NASDAQ:CECO Q2 2026 Earnings Call Transcript

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Glyza | Conference Operator:

Hello and thank you for standing by. My name is Glyza and I will be your conference operator today. At this time, I would like to welcome everyone to SECO Environmental Second Quarter 2026 Earnings Call. All lines have been placed on mute to prevent any background noise. After the speaker's remarks, there will be a question and answer session. If you would like to ask questions during this time, Simply press star followed by the number one on your telephone keypad. If you would like to withdraw your question, press star one again. Thank you. I would now like to turn the call over to Marcio Pinto, Vice President of Corporate Integration and Investor Relations. Please go ahead.

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

Thank you, Gleason. And thank you for joining us on the SECO Environmental Second Quarter 2026 Earnings Call. On the call with me today are Todd Gleason, Chairman and Chief Executive Officer, and Peter Johansson, Chief Financial Officer. Our second quarter reported results include one full month of Thermon financial performance following the June 1 closing of the acquisition. Where appropriate today, we will distinguish between reported results and pro forma information. This will also be addressed in our full year consolidated outlook by Todd. As a reminder, this quarter's webcast, earnings release and presentation, which include relevant disclosures and non-GAAP reconciliations, are available on our website at www.cecoenviro.com. Today's discussion includes forward-looking statements that are subject to risks and uncertainties, including those described in our SEC filings and in the legal disclosures included in today's presentation. 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 | Chairman and Chief Executive Officer:

Thanks, Marcio, and good day, everyone. Before we begin, I want to thank Team SECO, including our new Thermon colleagues, for delivering tremendous value to our customers and our teams, which has enabled us to deliver outstanding quarter. Let's review our Q2 performance integration activities, our full-year outlook, and our view of markets and opportunities. Please turn to slide number three. Simply put, this was a record-setting quarter across the board. We delivered record orders of $799 million. Our quarter-ending backlog is over $1.8 billion. We generated revenue of $285 million and our adjusted EBITDA of approximately $40 million. A reported revenue increased 54% year-over-year with continued strong double-digit organic revenue growth. Adjusted EBITDA increased 73% and margins expanded approximately 150 basis points to 14.1%, marking SECO's first quarter with mid-teen EBITDA margins. We expect EBITDA margins to rise in coming quarters with the full positive impact of Thermon, our integration synergies, and ongoing double-digit top-line growth. Additionally, we expect this high-performance growth and profitability to be largely sustainable. Our sales pipeline now exceeds $8.5 billion. Our trailing 12-month book-to-bill is over two, and we remain bullish on the order environment as we enter the second half. We have delivered double-digit revenue and earnings growth for many quarters in a row, and with our year-to-date bookings, we have high confidence and visibility that this trend will continue into the foreseeable future. The Thermon integration is well underway and going extremely well. Culturally, it is a great fit. While work remains, we continue to advance the integration program and have a solid start on our synergies. We have already captured approximately $13 million of annualized EBITDA savings in just the first 60 days and have identified early commercial wins across the combined portfolio. I and Marcio Pinto, who is leading our integration program, will give additional color on this in a minute. And given our strong first half execution, record backlog, and accelerating order momentum, we are raising our full year consolidated 2026 outlook. I will come back to guidance towards the end of the call. Now please turn to slide number four. This slide provides a good illustration of the consistent high performance growth engine we have built. Our sales pipeline has expanded from approximately $1.5 billion in 2021 to the more than $8.5 billion that I just mentioned. The strategic investments we made in markets, talent, solutions, and Commercial Presence are translating directly into sustained strong order levels and growing backlog. First quarter 2026 orders, as shown on the slide, were $449 million, up 97% year over year. Second quarter orders, Further accelerated to $799 million, up 191% year over year. For the first half of 2026, we have booked approximately $1.25 billion of new orders, up approximately 150% versus the first half of last year, which had been a record set of quarters at the time. Our 2026 performance has driven backlog to more than $1.8 billion, up 164% over last year. And as I already mentioned, but it is worth repeating, our trailing 12-month book-to-bill is over two. We continue to see strong demand and customer activity across a broad range of end markets globally, including power generation, semiconductor and electronics, natural gas processing and infrastructure, industrial water and industrial reshoring related projects, and with the addition of the thermal solutions to the portfolio, exciting opportunities within data centers. The power generation opportunity remains particularly robust, but what gives us confidence is the breadth of the pipeline across our end markets and geographies. It is always good to remind everyone that our backlog is firm and supported by legally binding purchase orders and project commitments with permits already obtained by our customers. As we mentioned in the slide, these are not speculative opportunities or reservations for future projects, but instead ongoing programs. This backlog gives us substantial visibility to continued revenue growth. It also increasingly contains higher margin projects that we have discussed over the past few quarters, which supports the expectation for continued margin expansion as we convert on this backlog. Marcio and I will now review some additional materials related to the Thermon integration, and then we will hand it over to Peter to cover additional insights on our financials.

