NASDAQ:FTEK Q3 2026 Earnings Call Transcript

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Conference Operator | Operator:

Greetings and welcome to the FuelTech, Inc. 2026 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.

Devin Sullivan | Managing Director, The Equity Group:

Thank you. You may begin. Thank you very much. Good morning, everyone, and thank you for joining us today for FuelTech's 2026 Third Quarter Financial Results Conference Call. Yesterday after the close, we issued a press release, a copy of which is available at the company's website, www.ftek.com. Our speaker for today will be Ramesh Nuggihalli, President and Chief Executive Officer. the company's chief financial officer, will also be on today's call to answer questions. After prepared remarks, we will open the call for questions from our analysts and investors. Before turning things over to Ramesh, 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 Exchange 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 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 under Item 1A, under the caption of Risk Factors, and subsequent filings under the Securities Exchange Act of 1934 as amended. which could cause FuelTech's actual growth, results of operations, financial condition, 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 details in the company's filings with the SEC. With that said, I'd now like to turn the call over to Ramesh Nuggihalli. Ramesh, please go ahead.

Ramesh Nuggihalli | President and Chief Executive Officer, Fuel Tech, Inc.:

Thank you, Devin. Good morning, and thank you all for joining today's call. I'm joined this morning by our Chief Financial Officer, Ellen Albrecht. We issued our financial results after the close yesterday afternoon. Rather than repeat the numbers, I'll take a moment to provide some highlights. However, my focus this morning is more on our priorities that lie ahead. Third quarter 2026 revenues increased 16% to $8.7 million, driven by 38% growth in the air pollution control segment and a 3% increase in fuel chem revenues. Consolidated gross margin declined to 45% from 49%, primarily reflecting lower APC gross margin due to project and product mix. Our operating expenses rose to $9.2 million. In addition to higher cost of sales, SG&A expenses increased by $450,000. This was largely due to higher employee-related costs and

professional fees, including a non-recurring expense of about $175,000 related to my appointment as CEO in August. Net loss for the quarter was $267,000, or one cent per share, compared to net income of 303,000 or one cent per share in the prior year quarter. Adjusted EBITDA was a loss of 249,000 compared to positive adjusted EBITDA of 228,000. Backlog continued to improve and we ended the quarter with backlog of 16.6 million, a 2.3 million improvement from June 30, 2026. Including our recent APC contract award of $3.3 million, pro forma backlog as of today is approximately $20 million. Finally, we ended the quarter with $27.8 million in cash and investments, no debt, and stockholders' equity of $37.2 million, or $1.19 per share. Since joining FuelTech in August, I have spent significant amount of time listening and learning. I have met with colleagues and investors, engaged with board members, and visited with a number of our partners and vendors. Those conversations have validated why I chose to join FuelTech and reinforce several important conclusions. We have talented, motivated people, technically capable teams, innovative technology that solves some of our customers' toughest environmental challenges, a global footprint, and exposure to attractive, growth-oriented end markets. We also operate in an industry with real purpose. Whether we are reducing pollutants, improving industrial process efficiency, or treating water We help customers operate more efficiently while supporting their environmental goals. As reflected in our Q3 results, our air pollution control business is building on a multi-year high backlog and pursuing expanding opportunities in industrial, power, and data center applications. FuelChem continues to demonstrate the value of its technology through strong performance at established accounts and promising customer trials. And DGI, an emerging technology platform serving the water and wastewater industry, is advancing from successful field demonstrations toward broader commercial adoption in water treatment and aquaculture. We are continuing our conversation with a set of targeted customers to convert pilot programs to commercial offerings. We have a solid foundation in technologies that serve growing end markets, which excites me. The opportunity now is to capitalize on these great strengths, drive more consistent commercial execution, and deliver sustainable above-market growth and profitability. We are going back to the basics and developing a holistic strategy for the company consisting of organic and inorganic growth initiatives. This strategy will be designed to extend our expertise in solving customers' toughest environmental challenges by strengthening our core businesses, applying our project management and engineering capabilities to expand into growing adjacent markets, and deploying our strong balance sheets to pursue targeted acquisitions that offer clear synergies and fill gaps in our product portfolio, channel capabilities or both. Our approach is built around three interconnected priorities. Strengthening our core markets, building a more sales and commercially driven organization and maintaining cost discipline. The opportunities associated with the build-out of data centers are significant, and we continue to believe that FuelTech can apply an important role in helping customers meet the emission control requirements of power infrastructure supporting this growth. At the same time, we continue to see significant untapped opportunities in our traditional markets and recognize that capturing them all requires a more focused Coordinated Approach to Market Development and Customer Engagement. To support this effort, we are aligning resources and strengthening accountability for sales growth across the organization with the goal of implementing these changes on a cost-neutral basis. We have launched the strategy planning process with a cross-functional team of employees, and we have engaged external advisors with whom I have worked in the past to broaden our thinking on growth in both our served and unserved markets. Together, we are testing past assumptions, mapping adjacent growth markets, and developing a focused, executable plan that leverages our technical expertise to drive growth, differentiate our customer value proposition, and create shareholder value. We expect to complete this work and present it to the board early next year. Internally, we talk about not only achieving growth leadership, but also cost leadership. Appropriately allocating our resources, both human and capital, to create the foundation for our capital deployment program. With respect to growth, We are focusing on markets and applications where our technical expertise, broad IP portfolio, provide a genuine advantage. These include expanding our footprint from power to diversified industrial, where we can leverage our product offering in mitigating various pollutants, expanding the chemtech business from core fossil power applications to industrial and potentially water applications. and finally looking at our water technology business holistically and evaluating our options to go beyond aquaculture to other larger segments of the water market. We will become more systematic and proactive in how we identify opportunities, engage customers, articulate value, price our offering and convert our pipeline into revenue. which are all part of being a commercially savvy company. We also see an opportunity to become a better

