NASDAQ:CECO Q2 2025 Earnings Call Transcript

Generated on 6/10/2026

Operator | Conference Operator:

Good day and thank you for standing by. Welcome to the Seco Environmental second quarter 2025 earnings call. At this time, all participants are on a listen-only mode. After the speaker's presentation, there'll be a question and answer session. To ask a question during the session, you'll need to press star 1-1 on your telephone. You will then hear an automated message advising your hand is raised. To withdraw your question, please press star 1-1 again. Please be advised today's conference is being recorded. I would not like to end the conference over your speaker today. Stephen Hoosier, Investor Relations, please go ahead.

Stephen Hoosier | Investor Relations:

Thank you, Kevin, and thank you all for joining us on the SECO Environmental Second Quarter 2025 Earnings Call. On the call with me today is Todd Gleason, Chief Executive Officer, and Peter Johansen, Chief Financial Officer. Before we begin, I'd like to note that we have provided a slide presentation to help guide our discussion. The call will be webcast along with our earnings presentation, which is on our website at secoinviro.com. The presentation materials can be accessed through the investor relations section of the website. I'd also like to caution investors regarding forward-looking statements. Any statements made in today's presentation that are not based on historical fact are forward-looking statements. Such statements are based on certain estimates and expectations and are subject to a number of risks and uncertainties. Actual future results may differ materially from those expressed or implied by the forward-looking statements. We encourage you to read the risk described in our SEC filings included on Form 10-K for the year ended December 31st, 2024. Except to the extent required by applicable securities laws, we undertake no obligation to update or publicly revise any of the forward-looking statements that we make here today, whether as a result of new information, future events, or otherwise. Today's presentation will also include references to certain non-GAAP financial measures. We've provided the comparable GAAP and non-GAAP numbers in today's press release and provided non-GAAP reconciliations in the supplemental tables in the back of the slide deck. And with that, I'd now like to turn the call over to Todd Gleason, Chief Executive Officer. Todd?

Todd Gleason | Chief Executive Officer:

