NYSE:MG Q2 2025 Earnings Call Transcript

Generated on 6/10/2026

Layla | Conference Operator:

Good day, everyone. My name is Layla and I will be your conference operator today. At this time, I would like to welcome you to Mistress Group, Inc. Q2 2025 earnings conference 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 a question during this time, and if you have joined via the webinar, please use the raise hand icon, which can be found at the bottom of your webinar application. At this time, I would like to turn the call over to Thomas Tableski, Senior Vice President of Finance and Treasurer.

Thomas Tableski | Senior Vice President of Finance and Treasurer:

Good morning, everyone, and welcome to Mistress Group's second quarter 2025 earnings conference call. I'm joined today by Natalia Schuman, President and Chief Executive Officer, and Ed Preisner, Senior Executive Vice President and Chief Financial Officer. Before we start, I want to remind everyone that remarks made during this conference call, as well as supplemental information provided on our website, contain certain forward-looking statements and involve risks and uncertainties as described in Mistress' SEC filings. The major actual factors that can cause Mistress' actual results to differ are discussed in the company's most recent annual report on Form 10-K and other reports filed with the SEC. The discussion in this conference call will also include certain non-GAAP financial measures that we believe are useful to investors evaluating the company's performance, but that were not prepared in accordance with U.S. GAAP. Reconciliation of these -U.S. GAAP financial measures to the most directly comparable U.S. GAAP financial measures can be found in the tables contained in yesterday's press release and in the company's related current report on Form 8-K. These reports are available at the company's website in the Investors section and on the SEC's website. I'll now turn the conference call over to Natalia Schuman.

Natalia Schuman | President and Chief Executive Officer:

Good morning, everyone. Thank you for joining us today. It is my pleasure to be providing you with an update on our progress to date and report on our second quarter and first half results. I'm very pleased to report on our second quarter performance, which resulted in a record-adjusted EBITDA of $24.1 million, up nearly 9% -over-year, reflecting significant improvements in our operating leverage as a result of effective execution of our strategic priorities, diversifying our business, building scale and efficiencies, and engaging with our customers, all while leading with technical innovation. In Q2, we strengthened our performance across several key areas as compared to the prior year, comparable quarter. Most notably, we demonstrated organic growth of over 14% in our international segment, primarily within our European operations, and growth of over 30% in our PCMS service offering within our data solutions business. Within our end markets, we delivered growth of .4% in aerospace and defense and .2% in industrials. These gains were offset by softness in our oil and gas end market, largely due to macroeconomic volatility in the beginning of the year and subsequent customer deferrals and project delays. We do expect a stronger second half in oil and gas, largely due to our strong fall turnaround season. The majority of this work has been awarded to us and is hands in our backlog. I'm also very bullish on the overall energy market. I had the honor to present at New York Energy Week 2025 back in June discussing the future of energy and the role we play in enabling this progress. From extending asset life and supporting the energy transition to rapidly growing demand for the new infrastructure assets, the way we inspect, monitor, analyze the grid has never been more important. And at MISTROS, we are proud to help customers do just that, with data-driven solutions that improve safety, performance, reliability, and uptime, which we believe will help us grow both top line and bottom line for the remainder of the year and into the future. Aerospace and Defense is our second largest end market, and we delivered .4% revenue growth in the second quarter, following a slow start to the year in Q1. The momentum we've seen in this market gives me confidence in our growth prospects within this end market going forward, as we continue to expand and leverage the capabilities in our Aerospace and Defense platform, supporting both Boeing and Airbus supply chains, as well as private spacecraft customers. Given the attractive margin profile in this segment, we believe this growth will produce a meaningful impact on our financial performance in the second half and beyond. As further evidence of the evolution of our platform is our recent National Aerospace and Defense Contractor Accreditation Program, NADCAP, certification for welding services, which adds to our Aerospace Quality System certifications previously achieved. NADCAP certifications ensure that companies meet specific industry standards and requirements, enhancing product quality and reliability, and safety standards are adhered to. This certification reflects our dedication to precision, consistency, innovation, and meeting the highest standards required by leading Aerospace manufacturers. Over the past quarter, as part of our efforts to restart our growth engine, I have established a key strategic initiative for myself, as well as the senior leadership team, both at corporate level and in the field, to improve customer engagement. The voices of the customer is crucial to us. We have been actively listening in order to better understand our customers' evolving needs, as well as their current assessment of our services level. My executive team and I have met with over 100 customers during the first half of 2025 alone, and the message being received is crystal clear. Our customers value our trusted relationships, and they are also asking for a more proactive partnership with integrated, agile, customizable solutions while maintaining cost efficiency. As an example, we've learned that our customers are going through their own management consolidation, restructuring, and reorganizations, specifically in the oil and gas industry. During these conversations, we continue to showcase our differentiation and value proposition to our customers, especially when it comes to our integrated digital offerings, predictive analytical tools, and breadth and depth of our global footprint and coverage, which we believe will greatly assist them in reducing their maintenance cost while improving their reliability. In certain cases, we also learned that we have not connected closely enough to our customers. This input we received is invaluable to us. And our recent actions will be internalized as we continuously and proactively seek feedback moving forward. This dialogue is shaping our capital investment and our R&D roadmap and reinforcing our role as a long-term strategic partner for our customers. With respect to our data solutions business, this business is a key pillar in our forward strategy where we deliver tailored, high-value solutions that integrate our proprietary software and advanced analytics. We recently held our PCMS users conference in Orlando, Florida in June. This conference was once again attended very well with over 110 participants representing over 40 customers. The content was focused on upcoming release of PCMS and recently launched mobile version. We also showcased case studies highlighting real-world customer successes through the use of 3D modeling and digital twins. These case studies were developed based on customer feedback gathered during last year's conference and refined over the intervening period. In a similar manner, our PCMS customers simultaneously expressed their current challenges and needs and shared within a network of industry peers while at the same time actively engaging in the development of the roadmap for future PCMS software updates and upgrades. Many of our customers also share that digital transformation is a top priority for their organization and