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

Thank you, Todd. Please turn to slide six. We closed the Thermon acquisition on June 1, and I am very pleased with the engagement our teams have demonstrated in the first two months as a combined company. All major work streams spanning from corporate G&A to operations and commercial areas are active, and the teams are moving quickly from planning into execution mode. Our Integration Management Office has been established and our governance program is now in place to act as an accelerator of value creation. As a result, we are progressing ahead of our synergy expectations. As Todd mentioned in our opening chart, in the first 60 days, we have captured approximately $13 million of annualized net adjusted EBITDA savings. already representing roughly a third of our $40 million target. These savings are driven primarily by public company cost reductions around headcount, board, and public company-related services, as well as incremental actions across the organization touching a number of sites and departments. We expect approximately $5 million of the annualized savings captured thus far to be realized in our 2026 adjusted EBITDA results and are also included in our current outlook. On a total cost synergy basis, we have captured about $19 million of annualized savings when added for stock compensation and other items that are generally not included in SECO's adjusted EBITDA. Also noted on the slide, we have incurred about $21 million of year-to-date costs to achieve these savings, primarily related to change in control provisions and accelerated equity vesting for former thermal officers. Looking forward. We expect to have approximately $17 to $20 million of annualized net adjusted EBITDA savings captured by year one of the transaction, which would represent about 45 to 50% of our total target as we continue to work towards the full opportunity set and deliver incremental value in all areas where the combined scale of SECO and Thurmond creates opportunity. To conclude, After 60 days working with a talented team across multiple functions and geographies, the key takeaway is clear. The original target of $40 million in synergies remains firmly intact. And based on the current pace of execution, we have increasing confidence in our ability to deliver it. And with that, I'll turn it back to Todd to discuss the commercial side of the combination. Todd? Thanks, Marcio.

Todd Gleason | Chairman and Chief Executive Officer:

We have a very well-organized integration process thanks to Marcio and our Integration Management Office leaders and functional leaders. Thanks to each of them. Please turn to slide number seven. As we covered on our June 9th investor update call, which we held shortly after closing the acquisition of Thermon, we have a real opportunity to drive between 1% to 2% percentage points of additional organic growth across the Thermon portfolio of solutions. Approximately two months later, I feel even stronger about that statement. The combination provides more scale, a broader portfolio of solutions, an expanded international and customer footprint, additional product development, and an expanded global sourcing network. SECO brings niche leadership positions in environmental solutions for power generation, industrial water, food processing, LNG and gas infrastructure, semiconductor and electronics production, and materials processing markets. While Thermon has significant presence in midstream and downstream oil and gas, nuclear, gas infrastructure, and rail and transit for thermal management applications. The teams have already identified more than 100 commercial opportunities where we see an opportunity to bring the combined portfolio to customers. and we are already experiencing early wins. For example, more than $500,000 worth of thermon solutions have already been incorporated into SECO power generation projects. When you consider that our power generation sales pipeline alone is measured in the billions of dollars, that opportunity to attach thermal solutions to SECO projects could become a very meaningful number over time. Our objective is to add several points of organic growth Thank you, Todd. Good day, everyone. Thank you for joining Todd, Marcio, and I

Peter Johansson | Chief Financial Officer:

for the SECO second quarter 2026 earnings call. Please turn now to slide nine for more color on SECO's financial results for the second quarter. SECO followed up a good first quarter with a very good second quarter, continuing the momentum we have built over the last five quarters. We concluded the quarter with a record backlog of $1.82 billion, up 164% versus prior year and up 76% sequentially from our previous high set at the end of the first quarter of $1.035 billion. Backlog has now increased for 12 consecutive quarters. Accelerating over the last seven quarters, each of which having delivered more than $200 million of orders. Second quarter orders were $799 million, a new company record, and an increase of 191% over the prior year period. We booked significant orders across a range of end markets. including power generation, LNG, semiconductor production and industrial water treatment. Our book to bill in the quarter was approximately 2.8, an outstanding result. On a trailing 12-month basis, our bookings reached $1.81 billion, a 105% increase over the prior trailing 12-month period. with a book-to-bill ratio of 2.0. After the first two quarters of 2026, bookings have exceeded the full-year 2025 bookings by 17%, a healthy $184 million increase. Revenue in the second quarter was $285 million, an increase of 54% year-over-year Inclusive of Thermon's June 2026 results, SECO standalone revenue was a company record at $235 million, approximately $20 million higher than the company's previous quarterly high in the final quarter of 2025. We expect revenue growth to accelerate in the second half of 2026, tracking the significant expansion of our backlog as project execution against recently booked projects exit the engineering phase. This is most notable in our portfolio of power generation projects. Trailing 12-month revenue of $903 million, a record for any 12-month period in company history, was up 38% or $247 million over the prior 12-month period, reflecting strong backlog conversions. which will only get better. We are confident that our sequential revenue growth will continue given our backlog position and demonstrated execution. Adjusted gross profit for the quarter and for the trailing 12 months increased 43% and 30% respectively on higher volume. Sequentially, margins increased 264 basis points to 33.7%, approximately in line with the company's expectations of adjusted gross profit margin performance noted in our Q1 earnings call. We expect margins to trend higher in the second half of 2026 with improving volume mix dynamics on larger projects, newer higher margin projects with faster revenue recognition profiles, Improving Execution and Operating Excellence Efforts, and the Benefits from Blending of the Thermon Margin Profile. Our trailing 12-month gross profit margins were 33.2%. Now I'd like to talk about adjusted EBITDA, which was $40.2 million in the quarter, an increase of 73% versus prior year delivering a margin of approximately 14.1%, a 154 basis point improvement over prior year, and our first quarter with mid-teens EBITDA margins, a result we expect to consistently exceed in future periods. Over the trailing 12-month period, adjusted EBITDA was $113.4 million and a margin of 12.6%. representing an increase of nearly 180 basis points. A large part of the improvement came from lower operating expenses on increasing volumes, benefits from complexity reduction efforts including those realized in our 80-20 efforts, and lower corporate G&A spending. Please turn to page 10 with me now. look more in-depth at adjusted EBITDA and our margin trends. Adjusted EBITDA in the second quarter was $40.2 million, with the trailing 12-month period reaching $113.4 million, both company records. Margins in the quarter and trailing 12 months were 14.1% and 12.6% respectively, also company records for the period. We have expanded TTM and full-year EBITDA margins steadily since 2022, a trend that we expect to continue and to reach and exceed a mid-teens adjusted EBITDA margin for standalone SECO and a high teens margin for the consolidated business. Our sales engineering and G&A spending in the quarter was 22.4% of revenue, Lower by approximately 400 basis points on a year-over-year basis. To solidify our margin improvement journey, since the third quarter of 2025 through the current quarter, adjusted EBITDA margins have expanded on a year-over-year basis by 130 basis points, 190 basis points, 200 basis points, and now 150 basis points in the recently concluded quarter. This is a very strong trend that I expect will continue for the remainder of 2026, which is supported by the resources of our newly formed Business Transformation Office, our Operating Excellence Teams, which are extending the deployment of our 80-20 program across Moroseco, and will deliver additional sourcing and project execution benefits. In addition, the consolidated margin profile will also benefit in the third quarter and beyond from full quarters of thermon revenue and income in the consolidated results. Please now turn to page 11 for a quick look at how our backlog is trending. Backlog growth continues to accelerate on a sequential basis, with a book to bill in the quarter of approximately 2.8 times. resulting in another record quarter-ending backlog result. Book-to-bill for the first half of 2026 achieved 2.6 times and our strong backlog over the TTM basis was now 2.2. Backlog which reflects future sales has now increased approximately 8.5 times since the end of 2021. This sustained orders performance and our continued success in converting our greater than $8.5 billion opportunity pipeline underpins our expectation of extending the trend of greater than 25% organic top line revenue growth for 2026. Orders in the quarter benefited from projects and strong momentum in natural gas power generation, Semiconductor, Water, and Gas Infrastructure, and this trend has continued into the third quarter. Power generation related projects account for approximately one half of our second quarter ending backlog with approximately 25% coming from industrial air and water projects, and the remaining 25% of the backlog consisting of work in the natural gas and natural gas liquids infrastructure sector, hydrocarbon and chemical processing and other energy sector activities. Now please turn with me to slide 12 for an update on cash flow and our current debt position. Second quarter adjusted free cash flow for SECO rebounded strongly. After the first quarter's cash outflows. In the second quarter, we generated approximately $53 million of cash, a little over 132% of adjusted EBITDA. Year to date, the company delivered approximately $38 million of adjusted free cash flow, an increase of approximately $56 million year over year, representing 63% of adjusted EBITDA. On a trailing 12-month basis, cash flow as a percentage of EBITDA was approximately 58% above our 55% or greater target for the full year of 2026. The company generated strong collections activity in the quarter against the first quarter billings for large project milestones achieved in the period. Numerous large project milestones and subsequent billings were also realized in the second quarter, creating customer receivables that we expect to collect during the third quarter, extending our trend of improving cash flow generation. Supplier payments offsetting customer collections were also made during the quarter, which will continue into the third quarter as we accelerate the conversion of backlog into recognized progress and subsequent billings and payments. Capital expenditures in the quarter were modest and largely driven by our ongoing ERP migration and consolidation initiative, which we expect will be essentially completed for SECO entities in early 2027. Gross debt at the end of the second quarter increased by approximately $523 million. Thank you for joining us. Since year-end, resulting in a quarter-end leverage ratio of 2.7 times our trailing 12-month bank EBITDA levels, near the high end of our previously communicated leverage range. The combination of Thermon and SECO's strong free cash flow generation allowed a substantial step down from closing date leverage, and strong cash flow generation has continued into the third quarter, allowing pay down of an additional $39.5 million, lowering our gross debt position to $692 million as of July 31st, moving SECO ever closer to its targeted leverage range of 2.0 to 2.5 times. Cash generation and improving our working capital position will continue to be a key area of focus for SECO as we continue to reduce our leverage and fund our growth. As of June 30th, SECO had approximately $220 million in additional capacity to fund working capital, CapEx or M&A, and with further capacity built into our credit agreement for additional borrowings, we will be able to advance SECO's strategic growth should additional funds be required. Overall, we are in a very comfortable position, one plus month after the Thermon acquisition, with sufficient capacity for a working capital and foreseeable investment needs. That concludes my review of SECO's second quarter financial results. I will now pass it back to Todd for a wrap-up.

