NASDAQ:CECO Q3 2025 Earnings Call Transcript

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Tanya | Conference Operator:

Good day, and thank you for standing by. Welcome to the Seco Environmental Third Quarter 2025 Earnings Call. At this time, all participants are in a listen-only mode. After the speaker's presentation, there will be a question and answer session. To ask a question during the session, you will need to press star 11 on your telephone. You will then hear an automated message advising that your hand is raised. To withdraw your question, please press star 11 again. Please be advised that today's conference is being recorded. I would now like to hand the conference over to your first speaker today, Marcio Penso, Vice President of Financial Planning and Vector Relations. Please go ahead.

Marcio Penso | Vice President of Financial Planning and Investor Relations:

Thank you, Tanya, and thank you for joining us on the SECO Environmental Third 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 which is on our website at SecoEnviro.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 risks described in our SEC filings, including on the Form 10-K for the year ended December 31, 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 the information, future events, or otherwise. Today's presentation will also include references to certain non-GAAP financial measures. We've provided comparable GAAP and non-GAAP numbers in today's press release and provide non-GAAP reconciliations in the supplemental tables in the back of the slide deck. All right, with that, I'll turn the call over to SECO CEO Todd Gleason. Todd?

Todd Gleason | Chief Executive Officer:

Thanks, Marcio. And good day, everyone. Thanks for your time and for your continued interest in SECO. I'm very pleased to discuss another strong quarter as well as our reaffirmed outlook for 2025 and our initial view of full year 2026. With that said, please turn to slide number two. This executive summary slide captures the main points we hope you take away from today's earnings call and our release this morning. We will provide much more detail in later slides, so I will be brief. We delivered another high performance quarter with outstanding top line and bottom line growth. We exit Q3 with a new record backlog, even after generating our highest ever quarterly revenue. In the quarter, we expanded EBITDA margin nicely while we continue to invest in long-term growth resources and operating capabilities. Given the tremendous visibility we have in our backlog and sales pipeline, we reaffirm our full-year 2025 outlook and introduce our full-year 2026 outlook, which points to another year with very strong growth in both sales and adjusted EBITDA. As you will hear from this call, we remain very bullish as we are encouraged by strong market dynamics in our most impactful sectors, and pleased that our proven operating model continues to deliver for our customers and for our shareholders. Now let's dive into more details. Please turn to slide number three. Demand for SECO solutions and services continues at a record-setting pace. Our backlog grew to $720 million, a new record. Year over year, our backlog is up approximately $280 million, or 64%. Sequentially, our backlog increased by approximately $30 million. This new record backlog was made possible by another quarter of robust order intake of $233 million in new bookings, which is up 44% versus Q3 of 2024. We continue to book a nice mix of mid-sized and large-sized orders, particularly in the power generation and energy transition sectors. While we didn't book any mega jobs this quarter, because of timing of those particular jobs, we are very pleased with how those power opportunities continue to develop. We remain well positioned for these larger projects, which we define as greater than $50 and even greater than $100 million. When combined with orders from the first half, our year-to-date 2025 book-to-bill is nearly $1.3 million, with 735 million dollars in year-to-date orders if you expand the bookings across the past four quarters we have now booked approximately 950 million dollars in new orders with each quarter comfortably above 200 million dollars with the investments we have made to position our businesses to capture and capitalize on robust demand in our core markets we expand into new geographies, and offer more new solutions and services, our sales pipeline is now over $5.8 billion, which adds to our confidence for sustainable growth. Quarterly revenues came very close to eclipsing $200 million for the first time and produced an all-time record of $198 million in the quarter. This was up 46% year over year. Through three quarters of 2025, we have already generated more sales than all of last year, which had been a previous record. When we entered 2025, we forecasted strong growth. And I would submit that our year-to-day bookings and revenues are meeting or exceeding the bullish outlook we originally provided. Adjusted EBITDA was up 62% in the quarter as our sales growth and improving G&A cost profile continues to allow nice EBITDA margin expansion. And Q4 free cash flow of approximately $19 million was in line with the nice cash flow performance we expected and a strong rebound from our first half of 2025. We expect to continue to improve our working capital position as we navigate the balance of the year. A final metric on this summary slide shows adjusted EPS was 26 cents, up approximately 86% year over year. So overall, record results and solid performance. And we enter Q4 with an incredible backlog and sustainable momentum in all of our growth programs. Now please turn to slide number four. As today's press release highlighted, we are reaffirming our full year 2025 annual outlook across the board. This represents full year revenue of between $725 to $775 million, which is up approximately 35% at the midpoint year over year. For adjusted EBITDA, we are maintaining $90 to $100 million, which is up approximately 50% at the midpoint. And free cash flow at around 60% of adjusted EBITDA for the year is also reaffirmed. You can see the comments on the right side of the slide. One of the items we highlight is our expectation that Q4 bookings will be above $250 million, and depending on the timing of just a few orders, we might actually deliver our first $300 million plus quarter. Now, before I hand it over to Peter, let's move to slide number five for a quick overview on SECO's prime position to benefit from current market dynamics and also navigate potential challenges. For the remainder of 25 and our initial 2026 outlook, we have a strong market backdrop in power, electrical equipment, industrial reshoring, industrial water, and natural gas infrastructure sectors. Each of the past four quarters, we have booked orders in the critical infrastructure projects to support domestic power generation and energy delivery investments. And our pipeline would indicate we have the opportunity to maintain that pace throughout 2026. We see these projects continue to grow in both side and volume as we not only head through that year, but into 2027. We remain bullish on the industrial water and wastewater treatment sector, and in particular, the international water infrastructure projects, where we now have our most active and largest pipeline of opportunities associated with water reuse and recycling applications. We expect substantial orders to be placed over the next four to six quarters with a sales pipeline that extends also well into 2027. Industrial reshoring and the global semiconductor and electronic component sectors also remain robust, and SECO's breadth of capabilities in industrial air and energy applications ensure that we are very well positioned to continue to win in these areas. We remain extremely focused on optimizing our project pricing and margin levels based on constant communication with our extended supply chain, including our fabricators, component suppliers, and raw material suppliers. We have seen moderate inflation in select commodities and components that we include in our costing models and work to mitigate our designs and sourcing plans. And certainly last but not least, M&A. We have not announced the transaction since we closed the sale of our global pump business in late Q1, as well as the acquisition of Profire Energy in early January of this year. But that doesn't mean we haven't been actively building our M&A pipeline and advancing certain deal-related discussions. We remain focused on the sustainability of Seco's portfolio. building a world-class industrial company with leadership positions in several and meaningful industrial niches. We expect to have more to discuss in the coming quarters. And as far as challenges or uncertainties, at Seco, we believe that proper planning for scenarios is one of the hallmarks of a high-performance company. We remain laser-focused on the things we can control. and we prepare for additional actions if certain headlines turn into headwinds. As such, we continue to monitor tariffs and the impact on inflation. We are also monitoring the U.S. government shutdown and what impact that might have on various operational items. So far, nothing that we can point to as far as moving the needle up or down as it pertains to SECO. We will maintain our focus on these potential factors and act accordingly. Best to be proactive when possible, and that's our plan. I will now hand it over to Peter, who will go into more detail on our financial results. Peter.

