# NASDAQ:CECO Q1 2026 Earnings Call Transcript

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### Operator | Conference Operator:

Good day and thank you for standing by. Welcome to the Seco Environmental first quarter 2026 earnings call. At this time, all participants are in a listen-only mode. Please be advised that today's conference is being recorded. After the speaker's presentation, there will be a question and answer session. To ask a question, please press star 1 1 on your telephone and wait for your name to be announced. To withdraw your question, please press star 1 1 again. I would now like to hand the conference over to your speaker today, Marcio Pinto, Vice President of Corporate Integration and Investor Relations.

### Marcio Pinto | Vice President of Corporate Integration and Investor Relations:

Thank you, Joss, and thank you for joining us today on the SECO Environmental First Quarter 2026 Earnings Call. On the call with me today is Todd Gleason, Chief Executive Officer, and Peter Johansen, Chief Financial Officer. As a reminder, we're covering CEQA Environmental First Quarter 2026 earnings results on a standalone basis. This quarter's webcast, earnings release, and presentation, which include relevant disclosures and non-GAAP reconciliations, are available on our website. Today's discussion includes forward-looking statements that are subject to risks and uncertainties, including the ones described in our SEC filings, as we have noted in our presentation legal disclosures. As always, we will leave time at the end of the call for analyst questions. And with that, I'll turn the call over to Todd.

### Todd Gleason | Chief Executive Officer:

Thanks, Marcio, and good day, everyone. We are off to a strong start to 2026, and I look forward to sharing our progress. As always, I would like to thank Team Seco for your ongoing commitment to deliver for our customers and, of course, driving such strong results. Please turn to slide number four and let's discuss some of the key takeaways. Starting on the left side of the slide, we delivered another strong quarter with numerous financial records, headlined by tremendous orders, which increased our backlog to new levels. Revenue and EBITDA results were solidly in line with our expectations and positioned us nicely for the full year with strong continued momentum. Speaking of momentum, We don't just expect our second quarter to set new records for orders. We know it. The month of April alone is already higher than the record we just set in Q1. I will expand on this more in a few minutes. Even with the backdrop of uncertainty related to the Iran war and modestly higher inflation, we are raising our full year 2026 outlook, non-inclusive of Thurmond. Our growth trajectory remains robust, and we have nice visibility to our revenue and margin profile, in our record backlog, as well as larger-than-ever sales pipeline. This is our second guidance raise this year, and we are pleased to highlight our continued high performance. On the right side of the slide, we note the continued progress we are making with respect to the Thermon transaction. We remain on track for a Q2 close and our current expectation is sometime in early June. Representatives from each company are working together on integration items and preparing for post-closing activities. We remain highly confident in the $40 million cost synergies we previously outlined, and we are evaluating additional opportunities as well as attractive commercial synergies. The combination is bolstered by each company's strong momentum and continued growth outlook. The combination into Seco Environmental will create a leading diversified global industrial company, and we are very excited to demonstrate the power of this combination. Additionally, over the past number of weeks, I've had the chance to meet hundreds of Thermon employees. The Thermon operating culture is very similar to how our businesses and operational teams function. Similar to Seco, I am incredibly impressed by their energy, their passion, and market knowledge. Across the board, Thermon is a great