that they have allocated budgetary spending in this area to improve asset performance and uptime which we are well positioned to capitalize on. Again, our primary objective is active engagement and seeking real-time input from customers in order to evolve our solutions for them collaboratively addressing their needs at the same time maximizing our ROI while maintaining leading edge innovation. As part of our end market diversification efforts, we have experienced increased level of overall commercial bid activity which has resulted in recent wins in other end markets beyond our core in oil and gas. This diversification helped contribute to our 30 basis point improvement in gross profit margin in Q1 of this year which greatly expanded to a 200 basis points increase in Q2 of this year which increased margins across all segments as compared to the prior year comparable periods. We are focusing on areas such as new construction projects related to data centers, AI, and other high margin infrastructure and power generation projects in addition to opportunities in the industrial and other process industries. We have already made good progress in power generation and transmission and market as evidenced by our quarterly revenue growth of over 30%. As we retool, reshape, and reinvigorate our business, we have taken many decisive steps to enhance profitability and sharpen our focus. This reflects the strengths of our operating model, disciplined cost management, and continued focus on driving efficiencies across the business. These results demonstrated our ability to deliver value despite market volatility positioning us well to restarting our growth engine. We have adjusted our company's organizational structure, delayed the organization, reinforced performance management at each lab, and implemented clear KPIs which are used to continuously manage performance and control our costs. These are not just short-term cost calibrations, they are structural improvements designed to improve and expand decision-making capacity, reinforce the field organization, and help ensure operating leverage through all business cycles. As a result of these efforts, in 2025 we decided to close and consolidate several underperforming offices and lab operations, effectively exiting several unprofitable businesses and eliminating operations that had negative income and unclear paths to sustainable returns. The revenue loss tied to these labs amounted to approximately $3 million in Q2 and $5 million in the first half, which drove a portion of our 2.3 -over-year reported revenue decline. Excluding those exited revenues, our overall revenue base was effectively flat in Q2 as compared to the prior year comparable period. At the same time, these actions have contributed to EBITDA improvements in the first half of the year and will positively reflect in our overall 2025 results and beyond. Ultimately, while these labs closures are short-term revenue drag, the strategy to reduce underperforming assets and projects will be an evergreen effort while focusing on profitable growth to drive margin expansion. We have remained focused on the development and retooling of our in-lab services business, a process that began with an appointment of a new senior vice president of in-lab services in April. Since then, we have integrated and standardized operating protocols across all of our lab facilities, hired a new divisional sales leader, secured additional accreditations, and expanded our portfolio of service offerings. Customer conversations have reinforced that the industry continues to face near-term inflationary pressures and supply chain constraints. Having said that, we believe our integrated approach, coupled with the most comprehensive suite of services in this market, positions as well, to create meaningful value for our customers via offering premium services and expanding our capacity. Looking ahead, we will continue to invest in this business through strategic and focused capital expenditures and a sharpened focus on growth over both the near and long term. Overall, despite this performer flat revenue in Q2, we significantly improved profitability. We have increased our adjusted EBITDA by 8.9%, driven in large part by a growth margin expansion by 200 basis points, with expansion across all segments due to diversification efforts and improved operational efficiencies. Our balance sheet also remains strong as we continue to manage our working capital and control discretionary spending while making continuing investment in our capabilities. Our leverage ratio still remains slightly below 2.75 and well below our permitted ratio of 3.75. Our goal is to finish 2025 with a leverage ratio of below 2.5. To conclude my opening remarks, I would like to say that we are not just managing quarter to quarter, we are building for the long term future. We have restarted the growth engine in our industrials and airspace and defense and markets and are keenly focused on improving our performance and capabilities in oil and gas and diversifying to other industries such as infrastructure and power generation and markets, all of which will drive long term growth. We are also reassessing our portfolios through the lens of return on invested capital and alignment with current and future market trends. Our strategic objective is to become an agile, client-focused, innovative asset integrity and testing market leader and ready to scale as demand expands. In short, we are staying close to our customers, changing what we no longer feed, improving our bottom line and investing in what is needed for our customers. As the market continues to evolve, we are focused on aligning our capabilities to meet increasing demand for more integrated and data-enabled solutions. By combining advanced technologies with deep operational expertise, we are positioning MISTROS to lead in high growth sectors and provide critical support where reliability, safety and performance matter the most. With that, I will turn the call over to Ed for more financial details on the second quarter and first half results.