Thanks, Stephen. Good day, everyone, and thanks for your time, as well as your continued interest in SECO. As today's press release highlighted, in the second quarter, we delivered a number of financial records. Our Q2 and year-to-date results reflect positive impacts from the investments we have made to build and execute our operating model that continues to yield high-performance results while strategically and sustainably transforming our portfolio. As always, we strive to deliver leading environmental solutions to our global industrial customers, ensuring we protect people, protect the environment, and protect our customers' investment in their industrial equipment. Now, please turn to slide number three for a summary of the highlights of the quarter. In the quarter, we grew backlog to a new record, exiting the quarter at $688 million. Year over year, our backlog is up almost 300 million, or more than 75%. Sequentially, our backlog rose an approximate $80 million. This was made possible by another quarter of record orders. In Q2, we generated $274 million in new bookings. This is up 95% versus Q2 last year. We booked our largest ever order, an environmental selective catalytic reduction, or SCR, emissions management solution for a major project in the U.S. power generation market. We continue to be very well positioned for future projects of similar or even larger scale and complexity. When combined with orders from the first quarter, our first half of 2025 book to bill is approximately 1.5. If you expand your look back and add just one more quarter, this is the third consecutive quarter with bookings of over $200 million for a total of approximately $720 million in new orders in the past three quarters. This level of orders is a direct result of several years of focused strategies to diversify our portfolio, gain access to new vertical markets and geographies, and to introduce new products and services. We believe we are well positioned for continued strong order bookings. Revenue of $185 million in the quarter, up 35% year over year, we're also a new record. as we continue to deliver strong project execution and navigate market dynamics. Adjusted EBITDA at over $23 million was up 45% year-over-year driven by volume, strong gross margins, and an improving SEG&A cost profile. A few months ago, when we discussed our Q1 earnings, we articulated we had taken G&A-related cost actions. We're starting to see the benefits of those actions and our operational productivity initiatives. And in the final metric on this slide, we show EPS was 24 cents in Q2. This is up approximately 35% year over year. So overall, just great record results with solid performance. We exit Q2 with an incredible backlog and strong orders and margin momentum. Now let's turn to slide number four. While we feel that Q2 was outstanding on many performance metrics, I think it's even more impressive to appreciate this isn't just a one-quarter phenomenon. On this slide, we capture a few data points and comments that highlight the first half of the year's performance and bolster my comments on our ability to deliver consistent results. First half bookings of over $500 million are up 76% when compared to the first half of 2024. First half revenues were up 37%. Like I said previously, we booked our largest ever order, and we believe we have several similarly sized opportunities in power generation and industrial markets ahead of us. The profile acquisition, which we closed in early January this year, is delivering on the various synergies we discussed when we announced the transaction. And our continued multi-year growth of our sales opportunity pipeline is now over $5.5 billion. We feel very good about the key markets we have targeted with our investments and resources. We believe we have a multi-year opportunity with large growth themes. And those growth themes are captured in the far right column on this slide. The market continues to see an unrelenting demand for power generation. We are also seeing a strong uptick in semiconductor inquiries, as well as natural gas infrastructure and industrial water solutions. And aside from some softness in Europe, we are seeing steady demand in almost every other region. We are expecting some modest inflation in the second half, but we are pleased with how we have been able to offset early supply chain cost increases with either productivity, price, or overall project execution. Now please turn to slide number five. As today's press release highlighted, we are raising our 2025 annual guidance for orders and revenue while reiterating our outlook for adjusted EBITDA and adjusted free cash flow. Starting Top to bottom, we are raising our 2025 full-year orders guidance to exceed full-year revenues, thus delivering another positive book to bill for the year. We now expect our bookings to be 1.2 times revenue, resulting in a bookings range of between $870 million and $930 million. The strength of our full-year order outlook is supported by robust underlying markets, a very active and significant pipeline of opportunities, and the momentum we have built over the past nine to 12 months of sustainable orders growth. For revenue, we are raising our outlook to $725 to $775 million, up from a previous range of $700 to $750. The $25 million increase on both the lower and the upper ends, reflects the strong first-half performance in bookings and revenue, coupled with a record sales pipeline and negligible project delays this year. The midpoint of our full-year range speaks to revenues growing 35% year-over-year, of which approximately 20 points is driven by organic growth. With respect to full year adjusted EBITDA and free cash flow, we are maintaining our previous outlook. The adjusted EBITDA range of $90 to $100 million points to growth of approximately 50% year over year. Even with the modest increase in our full year sales outlook, we still like current adjusted EPS range and expected margin expansion that it implies, which we expect to be higher than 12% to up to low teens in the year. This outlook continues to absorb our expectation that we will experience modest inflation in the second half of the year. It also includes an expectation we will add resources later this year to prepare for what we see as 2026 growth. our record backlog and our full year book to bill expectations, we can actually start to model double digit growth for 2026. So of course, we want to ensure we are prepared to execute on that solid growth. Now let's turn to slide number six. We often talk about the strength and size of our sales opportunity pipeline, but I wanted to spend a couple minutes here to describe two key important items. First, that the pipeline is our best indicator of short and medium term organic revenue growth. And second, the building and maintaining a large and healthy pipeline does not come without appropriate investments in people, processes, and systems. As you can see on this slide, there is a strong correlation between the size or value or growth of pipeline and the level of bookings when you compare the two periods that we present. On the left side of the slide, for the period 2015 to 2020, you can see the pipeline was essentially flat over those five years. And therefore, orders and revenue trended flat to down over that same period. By comparison, on the right side of the slide, in 2021 to this year, our pipeline has grown almost 40% annually on a compounded annual growth rate basis. As our pipeline grew, so did the revenue performance, with a normal lag time associated with bookings turning to revenue. The second point I want to make is that maintaining a consistently high level of viable opportunities certainly doesn't come for free. This level comes as a result of sustained investments in talented commercial teams, business systems and processes, and market entry that has allowed Sequel to penetrate new markets and customers, which in prior years wouldn't have necessarily known our name or our brands. And as long as market conditions are supportive and our global opportunity set is expanding, we will continue to sanction these increased investments to maintain and accelerate Sequel's growth. Five years ago, when I joined Seco, I knew it would not be easy to break out of the company's historic revenue range of limited to no growth. It would take expanding our sales pipeline by focusing aggressively on winning markets, by investing in new geographies, by diversifying our product and service offering. As we approach our new revenue outlook of roughly $750 million for the year, and we expect on our way to a billion-dollar company, we are pleased we have the business model in place to continue to grow our sales pipeline. It might not have been easy, and we have certainly come up short on a few things, but overall, we are very pleased with our long-term growth and how well we continue to transform the portfolio. I really look forward to the next five years. I will now hand it over to Peter, who will go through more detail on our financial results. Peter?

Peter Johansen | Chief Financial Officer:

Thank you, Todd, and good day, everyone. Thank you for joining Todd and I for SECO's second quarter of 2025 earnings call. I'd like to start on slide eight, and I'll provide some additional color on our financial results for the quarter. SECO finished the second quarter with a record backlog of $688 million. This is up 76% versus prior year and a 14% increase sequentially. Of the total, approximately $70 million is related to the recent acquisitions with the balance of the increase coming from organic orders growth. The second quarter of 2025 represents the 10th of the last 11 quarters showing a backlog increase. The increase was helped along by strong orders in the power generation, semiconductor, industrial water, natural gas infrastructure and markets. broad growth across a range of applications. As Todd previously mentioned, this was the third consecutive quarter where SECO delivered orders greater than $200 million with our second quarter orders of $274 million, up 95% versus prior year and 20% sequentially for that book to bill of approximately 1.5 times in the first half of the year. On a trailing 12-month basis, orders totaled $883 million, up 58%, representing a robust book-to-bill of 1.35 times and a record for any 12-month period in company history. Driven by demand in power, natural gas, semiconductor, and industrials produced in wastewater separation applications, SECO booked over one-half a billion dollars of orders for the first six months of 2025. As mentioned in our press release this morning, the company booked our largest ever order in a quarter for a project in the power generation segment. That order, plus a number of small to medium-sized projects for natural gas infrastructure and power generation, yielded over $140 million of our total bookings in the quarter. with the remaining one-half coming from industrial air and industrial water customer segments and applications. Quite a diverse and well-rounded order book for the quarter. Revenue in the quarter of $185 million was an increase of 35% year-over-year, with approximately 20 points generated by the company's most recent three acquisitions and the balance of the growth driven by organic results. Sequentially, revenue was up 5% despite the natural headwind related to the sale of the Global Pump Solutions business that closed at the end of the first quarter. In the quarter, project-related delays that impacted revenue recognition in the second half of 2024 have abated, and our quarter-end backlog and pipeline strength gives us confidence in delivering on the updated revenue outlook Todd recently presented. for the second half of 2025 and for the full year. Adjusted EBITDA was $23.3 million in the quarter, an increase of 45% versus prior year, with margins improving approximately 90 basis points. Gross profit margin was slightly over 36%, up 50 basis points year over year. Mixed due to higher short cycle revenue was a tailwind to gross profit margins in the quarter and mainly attributable to our recent acquisitions. SEG&A spending in the quarter benefited from the absence of quarter one expenses that do not repeat in subsequent periods and the initial impact of our G&A cost actions taken in the quarter. Sequentially, adjusted EBITDA was up approximately 65%. with 470 basis points of margin expansion, attributable to higher volumes, favorable mix, the initial benefit of cost actions taken in the quarter, and the absence of the aforementioned non-recurring period expenses from Q1. On a TTM basis, adjusted EBITDA grew 11%, with margins down slightly, impacted largely by the results of Q1 of this year. Adjusted EPS in the quarter was up 4 cents, or 20%, on similar dynamics that impacted adjusted EBITDA, partially offset by higher interest expense in the period. Before I leave this page, I would like to thank the global SECO team for a robust first half of 2025 and reiterate, from my perspective, a few highlights from that first half performance that have positioned SECO very well for an even stronger second half of the year. Orders of $502 million were up 76%. Revenue delivery of $362 million were up 37%. Adjusted EBITDA of $37.3 million in the first half of the year was up 27%. We have made excellent progress on the integration of our three most recent acquisitions, We executed on the separation of the global pump solutions, businesses, and systems, and our transitioning support functions, reaching conclusion at the end of quarter three. And finally, we've continued to advance on our project execution and sourcing initiatives, key elements of our operating excellence agenda. Now let's turn to page nine, and we'll discuss briefly backlog. I will not spend much time on this slide because I think it speaks for itself. With the great performance in quarter two, our backlog is continuing a steady upwards climb as we convert on the growing sales opportunity pipeline. Our $688 million backlog has more than tripled since the end of 2021, and we expect this backlog to fully convert to revenue within the next 24 months, with the majority converting over the next 18. Our book to bill for the first half of the year was very strong, and it was the highest of any recent period, further underpinning our confidence in future revenue growth. Please now turn to page 10, where we'll briefly discuss gross profit and gross margin. This slide, similar to previous earnings decks, presents SECO's gross profit and gross margin performance by quarter since the fourth quarter of 2022. on a TTM basis, which we look at to normalize for quarter-to-quarter fluctuations and provide a look back to the start of SECO's operating excellence agenda. Since the fourth quarter of 2022, SECO has expanded TTM gross profit margins by approximately 500 basis points, with TTM gross profit dollar growth of slightly greater than 80%. In the second quarter of 2025, that most recently concluded, our business delivered gross profit of $73 million and a gross profit margin of 36.2%, an increase of 100 basis points sequentially. Our teams continue to execute very, very well, and this trend is continuing to become our baseline. On a TTM basis, our gross profit margin was 35.2%. well within the range we're targeting for our business. This improvement over the past two plus years is attributable to the progress our teams have made implementing our operational excellence agenda, capturing annualized savings in the range of over $10 million and improving project execution and the impact of our commercial and portfolio transformation initiatives to improve the business mix and to deliver acquisitions with accretive gross profit margins. For the balance of the year and beyond, we will continue to implement and expand on our operating excellence agenda, focused on project execution and sourcing, and to increase our focus on G&A expense optimization and process simplification to further benefit adjusted EBITDA delivery. Please move to slide 11, where we'll quickly review cash flow debt and leverage. Starting on the left side of the page with free cash flow, a schedule is prepared that shows you how we walk from gap net income to adjusted free cash flow on a year-to-date basis. Cash flow in the second quarter was a net outflow of $3 million, which represents a sequential improvement of $12 million versus the first quarter of the year. The improvement was due in large part to higher operating income and net favorable cash payments on projects booked that were then offset by working capital requirements supporting SECO's substantial revenue growth. On a year-to-date basis, the outflow of approximately $18 million is due to elevated working capital funding needs in support of SECO's revenue growth. Capital expenditures of approximately $4.5 million is largely due to investments in our ongoing ERP system migration. On the right side of the slide is a brief summary of SECA's gross indebtedness position with the primary drivers of change in the quarter shown for you. We ended the second quarter with gross debt of approximately $236 million, a modest increase from the end of 2024. Excess cash from the divestiture of the global pump solutions business was applied to pay down the revolver credit facility balance early in the second quarter, which was then subsequently tapped to fund working capital increases. Net debt at quarter end is approximately $199 million, an increase of $19 million from year end 2024. Net debt balance of $180 million. 9 million of the addition, which came from the second quarter of the year. At this level of net debt, SECO's leverage ratio is approximately 2.7 times our bank EBITDA of $74.2 million, leaving us with an investment capacity of 104 million, an increase of 35 million from the end of 2024. This is more than adequate to fund our growth needs our investment needs, and the support of a future M&A in the back half of the year, in which we remain active in cultivating various M&A opportunities. But in the near term, we continue to focus our capital deployment on further reducing our debt levels and leverage ratios to further strengthen our balance sheet and reduce cash interest payments. I've now concluded my remarks on SECO's quarter two 2025 financial results, which I consider to be very solid and a strong recovery from a somewhat slow start to the year. And I now want to hand the mic back over to Todd for his final remarks and a wrap up.