Peter Johansen | Chief Financial Officer:

Thank you, Todd. Good day, everyone. Thank you for joining Todd and myself for SECO's third quarter 2025 earnings call. I would like you to turn to slide number seven for more details on our recent financial results in the quarter. SECO finished the third quarter with a record backlog of $720 million, up 64% versus prior year and 5% on a sequential basis. This result delivers the 11th of the last 12 quarters with an increase in backlog. The increase was driven by good order rates across a wide range of end markets. Of the total, approximately $60 million is related to the recent acquisitions with the balance of the increase being generated from organic order growth. Third quarter orders were $233 million, an increase of 44% over the prior year period, representing a book to bill of approximately 1.2 times. And as Todd mentioned earlier, the fourth consecutive quarter with orders greater than $200 million for a trailing 12-month level of $954 million, 65% greater than the prior 12-month period. This $954 million level represented a book-to-bill of 1.33 times revenue, a record for any 12-month period in SECO company history, by a large margin. and a four-quarter average of approximately $238 million. The results were largely due to strong demand in power, natural gas infrastructure, semiconductor, and industrial water applications. I would like to point out that SECA was just shy of reaching $1 billion in orders on a 12-month basis for the first time in company history. a level that we expect to achieve in the coming 12 months. Revenue in the quarter of $198 million was the highest for any quarter in company history and an increase of 46% or $62 million over prior year. Approximately 30% of the year-over-year increase was generated by the company's most recent three acquisitions, and the balance was from organic growth. Sequential revenue was up 7%, with a big assist by revenues recognized on large power generation projects booked in prior quarters, as well as strong backlog conversion from industrial air, industrial water projects. Adjusted EBITDA of $23.2 million was an increase of 62% versus prior year, with margins improving approximately 120 basis points over the year-ago quarter. On a trailing 12-month basis, adjusted EBITDA grew 26% to approximately 80 million, with margins down slightly, driven by our Q1 2025 results, which were lower than anticipated. On a sequential basis, adjusted EBITDA was flat on a dollar basis with 80 basis points of margin contraction due to lower gross profit margins in the quarter, partially offset by lower G&A spending. Gross profit margins of approximately 33% in the quarter was down 70 basis points year over year, mainly due to an adverse project mix as well as as well as driven by a medium-sized project closeout with dilutive gross margins. Sequentially, gross profit margins are slightly down, driven by mix and the typical summer seasonal headwind dynamics. Sales engineering and G&A expense continued its favorable downward trend with spending in the quarter down 4% sequentially, benefiting from cost-saving initiatives initiated in the first quarter and strong expense management. Adjusted EPS in the quarter was up 12 cents or 86% on higher volumes. Operational excellence efforts and G&A expense management partially offset by higher interest expense. Now please turn to page 8 with me to review our backlog position in more detail. With our strong orders performance in the third quarter, our backlog is continuing its steady upwards climb as we convert on the growing sales opportunity pipeline. At $720 million, SECO's backlog has more than tripled since the end of 2021. We expect the majority of this backlog to convert to revenue within the next 24 months, with a large portion scheduled to convert over the next 18 months. Our 2025 year-to-date book-to-bill is approximately 1.3 times further underpinning future revenue. Now, please turn to page 9 with me for a look at gross profit and gross margin performance. This slide, like in previous earnings decks, presents SECO's gross profit and gross margin performance by quarter since the fourth quarter of 2022. We are presenting it on a trailing 12-month basis to normalize for quarter-to-quarter fluctuations and to provide a look back to the start of SECO's operating excellence agenda deployment, which began in the fourth quarter of 2022. Since that point, SECO has expanded trailing 12-month gross profit margins by approximately 500 basis points, with gross profit dollar growth of slightly greater than 95%. In the third quarter of 2025, our business delivered the second highest gross profit dollar performance for the company in a quarter of $64.6 million and a gross profit margin of 32.7%, with a decrease of 350 basis points sequentially and 70 basis points year over year. Project mix and seasonal dynamics drove the quarter-on-quarter decline. I would like to remind the audience that a sequential step down from second quarters to third quarter is normal for SECO. This has occurred annually since 2020. Most recently in 2024, where we experienced a 220 basis point sequential reduction before a similarly sized step up in the fourth quarter. The seasonal dynamic is mostly due to fewer working days with summer holidays in Europe and the United States, resulting in a general slowdown in business operations. In addition, we chose to accelerate the closeout of an industrial air project with dilutive margins into the third quarter to put that behind us for the balance of the year. Similar to past years, we fully expect gross profit margins to bounce back into the fourth quarter and continue the upwards momentum as we maintain long-term profit margins at the gross margin level at greater than 35%. On a trailing 12-month basis, our gross profit margin was 35% at the end of the third quarter. This improvement over the past two-plus years is attributable to the progress our teams have made capturing annualized sourcing savings in the range of $10 million, improving project execution, and the impact of our commercial and portfolio transformation initiatives to improve the business mix while making acquisitions with accretive gross profit margins. For the remainder of 2025 and into 2026, we will continue to implement and expand on our operating excellence agenda, focusing on project execution and sourcing and increasing our focus on G&A expense optimization and process simplification to further benefit adjusted EBITDA delivery. These efforts will be bolstered by the addition of 80-20 to our operating model, a process which we have introduced late in the third quarter and will continue to drive deeper into the organization in coming periods. Now please move to slide 10. where i'll review cash flow and indebtedness starting on the left side of the page with free cash flow generation this the schedule shows a walk from gap net income to free cash flow on a year-to-date basis cash flow in the quarter was a net positive of 19 19 million dollars a strong improvement of 22 million sequentially versus the second quarter due to strong cash generation from operations, due to higher volumes, improved working capital management, and adjustments related to taxes paid on the gain on sale of the GPS business in the first quarter of this year. On a year-to-date basis, cumulative free cash flow is approximately $1 million. Year-to-date capital expenditures of approximately $8.7 million. are largely driven by investments in our ongoing ERP system migration program, operating improvements in select production facilities, and office updates and consolidations in Dubai, Shanghai, and Singapore, as we integrated our legacy and acquired teams in those respective regions. On the right side of the slide is a summary of SECA's gross indebtedness, with the primary drivers of change shown in the schedule provided. We ended the third quarter with gross debt of approximately $217 million, flat two-year in 2024, and a reduction of approximately $20 million from the end of the second quarter. Cash generated from operations and working capital initiatives was used to reduce our gross debt balance in the quarter to a level that now predates the profile acquisition concluded in early January 2025. The reduction in gross debt combined with the growth of our TTM EBITDA will result in a 25 basis point step down in the fourth quarter for the interest rate we will pay on our outstanding revolver balance, providing CECA with approximately $550,000 of annual savings and interest payments on the current balance. This benefit is exclusive of the benefit we will experience from further Fed rate reductions of which two are expected by the end of 2025. Net debt at quarter end was approximately $186 million, a decrease of $13 million from the end of the second quarter and a slight increase from the year-end net debt balance of $180 million. At $186 million, our net debt to EBITDA leverage ratio has been further improved to approximately 2.3 times our third quarter TTM bank EBITDA of $80.4 million. At the end of the quarter, our investment capacity is $109 million, an increase of $40 million from the year-end 2024 level, and providing sufficient liquidity for our near-term needs. While we remain active in cultivating various M&A opportunities and expanding our deal pipeline, Our short-term focus for capital deployment remains to further strengthen our balance sheet, accelerate our ERP migration efforts, and fund our double-digit organic growth. However, with our current capacity, we are well positioned to close on one of the tuck-in transactions working its way through our M&A pipeline. That concludes my remarks on SECO's third quarter 2025 financial performance. a solid result to follow up on an equally strong second quarter performance. And now back to Todd for his final remarks and a wrap-up. Thanks, Peter.