Ed Preisner | Senior Executive Vice President and Chief Financial Officer:

Thank you, Natalia. As shown on slide eight, revenue for the second quarter was $185.4 million. In line with analyst consensus and consistent with the prior year comparable period, after adjusting for the business, we voluntarily exited related to lab closings and consolidations. While the reported decline in second quarter revenue was modest and not related to any market share loss, we are monitoring trends closely and remain focused on returning to growth in the second half year over year. In spite of the consolidated shortfall in the first half revenue, there was strong growth within certain businesses, such as within our PCMS offering, aerospace and defense, industrials and power generation and transmission end markets and our international segment. Gross profit increased by $2.6 million in the second quarter versus prior year, which represents a 200 basis point expansion year over year to 29.1%. This improvement was attributable to an improved business mix and operating efficiencies. We improved adjusted EBITDA to $24.1 million, an all-time high second quarter record resulting in an .9% increase from the prior year quarter. This reflects our proactive cost management, operational efficiencies and leverage and a shift towards higher margin offerings. Our adjusted EBITDA margin increased to .0% from 11.7%, an expansion of 130 basis points. As noted in our press release, our results reflect certain overhead and personnel expenses, which have been reclassified from SG&A to cost of revenue. As we determined, this reclassification would be preferable as it provides greater transparency regarding the true cost of the company's revenue and aligns with how our business is managed. These overhead and personnel cost, which were determined to be directly related to the company's delivery of services, are generally variable to revenue being recognized and results in gross profit that fully encompasses all costs necessary to generate such revenue. This reclassification recorded within our financials was $4.8 million for the three months ended June 30, 2024. The impact of this reclassification for full year 2024 was approximately $20.9 million from SG&A to cost of revenue. This redistribution of overhead and personnel cost has no impact on operating income, net income or adjusted EBITDA comparability. Selling general and administrative expenses in the second quarter were up 3.6 million or 10% from the prior year comparable period due primarily to foreign exchange loss within our SG&A of 2.8 million. For the second quarter of 2025, the company recorded $3 million of reorganization and other costs related to our continuing initiatives to reduce and recalibrate overhead costs in addition to incremental costs of other related actions. Our effective income tax rate was a benefit for the first half of 2025, whereas we anticipate an effective income tax rate of approximately 25% for the full year 2025 as we experienced in the second quarter of 2025. Interest expense was $4.2 million for the second quarter, decreasing by $0.2 million or .5% from the prior year due to a lower interest rate environment. For the second quarter, we reported gap net income of $3 million or 10 cents per diluted share. Excluding special items, non-gap net income was $5.8 million or 19 cents per diluted share for the second quarter compared to $6.8 million or 21 cents per share in the prior year. Operating cash flow was negative $3.5 million in the first half of 2025, down from $5.1 million in the prior year, largely due to working capital timing. Specifically, in the second quarter, we had a buildup in unbilled receivables and a delay in invoicing related to our conversion to a new ERP effective April 1 of year. Although our unbilled and build receivable balances were up as of June 30, 2025, we expect a significant reduction over the remainder of the year. Free cash flow was negative $16.2 million in the first half of 2025 compared to negative $6.9 million in the prior year comparable period, attributable to the same factors impacting operating cash flow. On a trailing 12-month basis, which better normalizes -to-year differences, our free cash flow was $17.8 million, despite the first half 2025 -over-year lagging results compared to the prior year period. We expect normalization in the coming quarters and remain committed to strong free cash flow generation over the second half of 2025. Our trailing 12-month bank defined leverage ratio was just under 2.75 times as of June 30, 2025, which is up slightly from year end, but still well within allowable permitted ratio of 3.75 times. We expect to finish 2025 with a leverage ratio below 2.5 times. We continue to emphasize debt reduction as our priority use of free cash flow. However, we will also continue to invest in capital expenditures and other resources that support our organic growth strategy while providing solid returns. As our leverage ratio is in line with our expectations, we do currently possess optionality as it relates to free cash flows, so we will be balancing these two priorities to maximize shareholder value. We will not be providing full-year guidance for fiscal 2025 as our CEO and renewed senior management team are still reviewing our entire portfolio of business. We are also continuously assessing market volatility, including the impact of recently enacted tariffs on our business and results for fiscal 2025. Having said that, we nevertheless expect our 2025 adjusted EBITDA level to exceed the adjusted EBITDA level achieved in 2024, which had been the second highest annual level achieved all time. We appreciate your continued support, and at this time, I would like to turn the call back over to Natalia for her closing remarks before we move on to take questions.

Natalia Schuman | President and Chief Executive Officer:

Thank you, Ed. First, our senior leadership team and I, in coordination with our board, are highly engaged and increasingly excited as we continue to develop our five-year strategic roadmap, Vision 2030 for mistrust. We plan to share the details of this plan as we finalize our -to-market strategy to capitalize on significant opportunities to enhance growth and profitability in a more holistic way across the entire organization. Second, we believe demand in our key asset integrity and markets is accelerating and broadening. Secular trends in both energy and airspace and defense markets require deeper integration, high technology expertise, and meaningful data capabilities. Mistrust is uniquely positioned with our current portfolio of assets, technology, and services and is supposed to become a large asset integrity and testing market leader with increased coordination and synergy of these integrated offerings. Third, as we spoke to this quarter, mistrust is committed to profitability as key north star in our strategic decision-making. In both the short-term and long-term, each decision we make, whether it be operational or through the deployment of the capital and resources, will require improvements in our return. This will be critical on how we measure our people and hold our company to a higher level of accountability. And finally, I would like to extend my sincere thanks to our customers and our dedicated employees. Your continued dedication, collaboration, and focus on results have been instrumental in building the momentum that is driving us forward in a stronger and promising future. It is an exciting time at Mistrust, and I will end by thanking all of you again for your support. We'll now ask the operator to open the call to your questions.

Layla | Conference Operator:

We will now begin Q&A. For today's session, we will be utilizing the raise hand feature. If you would like to ask a question, simply click on the raise hand button at the bottom of your screen. Once you've been called on, please unmute yourself and begin to ask your question. Thank you. We will now pause a moment to assemble the queue. Our first question will come from Mitchell Pinheiro with Sturdevent.

Mitchell Pinheiro | Analyst, Sturdevent:

Hey, good morning.

