NASDAQ:LMB Q3 2026 Earnings Call Transcript

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Operator | Conference Call Operator:

Good morning, and welcome to the Limbach Holdings Third Quarter 2026 Earnings Conference Call and Webcast. All participants are in listen-only mode. Following the prepared remarks, we will open the call for questions. This call is being recorded, and a replay will be available in the Investor Relations section on the company's website. I will now turn the call over to Adam Pryor, Vice President of Investor Relations and Corporate Strategy.

Adam Pryor | Vice President of Investor Relations and Corporate Strategy:

Thank you, Operator, and good morning, everyone. With me today are Mike McCann, our President and Chief Executive Officer, and Jayme Brooks, our Executive Vice President and Chief Financial Officer. Our third quarter earnings release and accompanying presentation are available in the investor relations section of our website. Mike will begin with an overview of the business, our growth priorities, and recent acquisitions. Jayme will review the financial highlights and full year outlook, and Mike will return with our priorities for the remainder of the year and the opportunity ahead. We will then take your questions. Before we begin, today's remarks will include forward-looking statements under federal securities laws. These include expectations for financial performance, growth, customer demand, project execution, cash generation, geographic expansion, and the integration and anticipated contributions of acquisitions. These statements reflect management's current expectations and involve risks and uncertainties that could cause actual results to differ materially. Please review the risk factors and other disclosures in our most recent Form 10-K, subsequent Form 10-Q filings, and other reports filed with the SEC. Except as required by law, we undertake no obligation to update these statements. We will also discuss non-GAAP measures, including adjusted EBITDA and its margin, adjusted net income, adjusted diluted earnings per share, organic revenue growth, free cash flow, and net debt. These measures supplement rather than replace our GAAP results and may differ from similarly titled measures used by other companies. Definitions, reconciliations, and the limitations on reconciling forward-looking non-GAAP measures are included in our earnings materials. With that, I'll turn the call over to Mike. Please go ahead, Mike.

Mike McCann | President and Chief Executive Officer:

Thanks, Adam. Welcome to the team, and good morning, everyone. Limbach reported strong third quarter results, executing on many business objectives that align with our core strategy of growing quality revenue as a leading building system solutions company. Prior to our second quarter results in August, we took a long, hard look at our outlook for the remaining of 2026. We reviewed customer activity, project schedules, and expected margins. We wanted our view of the year to reflect how the business is progressing at that moment, not simply the opportunity ahead. We saw a return to organic growth and owner direct business during the third quarter. Customers are working through their budget decisions with some of the timing issues we discussed in Q2 beginning to resolve and giving us a better line of sight. Bookings totaled approximately $311 million, producing a book-to-bill ratio of approximately 1.4 times, representing a fourth consecutive quarter of favorable bookings to revenue. Our investments in building the sales team that we discussed in 2025 are beginning to show consistent results. We also expanded the company during the quarter. Simcor joined us in August, adding what we believe will be significant pull-through revenue opportunities in technology and data center growth. In September, we completed the acquisition in 1901. based in Wisconsin, which meaningfully expands our electrical expertise. These additions broaden our geographic reach and technical capabilities.