Todd Gleason | Chief Executive Officer:

Let's transition to looking ahead, including our initial 2026 outlook. On slide 12, we summarize positive market and operational items, as well as certain challenges that are incorporated in our 2026 outlook. We continue to believe energy transition investments, such as more power generation, more natural gas infrastructure, and LNG investments, and a business-first friendly policy agenda, which allows investments to flow quickly to create economic benefit. These are all meaningful positives to energy transition, positives to our customers, and positives to Seco. We also see other positive market dynamics for industrial air and industrial water, each with a set of bullet point items listed in their sections. Each of those has a very large pipeline of opportunities as we navigate Q4 2025 and throughout our 2026 sales outlook. I can't stress enough how well positioned SECO is for general industrial investment and expansion globally. And now that we have firmly established a global water platform, we are also very well positioned for large wastewater and produced water projects. It remains a very exciting market dynamic and we continue to invest to advance our leadership and support our global operations. As for potential challenges or uncertainties, several of these same themes, several of these are the same themes from earlier in our earnings deck. We continue to monitor tariffs and inflation. regulation changes, and resource availability. These aren't new themes, and these aren't new potential challenges, so we believe we have a lot of programs and processes in place to navigate these various items. Now, please move to slide number 13, and then let me provide our initial full-year 2026 outlook. I'm very pleased to share this outlook as it demonstrates the ongoing strength of our operating model and our leadership position in growing markets. Starting with orders, we are targeting orders to exceed $1 billion, and the slide highlights a greater than 1.1 book to bill. We have the sales pipeline to overdrive this book to bill level, and we are very excited to work with our customers to eclipse $1 billion in bookings. As you know, this bookings level is a preview of revenue levels in outer periods, and we certainly are ready to be a billion-dollar revenue company on our way to much more. Full year 2026 revenue outlook is projected to be between 850 and $950 million, which is up between 15 to 25% year over year when compared to 2025's midpoint. Our estimated 2025 year end backlog of approximately 750 million or greater gives us significant visibility as we start 2026. And depending on how bookings to occur in both Q4 25 and Q1 of 26, we'll know a lot more about this revenue range for next year. Moving to adjusted EBITDA, our outlook is between 110 and $130 million, up between 20 and 40% year over year, when compared to full year 25. We expect, with the revenue execution of major power jobs, that gross profit will be slightly down year over year, but that will be more than offset by savings in our SEG&A. As a result, we expect adjusted EBITDA margins to be up between 110 to 150 basis points year over year. Adjusted free cash flow is expected to convert between 50 to 60% of adjusted EBITDA based on achieving major project billing milestones and continued working capital management improvements. So, as we sit here in October and provide outlook for 2026, we have a lot of visibility and a lot of momentum. This gives us the confidence that providing initial guidance with strong double-digit top and bottom line growth, which comes immediately after what will be a banner year in 2025, It's something we are very comfortable doing. Okay, please turn to slide number 14. This might be my favorite slide. There's a lot to like here. Certainly a lot of graphics going up and to the right. A lot of great double-digit growth and steady margin expansion. What I like most about the slide is how we have demonstrated and continue to maintain high-performance, sustainable results. The numbers jump out at you. Our four-year backlog CAGR of 34% growth. Our five-year order and five-year revenue CAGR each with 23% growth. Our five-year adjusted EBITDA CAGR of 35% growth. It's just steady, solid performance, and it's not an accident. We continue to invest in people. We continue to invest in growth programs and global expansion. We continue to invest in operating excellence to drive safety, quality, on-time delivery, and cash and working capital management. We continue to deploy capital smartly to generate the best economic returns for our shareholders. In fact, perhaps the best number that's not even on this slide is our shareholder returns that we've generated over the last four to five years. We look forward to delivering more for our customers and shareholders as we deliver great results for many years to come. Okay, let's please move to our last slide, which is number 15. As we begin to wrap up 2025, we believe Seco remains well positioned to benefit from our diverse and market exposure and key mega themes that remain very strong. Our $5.8 billion and above pipeline, sales pipeline, provides tremendous visibility into many exciting opportunities. I'm very pleased with our Q3 and year-to-date 2025 performance. Year-over-year, backlog up 64%, orders up 44%, and revenue up