Layla | Conference Operator:

Good morning,

Mitchell Pinheiro | Analyst, Sturdevent:

yes. Yeah, good. So hey, a couple questions. First, just on guidance or the lack thereof. So EBITDA, I got that part. I'm curious about revenue. Is that also going to be above last year or are there puts and takes in that, you know, I see, you know, from foreign currency and things like that, will it be puts and takes that drive it lower than last year?

Natalia Schuman | President and Chief Executive Officer:

Right. Mitch, yes, EBITDA is clear. We exceed the last year results, but revenue, it's hard to tell. We are still continually reviewing our portfolio. As you've seen in the first half, you know, we are, we did exited a few operations, right, a few labs. So that's resulted in decline in revenues. So on top of that, there is a market volatility continues, right, tariffs again, you know, additional uncertainties. So that's hard for us to control on the revenue side. So we are laser focused on what we can control at this time and really focused on the

EBITDA improvements. So, you know, oil and gas still volatile. It's very hard to predict what our customers will do. You know, first half was tough, right, with delays and deferrals of the projects and work. So we'll see how it's, we'll end up in second half.

Mitchell Pinheiro | Analyst, Sturdevent:

Okay. I mean, so, so within that, like you did say you expect a strong fall turnaround season, I guess you have good visibility into that. Is that, is that correct?

Natalia Schuman | President and Chief Executive Officer:

That's right. That's right, Mitch. Exactly. So that's what, you know, what gives us line of sight that we will be having a good second quarter. So it's really the turnaround. So we have a robust robust backlog of turnaround work. That's number one. Then obviously the large portion of our business is nested sort of embedded teams at our customers that do run and maintain work. So that we have a line of sight too. And then of course, incremental revenue, right? So as you can see, our data group is doing really well, especially, you know, in particular PCMS, right? So we're using this time to really connect with customers and look at the incremental opportunities as they looking at, you know, digital transformation, we're right there for them. So, and why not come from the services in particular, but we see that we have line of sight for other incremental revenues.

Mitchell Pinheiro | Analyst, Sturdevent:

Let me ask this, this thing on the, we'll on guess for just a second is midstream, which I thought would be more of a regular steady predictable revenue stream has been down for six quarters or so. You know, I think we're doing a hundred million back in 23 and we're run rating somewhere in the 70 million area. What's, what's happened with the midstream? Is that, I thought it was sort of temporary, you know, but it seems to be a little more than temporary.

Natalia Schuman | President and Chief Executive Officer:

Yes. We have some challenges. That's, that's, that's right. You, you correct in that. We have some challenges in the business that particularly service, midstream and market customers. That challenge is continued through beginning of this year. So most of it is increased competition, increased price and lower price. Sorry. And we have addressed that. So we changed the leader of that particular business. We're looking to turn around this business. So I believe that the prospects are there because midstream has great opportunities, especially with the demand for natural gas, the data centers, explosion and so on. So we believe that we're well positioned to capitalize on these opportunities in the future. So we continuously invest in this business. But again, that has been quite challenging in the last, in the last couple quarters.

Mitchell Pinheiro | Analyst, Sturdevent:

Okay. Thanks. That's helpful. And then I was, you know, sort of pleased to see and hear your comments about your customer engagement meeting with, you know, your customers. I'm curious, um, like, so, so as you guys get together for, I think you said, you know, like a more proactive relationship, I mean, what, what does that mean? It, you know, it, how's that different than your, you know, relationship now, or what was it all like a bid relationship and now it's more of a partnership? How, what does, can you give a little more color into what that meant?

Natalia Schuman | President and Chief Executive Officer:

Absolutely. It's been great to, to really engage with the customers on all kinds of levels. And, and what we are doing here, Mitch, is we're really shifting from transactional relationships to strategic partnerships, right? What does it mean? It's really three things. It's a strategic alignment. So as we're looking at building the roadmap for investments, for our innovation, for R and Z, right, we want to be very aligned with our customer needs. So, you know, again, PCMS is a great example. They've been doing it for a number of years already. So we've got to get better at, in other, um, in other businesses as well. Then the second one is really lead with technical innovation. So we do have, Mistrust is, you know, historically been really, really good in innovating and leading with new technologies. And that's what we continue doing is really leading with that. And then the three is really get, um, customers to understand our, the full portfolio of services and the entire suite of our integrated solutions. Because, you know, we not just field services. We're not just data. We really have the data, data analytics solutions. We have field services. We have in-lab solutions. We have product and monitoring technologies. So what I've learned from my kind of conversations with customers that they did not necessarily were aware of all of our breadth and depth of our service offerings. And that's what we mean by those integrated solutions, right? Where, you know, if today maybe, you know, they are all very focused on operational efficiencies, we are right there to deliver at low cost that, you know, to meet them where they want to be. So that's what we mean by that kind of stronger partnership, stronger relationships with customers. It's been exciting because feedback was really, really good. So we're doing the right things, the right quality. It just, the customers are not fully aware of our full suite of services.

Mitchell Pinheiro | Analyst, Sturdevent:

And how long does it take, you think, to sort of convert, you know, sort of this new, sort of this new relationship, you know, and their awareness of your, you know, of your one-stop shop and your robust services? How long does it take before, you know, you sort of see that creeping into the revenue line?

Natalia Schuman | President and Chief Executive Officer:

Yes, we expect, well, first of all, we already seen it, right? Little by little, we've seen that. So we have already increased that cross-sell kind of when customers are using, you know, not just one service, but two. So we continue, we're seeing it now, you know, it will take time. But again, we have now have consolidated our sales approach, right? We hired new salespeople. We are training the entire sales team on all our services, right? So it will take time, but we believe that, again, we're starting that engine growth now. So we've seen it in airspace and defense. We've seen it in industrial. Look at our power. Yes, it's very small, but again, increase the double digits, you know, very pleased with the efforts of our sales team, of our operational folks, but it will take a little time.

Mitchell Pinheiro | Analyst, Sturdevent:

Okay, just if I could sneak in one more. I was very pleased to see the, well, first you talked about increased commercial bid activity, which is nice. I'm curious on that one. Is that, do you have a different sales force or different sales approach, or is there so much demand out there that you're just getting this bid activity just because you're there? And then second, is there, is the power generation, you know, was up 31% or so. It's small, but it's very nice growth. Is that something, is that going to be sort of the growth engine? You know, of all the smaller segments, you know, among your smaller segments?

Natalia Schuman | President and Chief Executive Officer:

Yeah, okay. So let me address the sales question first, and then I comment on power, because it's one of my, you know, really exciting topic to talk about. So the commercial team definitely strengthen the team, right? Hired just in this quarter alone, we hired seven additional salespeople, so sales executives. So we continue to focus on the commercial discipline. So yes, revenue is important to us, but we do not compromise on profitability. So that discipline that was, you know, instilled by many, you know, in Q, in last year, we continue with that. That's number one. Number two, again, that strengthening the training, training machine of our salespeople. So continuously keep happening. And the third one, we really rebuild our lead generation platform. So huge improvements there with the arrival of our chief marketing officer. So, and they're working very closely with our commercial officer. So that's been done. And that's already generating that sufficient amount of bid activity. And then we're really working on the maximizing our brand impact. You will see more from coming from us in this third quarter, when it comes to our brand, because again, Mistrust is a great brand, we are not leveraging it just, you know, enough. So we got to do more on that front. And so now moving into power. Yes, power is definitely one of the items where I would like us to diversify to because, you know, the demand for power is unprecedented, try to look at AI, it's a huge consumer of power. And there's obviously now, you know, natural gas, the energy infrastructure, Mistrust, this is our core, right? So data centers, this is our core applied to the new use case, right? So that's where we feel very strongly where we can contribute right away. We have already great success this quarter with data centers, the feedback from the customers were excellent, we helped them to avoid very, very costly repairs and delays in going life with the data center. So again, very encouraging feedback. And we believe the opportunity is just great in power, GNN transmission.

Mitchell Pinheiro | Analyst, Sturdevent:

Okay, and actually, thank you for the time.

Natalia Schuman | President and Chief Executive Officer:

Just to your question, really on the mainstream. So mainstream will play excellent, the very critical role when it comes to the natural gas distribution to data centers. So we believe again, we are we're going to turn around that business that serve mainstream customers, and they have tremendous opportunities. So that's another point that I just wanted to make on the energy infrastructure.