Todd Gleason | Chairman and Chief Executive Officer:

Thanks, Peter. Please turn to slide number 14. As I already mentioned, we are raising our full year outlook two months after providing our most recent 2026 guidance for the year. Our strong first half performance, record backlog levels, and accelerating order momentum provides visibility and confidence to base our numbers. We now expect full year revenue between $1.3 billion and $1.375 billion, increasing the low end of our prior range by $25 million. At the midpoint, this represents approximately 20% year-over-year growth on the reported basis reflected in our outlook. We are also raising the low end of our adjusted EBITDA outlook by $5 million and now expect between $200 million and $225 million for the full year. This outlook includes approximately $5 million of realized thermon cost synergies in 2026, which was also in our previous outlook. We continue to expect mid-teens adjusted EBITDA margins and adjusted free cash flow conversion of at least 55%. of Adjusted EBITDA. On a pro forma calendar year basis, including Thurmond for the full year, we estimate revenue of approximately $1.5 to $1.6 billion and Adjusted EBITDA of approximately $255 to $280 million. We also continue to expect full year orders to easily exceed $2 billion. The second half should benefit from accelerating backlog conversion, improving working capital execution, and the full quarter contributions from Thermon. Our backlog supports the higher revenue outlook while our pipeline continues to expand across key markets and geographies. While we have work ahead of us, the combination of record backlog, strong markets, improving margins, and Early integration progress gives us confidence in our continued growth. Before we open up the call for questions, let me conclude here on slide 15. First, SECO is exceptionally well positioned in very robust, large, and diverse end markets. Our opportunity pipeline now exceeds $8.5 billion and continues to grow across our key end markets and geographies. Power generation remains a major driver, but again, our growth is balanced across our diverse portfolio. Second, our financial performance continues to demonstrate the strength of SECO's operating model. Backlog increased 164%, orders increased 191%, revenue increased 54%, and adjusted EBITDA increased 73%, with approximately 150 basis points of margin expansion. Third, the Thermon integration is progressing well. We have already captured approximately 13 million of annualized net adjusted EBITDA savings, representing one-third of our initial $40 million target. And our commercial teams are already generating cross-selling opportunities. And as we just reviewed, we are raising our full-year outlook. A record backlog in robust sales pipeline gives us the visibility that I've already outlined. and we continue to expect strong execution, synergy capture and cash generation. We have built a larger, more diversified and more profitable SECO with leading positions across attractive industrial markets. I am pleased with the start of the combination and very confident in the opportunities ahead. With that, we'll now open up the line for questions. Operator?

Glyza | Conference Operator:

Thank you. We will now begin the question and answer session. If you have dialed in and would like to ask a question, press star 1 on your telephone keypad to raise your hand and enter the queue. If you would like to withdraw your question, press star 1 again. And your first question comes from Aaron Spicalla from Craig Hallam. Please go ahead.

spk03:

Yeah, good morning, Todd, Peter, and Marcio. Thanks for taking the questions. First for us on orders, sounds like things have continued to be strong here to start the third quarter. Can you just maybe talk about that a little bit? And then on PowerGen broadly, any changes that you're seeing in the outlook there, competitive dynamics and just how you're feeling for the supply chain given the growth you're expecting there?

Todd Gleason | Chairman and Chief Executive Officer:

Yeah, strong start to the third quarter. We're continuing to see a very steady cadence of opportunities come through our power, our water, our industrial air across all the markets that we've talked about. So we're not seeing any slowdown, Aaron, in the third quarter. Look, I'm sort of joking here, but You know, when you end the quarter with $799 million, you sort of say, geez, you know, couldn't we have found a way to get to $800 million? So, you know, we didn't pull anything in if we ended up with $799. So I think we feel good about the second half of the year easily, you know, eclipsing $2 billion or more for the year. Our third quarter continues to point in that direction, gives us confidence in that. and nothing's changed in the dynamic of competition. I think all of our markets have good competition. The pricing dynamic is favorable. Everyone, I think, understands that supply chains can be tricky. We have built an incredibly strong global supply chain. I think it gives us that advantage, our ability to take large, complex projects with our decades of experience, gives the customers confidence that we're the right partner in any market, but especially a high-performance market where there's a lot of demands on delivery schedules, on timing. Last comment I'll make, because I think it's important, is the orders we get in power generation, for example, are associated with our customers' orders from many quarters ago. So as you think about the large power generation set of strategic leaders that we supply, They've talked about wins maybe in 2025 or certainly the very beginning of 2026. We're now associated with those jobs because when we're handed a PO, it is when they're ready for work to begin. And again, it's just a comment to really sort of drive home the point that, you know, when we get our purchase orders, our end customers are already working on the projects. And it's not associated with just reserving opportunities. It is now executing all those opportunities. Oftentimes, they come with permits are already in place. Certainly, the work to proceed is being authorized. Terms and conditions are binding and moving forward with large cancellation clauses. So when we're booking orders, we're later endings, I guess I'd say, than some of our customers, which have been talking about these large growth for quite some number of quarters.