46% in the quarter. This level of growth just continues to be sustained, and our 124 basis point margin expansion is something we're pleased with as well. I'd like to thank Team Seco for relentlessly delivering for our customers. And we continue to be bullish with respect to our full year outlook and, of course, the 2026 outlook that we just provided. Another strong year of double digit top line and bottom line forecasts. With that, we'll pause and open up the line for questions. Operator?

Tanya | Conference Operator:

Certainly. At this time, we will conduct a question and answer session. As a reminder, to ask a question, please press star 11 on your telephone and wait for your name to be announced. To withdraw your question, please press star 11 again. Please stand by while we compile our Q&A roster. And our first question will be coming from Rob Brown of Lake Street Capital Markets. Your line is open.

Rob Brown | Analyst, Lake Street Capital Markets:

Good morning. Congratulations on all the progress.

Todd Gleason | Chief Executive Officer:

Thanks, Rob. Morning.

Rob Brown | Analyst, Lake Street Capital Markets:

Just first on kind of the project pipeline, I think you talked about some large kind of projects in the works in terms of the industrial water side in particular and I guess the PowerGen side. Could you give us a sense of where those are at and sort of what those projects entail?

Todd Gleason | Chief Executive Officer:

Yeah, I'll start. Peter can add certainly some color to this as well. We'll start with industrial water. The larger projects, and we're really well positioned, we feel, globally, and we're excited about a lot of the U.S. domestic applications and growth that we see. But the larger projects are mostly based in either the Middle East or even in various regions around Asia. They relate to, you know, produced water or water reuse applications in very large installations. We believe that our growing... You know, reference sites and our relationships with large organizations and EPC firms sort of puts us in a win-win position. If they secure the projects, you know, we're their technology of choice. So we're working through the timing of those items. We're excited. We've had a constant dialogue with them throughout the year. And so really right now at this point, it's really all about timing in terms of that. And those larger jobs would be predominantly based in the Middle East.

Rob Brown | Analyst, Lake Street Capital Markets:

Okay, great. Thank you.

Rob Brown | Analyst, Lake Street Capital Markets:

And then the 2026 outlook, I think you have pretty good visibility there with the current backlog. But, you know, are there projects that can come in that can move that up? I guess what's sort of the ability for that to move up, I guess, in terms of project activity? What would have to happen to kind of hit the high end of that number?

Todd Gleason | Chief Executive Officer:

Yeah, no, I mean, look, I can, by the way, I appreciate that we're sitting here a few days before Halloween and we're already talking about raising guidance next year, Rob. Well done. But joking aside, let's be clear, right? Like, look, we have a $5.8 billion sales pipeline. That means these are jobs. that over the next 18 months, we have high confidence, we'll move forward, and we will either win or lose our participation on those programs. That is multiple billions higher than it was just a few years ago, and we're growing, obviously, at a strong, sustainable double-digit pace. As we look at what's in the you know, more nearer term, Q4 of this year, first half of next year, I might even say Q1 of 2026, certainly there are a handful of larger projects that we see the revenue profile associated with those projects being something that we can model in 26 and in 27. So it really depends on If those projects, those specific projects move forward and how many of those do we win in Q4 and in the first half of next year, let's go with Q1, If, let's say, instead of winning one of two, we win two of two large industrial water jobs, or instead of one $75 to $125 million power job, we win multiple, which we can serve in our capacity, then that skews our view because we certainly haven't baked in every one of those jobs in our outlook. So, to be fair, we have the visibility in our backlog and in our expected win rate to drive performance relative to the outlook that we just provided. And it's very early, obviously, versus when most companies give a 2026 outlook. So, I'd say we have a high degree of confidence that what we were modeling in based on our expectations is is something we're proud of. However, yes, there are always levers that can occur throughout the next few quarters that gives us even more visibility to what could be a higher 2026. Where we sit right now, we would say we don't think we're being conservative. We also don't think we're emptying the cupboards on 2026. We think we're in the right place, and we believe this guidance reflects that.