Mitchell Pinheiro | Analyst, Sturdevent:

Okay. All right. Well, thank you. Thank you for the questions.

Natalia Schuman | President and Chief Executive Officer:

Thank you, Mitch.

Layla | Conference Operator:

Your next question will come from Chris Sakai with Singular Research. Chris, your line is now open, feel free to unmute and ask your question. Hi, Chris. We'll go to, we can go to our next person and Chris can reenter the queue. Our next question will come from John Frenzrup with Sadatian Company.

Justin | Analyst, Sadatian Company:

Good morning. This is Justin on for John. Can you hear me? I

Natalia Schuman | President and Chief Executive Officer:

just,

Justin | Analyst, Sadatian Company:

yes. Great. Good morning. So it was great to hear about the strong attendance at the PCMS users conference. Can you share some of the key takeaways from your customer conversations there? And secondly, following the Q1 rollout of PCMS mobile, how is customer adoption trending?

Natalia Schuman | President and Chief Executive Officer:

Thank you. Thank you for that question. Yes. PCMS conference is usually the hallmark of our year and the team has been having those conferences on an annual basis. So it's had great attendance and, you know, the customer's feedback is very favorable. You know, the development and upgrades and new versions of software works very well. So we did include additional modules to the new offering. So again, this was based on the customer feedback from the last year conference, for example, digital twin, right? So the modeling of the assets virtually that is being adopted and a few of our customers already have implemented that digital twin and their operations that allow them to really kind of play with the asset, you know, in changing different parameters and see how it will influence their life cycle. We did also introduce additional services when it comes to the risk-based inspections. So that business that we see, it's reflecting in the revenue stream as well already. So we just mentioned that PCMS alone was 30% up versus prior year. So again, feedback has been very, very important to us and very favorable. So moving forward, there's already an R&D sort of pipe, right? When it comes to the software, but we also adding AI capabilities, which is very exciting. And this team is very excited about that, how that will allow the customers to implement it sooner and faster and also introduce it to their value chain. Because, you know, again, especially like oil and gas is PCMS servicing predominantly our oil and gas customers, all oil and gas customers going through their own digital transformation as they're looking for the operational efficiencies. So we're right there for them, you know, allowing them to manage their data and capture it and use it. So again, very favorable feedback. And

Ed Preisner | Senior Executive Vice President and Chief Financial Officer:

you mentioned, Justin, mobile as well. Same point there, quicker, faster, collect data at the point, do a calculation in the field. Data is king, the faster we get it up into the IVMS Workhorse database, more analysis can happen quicker. So mobile is being adopted very rapidly. It's another extension, it's easier to use. And PCMS, we've been going after that, it's a SaaS service. It's a very quick, easier adoption for the customer. And it keeps us very connected to them. And mobile is our newest launch there. And we feel very good about the adoption rate of that, that'll help, you know, increase that connectivity. Natalia talked about with the customer, that integrated value add stream. And this data piece is important because it can pull service through service can then use the data, they go hand in hand as a great cross selling and opportunity and a leverage for the customer to get, you know, much more information actionable for them. And the faster we can do it for them all the better. So hope that answers.

Natalia Schuman | President and Chief Executive Officer:

Yeah. And as you can hear, we all love PCMS story here. So it's a recurring revenue. You know, one, we are the customer. So it's a revenue that is going to recur and reoccur every year, right? So and we're now servicing half of US oil refineries. So that's kind of now we expanding it as well. So it's a great story.

Justin | Analyst, Sadatian Company:

Very helpful. Really appreciate the color there. And secondly, can you speak to the demand you're seeing from data center customers and how your services are positioned to support their needs in the back half of the year?

Natalia Schuman | President and Chief Executive Officer:

So data centers is another exciting story, right? As I just mentioned a few minutes ago, right? It's certainly a great consumer of power and the demand grows exponentially with those data centers. So for us, we are well positioned from two different ways, right? First is we serve data centers directly. So meaning that this is our core capabilities, you know, when you look at the systems being used in data centers, you know, they need NDT services. It's, you know, it's a cooling, it's making sure that there's no failure, it's making sure there's predictive maintenance, predictive analytics, all of that, right, is our core. So we've been doing it all along, you know, in with MISTROS, and now we're just applying it to data centers. So we are tracking very well. It's one of our top strategic priorities in order for us to diversify the company. So that's one thing is, again, like servicing data centers, but also then look at the energy infrastructure, right? How the power gets to data centers. That's another opportunity for us, again, to serve with those midstream customers that are very excited about data centers as they are delivering natural gas to them. So for us, it's a tremendous opportunity. We yet to capture it fully. So we made great strides this quarter, received very favorable feedback. That's encouraging, and we will report on our progress moving forward.