Todd Gleason | Chief Executive Officer:

Thanks, Peter. So as Peter said, let's go ahead and wrap up with slide number 13, and then we'll welcome the Q&A session. As we enter the second half of 2025, we believe SQL remains very well positioned to benefit from our diverse and market exposure and key mega themes that remain very, very strong. Our $5.5 billion or higher pipeline provides tremendous visibility into many exciting opportunities, large and small. And we look forward to continuing to maintain a strong bookings level. I am very pleased with our Q2 and year-to-date performance. Records almost across the board. It speaks for itself. But to have 76% backlog growth, 95% orders growth, and revenue and adjusted EBITDA up 35% and 45% respectively is just outstanding. As always, I want to thank Team SECO, for your customer-first dedication and outstanding teamwork. We continue to be bullish with respect to our four-year outlook, and we are pleased with the progress we are making on the integrations of the 2025 acquisition of Profire Energy and the acquisitions we made late last year with Verantis Environmental and WK Group. We also continue to see opportunities to generate additional synergies with those acquisitions as well as the access that they each provide to new vertical markets and geographies. So with that, we'll pause, open up the line for questions, and then I'll wrap up with some closing remarks. Operator?

Operator | Conference Operator:

Thank you, ladies and gentlemen. If you have a question or a comment at this time, please press star 1-1 on your telephone. If your question has been answered and you wish to move yourself from the queue, please press star 1-1 again. We'll pause for a moment while we compile our Q&A roster. Our first question comes from Rob Brown with Lake Street Capital Markets. Your line is open.

Rob Brown | Analyst, Lake Street Capital Markets:

Good morning, and congratulations on a great quarter.

Todd Gleason | Chief Executive Officer:

Thanks, Rob. Morning.

Rob Brown | Analyst, Lake Street Capital Markets:

First question is on the pipeline and the PowerGen market. You've had some good orders there. How would you say the pipeline is sort of for the rest of the year and into next year in PowerGen? What are the size of the opportunities and, you know, how much capacity do you have there to take on work?

Todd Gleason | Chief Executive Officer:

Well, that's a good question. There's a couple questions in that. So capacity isn't an issue. We certainly – it speaks to our – need as we've been addressing it to bring on key resources to manage projects and supply chain relationships and obviously be able to execute on the project from a manufacturing or supply chain capacity. We feel good. The market continues to be excellent. Our order in the quarter and orders that we've had in previous quarters that are also very attractive. We would say we're in the Seco continues to feel that we're in somewhat of the earlier endings of our orders being booked. So you think about a large let's say gas turbine power job that might be announced by one of the large system providers in the marketplace, such as Siemens and GE, Vernova, et cetera. We're later in that cycle, meaning they then work with their supply chain, of which we're a strategic partner, to finalize the overall project, you know, design and system. So we would say our pipeline is still in the earlier innings as it reflects the very large announcements that have been made for power generation. So pipeline looks great. Certainly well over a billion dollars of power gen related projects for our solutions. And Peter, I don't know if you want to add any additional color to that.

Peter Johansen | Chief Financial Officer:

The active pipeline is well over a billion. We see that billion coming to a decision in the next 24 months. You know, that's across the large suppliers and some smaller end users who are going to self-perform work. We don't and have not seen any signs of this market slowing down.

Todd Gleason | Chief Executive Officer:

And I would say to just double down on the capacity question, you know, we are in regular dialogue. with the uh with our end customer uh sort of the aforementioned power gen suppliers and you know they're very uh they're very um keen on the capacity of the supply chain so you know they uh they work closely with all of us to ensure that whether or not somebody's supplying them with let's say uh thermal abatement uh or noise abatement thermal acoustic solutions or emissions management solutions, whether it's for an aero derivative or a large frame system, that we're not running into capacity issues to deliver.

Operator | Conference Operator:

Okay, great. Thank you.

Rob Brown | Analyst, Lake Street Capital Markets:

And then I guess beyond the PowerGen market, I think you talked about quite a bit of strength overall across the board, but I guess what's sort of the environment around some of the other verticals you're tracking? What are the drivers there? And what do you kind of see the length of the demand curve in those markets?