Rob Brown | Analyst, Lake Street Capital Markets:

Okay, thanks for all the color. I'll turn it over.

Tanya | Conference Operator:

And one moment for our next question, which will be coming from Aaron Spichala of Craig Halem Capital Group. Your line is open, Aaron.

Aaron Spichala | Analyst, Craig-Hallum Capital Group:

Yeah, good morning, Todd and Peter. Thanks for taking the questions. You know, maybe first for me, just on the pipeline and power generation, can you maybe give us an update there? It seems like, you know, in the market, there's a focus on, you know, improving power you know, connections at the data center level and just getting to market faster. You know, are you seeing, you know, any acceleration in the pipeline there on the order front and just, you know, maybe give a little more color on the activity levels there?

Todd Gleason | Chief Executive Officer:

Yeah, I don't know that we're seeing acceleration. I think we're seeing, you know, a very robust space with a lot of headlines and a lot of, you know, a lot of activity. No doubt, you know, it's easy and important to read what some of the more, you know, larger organizations like GE Vernova and Siemens and others are talking about as they clearly are leaders in providing so much of the important power generation equipment, and we love partnering with them. And those conversations continue to be positive. And yes, there are times when things accelerate and ebb and flow, but they don't seem to be decelerating, I'll say that much. But I would say where we were A few quarters ago, I would say we feel very confident to that pace being, you know, pretty sustainable. The pipeline is well over a billion for us of just those projects over the next, you know, 12 months or so. And so it's a very active set of discussions. Peter?

Peter Johansen | Chief Financial Officer:

It's easy to become overwhelmed by all the reporting on data centers. I think we all have to be a little, say, more balanced in our view of how much of that becomes reality. And if you dig into the large OEM, gas turbine OEM backlog information, you'll see that they are also suggesting that the international demand is every bit as exciting as North America. That's because there is tremendous needs for power, both for industry as well as for the transition off of coal in those regions as well. So I think we have to be careful that we, and we are careful, and that we look at our pipeline in a way that ensures that we balance the best of the opportunities with where they're occurring globally. And what Todd was referring to in his remarks earlier was that there's a lot of near term in the U.S. to serve the data center demand. But this is a multi-year cycle that's going to run for at least, we view out through 2030, 2032. And so, and this is somewhat to Rob's point as well, we could get it all today. And if we got it all today, still deliver over the next three to five years. So it's a multi-year story. And I just caution everyone in getting overly excited about these headlines because it takes years to build a plant. It takes years to deliver the equipment. It takes years to turn it on.

Todd Gleason | Chief Executive Officer:

And by the way, Aaron, and only saying this because we've talked about this with you and others, and also been asked this question and maybe coming up on this Q&A, we, SECO, in our solutions with respect to power, call it later in the cycle of the power bills, meaning we're providing the thermal acoustic noise abatement, emissions management. Yes, there are some areas where we're in the gas infrastructure side with separation filtration, but as our larger solutions on these power jobs, come in the second to, you know, later half of a project, not the beginning. We may be in early conversation and bidding and participating in budget assessments and planning, but we don't win the jobs until later in the cycle. So as this cycle continues to mature, we're starting to hit our stride, if you want to call it that.

Aaron Spichala | Analyst, Craig-Hallum Capital Group:

Right. Understood. Thanks for the call, Eric. And then maybe just switching to margins, you know, you talked about 100 to 150 bps of kind of targeted EBITDA margin expansion. Can you just maybe talk about the confidence there? You know, sounds like there might be some mix just from some of these larger projects on the gross margin line. But you also talked about, you know, some of the early efforts on 80-20 and other lean initiatives and SG&A reductions. Just maybe help provide some color there, please.

Todd Gleason | Chief Executive Officer:

It's really at least a three-pronged, steady approach for us, and we have confidence in this approach. In no particular order, think of, number one, the volume that we continue to generate allows us to have a lot of visibility, not just through our backlog and margins in our backlog and in the projects, And we're talking about gross margins, which might be a little lower than the current company average of 34, 35%. But the EBITDA margin from those jobs is higher than the company average. So we like the dynamics, number one, of what the volume represents, just in terms of continued steady margin expansion. Number two, we have invested throughout the last few years in a lot of areas to support and to drive growth And those investments will continue, but as we get larger and we approach a billion, they sort of modulate, right? They're able to be absorbed with more sales. And so that's prong number two, if you will, is that we're going to just get more G&A leverage and even some – S&E leverage as we get growth from resources that are already in place. And then last but not least, and in fact this is driving a lot of our nice gross margin expansion over the last few years and will continue to bolster and improve that area, it's that our operating excellence teams and investments in other areas of cost management like 80-20, which we're just now deploying in the fourth quarter in our first set of businesses, are really targeted at maximal efficiencies, right? They're targeted at finding ways and then executing on ways to get more logistic savings, to get more cost management savings in our operations. A lot of our businesses have grown rapidly over the last few years, and 80-20, for example, is one process that really goes back and looks at Now that you're twice the size you were four years ago, how should you redesign your organization for maximal efficiency given your new normal levels of operations? So we believe and know that operating excellence in 80-20 That third most important prong to really get our gross margins sustained and higher and to get our EBITDA margins to eventually those mid-teen results. We just like the steady approach of getting it up 100, 150 basis points next year, maybe higher. Certainly would depend a little bit on volume and some of the mix. But, you know, look, we're on our way to the mid-teens, if not higher margins over time, and we're just having that balanced diet of areas and processes that we think are important.

