sciences. R2 has now shipped 215 Glacial devices and the monthly number of patients treated has continued to grow. Additionally, R2 implemented a new subscription sales program designed to fuel growth as it continues to explore various clinical initiatives for the Glacial products, including psoriasis and other inflammatory conditions. While these are still early days, there appears to be a much greater end market and application for this novel technology.

At MediBeacon, the U.S. pivotal study has continued to progress well and now has enrolled 85% of its subjects. Both MediBeacon and R2 have been active on the trade show circuit, appearing at various events as speakers. MediBeacon is presenting at the American Society of Nephrology Kidney Week in Orlando, and R2 will be presenting at 2 upcoming investor conferences, Cantor Fitzgerald's Medical & Aesthetic Dermatology, Ophthalmology & MedTech Conference; and Jefferies Virtual Private MedTech Summit.

Finally, at Spectrum, the continued challenges in the operating environment had an adverse impact on our results. During the quarter, we made the strategic decision to exit Azteca America. Azteca America experienced sustained declining viewership and high cost for content and postproduction services making it a very challenging environment for success. By exiting Azteca, we will remove a significant portion of variable costs

from the Spectrum business. This is part of our strategy to optimize operations, decrease costs and improve overall results of Spectrum over the long run.

With the pending availability of prime channels on the Azteca stations, we have been approached by dozens of programmers looking for carriage. In fact, we have already executed or will be shortly executing contracts to fill over 1/3 of the channels previously occupied by Azteca. While overall revenue will decrease as a result of the closure, we will be replacing unprofitable revenues with profitable revenues, which will have a positive impact on broadcast cash flow and EBITDA.

We are starting to see a reversal of the trend in the overall softness in the television advertising market this year, particularly direct response, which has slowed the growth of multicast networks. Revenue prospects for new network launches on our platform look promising as we move into 2023.

In September, we successfully completed the upgrade to ATSC 3.0 of 2 of our Fort Wayne, Indiana stations. This upgrade is in conjunction with the FCC Experimental Special Temporary Authority granted to conduct a mobile wireless trial with our LPTV spectrum. The trial will likely commence in early December. While there is still much work to do, we are excited to be at the forefront of exploring the opportunities and expanded capabilities of ATSC 3.0 in conjunction with our current OTA linear broadcasting use.

During the quarter, we completed the build-out of a new station for license WKOB-LD in New York City, which was relocated as a result of displacement from the incentive auction. The new site for the station is One World Trade Center, providing a far-ranging robust signal to the New York City market.

Outside of our operating segments, certain regulatory administrative items have delayed the closing of the HMN sale. We are still working through the mechanics of selling the 19% ownership in HMN and have encountered administrative regulatory hurdles that we expect to be short term in nature.

Lastly, we recognize the level the stock is trading at currently and are aware of the New York Stock Exchange listing regulations. We have been working with the stock exchange and have been very cooperative and are working diligently on the plan to get the stock back over $1 over the next 6 months.

Overall, we are pleased with the continued resiliency demonstrated by our 3 businesses this past quarter and year-to-date despite challenging operating environments. Looking ahead, we remain focused on executing our strategy across Infrastructure, Life Sciences and Spectrum, and believe we are poised for growth in each of our operating segments.

With that, I'll turn it over to Mike for a review of our financials and capital structure.

Michael Sena

Thanks, Wayne. Consolidated total revenue for the third quarter of 2022 was $423 million, an increase of 7.1% compared to $394.8 million in the prior year period. The increase is driven by our Infrastructure segment, led by the contribution from Banker Steel and increases in infrastructure market demand. Net loss attributable to common and participating preferred stockholders for the third quarter of 2022 was $6.6 million or $0.09 per share compared to a net loss of $213 million or $2.75 per share in the prior year period. As a reminder, we recognized a $200.3 million loss on the sale of the Insurance segment in the third quarter of the prior year.

Total adjusted EBITDA, which excludes discontinued operations, was $16.4 million in the third quarter of 2022, an increase from an adjusted EBITDA of $14.3 million in the prior year period. The increase was primarily driven by the Infrastructure segment and our investment in HMN, which was partially offset by a decrease at our Spectrum, nonoperating corporate and Life Sciences segments.

At Infrastructure, revenue increased 7.8% to $412.7 million from $383 million in the prior year quarter. As discussed earlier, this increase is driven by Banker Steel as they are in full swing into the work at 270 Park. They also saw an increase in DBM's commercial structural steel fabrication and erection business as they work through some of the larger wins from 2021, including IBEC Clippers' arena. The increase was offset in part by the industrial maintenance and repair and construction modeling and detail businesses due to unrepeated large projects completed in 2021 and early 2022.