Todd Gleason | Chief Executive Officer:

Yeah. Peter will expand on each of these. There's multiple markets. Semiconductor has had some increases, and then it sort of settles back down over the last 18 or 24 months. But semiconductor certainly looks – and new fabrication capacity is back on in terms of a market, we would say, over the last six to nine months, certainly. Natural gas infrastructure has been a very, very high-growth market, and we've benefited significantly from our leadership position providing separation and filtration solutions and other key environmental solutions for natural gas infrastructure. And then, you know, we've invested heavily over the last few years to better position Seco and our key brands in industrial water, not only including on-site solutions but infrastructure associated with water. So that market continues to be very attractive for us. The market's healthy, but we feel that we're uniquely positioned now to – to break into some new geographies and new markets because of our investments and our relationships and even some of the acquisitions we've made, which give us access to those markets strategically. And then the last is, you know, a theme that, Rob, we've talked about for many, many quarters, continues to be very healthy. And that's just the general dynamic of industrial reshoring in North America and in other geographies where globally, I think over the last few years, countries and regions have wanted to have a better control over their supply chain capabilities. And so bringing back industrial production to, let's say, North America is one great example, which that thing continues to have really good visibility for us and some really good momentum still. So a lot there that we're excited about. Power gen is certainly the biggest associated with data centers and AI and, you know, and all the, you know, electrification and digitization needs and automation. So power gen is certainly the, I'd say the healthiest or the fastest growing of the markets. But the other ones I mentioned are, they're A plus in our book.

Operator | Conference Operator:

Great. Thank you. I'll turn it over. Thanks, Rob. One moment for our next question.

Operator | Conference Operator:

Our next question comes from Aaron Spachala with Craig Howland Capital Group. Your line is open.

Aaron Spachala | Analyst, Craig Howland Capital Group:

Yeah, good morning, Todd and Peter. Thanks for taking the questions. You know, maybe first, just to expand on Rob's question maybe a little bit, I think you talked about some similar sized opportunities in the industrial market. Just curious, you know, which parts of those end markets, geographies, et cetera, you know, might that be in? And just, you know, is that something you expect this year? Is that more into 2026?

Unknown:

Thanks, Aaron. Good morning.

Peter Johansen | Chief Financial Officer:

We have more than a handful, less than a dozen, large opportunities in water in the Middle East, India, and Southeast Asia that are in excess of $50 million that we're actively pursuing and are proceeding well up to an award. It's the greatest number we've seen at any time in our history, and it's mirroring what's happening in... power generation. We're seeing a return to the buying cycle now of a number of industrial end markets, including the next wave of semiconductor and electronic plant construction, beverage can plant manufacturing, build-outs, and a new wave in metals processing. Not your traditional steel, aluminum, titanium, nickel that we've historically served, but as the U.S. and other non-Asian markets begin to invest in securing supplies around rare earths, copper, and other materials, that's beginning to enter, you know, I call it an order window in a year or two from now. A lot of activity. What's also benefiting us and many of our peers is the current administration's view on freeing up the bureaucratic red tape to allow projects to be permitted and financed quickly and get started quickly. Shovels are getting in the ground faster now, and we expect that to accelerate as well. So there's just a lot of very positive tailwinds, if you will, that we're experiencing. And as you see demand for manufacturing grow in the United States, whatever form that might be, it's going to require energy. It's going to require logistics and transportation. And those investments then require materials to produce them, which will get produced in quarries and in cement plants and other areas where we supply equipment. So it seems to be a very, you know, now a very, I dare use the term, you know, kind of mega cycle. around all things that require industrial performance, and that's where we're focused.

Aaron Spachala | Analyst, Craig Howland Capital Group:

Oh, great, Peter. Thanks for the color. And then maybe on that, some of the red tape, can you just kind of talk about the big, beautiful bill and any impacts on the bonus depreciation as some of these projects maybe start to get moving? I mean, you've seen really good order growth thus far. Is that something that can help move some of these projects forward as well and benefit you?

Peter Johansen | Chief Financial Officer:

It can't hurt. Yeah, it can't hurt, but we were seeing our orders grow, our opportunity pipeline grow, and our booking rates grow even before the passage of the bill. Even while it was being debated, we were receiving orders. No one held off waiting for the results. Aerospace is going to benefit. Anyone who buys or builds large pieces of machinery is going to benefit, so it can't hurt. One thing we haven't talked about, and it just was announced in recent days, is what's likely to be a very large export wave from the U.S. in munitions, armaments, and defense equipment. That'll start rolling through our economy. New plants have to be built. New sources of raw materials have to be developed. Yeah. And so anytime government steps back and says we're going to do the minimum to enable industry, to enable the markets to do their job, that's a good thing. And while we're not taking a political position here, we're certainly not opposed to that.

Todd Gleason | Chief Executive Officer:

We're not sure, to Peter's point, that there's any specifics with any bill either way that slows down the need for power, that impacts the need for more automation and new industrial investment. These things are going to happen sort of with or without policy. We do believe policies certainly help to open up the speed and acceleration of which things happen. But I think we're more excited and interested in our big, beautiful backlog than we are in any particular bills.

Aaron Spachala | Analyst, Craig Howland Capital Group:

Right. Good. Thanks for taking the questions. I'll turn it over.

Operator | Conference Operator:

One moment for our next question. Our next question comes from Jim with Needham & Company. Your line is open.

Jim | Analyst, Needham & Company:

Hi, thanks. Good morning. Just if we look at your guidance for second half bookings, I'm just wondering, what does that imply for large orders? I know that's always tougher to predict the timing on some of these.