operating company by allocating our internal resources, whether it be R&D or engineering, to projects and initiatives that will lead to improved commercial offerings and enhanced productivity with the goal of expanding our margin profile. We are reviewing R&D spending in our water segment with our internal team and external partners to ensure our investment is focused on the most promising path to commercialization. With our DJI technology is advanced and patent protected. Adoption in aquaculture has been slower than anticipated. As part of this review, we are evaluating applications beyond aquaculture where we may be able to leverage our existing technology and development investment to achieve faster market adoption. Our goal is to allocate R&D resources more effectively and improve the return on the investment we have already made. While our investment in this segment is modest, every dollar matters. And this review reflects the discipline we are applying across all segments to maximize the return on our invested capital. We will evaluate all types of business models, including outsourcing to increase speed of delivery while keeping the process knowledge in-house and strengthening our supply chain team all in an effort to enhance margin during project execution and improve the customer experience. When it comes to both commercial and operational excellence, We are taking a disciplined approach to refining our internal operating mechanism, differentiating our offerings, and improving processes and commercial approach where needed rather than reinventing them for every customer. As a complement to our organic growth initiatives, we will selectively pursue M&A opportunities that strengthen our competitive position and expand our long-term growth potential. Our focus will be on businesses that add complementary technologies and products, broaden our channel capabilities, or both, by enhancing our ability to serve new customers in attractive markets. As we build out our enterprise-level strategy, we will create an M&A playbook where we implement processes to evaluate each opportunity against rigorous strategic and financial criteria with an emphasis on value creation and focus on successful integration. Equally important, we will prioritize opportunities where we bring operational synergies, ensuring we have the resources and capabilities to capture the expected benefits without disrupting execution across our existing businesses. Strategy determines where we are going. Our operating rhythm determines how we get there. To execute more consistently and profitably, we will implement an operating system that focuses on delivering consistent results with measurable metrics. We will strengthen our talent base with more focus and investment on commercial resources, institute rigorous processes for managing our business to set goals and objectives, evaluate all new and existing R&D programs against clearly defined deliverables and timelines, and build a set of metrics and KPIs that will help the company achieve its stated goal. As we enter the final quarter of the fiscal year, our immediate responsibility is establishing a measurable and accountable path towards delivering on our commitments and while continuing to lay the foundation for the future. For the balance of the year, our priorities are clear. Complete the strategy planning process and the M&A playbook and prepare to review and seek approval with the board early next year. Build an achievable but appropriately ambitious 2027 budget factoring in some of the mega project bidding that are ongoing. Continue engagement with our customers, partners, vendors to showcase our capabilities, drive new sales opportunities, and encourage actions on outstanding bids. Establish the operating rhythm, performance metrics, business review processes that will build a culture of accountability. Improve core business processes and remove waste that limits speed, effectiveness, and profitability. As we develop the 2027 plan, we will use a right-to-left approach. We will begin with the outcome we need to achieve, sustainable and profitable growth, and work backwards to identify the revenue, margins, investment, capabilities, and actions required to deliver it. Our budget, resource allocation, and individual objectives must align with that outcome. I remain highly encouraged by FuelTech's people, technical depth, technology portfolio, and market opportunity. This transformation will take time, but the direction is clear. FuelTech will focus on the market where we can lead, compete where we have a differentiated advantage, and build the operating discipline needed to deliver more consistent long-term growth Profitability, and Shareholders' Value. With that, I will return the call back to the operator to open the floor for questions.