Rob Brown | Analyst, Lake Street Capital Markets:

Appreciate that. I will turn it over. Thanks. Thanks, Aaron.

Tanya | Conference Operator:

Thank you. And our next question comes from Jerry Sweeney of Roth. Your line is open.

Jerry Sweeney | Analyst, Roth:

Good morning, guys. Congrats on a nice quarter, and thanks for taking my call. Peter and Todd. Hey, AI topic du jour, so let's stick with it, but just curious on the project side. So some of these data centers, they're switching different power, going a little bit more towards disaggregated power opportunities. Are there any opportunities in those locations for you guys versus the large turbine builds, et cetera?

Peter Johansen | Chief Financial Officer:

It depends on how they choose to power the microgrid. Yeah. If it's reciprocating equipment, the answer is little opportunity. If it's small format industrial gas turbines or aerodirivative gas turbines, there are certainly opportunities, but it depends on how the solution is defined. and how many are present. The challenge in answering that question definitively is there's no single standard concept for any of these solutions.

Jerry Sweeney | Analyst, Roth:

Got it. Understood. And then just sticking with the AI stuff or the power generation and build-out, at some point, does that expansion – for lack of a better word, stall just because there's just not enough capacity at some point in some of these build-outs. So instead of it being a higher hump, it's more of an elongated process. And do you have a sense of where that is, if that's true?

Peter Johansen | Chief Financial Officer:

Well, I think the answer is we say it is, yes, it will be elongated because there isn't enough supply to deliver what is presently being called for or demanded. When you hear numbers being thrown around like a trillion dollars of investment in data centers is going to $3 trillion per year, it's eye-watering, and it's kind of hard to kind of make sense of it all. But Jensen Wong will be telling us it's going to be $3 trillion a year for the next decade in order to satisfy global demand. That suggests that the amount of megawatts that have to be delivered to power that is – well in excess of what industry can supply today and will be providing it for many years to come. We also can't forget there's three other demands being placed on our power grids. We have a demand for new businesses, new manufacturing returning to the US and other developed countries. So that reassuring dynamic is raising the demand on energy. We have the electrification of everything. from transport to manufacturing process to heating and cooling to, you know, moving goods within warehouses. That's another source of demand. And finally, you've got, you know, AI is what people are focused on, but good old-fashioned computing. You know, cloud computing and more people operating computers for gaming and for crypto mining and for trading all requires electricity. and they're all going to be put on the grid in waves. And there's plenty of analytics that suggest this is going to run to 2040 at some level, going to run to 2030 at an elevated level. We're just at the beginning.

Jerry Sweeney | Analyst, Roth:

On that front, historically, I think a lot of your M&A has been maybe in the water and industrial side. Do you look at the opportunity on the power side? Are there acquisitions or opportunities for you to expand you know, adjacent to what you're doing or add additional solutions to expand your wallet share?

Todd Gleason | Chief Executive Officer:

Sure. You know, our pipeline is balanced. We like it to be that, you know, we push all of our businesses to think of ways organically and inorganically to advance their leadership. That's true in our energy businesses. Look, you know, to your point, our transactions have been more skewed to building and advancing a leadership position in industrial water, certainly doing the same in industrial air. But, you know, we've made some smart investments. The Transcend acquisition, separation filtration business, which has a large aftermarket and installed base, You know, it was a great investment, high-margin investment for us that we made a few years ago. It continues to grow. We've doubled the business as we start to really stretch our legs on that acquisition. There's others that we would look at doing in this space as well.

Jerry Sweeney | Analyst, Roth:

Got it. Okay. Well, guys, well, great quarter. Congratulations, and I appreciate the time. Thank you.

Tanya | Conference Operator:

And our next question will be coming from Bobby Brooks of Northland Capital Markets. Your line is open, Bobby.

Bobby Brooks | Analyst, Northland Capital Markets:

Hey, good morning, guys. Thank you for taking the question. I was just curious to double-click on the 2026 guide. I was just curious what – and I know you've touched on it a little bit, but just to go a little bit deeper, what sort of macroeconomic backdrop are you assuming in the ranges of your 2026 guide?

Todd Gleason | Chief Executive Officer:

Yeah, look, I think we're – stable, I think is what I start with that word. We're not, we don't feel we need a, you know, a significant positive change in the macroeconomics. We're, you know, I think we're reading the same headlines and we're sensitive to certain things that could influence the economy, whether it's interest rates and, you know, tariffs. Certainly we've all become, you know, much more accustomed to the dynamics that exist with the direction changes at times around the tariff topics. And I think supply chains have been stable in their management of that. I think that there's certainly things that could change our view of the macro economy, because we certainly aren't on an island if things go completely different. But we certainly don't see a major positive or negative swing over the next 12 months. We think that there are reasons that things could change. But where we sit right now with our pipeline and our And our backlog, look, for us, Bobby, frankly, it's about the visibility of pretty steady markets, right? Like, it's hard for us to sit here today and say that over the next six months, these important power jobs are going to care about some of these headline topics, right? I mean, certainly things can change that. But, you know, tariffs and interest rates aren't going to really change these important investments. Same thing with reshoring. These water projects are somewhat unrelated to the general economy. So we're not, as you well know and have done a great job of analyzing, we're not super sensitive to short or intermediate changes in, let's say, consumer sentiment or consumption. you know, certain geographic specific shifts. We're probably, given that 100% of our sales is an industrial, with industrial customers that are really in, you know, expansion and investment mode and a multi-year theme, it's hard for us to see a major economic shift in that.

spk12:

Got it. That's really helpful, Colin.