Infrastructure adjusted EBITDA for the third quarter of 2022 increased to $27.6 million from $24.4 million in the prior year period. The increase was largely driven by revenue increases previously described, combined with an improvement in margin as projects sold in the first half of 2021 and earlier are working their way through the system. And projects subsequently sold in the second half of 2021 are now beginning to ramp up.

The improvements in profit and margin were partially offset by increased selling, general and administrative costs to support growth in the business as well as lower contributions from the industrial, maintenance and repair, and construction modeling and detail businesses.

As we have previously discussed, projects typically take 12 to 18 months to work off through backlog, and we are happy to see the jobs sold in the peak of the pandemic roll off and newer jobs begin to ramp up. As of September 2022, reported backlog was $1.9 billion, up from $1.6 billion as of December 31, 2021. Adjusted backlog, which takes into consideration awarded but not yet signed contracts, was $2.2 billion compared to $1.9 billion at the end of December 2021.

As Wayne mentioned, we are happy to continue to see a robust market as evidenced by over $840 million of jobs sold into backlog this quarter. We expect to work through over

$1.5 billion of this backlog in the next 12 months, giving great visibility into the next couple of years.

DBMG ended the quarter with $247.5 million of debt, which is an increase of $58.9 million from year-end driven by working capital movements, which were at a low at year-end combined with top line business growth.

At Life Sciences, the slight increase in adjusted EBITDA losses were driven primarily by a decrease in gross margin at R2, which was primarily due to a change in product mix and an increase in equity method losses recorded from our investment in MediBeacon as they work through their final pivotal trial. We discussed last quarter the $10 million bridge commitment made by Lancer Capital to R2, which will be repaid by year-end or a successful equity raise. The $10 million commitment was fully funded during the third quarter.

At Spectrum, revenue decreased $1.1 million or 10.8% to $9.1 million as a result of lower advertising revenue at the Azteca business as a result of a decreased footprint and the decline in paid programming. Spectrum delivered adjusted EBITDA of $0.3 million in the third quarter compared to adjusted EBITDA of $1.8 million in the prior year quarter. The decrease was the result of a decline in network or Azteca revenues, combined with increased content and service costs related to the network business along with, to a lesser extent, higher station costs as a result of the new build stations. This was partially offset by a decrease in salaries and benefits and legal expenses. As you know, our Spectrum debt comes due at the end of the month, and consistent with prior years, we plan to extend the debt maturity and are far along in our discussions with our existing lenders.

Nonoperating corporate adjusted EBITDA losses were $5 million for the third quarter of 2022, up from the third quarter of 2021 by $1.2 million driven mostly by accrued severance related to the former chief legal officer as well as increased legal expenses.

At the end of the third quarter, the company had $25.8 million of cash and cash equivalents compared to $45.5 million as of December 31, 2021. On a stand-alone basis, as of September 30, 2022, the corporate segment had cash and cash equivalents of $5.1 million compared to $22 million at the end of 2021.

As of September 30, 2022, INNOVATE had total principal outstanding indebtedness of $711.5 million, up from $80.7 million from $630.8 million at the end of 2021 driven primarily by Infrastructure's increase in its line of credit as a result of working capital movements, corporate's utilization of the remaining credit line, as discussed in the previous quarter, and R2's borrowing from Lancer Capital.

Our DBMG cash continues to be partially tied up in working capital. We expect to meet our upcoming obligations mainly through the DBM tax share agreement along with cash on hand while we work through longer-term solutions to support the working capital

needs and dividend distributions during this time of tremendous growth we are experiencing with DBMG.

We navigated the first 9 months of 2022 well and look to close out the year strong. For each of our operating segments, our focus is on what is within our control. We recognize that each businesses face unique challenges, but we are proud of all of our employees and the results of their hard work has generated to date.

With that, operator, we'd now like to open up the call for questions.

Question-and-Answer Session

Operator

[Operator Instructions]. Our first question will come from Brian Charles with R.W. Pressprich.

Brian Charles

Congratulations on the quarter. The Infrastructure certainly turned around -- or not turned around, but certainly continues to improve like you had guided earlier. But I guess I have a quick question about the Broadcast business. Leaving Azteca America, it looks like your revenue will come down, but you say the net effect on EBITDA should be relatively positive. Do you have any color on that? What kind of scale that could be in terms of the positive EBITDA effect?