Todd Gleason | Chief Executive Officer:

It doesn't – yeah, thanks. It's a great question. I would say it is – it doesn't capture the maximal of what we could book in the second half. I'm not suggesting that we're being uber conservative in our bookings outlook for the second half, but we're certainly not going to, you know, we're not batting a thousand here on all these things happening in the second half. So, you know, I think we take a very normalized view of how and when the timing of these orders come in. We would say, you know, you know, that, yeah, that, you know, it's slightly less than maybe the last couple quarters, but still at a healthy level in terms of the gross dollar amount. That could prove to be, you know, one way or another. And as you know from our history, an order can miss booking the quarter by a handful of days or weeks, and then it might end up in the next quarter. So we don't know always when our customers are going to finalize the purchase order agreements with us.

Jim | Analyst, Needham & Company:

Got it. And I wanted to go back to the comment you made in the release, and I think in the deck about the inflationary pressures. in the second half. I guess the question I have for you, Todd or Peter, is what flexibility do you have to pass on some of this to the market over time? Or is this also about some of the larger deals and sometimes it's a little bit more challenging to do that?

Todd Gleason | Chief Executive Officer:

Yeah, maybe it's a little more challenging to pass through on some of the larger projects. You know, we have very good contracts, and we have very good execution with our supply chain. When we have a fixed price contract with a customer, we have similarly fixed price contracts with our supply chain. But you can't – pre-buy or fix everything. And I've said it on the first quarter call when we articulated our view of tariffs and inflation. And we're just reiterating it again, I guess, now. And that is if most companies are increasing price, which we feel that most have in the industrial space, components, electrical components, pumps, motors, valves, fans, you name it, things we all buy that might not necessarily be negotiated in our supply chain. We're still buying those, if you will, through distribution as and when we need them. If those prices are up 5, 6, 7, 8%, you know, I'm just using that as an example. Well, that's inflation that we know is coming in the second half. And we're just suggesting that we've modeled that into our guidance. That expectation that the prices that we've heard and understood have been increased throughout the year, that will start to present itself through distribution now in the third quarter and in the fourth. The combination of that expected inflation, which we certainly work hard to pass along or absorb in our productivity initiatives, and I feel good about our ability to do that, but still it's an expected inflationary period for a handful of our businesses that are out buying components like that. And then the other is inflation. You know, when you have the backlog of 300-ish million, not quite, but almost $300 million year over year, and we expect that that could continue to grow, you know, we're adding a handful of resources to prepare for that execution to manage our ability to deliver on time, on schedule, and even better than budget. So these investments are smart. We get out ahead of it. We get out ahead of, you know, the need to scramble on our projects. But as a result, we're sometimes adding a little bit of cost in advance of that revenue. That is a dynamic that we see potentially in the second half. So our guidance really reflects the combination of those two components.

Jim | Analyst, Needham & Company:

Got it. And just last question, quick one, just on, has your thinking about the impact of tariffs on the business changed at all?

Todd Gleason | Chief Executive Officer:

No.

Jim | Analyst, Needham & Company:

And congrats on the quarter, by the way.

Todd Gleason | Chief Executive Officer:

Okay. Oh, thanks. Yeah, no, our thinking remains fundamentally unchanged. It's a, you know, continues to be a bit of an evolving headline and topic as policies and relationships and agreements change. But, you know, we believe overall that what we talked about at the first quarter and the analytics that we provided fundamentally hold true still.

Operator | Conference Operator:

Thank you.

Unknown:

Thanks.

Operator | Conference Operator:

One moment for our next question.

Operator | Conference Operator:

Our next question comes from Jerry Sweeney with Roth Capital. Your line is open.

Jerry Sweeney | Analyst, Roth Capital:

Good morning, guys. Thanks for taking my call, and congrats on a great quarter.

Unknown:

Thank you, Jerry.

Jerry Sweeney | Analyst, Roth Capital:

A lot of questions have been asked, and to be honest with you, I'm multitasking here, but just wanted to touch again on margins. These are my words. I think aspirationally, or I should say, you know, I would always think SECO could get it to sort of mid-teens EBITDA margins. We have FJ&A moves, process improvements. I think there's mix. There's also leverage as you continue to drive gross profit dollars. Is something in the mid-teens obtainable over 12, 18, 24 months, and how should we think of that?

Todd Gleason | Chief Executive Officer:

Yeah, I mean, look, we got to get into the low teens sustainably before we get into the mid teens. So we want to we want to get there. We expect to get there in that period. Mid teens, certainly, I think, you know, we are, you know, I would maybe suggest we've been. pleasantly surprised with the growth and the opportunities in the marketplace. When we see that we want to invest to penetrate those markets and continue to build our industrial water business, for example, continue to build our capabilities internationally, continue to build our you know, our pipeline of not only sales, but great talent to go and execute on that. So, you know, our investments have probably been a little bit higher than we anticipated 12, 18 months ago, but so has our growth rate, right? So we're driving that. And, you know, I would say we're maybe, if you told me we had to have mid-teens margins we, you know, to whatever, to win gold medal, then, you know, I suppose we certainly see a plan to get there. However, we like the investments, what they're yielding. We believe in the returns over the long term. And so, yes, it might be your words. It's also mine, Jerry, that as we continue to grow, we believe that volume leverage and productivity will get us to those mid-teen EBITDA margins. We're still committed to them. We're probably, you know, a little, like I said, a little bit behind in terms of how we thought we'd be because of our investment cycle. But we also like the returns we're getting from our investment. So we're still committed to those mid-teens margins, and we'll get there.