company and will make for a very powerful combination. Now, please turn to slide number five, and let's review financials in a little bit more detail. This summary slide captures the main highlights for our first quarter. Record backlog, record order, strong revenue delivery, and accelerating earnings. Our backlog is at its highest level ever, now over $1 billion, up almost 72% year over year. Revenue growth of 17% and adjusted EBITDA growth of 46% speak to our high performance results. Our sales pipeline has grown to over $7 billion, which is the outcome of focused investments to best position our portfolio, the addition of diversified talent, the introduction of new commercial programs, our expanded global reach, and our passion to advance market-leading engineered solutions. Now, please turn to slide number six. In the quarter, we continued our bookings momentum with orders of $449 million, an increase of 97%. To put that in perspective, we booked 221 million more in orders this year than we did in Q1 last year. That $221 million would have been a record on its own about a year ago. And when I joined SECO in 2020, we were averaging about $90 million a quarter. We have come a long way since then, and I believe we're just getting started. Speaking of just getting started, while the power super cycle has been in the headlines for over a year, SECO's participation is starting to hit its stride and gain further momentum. In the first quarter, we had several very nice orders servicing this power generation market. We are also seeing strong activity in natural gas infrastructure, semiconductor sectors, electronics in general, industrial water, and U.S. industrial reshoring. We believe these markets remain attractive for the medium to longer term. And don't just take my word for it. As the right side of the slide highlights, and as I already mentioned, in April alone, we already booked over $400 million in new orders. That's almost $200 million more than we booked at all of Q2 2025, which at the time was a record. Yes, our April bookings alone is already larger than our just announced first quarter record of $449 million. Included in this April number is our largest ever order. This one in the range of $300 million, which also serves the natural gas power generation market as we provide advanced emissions and noise abatement solutions. These are exciting times at SECO, and with our growing pipeline, we are bullish for our four-year orders and backlog, which we believe will drive strong double-digit sales for a very sustainable period. And before I hand it over to Peter, let's move to slide number seven. To be brief, We are raising our full year 2026 guidance again. Our updated revenue outlook now expects sales to be between 940 million and $1 billion. It is exciting for us to highlight an outlook that includes sales of $1 billion for the first time ever. The midpoint of our revenue guidance now calls for organic sales to grow approximately 25% for the full year. We are also increasing our adjusted EBITDA outlook to $120 to $140 million. The midpoint of this outlook calls for an approximate 44% EBITDA growth and 170 basis points of margin expansion for the full year. We continue to grow, excuse me, we continue to invest in growth while delivering sustainable margin expansion and utilizing the results of nice volume leverage. And with the recent implementation of 80-20, coupled with our ongoing operating excellence programs, we are making meaningful progress and expect more margin expansion ahead. 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 I for SECA's first quarter 2026 earnings call this morning. Please turn to slide number nine and I will provide more color on SECO's financial results for the quarter. SECO started 2026 with very strong results on most of our key metrics, continuing the momentum we built throughout 2025. We finished the first quarter with a record backlog of $1.035 billion, up 72% versus prior year and 31% equivalent to $242 million sequentially. Backlog has now increased for 11 consecutive quarters and has surged upwards in the most recent six quarters, each delivering greater than $200 million in orders across a wide and highly diversified range of end markets, including power generation, liquefied natural gas, midstream gas transport and treatment, hydrocarbon processing, semiconductor and electronics, and industrial water applications. First quarter orders were $449 million, a company record representing a 97% increase over the prior year period for a book to bill of approximately 2.2. On a trailing 12-month basis, bookings reached $1.286 billion. a 71% increase over the prior trailing 12 month period, representing a book to bill of nearly 1.6. Revenue in the first quarter was $206 million, an increase of 17% year over year, reflecting a strong start to the year following SECO's record revenue quarter in the fourth

quarter of 2025, which delivered $215 million. Revenue in the quarter overcame headwinds from the sale of the Global Pump Solutions business, which represented $14 million of revenue in the first quarter of 2025, a sale which closed at the quarter's end last year. On a TTM basis, revenue was $804 million, a record for any 12-month period in company history, up 32% or $195 million. Quarter one is typically SECO's seasonally smallest revenue quarter in the year. And with our growing backlog and strong opportunity pipeline, we are confident to deliver sequential revenue increases throughout 2026. Gross profit for the quarter and for the trailing 12 months increased 3% and 27%, respectively, on higher volumes. Margins, however, did experience contraction in quarter one, which was anticipated given last year's sale of the higher margin but non-strategic global pump business, combined with the revenue timing of lower margin jobs booked in early 2025. We expect margins to improve in the second quarter and trend back towards our target gross profit margin level of 34% or greater. as we progress throughout the year on improving volume mix dynamics on more recently booked large projects and new projects with faster revenue recognition profiles and improved cost cases. Adjusted EBITDA was $20.4 million in the quarter, an increase of 46% versus prior year for a margin of approximately 10%. a nearly 200 basis point improvement over prior year. First quarter adjusted EBITDA far surpassed any prior Q1 in company history. For the trailing 12-month period, adjusted EBITDA was $96.7 million, representing a margin of 12%, an increase of nearly 160 basis points, continuing the consistent trend of margin expansion toward our long-term goal of mid-teens adjusted EBITDA margin. A large part of the improvement came from lower operating G&A expenses as volume from large projects starts to be realized and the initial benefits from our Wave 1 80-20 projects. Corporate G&A spending was lower, reflecting the benefits from cost management actions taken in the middle of 2025. Please now turn to page 10 for a quick look at how backlog is trending. Backlog growth continues to accelerate on a sequential basis, with a book to bill in the quarter of approximately 2.2 times, resulting in a record for any quarter ending backlog. Backlog, which reflects future sales, has now increased nearly five-fold since the end of 2021. This sustained strong orders performance when combined with our continued success in converting our growing $7 billion opportunity pipeline to new orders underpins our 25% plus top line organic revenue growth for 2026. Orders in the quarter benefited from strong activity in natural gas power generation and industrial water applications, and this trend has continued into early second quarter. And we now expect to deliver another record quarter that will drive our backlog level even higher. Now please turn to page 11 for a look at adjusted EBITDA and margin trends. With the delivery in quarter one of $20.4 million of adjusted EBITDA, the trailing 12-month period has reached $96.7 million of adjusted EBITDA and a 12% margin. both company records. We have expanded our TTM adjusted EBITDA margin steadily since 2022, a trend that we expect to continue throughout 2026 as we continue to target reaching a mid-teens adjusted EBITDA margin for standalone SECO. And we expect to cross the $100 million level for adjusted EBITDA very shortly. SEG&A spending was down 14%, or $7.5 million in the quarter, on a year-over-year basis, reflecting an 800 basis point improvement as a percentage of revenue. This result overcame increased spending on seasonal items, including the payment of cash bonuses and sales incentives on a growing order base. For the remainder of 2026, we will continue to utilize the resources of our newly formed Business Transformation Office and operating excellence teams to extend the deployment of our 80-20 strategy across more of SECO and to deliver incremental material sourcing and project execution benefits. Now, please turn with me to slide 12 for an update on cash flow and indebtedness. Quarter one cash flow for SECO is seasonally down to start the year, and this year was no exception. In the first quarter, we consumed approximately $16 million of cash, in line with 2025 on lower sales and order activity. Working capital was a headwind in the quarter. As contract assets and customer AR grew while we executed against our growing backlog, and issued substantial billings for milestones achieved in the quarter that we expect to collect in the second quarter. We also incurred material costs and cash expenses related to the Thermon transaction. Cash flow would have been in positive territory except for a customer payment of nearly $20 million that was delayed but already received here early in the second quarter. We expect cash flow in the second quarter to revert back to a positive state, benefiting from billings in the first quarter, and we've already begun receiving large cash payments in April. Capital expenditure in the quarter was largely driven by our ongoing ERP implementation initiative, which we expect to be essentially completed by the end of 2026. Gross debt at the end of the first quarter increased by approximately $43 million from year-end 2025 as we used our revolver facility to finance the growth in working capital and expenses related to the Thermon transaction. Net debt increased by $31 million as our

