NASDAQ:FTEK Q3 2025 Earnings Call Transcript

Generated on 6/17/2026

Operator | Conference Operator:

Greetings and welcome to the FuelTech, Inc. 2025 Third Quarter Financial Results Conference Call and Webcast. At this time, all participants are in a listen-only mode. A brief question and answer session will follow the formal presentation. If anyone should require operator assistance during the conference, please press star zero on your telephone keypad. As a reminder, this conference is being recorded. It is now my pleasure to introduce your host, Devin Sullivan, Managing Director of the Equity Group. Thank you, sir. You may begin.

Devin Sullivan | Managing Director, The Equity Group:

Good morning, everyone, and thank you for joining us today for FuelTech's 2025 Third Quarter Financial Results Conference Call. Yesterday after the close, we issued a press release, a copy of which is available on the company's website, www.ftek.com. Our speakers for today will be Vince Arnone, Chairman, President, and Chief Executive Officer, and Alan Albrecht, the company's Chief Financial Officer. After prepared remarks, we will open the call to questions from our analysts and investors. Before turning things over to Vince, I'd like to remind everyone that matters discussed on this call, except for historical information, are forward-looking statements as defined in Section 21E of the Securities Act of 1934 as amended, which are made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995 and reflect FuelTech's current expectations regarding future growth, results of operations, cash flows, performance in business prospects and opportunities. as well as assumptions made by and information currently available to our company's management. FuelTech has tried to identify forward-looking statements by using words such as anticipate, believe, plan, expect, estimate, intend, will, and similar expressions, but these words are not the exclusive means of identifying forward-looking statements. These statements are based on information currently available to FuelTech and are subject to various risks, uncertainties, and other factors, including but not limited to those discussed in FuelTech's annual report, on Form 10-K in item 1A under the caption of risk factors and subsequent filings under the Securities Act of 1934 as amended, which could cause FuelTech's actual growth, results of operations, financial conditions, cash flows, performance, and business prospects and opportunities to differ materially from those expressed in or implied by these statements. FuelTech undertakes no obligation to update such factors or to publicly announce the results of any forward-looking statements contained herein. to reflect future events, developments, or changed circumstances, or for any other reason. Investors are cautioned that all forward-looking statements involve risks and uncertainties, including those detailed in the company's filings with the SEC. With that said, I'd now like to turn the call over to Vince Arnone. Vince, please go ahead.

Vince Arnone | Chairman, President & Chief Executive Officer:

Thank you, Devin. Good morning, and I'd like to thank everyone for joining us on the call today. For the third quarter of 2025, we operated profitably. enhanced our gross margins, broadened the client base for our APC and fuel chem business segments, and maintained a strong financial position with cash, cash equivalents, and investments of nearly $34 million at quarter end and no long-term debt. We are continuing to advance our dissolved gas infusion technology through industry outreach and are well underway with an extended demonstration of this offering at a fish hatchery in the Midwest U.S. We also closed a modest acquisition of complimentary APC intellectual property that we believe will help us address customer APC needs on a global basis. Our Fuelchem segment produced a solid quarter of growth, driven by increased dispatch at legacy clients and contributions from a new account added in mid-2024. Just a few days ago, we commenced a six-month commercially priced demonstration program for a new FuelChem customer in the U.S. As discussed on our second quarter call, the purpose of the demonstration is to improve boiler availability and reliability and reduce maintenance downtime for offline boiler cleaning in order to maximize the power generation profile of this unit. This new engagement will have a positive initial effect on our fuel chem results in the current fourth quarter, with sustained segment contributions in 2026. We estimate the annual revenue potential from this commercial contract to be approximately $2.5 to $3 million, based on the customer running the program full-time, with the revenue expected to generate historic fuel chem gross margins. Based on fuel chem segment performance year-to-date and the impact of this new demonstration program, We now believe FuelCam's full-year 2025 segment revenue will approximate $16.5 to $17 million, up from our prior guidance of $15 to $16 million, which would be the highest level since 2022. Revenues for our APC business in the third quarter declined compared to the prior period, due primarily to the timing of project execution on existing contracts. During the third quarter, however, we announced $3.2 million of new APC awards from new and existing clients in the US, Europe, and Southeast Asia. These contracts helped to increase our consolidated APC segment backlog to $9.5 million at the end of the third quarter. We are currently pursuing $3 to $5 million of potential additional APC contracts that we would expect to close before the end of the year or in the early part of Q1, 2026. This is exclusive of data center opportunities, which I will discuss shortly. Next, I'd like to note that subsequent to quarter end, we expanded our APC portfolio through a small strategic acquisition of complimentary intellectual property and customer related assets from Walco Inc., a well established environmental equipment and services company with several hundred project installations worldwide. The total cash consideration for the transaction was $350,000, representing a strategic and cost-effective expansion of our IP portfolio and demonstrating our disciplined approach to capital allocation. We were able to secure high-value assets at a modest price, strengthening our technology base, and aligning with our long-term strategy to address customer air pollution control needs globally. The acquired suite of assets includes technology applicable to flue gas conditioning systems, ammonia handling equipment for a wide range of industrial applications, and urea to ammonia conversion technologies for NOx reduction using complementary technologies to our existing portfolio in these areas. Also included as part of the portfolio are customer installation and aftermarket data, which we believe will drive accretive aftermarket revenues. We view this acquisition as both strategically and operationally attractive, enhancing our competitive position and expanding the solutions we can offer to our APC customers worldwide. We continue to pursue additional new awards driven by an industrial expansion globally and by state-specific regulatory requirements in the US. And we are continuing to monitor the progress of EPA's rule for large municipal waste combustor units. This rule reduces the nitrogen oxide emissions requirements for large MWC units. FuelTech has had a long history of assisting this industry in meeting its compliance requirements, and we have had discussions with customers in this segment to support the compliance planning. The final rule has been delayed by EPA until December of this year, with compliance deadlines expected three years from the date of issue. The public comment period closed at the end of May of this year so the final rule remains on track. That being said, there are some specific states that are currently requiring lower NOx emissions that are consistent with the proposed MWC rule, and we are actively pursuing those opportunities today. Additionally, EPA, under the current administration, is currently pursuing the rollback of rules related to the reduction of greenhouse gases. It is important to note that the proposed rollback of the 2009 EPA endangerment finding does not loosen the nitrogen oxide emission requirements for any sources and could potentially extend the life of some coal and natural gas fired units that may not have to reduce their carbon dioxide emission profile. Lastly, as discussed on our previous conference calls, we are not expecting any specific tailwinds that would come from the implementation of new regulation and the opportunities that we are pursuing today are not contingent on the implementation of any