Jerry Sweeney | Analyst, Roth Capital:

I get it, and that's fair, right? So what we should be thinking here is, right, this is how growth is. Again, maybe a little bit ahead of schedule. Have to invest in that. I would take growth over, you know, margin tweaking any day of the week. And, you know, it's a little bit of tactical response to support growth that, you know, maybe slows margin expansion a little bit. But, again, let's go for growth over, you know, absolute margins any day of the week. Is that fair?

Todd Gleason | Chief Executive Officer:

That's right. That's right. And I mean, you know, this sounds convenient to say when you're in a high growth organization. But if we did see moderating growth as a company, we have certainly cost levers that we wouldn't be afraid and could take to probably. And I have many experiences, as does my leadership team and our board. kind of working in for decades and lower growth organizations that as a result of that lower growth environments, low single digit growth companies really, really go after their cost structure more aggressively because they don't have necessarily or see the opportunities to invest in, you know, in 95% orders growth year over year, right? And so it's a balance that we feel we're willing, it's a trade-off, I guess, that we feel we're willing to make to continue to invest appropriately to maximize our growth versus slowing down that investment to maximize our margins. Now, we're not trying to have weak margins. We love what we're doing with gross margins, price, productivity, mix. We're going to continue to work on our portfolio. And as we said, the second quarter shows a stronger conversion of our SEG&A. We're still committed to that. We're still looking at costs to prune in our corporate and in our organization where we have redundancies. There's no shortage of levers here. But right now, the focus is on growth.

Jerry Sweeney | Analyst, Roth Capital:

One other maybe housekeeping – or one or two other housekeeping items. Any forex impact in the quarter or – I didn't go through it with a fine tooth, to be quite honest with you.

Todd Gleason | Chief Executive Officer:

De minimis. It's small. De minimis. Small forex.

Jerry Sweeney | Analyst, Roth Capital:

Yeah. And then – Curiosity is an occupational hazard of an analyst. What is the gap between maybe Siemens, GE, Venova, you know, getting an order for a turbine and when you see the follow-on order for your equipment or your portion of the project?

Todd Gleason | Chief Executive Officer:

Half a year. Half a year would be – so typically we and the balance of the supply chain are certainly – deeply involved in conversations with them, including even some preliminary budgetary proposals, et cetera, to give them confidence who they would already have as a short list of suppliers, what the cost on a project would look like. So that helps them secure and have confidence in their ability to deliver on their order. So in a way, it feels like we're right there with them. many times, but from when they announce, let's say, a large win, we're six to 12 months away from securing a PL. Now, sometimes they announce a win and they say that this is five years out. Well, then we're longer than that because they're not going to necessarily have to give us an order for something that we can certainly deliver in 12 months. They don't need us to sit on it for four years. But for the most part, they're announcing orders that they're planning to deliver. And in that 18 to 20 to 36 months, we'll announce an order or we'll get an order six to 12 months after their announcement. Just to be, that's the typical.

Jerry Sweeney | Analyst, Roth Capital:

Got it. Understood. All right. I really appreciate it. Congrats again on a great quarter. And thanks for taking my call.

Operator | Conference Operator:

Thanks, Jared. One moment for our next question. Our next question comes from Bobby Brooks with Northland Capital Markets. Your line is open. Hey, good morning, guys, and congrats on that same quarter.

Bobby Brooks | Analyst, Northland Capital Markets:

About a month ago, you guys had announced the launch of a new Saudi Arabian office, which is in contrast to the fact most investors... Bobby, it's very hard to hear you.

Todd Gleason | Chief Executive Officer:

Your line is very staticky. Yeah, we can hear you, but just so you know, your line's a little staticky. But go ahead.

Bobby Brooks | Analyst, Northland Capital Markets:

Yeah, you guys can hear me better now?

Todd Gleason | Chief Executive Officer:

Go ahead.

Bobby Brooks | Analyst, Northland Capital Markets:

Yeah, so, yeah, just about a month ago, you guys announced the launch of a new Saudi Arabian office, which is in contrast to the fact that most investors focus on the domestic opportunities ahead for you guys, given how large it is. But I think it would be helpful for investors to discuss the opportunities you're seeing globally, kind of the key reasons you mentioned in the Q&A a little bit earlier, and just maybe contrast that versus domestic opportunities. Because I get the sense that the international opportunity for SECO is a little underappreciated. And maybe you can just dovetail that with how selling pro-fire solutions to international customers has went thus far.

Todd Gleason | Chief Executive Officer:

Yeah. So, you know, look, we love all of our regions. And, you know, certainly we see key opportunities in North America. But we've also been growing steadily over the last four years internationally. In fact, our high growth regions, which is which are the countries or the regions that you would expect, you know, from the Middle East and India, Southeast and East Asia, China. and similar, we have expanded our sales over the last four years from around $30 million to well over $100 million. And the Middle East represents a very strategic region for us. We have a great group headquartered in the Middle East and Dubai that thoughtfully expands into new vertical markets like industrial water, as well as into new geographies throughout not just the Middle East, but those high growth regions. We've been intentional about expanding into Southeast Asia and growing in that space. We've been intentional, including an acquisition of DS21 in South Korea so that we have better and more sustainable access to the East Asian market and the South Korean relationships with the EPC firms there. And then you sling back to the Middle East. We have, you know, certainly sold into Saudi and worked with the major Saudi companies and the economic leaders there. It's more efficient if you have a local presence. And over time, as we think about investing, you know, in Saudi and in other countries, we want to make sure that we're able to maximize those relationships. So having, you know, having a local presence, having a local team, having a local office, an entity, over time potentially adding assembly, manufacturing, and more distribution into a country aids and helps accelerate the growth in those relationships as well, especially in a country like Saudi that's It's certainly very appropriately focused on Saudi for Saudi and things of that nature. So you want to crawl, walk, run into these countries. I think we do a good job of that, and we're going to do that same thing in countries like Saudi where we see a long-term growth rate and opportunities that aligns with our products.