With the progress in our core business and the expected contributions from CIMCOR 1901, we are tracking at or near the high end of our revenue and adjusted EBITDA guidance ranges for 2026. Why are we not increasing the range now? Because we're in the middle of a significant fourth quarter and remain focused on delivering results. However, given the visibility I just referenced, A Return to Organic Growth and the Impact of Recent Acquisitions, we believe Limbach is well positioned to finish the year strong. At the same time, we're entering 2027 with a more diversified business and several avenues for further growth. Overall, the message is one of progress. Organic activity is recovering, we are staying close to our customers, and the businesses we have added create opportunities to do more for them. Our priorities for the balance of 2026 also support a favorable setup for next year. Our strategy continues to connect three elements, geographic reach, vertical market expertise, and an integrated operating model. Together, these position us to grow organically by serving more of our customers' needs across more of their facilities. Healthcare and industrial and manufacturing customers remain at the center of the business. We know these facilities and their recovery and owner-direct activity reinforces the opportunity within our established customer base. The improvement helps put our Q2 experience in perspective. In many customer conversations, the timing of when budgets would be approved and work released was challenging to predict in the first half of 2026. We stayed engaged, helping owners prioritize the systems and projects most important to their operations. That engagement is now giving us a clearer view of the work they intend to advance. Deeper customer relationships are central to our growth. Understanding an owner's operating needs and capital priorities helps us identify opportunities beyond individual projects connect those opportunities with our engineering and field teams. We are also expanding in technology, life sciences, and data centers, adding growth opportunities that complement our traditional strengths in healthcare and industrial markets. Looking toward 2027, one of our strengths is a combination of national reach and local expertise. We can bring the relationships, technical capabilities, and the resources of the broader company while delivering through local teams that know their customers' markets. That combination is an important part of how we compete and win. Direct owner engagement reigns central to this approach. ODR includes both service and capital projects. Selective general contract relationships, or GCR, work can complement those relationships when the customer, scope, and economics fit. The objective is a better mix of customers and solutions supported by consistent project performance, not a segment percentage in isolation. The acquisition in 1901 illustrates how that strategy translated into investments. Based in Madison, Wisconsin, 1901 expands our Midwest presence and establishes Limbach's largest electrical operation alongside mechanical, plumbing, controls, fabrication, and service capabilities. 1901 complements our established markets while adding opportunities to advanced manufacturing, life science, and technology. It also gives us additional local delivery resources to support national and multi-site customers. The business brings approximately 450 employees, including more than 350 field professionals. Our integration approach is to preserve their experience and relationships while connecting them to Limbox operating platform, customer solutions, and shared resources. We recognize the questions about acquisition-related margins. Each acquired business brings its own customer and project mix, which can affect our consolidated gross margin percentage, even as it adds gross profit and earnings. It's important to distinguish that mixed effect from the underlying performance of the business. For 1901, our priorities are to deepen customer relationships, Broaden service offerings and apply consistent project and pricing practices. Over time, we believe these steps create an opportunity for margin improvement, as we experienced with our acquisition of Jake Marshall in Tennessee, where margins improved over a 12- to 36-month period. While the results on each acquisition will differ, we have a plan to achieve margin improvement as we integrate these businesses. Our goal is to combine 1901's technical expertise and local presence with Limbox's broader resources to drive profitable customer growth and cash generation. Simcor has a different dimension. Its program management and commissioning oversight and strategic consulting capabilities brings us into the owner's planning process earlier across mission-critical markets, including data centers. There's been considerable attention on the sustainability of AI infrastructure spending. Our approach is to be selective. Simcor gives us better visibility into customer priorities and project development, while our engineering, fabrication, and field capabilities allows us to pursue specific opportunities where we see attractive economics and manageable risk. We also have considerable fabrication capacity that can support selected data center packages. Our focus is on profitable, well-defined work that fits our capabilities, not volume for its own sake. The opportunity can also extend beyond initial construction. Once a facility is

operating, we continue supporting the customer through service, maintenance, and upgrades. We want to connect those lifecycle needs with customer relationships we are building today. Looking ahead, we continue to evaluate acquisitions that strengthen our core platform. We are focused on attractive geographies such as the Midwest, Southeast, and Texas that support our traditional verticals while expanding our participation in higher growth sectors. Local expertise, customer relationships, and complementary services remain priorities with strategic fit, returns, and our ability to integrate guiding our decisions. Together, we believe that recovering organic growth, additional fabrication opportunities, and our recent acquisitions gives us more ways to grow as we head into next year. Jayme will now review financial highlights and the flexibility supporting those priorities. Jayme?