specific new regulations. As we have discussed on our two prior conference calls, we are experiencing an unprecedented increase in demand for power generation in this country and globally that is being driven by the digital economy, including AI and data centers, the electrification of everything, and a massive industrial and energy transition. all happening simultaneously. This represents one of the most exciting opportunities that we have seen in quite some time for our company as it relates to the application of our APC emissions control solutions as part of the proliferation and investment in data center infrastructure being built in support of the general trend for digital expansion. Data centers are expected to become the backbone of the digital age, and their development is driving new power generation demand. This demand in power, in some instances, will require emissions control solutions for many of the energy sources that necessitate a low carbon footprint. In fact, the primary factors that determine whether a data center will require NOx control using FCR technology are the following. First, site location. Is the site in an attainment or a non-attainment area for ozone ambient air quality standards? as NOx is a contributor to ozone. There will be more stringent NOx reduction requirements in non-attainment areas. Second, what is the planned utilization of the power generation application? Is the power generation source for primary or backup power, and what are the expected number of operating hours per year of the generating source? Primary power sources and backup power that is expected to run extensively will be more likely to require SCR for NOx reduction. And third, what if the baseline NOx emission of the power generation source? Some rotating internal combustion engines or combustion turbines can be equipped with combustion controls to enable a lower NOx baseline level and possibly eliminate the need for SCR. However, ultimately, the site permit will define the required level of emissions control. Interest in our technology solutions for these applications has continued throughout the recent quarter. And as of today, we are continuing to engage with multiple potential customers representing a sales pipeline of current outstanding project bids of approximately 80 to 100 million dollars for projects integrating our SCR technology with power generation sources to meet emissions control requirements for data centers planned across the U.S. over the next several years. We are continuing to work with our supply chain partners and engineering colleagues to prepare for these opportunities. While the majority of our inquiries over these past few months have been from turbine OEMs, in recent weeks we have had discussions with a variety of different companies that are looking to address the market need for the expedient deployments of reliable power generation as either a permanent solution or as a temporary bridge solution for a gap period. such as waiting for a permanent grid connection. Such companies include those that have access to aircraft engines and are looking to bring these assets into the power generation market, and also system integrators. Additionally, we are finding that the use of smaller engines and turbines is coming into favor, which is generally preferential for fuel tech, as near-term developments require power generation in support of bringing data centers online sooner rather than later, and lead times for large gas turbines are expanding to periods of five to seven years or more. We see this expansion of interest from these parties as an exciting opportunity, and we will continue to investigate and pursue both conventional and non-traditional sources to ensure that our technology offerings enhance the benefits of temporary and long-term power generation solutions. For our dissolved gas infusion business, We had a very successful exhibition of DGI at the Water Environment Federation Technical Exhibition and Conference, or WEFTEC, in Chicago last month and generated significant interest in the technology. We are continuing an extended demonstration of DGI in a fish hatchery in the western U.S., which we expect will last until the end of Q1 of 2026. We are continuing discussions with multiple other end markets of interest, for DGI including pulp and paper, food and beverage, chemical, petrochemical, and horticulture. As discussed last quarter, we have been looking to expand our network of sales representatives in support of DGI, and we did add one additional representative during the quarter to augment the work being done by two existing firms. We expect to continue to build this network as we experience further interest in DGI. As we look ahead to the balance of 2025, Based on our effective backlog and pending contract awards, the APC business development activities that we are pursuing, and our previously noted expectations for FuelCam, we are expecting revenues for 2025 to be approximately $27 million, which represents an 8% increase over 2024. This is a base case outlook and excludes any material contributions from APC, from data center contract awards, and any material impact from the new business development activities for Fuelchem. In closing, I'd like to thank the entire FuelTech team for their continued dedication to advancing our strategic objectives and our shareholders for their ongoing confidence and support. We look forward to keeping you apprised of our progress as we move forward towards the end of 2025 and into 2026. Now I'd like to turn the call over to Ellen for her comments on our financial results. Ellen, please go ahead.