Peter Johansen | Chief Financial Officer:

Bobby, a way to think about it is that we've positioned our global footprint to be in the eight largest industrial trading zones in the world. We talk a lot about North America because SECO was at 1.56 years ago, 80 plus percent North American in its businesses. We're rapidly approaching a balance 50% North America, 50% outside of the region. And that'll vary by quarter and it'll vary by year based on orders booked and revenue generated from those orders. But we see consistent market growth in Korea, in Southeast Asia, India, Saudi Arabia, or the Gulf region, and North Africa. And we see that business being generated through clients based in Europe investing outside of Europe. EPCs that are historically European headquartered with teams now in

India and the Middle East and Southeast Asia, developing projects for large local end users and national energy companies. We're also seeing a more attractive market for our solutions as these regions begin to spend more time thinking about environmentally sustainable outcomes, cleaner plants, cleaner energy production, cleaner water, reuse of water. And so the dynamics or say the market drivers we've seen in the OECD nations have now made their way into what euphemistically we refer to as the developing regions. I would argue they're not developing regions, they're developed markets that are now developing their view on environmental solutions on how to deliver more environmentally sustainable solutions and to be more efficient in their consumption and use of material inputs. That all favors SECO. And we're making investments in those locations judiciously as we feel those markets are opening and available for our solutions. Because a domestic solution, one that's very viable and is the standard in the U.S. is not yet the standard outside of the U.S. in many markets, but we're moving towards a reality by the end of 2030 where what we're supplying in the U.S. will look very similar to what we're supplying in Saudi Arabia, for instance, in India, in Malaysia, in Indonesia. And that's a good thing, good for us, good for the planet, good for the people who live in those regions.

Bobby Brooks | Analyst, Northland Capital Markets:

That's excellent, Carla. I really appreciate it. And then my next question is, in the prepared remarks, you guys both indicated that the project delays that kind of hampered results in 2024 have abated. Could you maybe just discuss a little bit deeper why those have relieved?

Peter Johansen | Chief Financial Officer:

Yes, our customers got their SHI blank blank together, and now we're moving forward constructively to deliver on the projects as we had initially defined them?

Todd Gleason | Chief Executive Officer:

Yeah, we had a handful of larger projects that had longer delays than normal in the few years prior to 24. That was in 24. We may have even seen customers that were accelerating projects. So the dynamic in 22 and 23 where when projects were booked, customers executed at or maybe even a little faster than schedule on average, That changed certainly across a handful of material projects in 24, and that impacted our outlook for the year as well as our performance in the year because they were larger than average projects that had longer than average delays. Those projects have now turned to a normalized operational schedule. They got their stuff together, and we have not seen that same dynamic change. You know, there's always a handful of projects that are paused for a variety of reasons. That happens every quarter and every year that I've been at Seco and pretty much every company I've ever been at. But that dynamic was unique last year. And we're no longer seeing that unique aspect this year. It's now, quote, unquote, back to normal, Bobby. And so we, right now, we don't see a project paused. that we anticipate being delayed, nor do we necessarily see such large projects in the second half of the year that even if one or two of them were delayed would necessarily create a moment of pause or concern for us. The breadth of our projects is certainly pretty spread out. across our second half delivery. So right now we feel like we're in a pretty good shape. And that's why in our prepared remarks we make comment around we don't anticipate any project impact necessarily hurting us in the second half of the year. And we're certainly not experiencing anything positive or negative on the project execution dynamic to speak of.

Operator | Conference Operator:

Fair enough. Appreciate the call, guys.

Bobby Brooks | Analyst, Northland Capital Markets:

Again, Craig, congrats on a quarter hour turn of the queue.

Unknown:

Thank you.

Operator | Conference Operator:

And I'm not showing any further questions at this time. I'd like to turn the call back over to Todd for any closing remarks.

Todd Gleason | Chief Executive Officer:

Thank you very much. Well, thanks for the great questions and, of course, all the interest in our information today. Once again, I want to thank our global teams here at Seco for delivering such incredible value to our customers as we continue to protect people, protect the environment, and protect our customers' investment in their industrial equipment. As many of you know, we'll be presenting at several upcoming conferences in the third quarter, which you can find on our website, or we will be announcing via press releases. We hope to see you there. We're always available to answer any questions you might have. So with that, I want to thank everyone. Have a great rest of your day, and we'll talk to you soon.

Operator | Conference Operator:

Thank you, ladies and gentlemen. That concludes today's presentation. You may now disconnect and have a wonderful day.