quarter-ending cash balances grew by approximately $12.5 million, resulting in a comfortable quarter-end leverage ratio of 2.3 times a modest increase of one-tenth of a turn from year-end 2025, as our leverage ratio also benefited from the increase in our trailing 12-month adjusted EBITDA delivery. During the quarter, we amended our credit agreement to increase financial capacity and liquidity and to improve certain covenants in support of SECO's continued strategic investments in organic growth and our programmatic acquisition strategy. We have now up to $975 million in committed funds on our amended credit agreement comprised of $740 million of revolver capacity and $235 million in a delayed draw term loan. With a Q1 ending 2026 gross debt of $252 million, we have $723 million in additional capacity to fund the cash portion of the Thermon acquisition and to use for further organic growth investments and working capital needs post-closing. That concludes my review of SECO's first quarter financial results. I will now pass it back to Todd for wrap-up and final remarks.

## Todd Gleason | Chief Executive Officer:

Thanks, Peter. Before I close, I want to share some additional thoughts and updates on the Thermon acquisition, a historic transaction for SECO, and a major step forward in our strategic transformation. Please turn to slide 14. The addition of ThermOn will meaningfully extend SECO's leadership in industrial, environmental, and engineered solutions by adding ThermOn's established position in process heating, heat tracing, and temperature management, creating a world-class industrial solutions platform with robust multi-year growth trajectory and a very strong and stable financial profile. This combination brings together two highly complementary businesses, creating opportunities to accelerate growth and expand accretive capital deployment. Bruce Ames, Thurmond's CEO, and I are aligned in our enthusiasm for the future of the combined company and our respective teams. We expect the combination of SECO and Thurmond will create a stronger enterprise, one that is well positioned to be a rule of 30 or rule of 40 company. By driving strong double-digit growth and producing enhanced operating margins, we believe we can achieve these levels and sustain very high performance. With our healthy balance sheet and robust free cash flow generation, we can accelerate shareholder value creation across a range of options. I'm excited to continue to lead the combined company with an estimated $1.5 billion in current run rate sales and with tremendous growth and synergy opportunities to take this much higher. I look forward to welcoming key additions across the leadership team as well as board of directors. We have a lot to do. We have a lot of value to create. Now moving to slide 15. Before we open up the call to questions, we'll conclude with this. SECO is very well positioned for today, very well positioned for tomorrow, and we believe our sustainable operating model makes us uniquely positioned for the long term. The combination with Thermon bolsters our portfolio with additional injection of leading businesses and great talent. More to come as we work towards a Q2 transaction close. I'm extremely proud of our team and all they do to serve our global customers. The first quarter is just another indication of our fantastic leadership and balance. With 97% orders growth and 17% revenue growth, We continue to demonstrate our investments payoff as we add installed base and advance our market positions. And finally, while this might be the final quarter as SECO standalone ahead of the combination with Thermon, we are once again pleased to raise our four-year guidance. The visibility we have in our strong backlog and robust sales pipeline is truly unique and gives us a lot of confidence in the year ahead.

## Operator | Conference Operator:

and years to come we'll now open the line to questions operator thank you as a reminder to ask a question please press star 1 1 on your telephone and wait for your name to be announced to withdraw your question please press star 1 1 again one moment for questions and our first question comes from aaron spycha with craig hallam capital group you may proceed

### Aaron Spychala | Analyst, Craig-Hallum Capital Group:

Yeah, good morning, Todd, Peter, and Marcio. Thanks for taking the questions. You know, maybe first for me, good to see the pipeline grow to 7 billion plus, even with the strong activity. Can you maybe, you know, talk about the drivers of that? And then on PowerGen specifically, you know, last quarter you talked about a $1 to $2 billion kind of medium-term pipeline with visibility beyond that. Can you just maybe give an update there? You know, it really seems like order sizes are starting to pick up. Maybe touch on just delivery timelines of some of these orders and then the supply chain, you know, ability to kind of meet everything that seems to be really accelerating for you.