Wayne Barr

Yes. We really haven't guided and don't give any projections. But if you kind of take a look historically at how the station group operates, you have a fixed cost operation there, and it really is a matter of putting additional revenue on those stations. And as we exit the Azteca business, that does free up some of the stations that we had previously been using to broadcast Azteca. And we are in the process of monetizing those new stations, it should be at a higher margin than what we've been experiencing by operating on the Azteca network there. And we would expect that, that trend would continue as we use up the channels that were previously dedicated to Azteca and eliminate some of the variable -- all of the variable costs associated with the operation of Azteca.

Brian Charles

Okay. So it's fair to assume that the revenue you're losing with Azteca right now should be replaced as you sign up other [indiscernible] stations.

Wayne Barr

A bit of a modification.

Michael Sena

Yes. I mean, so I would expect overall revenue to come down in the Broadcasting segment. But I would expect that we will replace what would be intercompany revenue between the network for Azteca business and the Broadcasting business. So in essence, we will add revenue to the remaining business but eliminate all the costs associated with the network business.

Brian Charles

Okay. Are there exit costs or restructuring costs associated with exiting Azteca?

Wayne Barr

Not anything material. As you know, there weren't an awful lot of fixed assets there. And we're working through a couple of the obligations that we will be terminating, but there are no significant exit costs or wind down costs associated with exiting this business.

Brian Charles

Okay. Fair enough. One other thing, I don't know if you can talk about third quarter, but if you ended the quarter with about 5 -- or $5.1 million of cash at the corporate level, can I ask how you pay the coupon on the 8.5% notes in August?

Michael Sena

Well, we borrowed on the revolver up at the corporate level, and that's how we made the payment, which we had talked about previously.

Brian Charles

Okay. That was a drawdown during the third quarter. Okay. Yes -- no, all right. Fair enough.

Michael Sena

The interest payment's due August 1 and February 1. So the semiannual interest payment was due in August. We bought on the line towards the end of July. Did mention that last quarter, and that's how we made coupon payment.

Brian Charles

Okay. And then finally, and I'll get back in queue. The residual marine services put with HMN, I know you all have been talking about that and you made a comment about just some regulatory headwinds right now. Do you still expect those to be resolved now, in the fourth quarter?

Wayne Barr

In the fourth quarter? Yes. We think that the headwinds that we're facing, primarily arising out of regulatory issues that are being experienced in China by the purchaser as well as the continued Chinese lockdowns have delayed consummating the sale of that. We are constantly iterating with the counterparties there and trying to get this done as quickly as possible. We're hopeful that it will be concluded by the end of the year.

Operator

Our next question will come from Bryant Riley with B. Riley Financial.

Bryant Riley

So Avi, we've been in this forever, like maybe 3 years before you, and saw the rights offering and have seen the whole process and had great deal of respect to your past. It's obviously been a challenging investment for all. And I guess I wanted to take a second and understand the bigger picture and kind of the bigger thesis as we looked at it, and make sure that we're not thinking about it incorrectly and then just get any potential thoughts you might have recognizing you're an insider.

So as I look at the balance sheet, simply net debt -- debt of $709 million. And I appreciate that some of that is going to go up and down based on working capital needs. You've got a subsidiary that's doing roughly $100 million of EBITDA. I believe it's a lot of free cash flow when it's not dealing with supply chain issues and other things that I would imagine it's doing with now, I'd love to hear some thoughts on that, but could trade at a decent multiple. I'm not suggesting you're selling it, but if it traded at 7x your EBITDA multiple, you would have all of your deck on, again, simplistically. And that leaves you with Spectrum and Life Science.

And Spectrum, I don't know the value of that biz. I've -- we've never been able to really fully underwrite that, so no clue. But Life Sciences for a long time, there's been some really big numbers thrown around, not from you guys, but just around about the potential of that business. And that to me represents kind of the call option, if you believe that the Infrastructure business is worth 7x, and you'll have no debt, and you'll have these assets.

Then Wayne, remind me what you still -- I heard you guys talking about it, but I don't fully understand what you have at Global Marine. I think it's $30 million or something. So that's been -- and there's 80 million shares or something like that. So if those Life Science businesses are worth $500 million plus the call option, it could be meaningful. And so that's been the really simplistic way we've thought about it, unfortunately -- I mean, it hasn't worked.