Bobby Brooks | Analyst, Northland Capital Markets:

And then I wanted to circle back on the cross-selling opportunities with Profire. So you've had had Profire under your umbrella for nine, 10 months now. And I know one of the most exciting pieces to that acquisition was across selling opportunities with their application that historically had only went into U.S. oil field service customers to then cross sell that into your wide range of industrial customers, as well as bringing it to your international OFS customers. So just curious to kind of hear an update on that and how that's progressed so far.

Todd Gleason | Chief Executive Officer:

Yeah, look, it's still a huge, we think, opportunity for Profire as a business. And we spend a lot of time with the team, including recently, including, by the way, them being one of the early businesses where we're going to be deploying and utilizing 8020 to really get a firm grasp of how we can implement it at Seco. So a lot of dialogue with Profire, both in terms of opportunities to cross-sell and to break into new geographic and industrial markets. I think that there's a lot of good progress. Look, it's still only been nine, ten months. We always say we give it a year. We let our businesses get sort of settled in. We look for ways to invest operationally and commercially. Those programs are being put in place now. The team, I know, is very excited to be to be part of SECO. Certainly, you know, they're looking at market dynamics within their core markets in the oil fields and energy applications. So, you know, they're constantly looking at ways to innovate and to make investments. So we've had some good discussions about organic and inorganic investments in Profire. I continue to believe it's a business that, you know, is a $100 million business in a few years down the road. And some of those are certainly the result of our ability to bring their product into more industrial and international applications.

Bobby Brooks | Analyst, Northland Capital Markets:

Super helpful, Colin. And then just last one for me, Todd, you know, you're quoting the press release saying, depending on timing, fourth quarter this year could be the largest booking quarter ever, which is some really strong commentary and not something you specifically noted in prior press releases. So I was just curious, aside from the multitude of shots on goal you have, especially with the large power jet and water projects. What else has given you confidence to speak to that? And maybe have you already had strong orders quarter to date through October? Thank you. So, yeah.

Todd Gleason | Chief Executive Officer:

Look, good catch. And, you know, obviously we put it in there for sort of a reason. And that reason is quite simple. You know, Bring these two things together, Bobby. One is we just delivered our fourth consecutive quarter of orders well over $200 million. And we're very pleased with orders north of $230 million. And that... This past quarter, the third quarter, while it gave us very nice year-over-year growth and a new record backlog, it really didn't include any of the large, call them mega jobs. It certainly had several very important and decently sized jobs, and historically certainly would have been jobs that we might have called out. because they were, you know, between 20 and let's say 40 million. But for where we're at now in both power and in international industrial water, they're not going to represent some of our larger jobs. And so the fact that, you know, let's say in our largest quarter year to date, we had one mega job. And in the third quarter, we still produced over 230. We didn't have one. And yet, we believe we're very close in terms of timing on a purchase order, which is how we book a job. Even if we have a verbal, we don't book anything until we have all of the T's and C's and purchase orders and everything completed. So I think it's a confidence and Not just the visibility in our pipeline, but where we're at in several, not just one, but maybe several relationships and dialogues and verbals that we're getting from customers. So, look, if the timing in Q4 is more than one, but several of those occur, now you're looking at our first quarter with more than one mega job. And that will give us, you know, certainly that's the confidence that we have, and that's why we're sharing it. You know, look, if it doesn't happen, we're still – we have a lot of visibility to another great quarter of well over $200 million. But if they do happen, then, you know, as I said in our prepared remarks in the call, we will see – well, we believe we could see a quarter over $300 million.

spk12:

Excellent call. I appreciate it. And congrats on a good quarter. Thank you.

Todd Gleason | Chief Executive Officer:

Thanks, Bobby.

Tanya | Conference Operator:

Thank you. And our next question will be coming from Jim Ricciuti of Needham and Company. Your line is open, Jim.

Jim Ricciuti | Analyst, Needham & Company:

Thank you. I answered one of them. I'd like to just follow up, though.

Peter Johansen | Chief Financial Officer:

Jim, we're having a hard time hearing you. The line is choppy.

Jim Ricciuti | Analyst, Needham & Company:

Yeah. Okay. Any better, Peter? Just any better?

Todd Gleason | Chief Executive Officer:

A lot better. A lot better. A lot better. Good. Thank you.

Jim Ricciuti | Analyst, Needham & Company:

Good. Good. So, yeah, it's a follow-up question just on gross margin. Okay. I appreciate the commentary and citing the sequential, the seasonal issue in gross margin in Q3 of last year. But on the other hand, you had, I think, a sequential decline in revenues in Q3. So I'm just trying to get comfortable with what's happening with gross margin. Peter, you alluded to something. I may have missed it. You talked about some issue, a closeout issue. that impacted the Q3 gross margin. Wondering if you could size that for me.

Peter Johansen | Chief Financial Officer:

It was about, it contributed 30 to 50 basis points of the reduction. It was a project that we decided we would negotiate with our client to get it closed, get all outstanding change orders recognized, put it behind us, free those teams up and move on. It was a project that started out with a lot of uh, positive vibes. And at the end, it was just one of those where, uh, we decided we probably needed to terminate and move on, move on from each other.

Jim Ricciuti | Analyst, Needham & Company:

Got it. Um, thanks.