### Todd Gleason | Chief Executive Officer:

Yeah, thanks. Thanks, Aaron. So the $7 billion, it's actually about $7.3 billion, I think Peter would say, of sales pipeline. Just to remind you and I guess the audience, The way we calculate our sales pipeline is actual job pursuits, order pursuits, opportunities that we see booking in the next year to two years. We kind of average it at around 18 months, but some of the projects might be a little further out. So we don't include things that are beyond that. And then obviously they work through the funnel to a win-loss opportunity in the current quarter. And so we've been growing the sales pipeline steadily through a range of investments, as well as geographic reach and how our markets have been performing, which have been growing for the last few years. When I joined SECO in 2020, our sales pipeline was closer to a billion, billion and a half. So to be at seven billion, I think really speaks to this intentional expansion of how we look at our markets today. geographically how we look at our markets industrially and that's going to continue um you know look we've been pretty consistent the uh you know to get that sales pipeline a greater than seven billion the investments are required the expansion into new markets organically and inorganically is required um and uh and we're and and we've benefited from those uh from those investments But look, we're also certainly benefiting from the tides rising in some of our most important markets. Natural gas power, natural gas infrastructure. So power generation writ large is, you know, it's a headline that everyone sees. That's been a significant driver and it's certainly probably added, you know, about a billion to our pipeline over the last few years. alone. And not all of that's in our $7 billion, where we're seeing more that we just haven't put in yet because it's a little further out, but we're in conversations about how that power generation market's expanding. And then we have ebbs and flows. We have some markets that one year are fantastic, but then they pull back a little bit the next year. This year, we're looking at still continued strong growth in all things electrification and digitization. And Thermont has a very large focus themselves on digitization as well as decarbonization, which ties into the electrification theme. So we're very unified and thematic focused on where we see the market semiconductor expansion is is sort of gripping at the moment as well, and we're well positioned for that, and industrial air specifically. Industrial water is a market that we've been investing to expand into, and that might be approaching a billion of our pipeline now, where a few years ago it was very little. So, you know, we continue to see very strong themes across the reshoring U.S. market of industrial, all things digitization and electrification. Semiconductor, like I said, is certainly growing. And then look, I think we're just hitting our stride on some of the larger power projects as it relates to emissions and noise abatement and heat management and gas separation. So look, these are big markets that continue to want to get larger.

### spk06:

And we're just participating very nicely in them. All right. Thanks for that.

### Aaron Spychala | Analyst, Craig-Hallum Capital Group:

And then maybe just, I mean, as these are the substantial backlog in pipeline, just comfort with the supply chain and just ability to meet everything?

### Todd Gleason | Chief Executive Officer:

I think that's been one of our more important investments, Aaron, also, that we probably don't highlight enough or as much. In order for us to secure some of these larger orders, including jobs that we've won over the last, you know, over the last few years and certainly even over the last few quarters, you don't do so without a great supply chain and great partners and a series of redundant capabilities in fabrication and in supply chain. And so we've invested in our teams and our capabilities. Dan Baraman and his team at sort of the corporate operating excellence group, is continuing to go out and look for sourcing savings and additional sort of redundant supply chain capabilities and really do a great job with logistics and quality. And then across all of our businesses and in our thermal acoustics and emissions management all the way through, they're constantly out validating new supply chain partners in North America, in East Asia, Southeast Asia. the Middle East, et cetera, your India. And so we have a lot of visibility to our supply chain, which gives our customers more confidence in us maybe than in some of the competition, because we've invested heavily in that effort. And so, look, I think it's a really important question. We have nice visibility to our ability to secure the materials. Certainly, there's inflation out there. We do, as smart a job I feel is out there to aggressively pre-buy or to lock in rates. And sometimes that pre-buy shows up sort of negatively in our cash flows, but it's the right transaction for us because it protects margins for the long term. And so, look, I would give Peter and the team in finance, like I mentioned, you know, the Dan Bearman and his team, Martin and Tim Shippey and their teams in our businesses, I could rattle off a dozen names where our project managers are working closely with our supply chain managers. But we're getting out ahead of this. We did this a year ago. We did this six months ago. Again, we could probably continue to sort of geek out on this topic, to be honest with you, because this is one of our major muscles as a company is this supply chain visibility.

### Aaron Spychala | Analyst, Craig-Hallum Capital Group:

Thanks. Thanks for the call, Larry, and good to hear that. And then maybe last for me, just on the Middle East business, can you kind of talk about impact there that you might be seeing or not? And then just any thoughts on timing for some of the larger water opportunities that you've been targeting there?