Conference Operator | Operator:

Thank you.

Ramesh Nuggihalli | President and Chief Executive Officer, Fuel Tech, Inc.:

We will now be conducting a question and answer session.

Conference Operator | Operator:

If you would like to ask a question, please press star 1 on your telephone keypad. A confirmation tone will indicate that your line is in the question queue. You may press star 2 if you would 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 poll for questions. Our first question comes from Amit Dal with HC Wainwright. Please proceed with your question.

Amit Dayal | Analyst, H.C. Wainwright:

Thank you. Good morning, everyone. So, Ramesh, you know, just touching on some of the things you highlighted, you know, especially on the growth side. So, with growth for energy, you know, sort of now part of the macro picture, can we expect the APC and FuelCal fuel chem business to be a beneficiary of higher plant utilization, et cetera? Or are customers already running at full capacity and revenues should be expected to be sort of more stable rather than growing in an accelerated fashion?

Ramesh Nuggihalli | President and Chief Executive Officer, Fuel Tech, Inc.:

Good morning, Amit. Let me take a step back and paint a picture on the power side. We all read the same newspaper. The sustainability of the economy and the growth that's needed for the nation needs to be backed by the infrastructure. All the investment, the capex that's going on today, it is not going to happen unless we have the electrons or the power of electricity to power them. If you look at the projections that the nation has made in terms of all the things that needs to get built, to the power that's required, we are way behind. If you look at a country like China, it's got 2x the capacity of what we have just to sustain that economy. So if you look at our own needs, the power sector, it is going to continue to grow irrespective of all the AI infrastructure that's going to get built. And as the power sector gets built, we will have an opportunity to participate in that. All the emission controls, and even some of the efficiency improvement in the traditional fossil power plant, that is going to be a positive momentum for both of APC and the chemical technology business. Okay, understood.

Amit Dayal | Analyst, H.C. Wainwright:

And then just moving on to the operational side, I know margins have historically fluctuated, you know, between 45, 50%. Is that still the case, or because of this demand, are you in a position to maybe get better pricing on the margin front? And then on the SG&A side, is this 3Q level sort of what we should be expecting going forward outside of the one-time type expenses?