Jayme Brooks | Executive Vice President and Chief Financial Officer:

Thank you and good morning. I'm going to cover the financial highlights. Third quarter revenue was a record $230.5 million compared with $184.6 million a year ago. Net income was $9.5 million or $0.79 per diluted share compared with $8.8 million or $0.73 per diluted share. Adjusted EBITDA was a record $27.4 million compared with $21.8 million. Total organic growth was 6.6%, including 2.2% in ODR. While ODR growth remains lower year-to-date, we are encouraged by the improving customer activity and greater visibility into project timing as we move through the fourth quarter. Pioneer passed its first acquisition anniversary in July. Those comparable period growth is now included in quarterly organic growth. CIMCOR and 1901 are considered acquisition-related revenue for the quarter. Gross margin was 23.4% and SG&A was 15% of revenue. The margin and expense trends are consistent with the operating plan we reviewed as part of our full-year assessment. As the business mix evolves, our focus is on project profitability and the opportunity to spread our existing cost base over more revenue. For the first nine months, revenue was $542.8 million, net income was $18.6 million, and adjusted EBITDA was $50 million. Our results reflect continued progress across the business, supported by strong operating performance and reinforcing our confidence in the full-year outlook. The operating performance is also translating into strong cash generation and increased financial flexibility. We continue to generate strong free cash flow, and our new credit facility provides additional capacity to support the business. For the first nine months, operating cash flow was $31.2 million, and the company-defined free cash flow was $43.6 million, representing 87.1% of adjusted EBITDA. Our free cash flow measure excludes changes in working capital. After funding Simcor in 1901, Our total liquidity as of September 30th was $164.2 million. Net debt was approximately 1.6 times the reported trailing 12-month adjusted EBITDA. That flexibility supports project working capital, acquisition, integration, and investment in customer opportunities, including fabrication work. It also positions us to pursue acquisitions that fit our strategy while maintaining liquidity for day-to-day operations. Cash generation and discipline on leverage and returns remain central to that approach. During the quarter, we also repurchased nearly 200,000 shares under existing share repurchase program at an average price of $51.31 for a total of approximately $10 million. Moving to our outlook for the year. Based on the current view, we are tracking at or near the high end of revenue and adjusted EBITDA ranges, which includes contributions from Simcorps in 1901. The review Mike described covered customer activity, project schedules, and operating performance. It supports our confidence in the full-year outlook. We are retaining the published ranges while communicating the progress we are seeing in the business. As a reminder, our August ranges did not include contributions from Simcorps or 1901. Both businesses closed during the third quarter, so their contributions this year reflect only a partial period and partial contribution for the year. We believe our operating performance Strong cash generation and financial flexibility puts us in a solid position to deliver our near-term commitments while continuing to invest in the long-term growth of the business. I'll turn the call back to Mike.

Mike McCann | President and Chief Executive Officer:

Thanks, Jayme. Our priorities for the remainder of 2026 are clear. First, focus on execution, convert backlog, sustain bookings momentum, and improve project performance. Those are the practical steps that turn customer relationships into earnings and cash generation. Second, integrate and expand. Connect 1901 and SimCorp with the rest of LIMBOC. Put more of our fabrication capacity to work and pursue geographic opportunities that complement the platform. We want our national relationships and local teams and technical resources to work together as one company. Third, finish strong and carry that progress into 2027. Based on our current view, we believe we are well positioned for next year. Recovering on our direct activity, a broader mix of markets, and the capabilities we have added gives us what we believe are multiple avenues for growth. Our focus is on developing those opportunities while maintaining the operating and capital discipline that supports durable returns. We are building on our healthcare and industrial foundation, not moving away from it. By adding expertise in higher growth sectors and serving customers across more locations, we believe we grow the business while improving the quality of our customer relationships and earnings. Before we open the call for questions, I want to thank our employees across Limbach, including our new colleagues at 1901 and Simcorps. are craft professionals, engineers, project and account teams, and support teams make this progress possible. Thank you for your commitment to our customers, to safety, and to one another. Your expertise is the foundation on which we are building. And thank you to our customers and shareholders for your continued support. Operator, please open the line for questions. Thank you.