spk03:

No, that's helpful. Thanks. And then maybe on industrial water, were there any of the large orders that you've been talking about in the second quarter and then just Can you talk a little bit about where that business you think can be in a handful of years, organically and organically, and then just talk about some of the margin dynamics in that business over the last couple of years and how you're thinking those projects can contribute?

Todd Gleason | Chairman and Chief Executive Officer:

The industrial water business is moving along fine in terms of growth year over year, in terms of adding pipeline. The bigger orders that we pointed to earlier this year, the majority of those continue to be delayed because of the conflicts in the Middle East. and so we're you know but we understand that the dialogue with the customers remains very positive so you know I think you know we don't have those baked in our outlook for the year we never did I think you know as we head into next year our anticipation would be some of those start to show up in our bookings at very good margins over the years you know to establish A foundation and a series of reference jobs in industrial water. Our margin profile has typically been in the lower 20% gross margins. Our projects now are well over 30, quite oftentimes, and that EBITDA margins are above company average in terms of those industrial water jobs. So look, we're excited about what the pipeline looks like for growth. We understand why things are paused at the moment, as supply chains and ability to do work in certain regions is a little bit compromised at the moment. But the projects are even more valuable, I think, going forward because of the infrastructure rebuild and the investment that the customers are ready to do. So, again, nothing in our outlook necessarily would be upside if things were to move in that direction in the second half of the year. And they are some pretty significant projects. So, you know, look, we, you know, we're pretty bullish that this is a business that can easily get to two, three hundred million dollars in revenue and, you know, in the next few years organically as we as we're able to execute on these larger jobs.

spk03:

All right. Thanks for taking the questions. I'll turn it over. Thanks, Eric.

Glyza | Conference Operator:

Your next question comes from Jim McCutty from Needham and Company. Please go ahead.

spk07:

Hi, thank you. Good morning. A couple of questions. Maybe first question, improvements, sequential improvement in gross margin in the quarter. And again, apologies if you may have covered this in your detailed presentation, but maybe talk a little bit about what drove that. And I'm wondering how we should be thinking about gross margins in the second half with

Todd Gleason | Chairman and Chief Executive Officer:

Yeah, you got cut off there a little bit, Jim. I'll start. I got the question, though. Thank you. And Peter can certainly provide additional color on it. Nice improvement in gross margins versus Q1. Part of that, I would suggest, is to remind everyone that we knew Q1 was a little bit Thank you for joining us. We believe that it goes higher in the second half of the year with the things that Peter outlined in terms of productivity, higher margins in our backlog, and similar. I'll let Peter kind of provide additional color there. But, you know, we're pleased to be back in the 33.5% range. Thermon gross margins are higher. We only had one month of their gross margins in our results. So all indicators seem to lead towards a higher gross margin rate. Nothing more to add. So comprehensive. So there you have it.

Glyza | Conference Operator:

Thank you. Your next question comes from Thomas Sano from J.P. Morgan. Please go ahead.

spk00:

Hi. Good morning, everyone. Hi, Thomas. Good morning. Thank you for taking my questions. On HG&A at 22.4%, about 400 basis point improvements. Could you talk about decomposing structural actions versus volume leverage and under what conditions would HG&A rate drift back up? Thank you.

Peter Johansson | Chief Financial Officer:

I'll take the second half of the question first, Tomo. We don't anticipate the rate drifting back up. We felt we had elevated rates in prior quarters as we invested in putting in commercial infrastructure, expanding office and footprint in high growth regions, and adding capabilities in acquired businesses. Those investments by and large are concluded. The last remaining investment we're undertaking is the migration of all of our businesses to a single ERP platform. So structurally, and we don't anticipate that rate going up. When I break it into the two halves, what was performance versus leverage? The majority, probably two-thirds of that number was a result of those expenses being held flat or coming down relative to volume. And we would expect that to continue to trend. Part of the synergies that Marcio discussed from the combination with Thermon will appear in that line.

spk00:

Thank you. And if I may follow up on cross-selling opportunities, Todd, if you could talk about the early win of the cross-selling and how should we think about to make this repeatable rather than opportunistic? opportunity statistics, how you designing the operating model across selling motions, solution pricing and channels. Thank you.