### Todd Gleason | Chief Executive Officer:

Yeah, look, it's obviously an uncertain time and market in the Middle East. There have been certainly some, you know, impact to how our teams can travel and navigate and work on certain projects in the region. We don't have a tremendous amount of projects that were tied to our 26th performance that are in the region. We do have some very attractive programs in our pipeline that have been paused a bit until probably the second half of this year, and we're, you opportunistic in thinking that, you know, that this conflict can be managed in that period of time. But, you know, in our guidance, we have already accounted for any of those impacts. Obviously, our first quarter order is a $450-ish million. Our second quarter is already at 460. We're not even through April yet. Speaks to the strength of our markets, even with some pauses that are happening in the Middle East with respect to some of these larger projects that we still feel well-positioned for. There will be a rebuild in the region to some extent when it all starts to, we think, stabilize. There's uncertainty. Right now we're navigating that uncertainty, and we'll keep everyone posted on sort of what, just like the rest of our peers in the market, on what we're seeing. But we feel comfortable with our guidance and our outlook.

### Aaron Spychala | Analyst, Craig-Hallum Capital Group:

Great. Thank you for taking the questions. I'll turn it over.

### Todd Gleason | Chief Executive Officer:

Thanks, Aaron.

### Operator | Conference Operator:

Thank you.

### Todd Gleason | Chief Executive Officer:

And by the way, we look forward to being at your conference, Aaron.

### Operator | Conference Operator:

Thank you. Our next question comes from Gerard Sweeney with Roth Capital. You may proceed.

### Gerard Sweeney | Analyst, Roth Capital:

Good morning, Todd, Peter, Marcio. Thanks for taking my call.

### Chris | Analyst (on behalf of Joe Giordano, TD Cowen):

Good morning.

### Gerard Sweeney | Analyst, Roth Capital:

Hi there. So question on the power side, obviously it's great. I'm just curious, when do you get brought into some of these projects? So what I'm looking at is some of the turbine manufacturers saying they've sold out the 2029, et cetera. But if you're brought into the projects, later in this cycle, that actually gives you visibility out to 2030, 2031 plus. I'm just curious as to how that all plays out.

### Peter Johansen | Chief Financial Officer:

Jerry, we begin work with our large gas turbine customers, the engineering firms and the OEMs years before we receive an order. We're today We're negotiating, working through technical configuration questions for orders that will deliver in 2029 and 2030. We essentially are done for the 2027 and 2028 installs. Now we're working on 2930 and beyond. So it's three, four years ahead of We have visibility. Now, the interesting sidelight to that is the repowering activity, which is taking an existing facility and updating it and upgrading it. That is something that happens much faster and can happen in months, generally not more than a 12-month conversion. That is not something that we typically are involved in years in advance. That happens really quickly. I would say Entergy is going through a program of updating every single one of their combined cycle plants. That was a unique case where we actually had a three-year MSA in place to support them over an extended period of time. But that's a rare instance. Got it.

### Gerard Sweeney | Analyst, Roth Capital:

Okay. And then, obviously, you know, you talked a little bit about margins, 80-20, et cetera. But even on the power side, hearing that some of the project pricing is going up, you know, that pricing doesn't always flow through to margins, obviously, for inflation and other reasons, but obviously lots of demand. How much does pricing play into maybe your margins, margin expansion, or is it more just keeping you steady with inflation and other aspects?

### Peter Johansen | Chief Financial Officer:

Price for us is a lever to increase margins. We work with our large customers to ensure that we're capturing the most value on the project that we can. As it relates to natural gas power generation and the duration of the projects themselves, we include estimates in our pricing, in our cost case, that accommodate or assume some level of inflation. We also have in our contracts with our customers escalators that if we have an excess of inflation, we can return back to that client and ask for recovery. There are two commodities today that are probably most impacted, and we do a very good job of managing through that, and that is the catalyst, which is utilized in emissions treatment applications and specialty steels.

### Gerard Sweeney | Analyst, Roth Capital:

Gotcha. All righty. Super helpful. I appreciate it. I'll jump back in line. Thank you, Jerry.

### Operator | Conference Operator:

Thank you. Our next question comes from Rob Brown with Lake Street Capital Markets. He may proceed.

### Rob Brown | Analyst, Lake Street Capital Markets:

Hi, Todd and Peter. Congrats on the strong quarter. I guess I just wanted to dig in a little more on the industrial water side. You noted that as an increasing pipeline strength. Is that a, I guess, to what degree is that a market kind of trend versus just your expansion in that market and activity? And how do you see that playing out?

### Todd Gleason | Chief Executive Officer:

It's probably more our... participation and entrance into the market. That said, we do see that there's a lot of investment in infrastructure, industrial water expansion in various geographies. I don't know that it's It's certainly a better market than potentially a few years ago, but we're not in a position much like maybe Veolia might be able to say something about a 10-year trend. We're relatively new, although a number of us have decades of exposure and experience with water. It's not always on this industrial water side that we're talking about. And so, look, the businesses like Chemco and others that we've acquired, I think they'd say it's a healthy market right now and that they feel good about their organic growth and our organic growth in those businesses we've acquired. But it's really our entrance into some of the larger industries. industrial water produced water water treatment side where we can now do you know sort of very medium to large scale complex skin solutions and it's that investment for us to enter into that market that we feel that there's there's there's the opportunity so we're confident it's growing and I wouldn't want to make a market call on that. I don't feel like we have the data to support how we would view this market over a long term, but we do see a lot of new investment in various geographies.