And then the other side that I had never really thought about and contemplated was the corporation not having enough money to pay the interest, which obviously, you had to

borrow from the revolver. So what I would love to know, number one is, what I just laid out, does that make any sense to you? And does just -- I'd love to hear your thoughts on what I laid out.

And then two, what happens around -- is this corporate interest payment of $30 million, and I guess you have overhead, how does that -- is that -- that's every 6 months, so I guess you can make -- help us understand and get comfortable with that because if we believe the thesis that there's so much incremental value, I'm sure you'll figure it out on what the options would be.

And then on the Lancer debt to Life Sciences, I'd love to understand the equity component because I think a big part of the thesis, if you're an investor with Lancer is that's going to -- that we're going to be treated right by insiders, I'm certain we are, that a rights offering is always fair. So a lot to unpack there. I'd love to hear your thoughts.

Wayne Barr

Sure, Bryant. Unfortunately, Avi was not able to stay on the phone for the balance of the call. He had a prior obligation. But obviously, we're in touch every day. And so at the risk of not speaking for him, but trying to answer some of your questions from management's perspective.

Your interpretation and your summary of the business is fairly accurate. And as you said, you've been in the game for a while. I think that the recent things that we've been doing since the new Board was seated over the course of the last 2 years was trying to sharpen the focus of the company. And we've done that by maintaining and continuing to operate the 3 operating segments that, quite honestly, this Board, which is led by Avi, believe represent very good value. DBM, obviously, a much more mature company than both Broadcasting and the 2 entities at Spectrum. And as a consequence, the holding company leans on the more mature company from a cash flow perspective, and we'll continue to do that.

They've had a tremendous run at DBM, that team is exceptional at operating their business and selling new business, and we would expect that, that would continue to be the case. And I think we've seen a little bit of liquidity constraint, which has been driven by just the levels at which the company is able to sell new business, and we're working through a variety of different ways to help solve that liquidity issue.

But if you take a look at the backlog in particular, the way this business operates, it gives you very good visibility into the next 18 to 24 months of operations from DBM. And from that perspective, I think you have a fairly good -- you can have a fairly good idea as to what this business is worth. And I think the Board at INNOVATE truly appreciates the value that DBM represents, not only currently, but also going forward in the next 24 months or so.

To the other 2 companies, as we've indicated, the other 2 operating segments need longer runways to realize the value. All 3 of the companies that are divided between those 2 operating segments, I believe are working very effectively to try to realize that value, and we're supporting them in whatever manner we can. I think the focus on station group at Broadcasting is going to help tell the story and create value there. And both Pansend and R2 are performing in the manner that we're very happy with at the holding company, and we would expect them to continue to move forward.

The MediBeacon pivotal is going very well. And we would hope that as they move towards applying for FDA approval, that the successes that MediBeacon has experienced will continue. And I think those are kind of the approaches that this Board took when it decided to divest Beyond6 and Continental. And I think the focus on these 3 operating segments right now and the results kind of speak for themselves this quarter, was an accurate way to move this company forward in light of some of the constraints that it has, including the debt service, which you point out.

We've been, I think, diligent in our planning and have put in place a path forward to satisfy the liquidity needs at the parent, including the debt service on the bonds. And I think we've demonstrated with the last interest payment and some of the additional steps that we're taking that we're going to be able to execute on that path, and we're going to be able to satisfy our liquidity needs going forward.

And this Board and management is looking at basically every opportunity that comes our way to continue to generate value here. The company's -- the performance is good at each of the companies. We do have the liquidity constraints that we're working through. But again, we have a path forward to solving them, and I'm very confident that we're going to be able to do that.

Bryant Riley

So having invested in companies like the Infrastructure business, I know those can be high utilization of cash, especially in the growth mode. Can you tell me what you think on a normalized basis what the free cash flow conversion is on $100 million EBITDA run rate? What would you expect free cash flow to be, forgetting the working capital swings and one project might be pushed out, but in general, how do you think of free cash flow conversion?

Michael Sena

Yes. So I think about it in context to one. They're running, call it, 15 -- historically $15 million to $20 million of CapEx with the banker business on an annual basis. The debt load is, call it, $7 million, $8 million. And then outside of that and the debt amortization that they have, which we have put on one of our slides the rest is kind of free cash flow outside of the working capital needs.

Bryant Riley

Right. Okay. And then in terms of your NOL, I know that there's been a pill put in place to prevent impairing that. Can you just give us the status of that?