Todd Gleason | Chairman and Chief Executive Officer:

Yeah. Well, so we have a very focused cross-selling, maybe, I guess I'd say, but it's also just, we call it commercial synergies, because it's really partner selling versus what I would say is cross-selling. And let me tell you why there's a difference. Cross-selling means, you know, typically means you're training other businesses on how to sell your product. and then they go and sell across channels. That does happen at SECO. But partner selling is we have visibility at SECO, let's say, to hundreds of millions of dollars, if not more than billions of dollars of, let's say, semiconductor and power generation and other very, very large detailed projects. in our pipeline and in our backlog that Thermon, for example, would have never had visibility to. Not suggesting that all of Thermon sales go through distribution or sales channels or channel partners and sales agents, but a significant portion do. And therefore, you know, they get an order because, you know, the channel has determined what it needs from a heat trace perspective. And they're going to go with the leader. They're going to go with Thermon. We have visibility to actual heat trace in the projects more so than most companies because we're managing the installation of these tens, twenties, hundreds of millions of dollars worth of full systems and solutions. So the half a million dollars in power generation orders is we knew, That in these projects that we've already booked and started to execute against, that we need heat trace that can be a leading product line, that can withstand incredible temperatures, and Thermon products are the best. And so our ability to now bring Thermon products into solving heat trace complexities in large power jobs is just the beginning. Anywhere where you're going to need heat trace and we can bring the Thermon product line through our projects, we're going to, as we should. And so with our backlog at $1.8 billion, our sales pipeline at $8.5 billion, the ability for us to do partner selling, start to model in and spec in the Thermon products into our projects that we're bidding on in a collaborative way is a win-win. So it's really about visibility. Yes, there are many other things we're going to do to cross sell and partner sell into various regions. Our teams are working together in all of our offices already, whether it be in Korea or Singapore, between Dubai and Abu Dhabi, they're starting to really partner and understand these opportunities. But power generation is the best example I can give where we literally can just go, okay, let's now include the Thermon bundle of products into our solutions.

spk00:

Thank you. That's helpful. Thank you and congrats.

Todd Gleason | Chairman and Chief Executive Officer:

Thank you. Thank you, Tomo. Thank you.

Glyza | Conference Operator:

Your next question comes from Jim Ricciuti from Needham and Company. Please go ahead.

spk07:

Hi. Thanks. Again, apologies if I'm going to ask something that's been asked already. My connection's been breaking up. Maybe this has been covered, but talk if you could about the pipeline increase since the beginning of June. That increase in the pipeline, is that mainly PowerGen related?

Todd Gleason | Chairman and Chief Executive Officer:

Yeah, we haven't covered that, Jim. Largely power gen related, but semiconductor as well. I would also add a little bit of thermon to the sales pipeline because they have a sales pipeline that's a real number, even though it's nowhere near the size because it's a different type of Thank you for joining us.

spk07:

you know a nice uh uh you know trajectory look thermon has at least a billion to a billion and a half of sales pipeline jam so we're blending that in now with ours okay got it and Todd I think we all appreciate the delays uh in industrial water in the mid east but it sounds like even excluding that you're seeing good activity there can you give us some uh some color and just the The level of bookings or the increase you're seeing excluding the delayed projects.

Todd Gleason | Chairman and Chief Executive Officer:

Yeah, look, I mean, you know, again, and a lot of our industrial water businesses, you know, we have great leading brands, businesses like Chemco, Compass, you know, DS21, and they're doing work outside of, and Peerless is, you know, industrial water solutions. They're doing work outside of the Middle East. Where that's the case, we're seeing nice double-digit orders growth, right? We're seeing nice returns on our resources and investment growth. These are businesses that at times have had cyclicality in their end markets like Chemco with food and beverage or food service side or food manufacturing. And those markets are strong at the moment.

Glyza | Conference Operator:

Got it. Thanks a lot.

Todd Gleason | Chairman and Chief Executive Officer:

Thanks, Jim.

Glyza | Conference Operator:

Your next question comes from Rob Brown from Lake Street Capital Markets. Please go ahead.

spk07:

Good morning. Congratulations on the strong quarter. You talked about the pipeline breadth a little bit, but just wanted to ask about the gas infrastructure and energy part of the pipeline. How is the demand environment there, and what's the outlook in that vertical?

Peter Johansson | Chief Financial Officer:

The demand, if we include LNG in that topic, and we're tending to now because we're looking across the full value chain, is extraordinarily strong. We will book or have booked the two largest projects in the history of the Peerless brand in the last two months related to the gas pipelines bringing new gas to the Gulf and two new LNG projects. The amount of investment that's going into gas transport and gas processing to deliver the fuel to these many gas fire generation projects is very elevated and will continue to be for a number of quarters. We're seeing two other trends that are very interesting. One in the gas side is Drilling, actually, while not having picked up, is becoming much more productive. So the volumes of gas that's coming out of existing plays now needs a route to market. So it's no longer a supply-driven market. It's a demand-driven market, which is very interesting. And it's been some time since we were in that situation. And then finally, what is, to me, very interesting is the export markets. for LNG continues to be very strong with at least three or four FIDs remaining through the year that we have high degree of confidence will occur and we'll be awarded work.

spk07:

Great, thank you. And then on the data center vertical, you talked about that as an opportunity. Could you just kind of characterize the sort of products you provide and what that opportunity looks like?