Alan Albrecht | Chief Financial Officer:

Thank you, Vince, and good morning, everyone. For the quarter, consolidated revenues declined slightly to $7.5 million from $7.9 million in the prior year period due to lower APC segment revenues partially offset by higher fuel chem segment revenue. APC segment revenue declined to $2.7 million from $3.2 million primarily related to the timing of project execution on existing contracts. As expected, FuelChem had a solid quarter with revenue improving to $4.8 million from $4.6 million. Consolidated gross margin for the third quarter rose to 49% of revenues from 43% in last year's third quarter due to increases in both FuelChem and APC segment gross margins. Fuelchem gross margin increased to 50% compared to 49% in the third quarter of 2024 due to an increased volume of sales activity combined with relatively flat segment administrative expenses. APC segment gross margins expanded significantly to 47% in the third quarter compared to 35% in the prior year period as a result of product and project mix that included a higher proportion of ancillary revenue consisting of spare parts and service revenue, which represents a higher margin contribution to traditional capital project margins. Consolidated APC segment backlog as of September 30, 2025, was $9.5 million, up from backlog of $6.2 million at the end of 2024. Backlog at September 30th included $4 million of domestically delivered projects and $5.5 million of foreign delivered project backlog. We expect that approximately $7.1 million of current consolidated backlog will be recognized in the next 12 months. SG&A expenses were flat at $3.2 million in the third quarter. As a percentage of revenue, SG&A expenses rose to 43% from 41% in the prior year period, reflecting lower consolidated revenue in the current period. For 2025, we continue to expect SG&A expenses to increase modestly from prior year as we focus on the development of our infrastructure in support of our business segments. Research and development expenses for the third quarter of 2025 rose to $450,000 from $361,000 in the prior year period reflecting our ongoing investment in water and wastewater treatment technologies, notably our DGI systems and the site demonstration previously referenced by Vince. Our investment in DGI will continue throughout 2025 to support ongoing site demonstrations and other growth initiatives as we ramp up towards commercialization. During the third quarter, we delivered profitable results with positive operating income, net income of $303,000 or one cent per share compared to a net income of $80,000 or zero cents per share in the prior year period. An adjusted EBITDA was $228,000 compared to an adjusted EBITDA loss of $35,000 in the prior year period. Lastly, moving to the balance sheet, our financial condition remains very strong. As of September 30, 2025, total cash and investments was $33.8 million, comprised of cash and cash equivalents of $13.7 million, and short and long-term investments of $20.2 million. Net cash provided by operating activities was $4.6 million for the nine months ended September 30, as compared to a use of cash totaling $1.8 for the same period in the prior year. Shares outstanding at quarter end were approximately $31.2 million, equating to cash per share of $1.08. Working capital was $26 million, or $0.83 per share. Stockholders' equity was $41 million, or $1.31 per share, and the company continues to have no outstanding debt. We remain greatly confident in our ability to maintain a strong financial position and to fund our short and long-term growth initiatives for our Fuel Chem, APC, and DGI business segments. I'll now turn the call back over to Vince.

Vince Arnone | Chairman, President & Chief Executive Officer:

Thanks very much, Ellen. Operator, let's please go ahead and open the call for questions.

Operator | Conference Operator:

Thank you. We'll now be conducting a question and answer session. If you would like to ask a question, please press star 1 on your telephone keypad. A confirmation tone will indicate your line is in the question queue. You may press Start 2 if you'd like to remove your question from the queue. For participants using speaker equipment, it may be necessary to pick up your handset before pressing the Start keys. One moment, please, while we pull for your questions. Our first question comes from the line of Amit Dayal with HC Wainwright. Please proceed with your question.

Amit Dayal | Analyst, HC Wainwright:

Thank you. Good morning, guys. Good morning. To begin with, hey, hey. This acquisition, do you need to make any additional investments to meaningfully monetize this acquisition? And just in terms of the timeline for you to see any sort of contribution from this IP, should we expect anything coming in this year itself, or is this more of a 2026, 2027 type situation?

Vince Arnone | Chairman, President & Chief Executive Officer:

Okay, so... Two questions there as I answer your first question at this point in time. I don't expect that we may need to make a significant amount of incremental investment here internally to capitalize on the IP that we've acquired. We are familiar with the technologies that we have brought in-house. And so at this point in time, no, I'm not anticipating any sort of significant investment required to monetize. Your second question is we are going to get at least some small contributions relatively quickly from some of the aftermarket opportunities that will come our way from the very large installation base that Walco, Inc. does have in place and that they've built historically over the past three decades. So we will see some near-term benefits as it as incremental to our aftermarket business. But obviously, we would like to see some larger scale benefits in terms of capital project awards as we move into 2026 and beyond. So specifically, we will see some near-term favorable impacts from an aftermarket business, but those won't be what I would call extraordinarily material. As we move into 26, we'll look to capitalize on utilizing that IP to pursue some capital project awards. But from our perspective, this was an easy decision and a very solid strategic investment for us to make as we look to continue to build out our APC portfolio of solutions for our end markets here in this country and the remainder of the world.

Amit Dayal | Analyst, HC Wainwright:

Understood. And then for the data center type opportunities, are you working with any folks in the value chain from a distribution perspective? or are you directly approaching some of these entities with your solutions?