Operator | Conference Call Operator:

We will now be conducting a question and answer session. If you would like to ask a question, please press star one on your telephone keypad. A confirmation tone will indicate your line is in the question queue. You may press star two 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 star keys. One moment, please, while we poll for questions. Our first question is from Rob Brown with Lake Street Capital. Please proceed with your question.

Rob Brown | Analyst, Lake Street Capital:

Good morning. First question's on the ODR, organic growth recovery. Do you have some color on kind of where you saw that recovery and how it's trending relative to sort of your expectations of an improvement in the back half?

Mike McCann | President and Chief Executive Officer:

Morning, Rob. First off, the key for us has always been and continues to be the balance across our vertical markets. We're pleased to see the return to growth in Q3. I think as we go through further in the year in Q4, visibility to customer spending cycles has really increased. important and I think is one of the things that we are really examining. And let me give you a couple examples of that. Two of our largest national healthcare customers, we've been working really hard to develop solutions for them. Those solutions have started to develop over the course of the year and we're looking forward to those solutions turning from bookings into revenue in Q4. So a lot of it comes down to just understanding the spend cycles. Q4 traditionally There's seasonality. It's also traditionally when that work picks up. So we're in the middle of the quarter. I think from a confidence perspective, I think our strong book-to-bill transitioning those bookings into revenue is something that we're super focused on. So we're focused on that conversion and that execution as we exit the year.

Rob Brown | Analyst, Lake Street Capital:

Okay, great. And I appreciate your comments on the outlook, but how do you – How does that sort of set the foundation for 2027? Do you expect kind of a similar cadence into the year? And I guess what's your visibility on organic growth as you head into next year?

Mike McCann | President and Chief Executive Officer:

Yeah, we've had four consecutive quarters of positive book to bill. So we're looking forward up to that obviously translating to next year. So book to bill is really important. We want to continue to have strong bookings in Q4. A couple things that we are Ultra focused on, and I think our acquisitions reflect as well, too, is geographic footprint matters. We're going to continue to be inquisitive from an acquisition perspective. We're also looking forward to the full year acquisition contributions from 1901 and Simcorps as well, too. I think the third element, too, is we're going to continue to diversify our vertical market mix. We're going to remain flexible and balanced. And I think the key elements of footprint and vertical mix, I think, are something that we're looking forward to from a 2027 outlook.

Rob Brown | Analyst, Lake Street Capital:

Okay, thank you. Congrats on a good quarter. I'll turn it over.

Operator | Conference Call Operator:

Our next question is from Tomo Sano with J.P. Morgan. Please proceed with your question.

Tomo Sano | Analyst, J.P. Morgan:

Hi, good morning, everyone. Morning. Thank you for taking my questions. Maybe just on... Healthcare and institutional customers activities as well as data centers. So last quarter you highlighted the customer price sensitivities and project timing in healthcare and institutional markets as well as the staffing constraints in data centers. Since then, ODR organic growth has returned to positive territories. What has improved the most in the labor availability or cost still limiting your ability to convert data center opportunities into profitable growth?

Mike McCann | President and Chief Executive Officer:

Thanks, Domo. A couple things. I think there's a couple things that we are continuing to learn through with our model. For us, a strong combination of a national sales team and a local team working together. We've endeavored building two national vertical market teams, one's on healthcare and data center. And that gives us increased visibility and outlook into What the customer spending habits are. We've had a lot of success, I would say, especially on the national healthcare side of things, when working with a customer that has a broad footprint across a lot of geographies. They're able to balance their portfolio, ultimately, and that success, I think, again, gives us the ability to look out and not only leverage our SG&A from a sales expense perspective, but really understand at a higher level what the growth pattern is. And I really think about that in terms of healthcare. From a data center perspective, our goal is to take a surgical approach to it. We're being very selective. And our goal across all of our verticals, healthcare, industrial, and data centers, we always want to be the solution driver. We want to listen to a customer. And of course, that's why listening at a national level gives us a greater outlook as well to understand their problems and develop custom solutions that drive value. And our goal is obviously for that to be rewarded from a margin perspective as well, too. So

to cover the data center question specifically, it's ultimately going to be a balance of professional services or ability to be extremely selective. And then ultimately, our goal, regardless of the vertical market, is to be on the campus post-installation. And that means we're there for service, maintenance, and retrofit work. and we look at that broadly across all of our verticals which include healthcare, industrial and data center.