### Peter Johansen | Chief Financial Officer:

Yeah, Rob, there's two core trends that drive a lot of the demand in industrial water. The first is water scarcity. Water scarcity drives water providers particularly to raise the water tariffs on industry, thinking they're a lot less susceptible or a lot more elastic to price increases. And as industry is experiencing those price increases on water, they're looking to do two things, cut down on the water they use and reuse as much as possible. It's the reuse trend that we're benefiting from. as well as working with them to design less thirsty solutions in their processing applications. So we see two opportunities on industry that benefit us. And we do a lot of work in what you might call water-scarce regions, North Africa, the Middle East, Southeast Asia, which are in even greater need of being more rational in their use of water.

### spk06:

Okay, great. Thank you.

### Rob Brown | Analyst, Lake Street Capital Markets:

And then on the commercial synergies that you had, I guess, as you've gotten into the Thurmond acquisition work, have you, you know, what's sort of your sense of the commercial synergies? Are you feeling more confident there? And I guess just talk about the commercial synergy opportunities you see.

### Todd Gleason | Chief Executive Officer:

Yeah, we're certainly very confident that there's attractive commercial synergies. We really haven't put a number around it yet, Rob. We want to wait until we have combined with Thermon. You know, our teams that are working on this, both, you know, formally on the integration to start to really put together a detailed program to assess and consolidate what a commercial synergy could look like. They're just getting started, and I wouldn't want to front-run that process a little bit. And then, you know, separately, you know, we are now identifying already products that when we go out to bid on some of our projects that include heat trace, include immersion heaters, include other controls and other sort of solutions that thermon is a leader in and has a very attractive both solution and product offering now we can we can certainly think about in the future once we're combined incorporating a joint sales effort we can't do that right now obviously but we can certainly start to assess and get proposals from Thermon where we may have not done so before as a supplier. And we've already started those activities where we've won some large projects that include some of their products and we've reached out and we've received, you know, separate proposals to now bring Thermon into the approved vendor process and approved bid process. So we're already seeing the millions of dollars of opportunity because we're an industrial company, they're an industrial company and our solutions And their solutions are often found in the exact same footprint of the same projects around the world. So there's going to be no shortage of opportunities for us here, Rob. You know, if I were to say, can the combination add a couple points of organic growth? I believe so, yes. We just want to provide the market, you and others, with a more detailed solution. analysis of what that looks like after we've combined and started to issue combined company outlook guidance and updates on our cost synergies as well as what we will introduce as updates on our commercial synergies. And until we really have that analysis done, you know, I don't want to put a number around it, but it's – we're growing in – There's no shortage of confidence, and our teams are enjoying getting to know each other, including when we see each other at certain industrial conferences. I know our teams ricocheted against each other at the Boiler Conference, for example, and quite enjoyed comparing notes on the industry and how we could work together in the future. So there has already been a lot of gelling of ideas and thoughts, and when we combine, we'll have a much better answer for this question, but it's a positive number.

### spk06:

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

### Operator | Conference Operator:

Thank you. Our next question comes from Bobby Brooks with Northland Capital Markets. You may proceed.

### Bobby Brooks | Analyst, Northland Capital Markets:

Good morning, team. Thank you for taking my question, and congrats on a fantastic quarter. So obviously the power gen-related jobs have been fantastic, but I was just curious to hear more broadly, where are the next two biggest areas of strength for current orders and maybe any contact or thoughts of how that would evolve going forward and any perspective of how that's evolved over the past couple of quarters.

### Todd Gleason | Chief Executive Officer:

I'll start with an answer of one or two, and then, you know, I think Peter can either, you know, sort of, provide more context on those or give his perspective. Look, we're in a very positive market leading position across a diversified set of industrial categories. So, you know, the good news is I have more than one answer. But I would say, and we've already said that the sort of the digitization and electrification of things is such a powerful theme. I'll highlight semiconductor expansion and investments as no doubt a very strong market. And so that for us is mostly, but not all, but mostly industrial air. where we have some exciting opportunities that are included in our backlog that we've booked, but in our sales pipeline. So I'll say semiconductor, you know, without hesitation, looks like a very good market for the future, for the foreseeable future. And in our industrial air business, we like how we're positioned there. And certainly recently we've seen powerful earnings from Intel and others. So I think it speaks to we're not alone in our view of that market. Industrial water is the other one that while we are seeing certainly a little bit of pause in some geographic regions, mainly the Middle East, those projects aren't gonna go away. And we're well positioned for those projects and they're meaningful for us and in the future. And that diversification is also meaningful. You've heard me say, Bobby, to you when we've spoken, but also, and so this has been over many, many quarters As we look forward to SECO 2030, when we look forward to SECO 2030, we believe industrial water is a major piece of our portfolio. And we're getting after it. And the market's there for us. So while we're talking about power, as we should, and we're talking about power generation and natural gas infrastructure, which we should, There are major themes that we're going to take advantage of, and we're well positioned to do so organically over the next few years. So those are the two that I'm most excited about in the moment is semiconductor and industrial water. I think Peter probably has a view of gas infrastructure and some other markets. I'll let him expand.