Vince Arnone | Chairman, President & Chief Executive Officer:

So as we've discussed a little bit previously, we are the back end of the solution to your power generating source. So we are typically brought into the equation for the data center build out from one of the engine or turbine OEMs. That's generally how we're brought in. And so we're looking to work with those parties to try to bring ourselves into the opportunity that's there. As I noted in my script, so recently we have been contacted by some other parties that are looking to enter this space that are what I would call non-traditional players. I mentioned a company that manages aircraft engines. They maintain, they lease, and so on and so forth. very large organization, but they're looking to repurpose some of their aircraft engines to be applicable to generating power for data centers. So that's a new entrance that we're trying to work with to bring our solution to the opportunity. And we have been contacted recently by some of the integrators as well that are looking to package a solution and bring that solution to the end customer. So So now it's the OEMs, it's some new market entrants, and some integrators as well. And so we're expanding our, call it our method of opportunity, our method of supply chain to get into this data center marketplace.

Amit Dayal | Analyst, HC Wainwright:

Understood. And then, you know, from a pipeline perspective, you know, how big is the pipeline already? I don't know if you can share, caller, on that. But I'm just trying to see if, you know, you have already started to include some of this data center opportunity from a pipeline perspective.

Vince Arnone | Chairman, President & Chief Executive Officer:

So, from a pipeline perspective, we have eight to ten opportunities that we are pursuing today, and those opportunities are worth 80 to 100 million dollars in total. That's what we're sitting on today. Those opportunities are broken down into different categories. A couple of them are commercial, and we would expect to have finalization on those opportunities either before the end of the year or early in 2026. The majority of the remainder are what I would call more initial inquiry, a budgetary inquiry in nature. whereby a customer comes to us and they're looking to evaluate how they're going to make a proposal to their end customer, and we give them a budgetary quote. So in total, as I said, 8 to 10 opportunities valued at $80 to $100 million in total.

Amit Dayal | Analyst, HC Wainwright:

That's amazing. That's all I have, Vince, for now. I'll take my other questions offline. Thank you.

Vince Arnone | Chairman, President & Chief Executive Officer:

Thanks, Amit.

Operator | Conference Operator:

Thank you. Our next question comes from the line of Ankur Sagar, who's a private investor. Please proceed with your question.

Ankur Sagar | Private Investor:

Hi, good afternoon. Thank you for taking my questions. Vince, thank you for elaborating on the factors for the data center opportunity. As you listed, I mean, there is an immense shortage of these gas turbines and Some of the entities have even just started using aircraft engines, which require emission control. And it's been on the news, for example, like XAI, which is a large hyperscaler, which really put this whole setup with gas turbines quickly, but then had to go back and and get a permit for refitting these turbines with SCR. So there is a lot happening and you're involved in this, but anything you can share from a timeline perspective on when do you expect sort of like in any of these pipeline opportunities to come to fruition?

Vince Arnone | Chairman, President & Chief Executive Officer:

Yeah, so as I just mentioned in my comment to Amit, Two or three of these contract opportunities we consider to be commercial opportunities, and we would expect to have a response on them, again, late this year or sometime in Q1 at the latest on those two to three. The remainder need to progress a little further relative to the project development phase. And so I can't offer timelines on that as we sit here today. But with the two or three that are indeed commercial, I would expect some sort of conclusion on them here within this next few month time frame at the most. Okay.

Ankur Sagar | Private Investor:

Yes. And then these couple, two or three that you expect some response before that, are these more like where they will convert from pipeline into orders or Or these are also like platform opportunities where you are retrofitting your solution with some other vendor, whether it be a gas turbine or OEM or integrator, where you can probably have more than just the two orders or anything.

Vince Arnone | Chairman, President & Chief Executive Officer:

Can you clarify your question one more time between the two different? Before I give you an answer, if you don't mind, please.