Wayne Barr

Sure. So the pill expires in February -- in March, I believe, end of February, beginning of March. And so it was re-upped for a shorter period than the annual re-up the last time the stockholders approved it. We were able to add to the NOL this quarter through the consolidation of the first half of 2021 results on consolidated tax return with Continental. So I think we added about $63 million to the NOL. And we continue to think that it's a valuable asset and the building in place, I think, is the right thing to do.

The calculation of the change of control is, as you know, pretty convoluted by virtue of the IRS regulations that have put that in place. And the Board did an analysis that got us comfortable that there'd be purchases that would roll off by -- in the February, March time frame that would enable us to eliminate the pill and not be at risk for having the limitation in the 382 by virtue of the change of control.

Michael Sena

And I would just say that, if you think about the history of the changes in ownership, the 382 change of control is on a 3-year rolling period. Most of our changes all happened in 2020 or at least the big piece of the shift was created, when we had Percy Rockdale come in, in January. We capital in May. And then, of course, in November, we had the rights offering. So those are the biggest causes of the shift. And in 2023, those will begin to roll off at those time frames, basically.

Bryant Riley

Got it. So 3 follow-ups, and I'll go, sorry. I have one comment. First of all, I think a company like this, the perfect way if you have a shortage to deal with this is through a rights offering to the extent that you have equity holders that believe in the valuation. I know you've done that before. I think the worst way to deal with it would do -- be an outright equity offering where you kind of picked and choose to participate in. So I just want to point out that B. Riley Financial, if there was a need, because of a gap, because of working capital infrastructure, would be a big proponent of not diluting shareholders who wanted to re-up. And when you have this, and I'm not saying you're going to need it, but I just wanted to point that out. So that's one.

Two is -- what -- I forget the Global Marine outstanding potential payable and where that goes. Can you just -- I thought it was $35 million or something. Can you -- what am I -- you know what I'm talking about?

Michael Sena

Yes. Yes. So we still hold a 19% interest in that equity investment. That is what we are working on trying to close and transact. It's at the same valuation that we had when we sold the original 30%, so that's a $285 million equity value. 19% is $54 million. There is a local tax, call it, roughly 10%. We have some transaction-related fees attached to that deal. And then we don't own 100% of the entity that owns that interest. So we have about a little over 70% interest there, so that we expect to get about $32 million.

Bryant Riley

Got it. And that's what you were talking about, you were hoping to get by the end of the year?

Wayne Barr

Correct.

Bryant Riley

Okay. Got it. And then the Lancer -- so one concern you would have if you're an outside shareholder is that in times of trouble, some of the lendings to other subsidiaries might be onerous. I don't think that's the case here. But just to relieve any potential concern, can you talk about the Lancer debt into the Life Sciences business and what that looked like?

Wayne Barr

A senior secured piece of paper with no equity component.

Operator

[Operator Instructions]. Our next question will come from Nitin Sacheti with Papyrus Capital.

Nitin Sacheti

Can you -- just looking at the breakdown of the backlog in the Q, it looks like government is still pretty low at $13 million. So just curious when we think about sort of the infrastructure bill, the CHIPS Act, the IRA, when do you think that comes through unless that's sort of classified elsewhere in backlog? And just generally, how you're thinking about sort of the, I guess, the distribution of funds to the states and when we think that will hit the DBM business.

Wayne Barr

The infrastructure act?

Nitin Sacheti

Yes, the infrastructure act, CHIPS, all of them.

Wayne Barr

I mean we really haven't seen, as far as I know, any contribution to the sales that these guys have been making out of DBM that could be attributed to any kind of governmental funds being made available for infrastructure. It just -- if it has happened, it hasn't been flagged to us.

Nitin Sacheti

Okay. Any sense of the timing as to when that might get backlog then?

Wayne Barr

Not from my perspective.

Michael Sena

So I think right now, I think you're seeing tremendous growth in DBM's backlog. They sold $843 million in the backlog. The market is quite robust from what we've seen, and we haven't seen it slow down. We have not seen anything from the infrastructure bill come into the market, as Wayne mentioned, and that's my understanding also.

I think to the extent there are projects that come into backlog, that's down the road. So I think right now, we're taking -- the DBM team is taking advantage of what's in the market, and we see that and what's happening with the backlog, which, of course, has given us really good visibility into the next 2 years.

Operator

This will conclude our question-and-answer session. I'd like to turn the call back over to Wayne Barr for any closing remarks.

Wayne Barr

Thanks, Joe. We appreciate everyone's participation on this earnings call today, and I hope everybody has a nice evening. Thank you.

Operator

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