Tomo Sano | Analyst, J.P. Morgan:

Thank you, Mike. And just follow up on our capital locations. You repurchased 10 million of the shares during the quarters while also highlighting the use of the pre-cash flow to reduce the borrowings. How should we think about the priority between buybacks, debt reductions and investment in the business from here? Jayme?

Jayme Brooks | Executive Vice President and Chief Financial Officer:

Yeah, we're really happy with our cash conversion. And along with that, you know, that gave us the opportunity, along with our debt facility, gave us the opportunity to do our acquisitions this quarter as well as the share repurchase. And so as we continue, our focus is on our acquisition strategy, but then also being opportunistic with regards to share repurchases.

Tomo Sano | Analyst, J.P. Morgan:

Thank you. I appreciate it.

Operator | Conference Call Operator:

Our next question is from Brian Brophy with Stifel. Please proceed with your question.

Brian Brophy | Analyst, Stifel:

Yeah, thanks. Good morning. Appreciate you taking the question. Good morning. You called out fabrication capacity a couple of times in your opening comments and in the deck, helping to support some of the data center demand. You're seeing just an update on the traction that you're getting there. And if you're seeing any early cross-sell benefits from SimCore, thanks.

Mike McCann | President and Chief Executive Officer:

Yeah. You know, as I mentioned before, our approach is very solution surgical approach from a data center perspective. And one thing that we look at is how can we bridge ourselves from day one to day two? I think there's a couple of ways we can do that. One is our acquisition of SimCorp gives us the ability to professional services, program management, owner augmentation. That gives us an outlook. And obviously, that is an avenue for high margin revenue as well, too. Fabrication sometimes can be the opportunities that get us from day one to day two. So we're looking to pick out very particular scopes. Is there a scope where there's a challenge and maybe a technical scope that allows us to carve out something very selective? And we're looking obviously for minimal risk and high return. And a lot of times the projects are so complicated and big that we're able to find our way in there and find a very particular scope. So we are, as I mentioned in kind of previous calls, we're advantageously looking to put our fabrication space to work. We've had some success from that. We look for future success as well too. And we look at that as a setup for the day two opportunities as well too.

Brian Brophy | Analyst, Stifel:

Understood. That's helpful. And then just a question on GCR bookings. They were obviously quite strong. in the quarter, even excluding some of the deal contribution you guys had. Just any color on what's driving that and to what extent was some of that booking strength data center related?

Mike McCann | President and Chief Executive Officer:

Yeah, and I would say we are, you know, we saw a lot of strength in all of our verticals. And again, that diversity I think is going to be really important for us. When we're having our individual teams, whether they're national teams or local teams, our goal is to get the best risk-adjusted return. and let me just give you a couple examples of that one I referenced earlier. But we may have an acquisition that has a very longstanding ODR customer that may be a lower gross profit customer. And there may be an opportunity to apply our value creation process and there may be a higher margin GCR project in a growth sector that provides a segue to longstanding ODR work. So a lot of times it depends on the particular mix. and we're always looking to apply our value creation process. The other example I would give is the example I gave on fabrication before as well too. There might be an opportunity where there's low risk, high margin GCR work might be on the fabrication side that provides a bridge to day two. So we're always looking to see how everything fits together. Our goal is always to get to work for the owner. It's just a question of situationally what's the right outcome for us and what's the path to that. So diversity is very important and we really feel I can teach our teams getting that best risk adjusted return is super important and that guides us to making the right decisions.

Brian Brophy | Analyst, Stifel:

Understood. I'll pass it on. Thank you.

Operator | Conference Call Operator:

Our next question is from Chris Moore with CJS Securities. Please proceed with your question.