Peter Johansson | Chief Financial Officer:

Yeah, happy to do that, Rob. Unlike the SECO portfolio, where our exposure to data centers is indirect to the power that is produced and supplied to the data centers, Thermon has two distinct product offerings that are actually procured by the data center developers and installed directly into the data center. The first is the liquid load bank product, which is relatively new to Thermon, and it's an adaptation of a very sophisticated and high-performance boiler solution. These are purchased in large numbers and installed in data centers so they can test the cooling system against a simulated load rather than having to test it against a fully operated server rack set. They're installed not just at commissioning of the data center, but they're left in situ and are operated daily and weekly to ensure the cooling system's performance. They're big orders relative to Thermon's historical order sizes. and then second is the traditional heat trace product. In order to maintain stability in the building itself, they use the heat trace technology in a number of areas to keep the foundation at a consistent temperature, to keep joints in the building at a consistent temperature, to eliminate the effects of thermal expansion and contraction with seasons. And it's ways that heat trace hasn't historically been applied. and those are very interesting opportunities and they continue to add up. They're not big by SECO standards but they're very attractive because they're full margin and they're quick to turn.

spk07:

Thank you. I'll turn it over.

Glyza | Conference Operator:

Your next question comes from Bobby Brooks from Northland Capital Markets. Please go ahead.

spk07:

Good morning, team, and thank you for taking my question.

spk06:

When you guys spoke to the $500,000 uplift of Thermon products added to your Power Gem projects, just wanted to unpack that a little more. Like, going forward, is every project now getting this $500,000 uplift, or is the projects going to be booked? No. The projects that are sitting in backlog? Okay. And then, just is that on, like, an envelope basis?

Peter Johansson | Chief Financial Officer:

Yeah. Yeah. No, Mavi, you're trying to, you do this every time we talk about PowerGen. You want to figure out how to better model the business. But I'll tell you what this was. This was existing projects where a customer specified a heat trace solution or a thermal management solution that we historically would have purchased from a competitor of Thermon. Now with the Thermon portfolio, we can add their technology to Inlet Air, Thank you for joining us. Dry and warm so that they do not corrode or freeze up.

Todd Gleason | Chairman and Chief Executive Officer:

At the bottom of the stack.

Peter Johansson | Chief Financial Officer:

At the bottom of the bypass stack. That's correct. These are all very interesting applications. The value and the scope vary by project and location. You can imagine in a very warm climate, you're probably going to have less de-icing or anti-freeze Thank you for joining us today. and this is just an example of the commercial opportunities that our teams are exploring. We found a really interesting one in the area of food processing that we're exploring. And if you think about our Chemco business and the part of the Thermon business that is in hot water generation and supply, there's good technical and customer overlaps that we'll endeavor to explore within the channel as well as directly with the installed base.

Todd Gleason | Chairman and Chief Executive Officer:

and just Peter, thank you and covered it. But Bobby, just to make sure you capture this and I suppose all of our audience members. This wasn't one project that we booked a half a million dollars. This was a collection of projects that probably any project could have, you know, tens of thousands of dollars worth of solutions up to $100,000 worth of solutions, and maybe more. I mean, but, you know, this one that I know of was $70,000 worth of heat trace for one of those categories that Peter mentioned. So the point of it is, you know quickly in

60 days now we've you know we've generated a real number and you know with the amount of projects that are just coming through the pipeline now and our backlog now we certainly can go and make these procurements happen.

spk06:

Thank you guys that was really helpful caller to help break that down and then just as we think of the cross-selling rate if we go back to what 18 months ago the pro-fire acquisition and that was a really interesting opportunity to cross sell their solutions into your customer base. Just wanted to give you a floor of maybe taking any learnings that you've had as you've integrated and try to cross sell both the profile products into your legacy customer base and how you might leverage that new experience into the third one. Thank you.

Todd Gleason | Chairman and Chief Executive Officer:

Yeah, I don't think of it as new. I think it's a good question because ProFire was a fairly large acquisition at the time for SECO. And because it was a publicly traded company like Thermon, there was knowledge in the market that maybe didn't exist in some of our other and more over the last five plus years and all of them have received commercial opportunities that we leverage. DS-21 has allowed us to expand into industrial water in a coordinated way with resources and capabilities and in that case was on approved vendor lists with the Korean EPC firms. Thank you for joining us. Thank you for joining us. and our sales CRM system, seeing those leads, there's just a lot more visibility. So I think the lesson learned for us is how well we play together in the sandbox and how we share project data and the visibility around those projects is really exciting for our sales teams. It's like a whole new sales lead. It's Glenn Gary, Glenn Ross sales leads galore for our sales force.

spk07:

Definitely have displayed that. Congrats on the strong quarter. Thank you.