### Peter Johansen | Chief Financial Officer:

The natural gas infrastructure whole value chain is also a market of strength globally. Natural gas is the transition fuel, and it looks like that transition is going to be longer than anyone anticipated. From wellhead to consumer, there's a lot of points along the way where Seco Technologies, including from our Peerless and Profire brands and Thermon themselves, have large roles to play in ensuring that natural gas gets delivered in a clean, dry, and energetic manner. It isn't a day that doesn't pass when there isn't a new project, new pipeline, new spur, new consumer project being announced or highlighted. And we stand with Peerless and 100 years of experience in that market as a principal and critical supplier to those customers. And as we look at other opportunities around the value chain and things we can do together, as Thermon and SECO, that's an area of commercial opportunity we continue to explore and expect to find real benefits from.

### Todd Gleason | Chief Executive Officer:

I've only been in the industrial space for 30 years, so maybe I need a little more experience on this comment, but you don't have a 2.2 book to build. without a number of end markets that we've invested in to achieve that. And especially when last year's book to bill in the first quarter was extremely large. you know, I remember off the top of my head, but whether it was a 1.3, 1.4 book to bill. So we're not talking about easy comps here. We showed it on the slide. Last year's first quarter was up, you know, 50, 60%. This year's first quarter bookings is up 97%. Mathematically, and you've got, you know, calculators to prove this out that, you know, that just means our future sales growth looks, When I say double digits, it's a layup to be double digits when you have a book to bill of 2.2. And so it's not just power for us. It can't be just one market. It's a diversified. And we have some markets that are still recovering a little bit. Automotive in Europe. geographically are sort of still navigating through some difficult times. And so, look, there's some industries and some markets that aren't attractive at the moment in terms of their growth, but we still like where they're going to come out. And when they come out, we'll be positioned for them.

### Unknown Analyst | Analyst:

That's super helpful, Carl. I really appreciate it, Peter and Pat. And I'm just

### Bobby Brooks | Analyst, Northland Capital Markets:

Kind of switching back to the merger and talking to some investors since the last print, I don't think folks appreciate enough how Thurman will extend the windows of conversations with customers that you currently are having and how they should also benefit from your own internal network that spans across those dozens of industrial end markets that they have been trying to break into. So just with that in mind, could you expand on this a little bit?

### Todd Gleason | Chief Executive Officer:

So, yeah, thanks, Bobby. Look, whether the market understands it or not, our customers understand it. When I say the market, whether the investment community completely appreciates that, you know, they're a leader. Bruce, Tom, the leadership team, the business leaders within Thermon, you know, they have decades of, you know, of understanding how to navigate and grow into diversified end markets. Thermon has done a very, very solid to a very tremendous job of diversification. And they do that because they're a leader. And they've done a great job of introducing new products, you know, their controls capabilities, which helps them to secure more opportunities. Us leveraging that and their great relationships with their customers to bring us in to cut to the conversation is in front of us. Their introduction of medium voltage products is starting to gain traction. We have a lot of relationships with customers that we can introduce into that market of medium voltage. So they've invested in new products and they're learning where the market opportunities are. We may have some of those relationships and market opportunities that we can just help accelerate. Our ability to understand supply chain alternatives is something that they can benefit from in terms of growth and how we've invested in international expansion where they want to invest in international expansion. So we have excess capacity. We have excess resources to go after and do more advanced, faster capabilities that they want to utilize and leverage. You know, they're very attractive investment in their liquid load bank for for data centers is an area that we can utilize and understand how they're breaking into a new market and where can we participate in those things. So again, when we talk about commercial synergies, you hit it on the relationship. When you're a leader in a space and you've got good relationships, you can introduce new solutions. more sustainably because you already have a trust factor. You're already on the approved vendor list. You already have negotiated how you can get into that market with reference sites, et cetera. So there's already a comfort. And Thermon's done the same thing. So we're going to easily be able to understand that better when we're a combined company, but we're already excited about what we're hearing.

### Unknown Analyst | Analyst:

Really appreciate the caller. And again, congrats on the great corner return of the queue.

### Operator | Conference Operator:

Thanks, Bobby. Thank you. Our next question comes from Jim Ricciutti, who is Needham & Company. You may proceed.

### Jim Ricciuti | Analyst, Needham & Company:

Hi, thanks. Good morning. Just in the interest of time, just had one question. Just as you mentioned, probably last quarter for standalone SECO, And, you know, given where we're starting the year with gross margins, it sounds like you're expecting fairly significant improvement as you go through the year. Mixed volume play a role, but can you talk a little bit about standalone SECO growth from a gross margin improvement as you go through the year? Can you maybe help us understand how we drive margins higher? Is it something you see in the backlog?