Ramesh Nuggihalli | President and Chief Executive Officer, Fuel Tech, Inc.:

So let me touch on the pricing and the margin fluctuation, and then I'm going to hand over to Ellen to talk a little bit on the SG&A and how these things have played out in the past. The mixture between project heavy versus our traditional fuel chem business has some impact on the variations of the gross margin, and it kind of keeps changing. But as we continue to see the momentum building up, the recent project that we won on the air pollution control side, these are projects that are coming back where the customer has taken some time, evaluated our bids, compared it against other people and then they came back and placed our order. That goes to tell there is ability to have premium pricing because we bring something unique to the table. So that kind of for me checked the box on our uniqueness when it comes to the project side. The chemical technology side kind of varies depending on the timing and and how they are putting the power to the grid and how much of the plant is being utilized for which it is directly correlated to the chemicals that we supply. Overall, the margin is going to be stable or growing. I'm going to hand it over to Ellen as well. She's got some thoughts based on some historical perspective.

Ellen Albrecht | Chief Financial Officer, Fuel Tech, Inc.:

Just on our overall product segments, we will continue to try and maintain or improve our margins for your earlier discussion. On the OPEC side, from an SG&A perspective, we do expect our SG&A in line with current quarter and prior year, given irrespective of any one-time charges that we are taking, just as we continue to work on our strategy and just some overall operational improvements throughout the remainder of the year.

Amit Dayal | Analyst, H.C. Wainwright:

Thank you, Ellen. Maybe just... Last question, I guess, you know, on the M&A side, I know it's early, Ramesh, but obviously you have, you know, that mandate to see if you can find, you know, any attractive acquisitions. What segments are you looking at? Is it going to be sort of around products you already have right now, or could you be entering, you know, new markets through these types of transactions? Any color on, you know, what your thought process is for on the M&A front?

Ramesh Nuggihalli | President and Chief Executive Officer, Fuel Tech, Inc.:

We're looking at it systematically. M&A doesn't happen on its own. We have a team that's working out the strategy for the whole company. And as we are continuing to work on the strategy, we are identifying product gaps. We're identifying market gaps, channel gaps, business models that are going to enhance the capabilities that we already have. That is paired up with another smaller team because of the confidential nature, where we are methodically and systematically going and identifying potential targets that could fill the gap. And then the third leg of the stool for me is to what's the right approach for some of those transactions. It's the size, and what do we bring to the table, how accretive, and where do we make the difference, our ability to execute, and if it's auction, win the auction, or if it is an exclusive negotiation, to get closer to them and then bring the synergies, integrate them and grow profitably. So they're all going hand in hand. And it's not one thing, but it's clearly we are starting with the product gap. Next is the market gaps. And then the third one is the business model gap. And the third one is also very important for us because as we continue to grow and think smart about where do we want to deploy our capital, There are areas where we know we can be a clear winner. For example, we are looking at service as an offering. Today, it's a little bit informal within our portfolio, but that could be a self-standing business with the right kind of focus. Below the radar screen, we won't be competing with the big boys in this, but certainly we can carve ourselves out a good business franchise and bring in some target that can help us. And when we go into conversation like offering long-term service contract, that is something that customers are asking. We're doing it informally, but that's a business model discussion. So we're having some really good conversation. And when it comes together, the strategy

and M&A playbook, for me, it is a strategic approach to inorganic growth as opposed to we just want to go acquire some companies.

Amit Dayal | Analyst, H.C. Wainwright:

Thank you, Steve. Thank you guys, that's all I have.

Conference Operator | Operator:

As a reminder, if you would like to ask a question, please press star 1 on your telephone keypad. We have reached the end of our question and answer session. I would now like to turn the floor back over to Ramesh for closing comments.

Ramesh Nuggihalli | President and Chief Executive Officer, Fuel Tech, Inc.:

Thank you all for joining us and for your thoughtful questions. I appreciate the opportunity to introduce our strategy, discuss our priorities, and continue our dialogue with investors. Our focus is now on execution. advancing our organic growth initiatives, managing costs with discipline, and evaluating outside opportunity to strengthen the business. We recognize that earning your confidence will depend on delivering results and communicating candidly about both our progress and our challenge. On behalf of our entire team, thank you for your interest in the company. We look forward to updating you on our progress in the next quarter.

Conference Operator | Operator:

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