Glyza | Conference Operator:

Your next question comes from Joe Giordano from TD Cohen. Please go ahead.

spk01:

Hey, good morning, guys. Excited to be here for the first time officially, so thanks for taking my questions. Welcome on board. Two for me. I remember back like mid 2010s when we had the energy crisis like until that period until things kind of broke you saw like these projects happening crazy everyone's getting big orders but like the you know the likelihood factor I guess of those projects got worse and worse and they got more aggressive and aggressive and based on the under underwriting was more aggressive can you like talk about this kind of world that we're in today kind of contrasted against what we had back then yeah look um

Todd Gleason | Chairman and Chief Executive Officer:

It's a very demanding market. There is a lot of volume and a lot of visibility to that volume. So we are in very regular demand. Maybe even constant dialogue with our PowerGen customers. We understand what their pipeline looks like. We understand what orders that maybe they've booked that are associated with reservations for 27, 28, 29, 30. So we have visibility. to this much longer term project location opportunity set than we've ever had. So in the past, it was a burst of activity that felt maybe a little bit more opportunistic to the markets and to our competitors, and therefore the dynamic became a bit more aggressive. This, you have a much longer series of visibilities. And these are mega projects now, where really you start to rule out a lot of smaller competitors that don't have the scale, the financial strength, the global supply chain, the engineers to do and don't have the reference sites, which are important because the customer isn't here rolling the dice on these things. So I think the dynamic feels it's graduated to a whole nother level. So we've all been on these sort of rides before. This one feels different and I think it is why we've really tried to articulate that our purchase orders that we put into our order bookings and our backlog are firm. And I'm not suggesting that the market isn't firm, but ours are. So for us to book 799 million of purchase orders, putting it in backlog, our backlog debooking rate is far less, but it's less than half of 1%. So it's like 0.3, 0.4, 0.5. And I would say, you know, this is because we have so much visibility to what's coming. Even if we've been given verbal awards ourselves, we're not booking those. It's a different dynamic now than it's probably been since maybe 25 years ago.

spk01:

Yeah, that's a fair answer. And then last for me, how do you think about your own capacity, your ability to deliver on time for customers as these orders get larger and larger and the commitments that you're signing up for get further and further out? How are you dynamically assessing your ability to source all this stuff and the ability to kind of execute on it?

Todd Gleason | Chairman and Chief Executive Officer:

We're very focused on that, Joe, as you can imagine. Booking big orders means you have to deliver big orders. In fact, we have decided against Thank you for joining us. OutSourcing Model globally with partners, fabricators, supply chain number one. Number two, We talked about SEG&A investment now moderating or normalizing. For five years now, we've invested heavily in project engineering, application engineering, systems capabilities, building a team in India, building a team in Asia, building a global supply chain. These were expenses that we put in in 2022, 2023, ramped up in 2024 and throughout 2025. Seeing this power super cycle, maybe we underestimated it, but we were ahead of it. And that investment now is really going to pay dividends in our ability to handle about as much volume as we want at the right margins and the right locations with the right partners. So for us, we can be selective. I think we can be thoughtful. And our ability to execute has probably never been better.

Peter Johansson | Chief Financial Officer:

Joe, let me share kind of a typical large project that we've seen recently. It's really design once, build many times. So, for instance, the largest job we booked in power was exactly that. Our teams will engineer it, build the supply chain to deliver it once, and then that supply chain just continues to execute delivering sequentially over a number of quarters that equipment to the job site in synchronicity with the customer's ability to receive it, install it, and test it. And so these larger power gen opportunities aren't a lot of design complexity. It's really managing through materials availability, labor, and executing with quality. And we have a very good model there. In semiconductor, it's not much different. It's just a different technology. In a large fab, it might be somewhere between 24 and 48 scrubber packages. We'll design it once. Maybe there's two, a small and a large. So we'll have two designs. We'll source it through value-added fabricators, and then we'll do a little addition on our own and have it delivered to the job site, but in a very consistent manner with a drumbeat on delivery. So it helps us manage these larger projects. They're actually, I would say, not complex, but they are nowhere near as complex as the number or the headline might suggest.

spk07:

Thank you, guys. Appreciate it. Thanks, Joe.

Glyza | Conference Operator:

Thank you. That will conclude our question and answer session, and I will now turn the call over to Todd, Chief Executive Officer, for the closing remarks. Please go ahead.

Todd Gleason | Chairman and Chief Executive Officer:

Thank you very much. I'd like to thank all of our participants and audience for their questions and interest in our information today. We're going to be participating at several investor events throughout the remainder of the quarter, including those hosted by Jefferies, Lake Street and Morgan Stanley. And last, I would also like to always thank our global teams that are delivering incredible value to our customers, as well as continuing to protect people, protect the environment, and protect our customers' investment in their industrial equipment. With that, we'd like to thank everybody and have a great day. Thank you.

Glyza | Conference Operator:

Ladies and gentlemen, that concludes today's call. Thank you all for joining. You may now disconnect.