Chris Moore | Analyst, CJS Securities:

Hey, good morning. Thanks for taking a couple. Maybe we'll just stay with organic growth a little bit further. Obviously, ODR organic growth has been the key focus. You've been talking, Mike, about that diversity. You're not guiding for 27 at this point, but would you be surprised to see overall organic GCR growth in 27 greater than organic ODR growth again?

Mike McCann | President and Chief Executive Officer:

I would really think in terms of kind of going back to our best opportunity. Our goal is to get to the owner at the end of the day. But I think there's a couple other elements that I would really put into the picture as well, too. One is making sure we're in the right geographies, understanding what's happening in those geographies. And I think the recent moves we've made from an acquisition perspective kind of broadens that perspective. I think when it comes down to customer mix, I would also apply the vertical market mix as well, too. There's a number of different layers on top of the business as well as just the ODR-GCR mix as well too. So again, our goal is to get to the owner, but we need to figure out, we need to be in the right geographies, and we've got to have the right vertical mix, and we feel like the combination of that is going to give us the right flexible and nimble, sustainable long-term business.

Chris Moore | Analyst, CJS Securities:

Got it. And what do the margins profile look like on the on the GCR work you're winning. I'm trying to understand if you're just trying to further embed yourself in the data center market or if the organic GCR work that you're getting is actually higher margin at this point in time.

Mike McCann | President and Chief Executive Officer:

Yeah, our goal is to always embed ourselves into the facilities. But what we don't want to do is, and I think our track record is a positive from this perspective. We want to make sure we're taking really low risk work and trying to pick out the highest margin work as an example. And I would tell you, like, just the way that we approach things, I feel like it's a little bit different. If we're going to look at an opportunity, and somebody may look at this as a bigger project, we're looking at is can we pull a particular scope out? Is there a different angle to look at it? So we can provide the solutions-driven work, and somebody else may take a piece of the larger production work that may go on. So we're very particular about the way that we look at the work and we're looking to figure out how can we set up our future relationship as well. Our best relationships I would tell you is we're selling all of our customer solutions, capital projects, service, maintenance, rentals, Energy Efficiency Work. We're looking to figure out how we can sell our broad swath of services to those customers. And that's what's going to make us continue and have that longstanding relationship as well, too. It's all about how the individual project fits into the bigger picture.

Chris Moore | Analyst, CJS Securities:

Got it. And maybe just the last one for me is, obviously, Q3 orders were strong, $311 million, 1.4 times book to bill. So Q3 last year orders were relatively soft, and that was part of the The issue in Q1 of 26. So it looks like we're in good shape from that perspective. Is that a fair way to look at it?

Mike McCann | President and Chief Executive Officer:

Four consecutive quarters of book to bill are, I think, are something that we're looking forward to. And I would tell you that it's really, you know, we've talked a lot in the past about our investment from a sales perspective. And I think this is evidence of us, of that investment really starting to produce returns. I think the other element that we've added to the picture as well, too, is We realize local sales are important, but national sales are as important, if not more important. And ultimately, if we can get the national sales going and feed our branch locations, we're going to make the best decisions from a portfolio perspective as well, too. And I think that's starting to lead into elements from a book to bill prop as well, too. Got it.

Chris Moore | Analyst, CJS Securities:

I appreciate it. I'll jump back in line.

Operator | Conference Call Operator:

Once again, if you would like to ask a question. Please press star 1 on your telephone keypad. We have reached the end of the question and answer session. I would like to turn the floor back over to Adam Pryor for closing comments.

Adam Pryor | Vice President of Investor Relations and Corporate Strategy:

Well, Max, thank you, and thank you, everyone, for joining us today. And as always, we remain open for any follow-up questions. I'm looking forward to getting to know many of you, and we greatly appreciate your interest and investment in Limbach. Have a good morning.

Operator | Conference Call Operator:

This concludes today's teleconference. You may disconnect your lines at this time. Thank you for your participation.