Todd Gleason | Chief Executive Officer:

And, and just, I'm sorry, I was going to, I just want to add to, uh, you know, look, um, our, our, seasonally, our softest quarter from a gross margin perspective is historically Q3. So we sort of model in a decline just naturally. There's just certain cost of good sales, costs that get sort of trapped in the quarter while volumes were solid. Just the dynamic of the quarter is typically different. a lower quarter for us from a gross margin perspective. You'll see it if you look back at most of our Q3s. It's not a guarantee that it's always going to be the softest of our quarters, but I would be willing to bet that 80% of the time, Q3 for us is the most impacted quarter. from a gross margin if it dips it's going to dip in q3 so again i'm not trying to just say well you know it's a seasonal thing but we we already had it modeled in that we were going to have a bit of a decline there's always some smaller pieces like peter mentioned that you know could be 30 to 50 basis points of additional contraction um you know some inflation uh did occur in in the third quarter which you know the timing of which is something we're going to work through just like we have in other quarters um and so look we we're not We were very happy with where our gross margins were year-to-date prior to Q3. Q3 was not different than we had sort of imagined it could be. We believe that we're going to get back to higher gross margins. But certainly, we've seen some impacts in inflation. It's modest.

Jim Ricciuti | Analyst, Needham & Company:

Okay. That's helpful. Thank you. And again, we're looking at the 2026, it sounds like you're assuming somewhat lower gross margin, or maybe I misinterpreted your comment. And that's really, if that's the case, that's a function mainly of mix both industrial air and industrial water, a larger percentage of some of these bigger deals.

Todd Gleason | Chief Executive Officer:

Yeah, I think we are just providing a view that if our gross margins in 26 are lower on average than 25, it's mostly because of mix. Large power jobs, large water jobs that would just have lower gross margin, but would maintain very good EBITDA margins because the amount of G&A associated with those jobs is minimal, and they're large jobs. So just the scale, the mixed scale size of these large jobs would be hard for us to overcome mathematically. gross margin but not hard for us to overcome in terms in fact would be beneficial to the EBITDA line so it's it's more an indication that if gross margins are a little lower next year we don't believe it's a dynamic that's changing in price or inflation those are things that we feel comfortable with in fact look there are potential opportunities in nuclear in defense in and in a few other areas of aftermarket and short cycle, that if they occur throughout the year at the volumes that they could, those gross margins are materially higher than the average CGROW gross margin and can certainly work to offset any natural gravitational pull down on margins from large power jobs and large water infrastructure jobs. So, look, right now we're balancing it out. We don't give gross margin outlook for the year. We're just signaling that if it is lower, we're not sure that it's a real headwind as much as it is just the, you know, mathematical dynamics of the size of the jobs that are pulling it down.

Rob Brown | Analyst, Lake Street Capital Markets:

Got it. Thank you.

Operator | Conference Operator:

And one moment for our next question, which will be coming from Joseph Giordano of TD Cohen.

Tanya | Conference Operator:

Your line is open.

Joseph Giordano | Analyst, TD Cowen:

Hi, good morning. This is Chris on for Joe. Have you observed any change in customer sentiment or project timing for water, wastewater, infrastructure investments, contingent in part or whole on some form of government funding? as a result of any changes in pace of disbursement from Infrastructure and Jobs Act?

Todd Gleason | Chief Executive Officer:

Yeah. We don't. And I think, you know, I don't want to sound like we're unique in the fact that we're saying we don't. I would say it's mostly a quick and confident answer that we don't see an impact because in the large infrastructure jobs that we're participating in, they're not – U.S.-based programs or even necessarily European-based. They're located in regions where either that dynamic isn't occurring, where there's governmental pauses or large program timing associated with monies. Instead, there are other investments that criteria altogether.

Joseph Giordano | Analyst, TD Cowen:

Great. And can you provide an update on how your short cycle business trended during the quarter, and it's expected to be a large share of the mix in the 2026, and what you see contributing to that?

Todd Gleason | Chief Executive Officer:

Yeah. So, you know, the mix of our short cycle is steady, but the short cycle businesses are growing nicely and continue to add, you know, I think, you know, great results to our performance. Mix is tricky because if we have large power jobs, and certainly those are longer cycle. If we have large water jobs, those can be longer cycle. So the mix all of a sudden looks like it's staying steady when in fact short cycle could be growing rapidly inside our organization. Just hard to overcome the mix shift. But, you know, look, we, you know, four years ago, we had at best 20% as a percentage of sales in short cycle. We continue to be up above 30%. Now, again, the mix of that can change depending on the jobs. But, you know, our goal over time is is through organic and inorganic balance to find 50-50. That continues to be our goal. It might not be a 2026 dynamic because of how our jobs are going to flow through our P&L. But again, we like the fact that we continue to add applications and businesses with a lot more aftermarket content, you know, more filtration, more aftermarket parts and services. So, you know, it is a continued investment for us, but the short cycle has been pretty steady throughout the year.

Joseph Giordano | Analyst, TD Cowen:

Great. Thank you very much.

Todd Gleason | Chief Executive Officer:

Thank you.

Tanya | Conference Operator:

And I am showing no further questions. I would now like to turn the call back to Todd Gleason for closing remarks.

Todd Gleason | Chief Executive Officer:

Thank you very much, and thanks, everyone, for the questions and, of course, the interest in our information today. Importantly, to our global teams that are delivering incredible value for our customers, thank you very much for all that you do. You know, it's important for our customers that we have the most talented organization to protect people, to protect the environment, and to protect our customers' investment in their industrial equipment. We're passionate about that. We are going to be presenting at several conferences in November and December. The information of those can be found at our investor relations website. We look forward to meeting with many of you when we're out on the road as well. So with that, we're going to end the call today. We appreciate it, and have a great day.

Tanya | Conference Operator:

And this concludes today's conference call. We appreciate your patience. You may disconnect.