### spk06:

Yeah, there's three factors, Jim.

### Peter Johansen | Chief Financial Officer:

When we talk about volume and mix, what we're really referring to is the timing difference between when cost hits the income statement and when revenue is recognized. Up front in a project, as we're getting started, we realize the number of engineering expenses, work with our suppliers, setting up the programs and projects. or the subprojects within a large project, but we recognize very little revenue. We start to start, but the cost case is growing. And then as we get in, you know, second quarter, third quarter of a project, revenue recognition begins to accelerate. And so when you think about volume and mix, we had projects that we booked last year where we were doing work in the first quarter where we hadn't recognized all the benefits from the revenue. So that's one lift. Second lift will come from the margins of projects that we booked in the fourth quarter last year and the first quarter this year that are at higher margins. The second or the third impact, excuse me, will be from the efforts we're making to continue to improve our GNA cost footprint and the efficiencies we're going to generate from continuing to integrate acquired entities all of those activities will result in getting back on track and heading towards the 34 or greater target now it won't happen all in one quarter uh but the full year outlook is is near that target range thanks peter that's that's uh that's helpful congrats but what i would i don't yeah thank you jim but i would point out though jim is i think it's the The EBITDA delivery operationally is going to continue to improve from a margin standpoint. Even with the large project volume and mix aspects, they come with little to no additional fixed costs. So the operating expenses, what I call operating G&A, for those larger projects actually are creative relative to the business that they're replacing or the business that came before it. And so that's an important component of looking at

### spk06:

You know, EBITDA growth and ultimately cash generation. Thank you. Thank you.

### Operator | Conference Operator:

Our next question comes from Joseph Giordano with TD Calend. You may proceed. Hi.

### Chris | Analyst (on behalf of Joe Giordano, TD Cowen):

Good morning. This is Chris on for Joe. You had cited early benefits from 8020. And I just was curious, you know, what specifically was in wave one? If you could discuss that and how we should expect benefits to kind of split along gross margin improvement versus SG&A leverage over the next few quarters.

### Peter Johansen | Chief Financial Officer:

Yeah, good morning. So 80-20 is a new concept at CECA. We began the implementation in the fourth quarter with our diagnosis and our work plan. development. And we launched formally across two of our smaller businesses, both recently acquired. And they are now, I'd say, probably a quarter of the way into their implementation. There's a number of different projects inside of each of those deployments. And we handle them separately by business. So about 10% of SECO's revenue today has been covered by our initial wave, or called Wave 1. That'll expand in this quarter, has expanded this quarter, and will be by end of the summer, somewhere around 20%, 25% of SECO revenue being touched by the 80-20 implementation across the company. That is something that we will accelerate. as we develop our internal expertise and we develop subject matter experts internally that can carry the ball forward for us. And we'll grow that penetration across the portfolio by the end of this year, but certainly through 2027. The benefits have been split to date. Generally, they've come from the G&A side. We have had a little bit of gross profit improvement, but as we've looked at customer and product simplification and the zero-up aspects of what we're doing in the 80-20 toolbox, they're really focused on getting the organizations that are now deployed with 80-20 right-sized and focused on the priority customers and products.

### Chris | Analyst (on behalf of Joe Giordano, TD Cowen):

Great. Appreciate that detail. And with the Section 232 expansion and revisions earlier this month applying to full customs value, is there or could you talk about any incremental margin or backlog sensitivity for SECO, especially on projects booked prior to that revision, net of any pass-through clauses or sourcing actions that you're taking there?

### Peter Johansen | Chief Financial Officer:

We haven't identified any material impact from the change in the tariff posture. Our operating model is to source and fabricate and deliver in region to avoid a majority of any cross-border flows. Very little comes across the border that's tariffed. So, for instance, if we're delivering to clients in Asia, our suppliers and our fabrication activities go on in Asia. Same in the Middle East and India. Same in Europe. In North America, we work with Canadian suppliers, but for the most part, the clear majority of those goods across the border are covered under USMCA exemptions.

### Chris | Analyst (on behalf of Joe Giordano, TD Cowen):

Thank you very much for taking my questions.

### Operator | Conference Operator:

Thank you. Welcome to the team. Thank you. I would now like to turn the call back over to Todd Gleason for any closing remarks.

### Todd Gleason | Chief Executive Officer:

Thanks. Well, thanks for the questions and the interest in our information today. Again, thanks to our global teams that are delivering incredible value to our customers as we continue to protect people, protect the environment, and protect our customers' investment in their industrial equipment. We look forward to being active at a handful of investor conferences in the second quarter, as well as speaking with some of you today and over the next few weeks with respect to our results. I couldn't be more excited about the pending combination with the great team and organization that is Thermon. And we will keep everyone updated on that as we go forward. And with that, we'll go ahead and close today's call. Thank you.

### Operator | Conference Operator:

thank you this concludes the conference thank you for your participation you may now disconnect