Ankur Sagar | Private Investor:

The couple of opportunities that you would see some news or result on before the end of this year, are these also like platform opportunities where your solution will get retrofitted in another company's solution? whether it be an OEM turbine maker or an integrator, where, you know, it will not just be just the two orders that, let's say, you get, but, you know, there's a potential to get more than just the two in 26.

Vince Arnone | Chairman, President & Chief Executive Officer:

On Corey's note, thanks for the clarification. To answer specifically, these initial orders, if we're able to bring them to fruition, would be... giving us the ability to expand and participate on additional opportunities that these customers would have prospectively. So yes, if these orders come in-house, I would expect that. It's not going to be an automatic that we're affixed to all of those customers' opportunities prospectively, but it is going to give us a very nice opportunity to expand business with these entities prospectively, and we would expect, then, incremental orders prospectively.

Ankur Sagar | Private Investor:

Got it. Okay. One last one. In this, I think, fiscal year, in the last three quarters, I mean, from a cash flow perspective, I think your team has done really well. Your cash on the balance sheet has increased from working capital, done really good. How do you expect Q4 to be from a cash flow perspective?

Vince Arnone | Chairman, President & Chief Executive Officer:

I would think as we look to our cash balance towards the end of 2025, I would say flat to slightly down as we look at the end of the year. Q3 is typically our best performing quarter, generally speaking. So we have the opportunity for increased cash flow. And we did have some excellent cash collections in Q3 as well to build the amount. But as we look towards moving in towards the end of 2025, I'd say flat to slightly lower for the end of the year. But still, we're very pleased with our cash balance in terms of where it is today at around $34 million and no debt. It gives us a great platform to be able to evaluate and and assist our potential customer base as we're looking at the landscape of opportunities that we do have. It gives us a lot of flexibility.

Ankur Sagar | Private Investor:

Yeah. All right. Great. Thank you for taking my questions.

Vince Arnone | Chairman, President & Chief Executive Officer:

Thank you, Ankur.

Operator | Conference Operator:

Thank you. Our next question comes from the line of Richard Grulich with REG Capital Advisors. Please proceed with your question.

Richard Grulich | Analyst, REG Capital Advisors:

Thank you. Vince, last quarter in conference call, you mentioned a global sales pipeline of, I don't know, 75 to 100 million. Was that including the data center opportunities that you've been talking about today?

Vince Arnone | Chairman, President & Chief Executive Officer:

No, actually, that number would not have included the data center. Actually, that number was the data center opportunity more specifically, and we would have had, call it, more regular, ordinary, recurring APC business opportunities that would have been another $10 to $20 million in pipeline on top of that number. So today, as I'm talking about 8 to 10 opportunities for $80 to $100 million, that's data center opportunities only. We have an additional pipeline of what I would call more standard APC business that is another $10 to $20 million on top of that amount.

Richard Grulich | Analyst, REG Capital Advisors:

Okay. Thank you for clarifying. Okay. Thank you.

Vince Arnone | Chairman, President & Chief Executive Officer:

My pleasure. Thank you.

Operator | Conference Operator:

Thank you. There are no further questions at this time. I'd like to turn the call back over to Mr. Arnone for any closing remarks.

Vince Arnone | Chairman, President & Chief Executive Officer:

Thank you, operator. I'd like to thank everyone who joined the call today. We were indeed pleased with our results for Q3. We are very excited about our outlook as we look to end 2025 and move into 2026. The APC landscape of opportunities is indeed the best landscape that we have seen in several years as a company. Our goal as a team is to capitalize on that opportunity. For our chemical technologies business, this year we're looking at our best performance with that business segment since 2022. And with the very solid opportunity of bringing on another coal-fired unit as we look to end this quarter and move into 2026, we have a wonderful outlook for 2026 for our chemical technology segment as well. So very pleased with where we are sitting today as a company. Again, thank the FuelTech employee team. Thank our shareholder base. Everyone have a wonderful day. Thank you.

Operator | Conference Operator:

Thank you. This concludes today's call. You may disconnect your lines at this time. Thank you for your participation and have a wonderful day.