Justin | Analyst, Sadatian Company:

Very exciting. Thank you for answering my questions. I'll turn it back.

Layla | Conference Operator:

Thank you. For our next question. For our next question, we'll go to Chris Sakai with Singular Research. Please go ahead.

Chris Sakai | Analyst, Singular Research:

Yes, hi. Good morning. Can you hear me?

Natalia Schuman | President and Chief Executive Officer:

Yes. Hi. Good morning,

Chris Sakai | Analyst, Singular Research:

Chris. Okay, great. I just wanted to ask about the gross profit margin improvement for the quarter. Is this something that we can expect going forward, or is this a one-time mix shift? Can you give us some more color there?

Natalia Schuman | President and Chief Executive Officer:

Absolutely. Absolutely. Yes, very happy with the progress. So the drivers behind gross profit expansions are really three. One is diversification. That's we just talked about, right? It's focused on that, you know, high margin business. So secondly, operational efficiencies. So when you think about, you know, managing bill rate, build, unbuild, training costs, our operations doing really good job in looking at the how to generate those operational efficiencies. So again, that is something that we believe that we can do better and the third one, you know, if we're looking at the moving forward, we've done pretty good job, I would say, in the second quarter, we most likely will moderate off here and there a little, you know, but we expect that level of our gross margins to sustain itself, you know, in the second half and beyond.

Chris Sakai | Analyst, Singular Research:

Okay, great. And then, can you talk about the new ERP system? You know, what can we expect as far as the improvement there goes in the second half, as far as unbilled and bill accounts receivable is concerned?

Ed Preisner | Senior Executive Vice President and Chief Financial Officer:

Sure, Chris, thanks for the question. Yeah, so we went to April 1 adoption of, it's a cloud SaaS version of our prior system. So we went to the latest version of our incumbent. So as expected, or as is normal, we had some learning curve growing pains there as we cut over, obviously, we had to delay itself and cutting over the data. So yes, admittedly, we fell behind on generating WIP into build AR and invoicing customers timely. So that delay we talked about in the script did cause a build up, you know, that WIP value went up in April, it's back down in June. So there is a much higher, healthier level of AR to collect here in the third quarter. So we have confidence that free cash flow does get better over the second half, significantly better. Going forward, we're now coming up the learning curve, getting more efficient, there's more workflows built in, and efficiencies in the new ERP. But it'll take a little time to extract out the full benefits there again, getting through the learning curve, it was a significant change, new reports, new process flow. The good thing is it's very standardized, there's one way of doing it, one process, one chart of accounts. So there is a great way to standardize, regionalize and centralize and standardize how we're thinking how we're operating. So benefits to be had going forward, think of it as leveraging the footprint, we can grow the company now on this better backbone we built, where we're not adding people as we expand, we'll be able to leverage a system going forward and grow the company on top of it. And we're looking at other related systems, all workflow related, data flows, reports and systems that run the operations, we're looking at all of that now as well, to really enhance and speed up decision making going forward. That's the benefit, all these cost efficiencies, Natalia talked about efficiencies, will come from working all eyes in one place, working on a very common platform. But there's still opportunities in front of us to maximize the dashboard and the decision making and speed it up from the new system. It'll take a few more months to really ideally maximize that. But we're in a good place right now and we'll take full advantage of that. And we will absolutely get the build AR back on cycle here and flip the cash flow in the second half, we're very confident about that.

Chris Sakai | Analyst, Singular Research:

Okay, sounds good on that. And then lastly, can you give an idea about any sort of extra reorganization costs in the second half of the year? Are we going to see something similar to the second quarter or how should we go about that, looking at that?

Natalia Schuman | President and Chief Executive Officer:

Yeah, maybe Chris, I'll start on that and Ed will add additional details on what to expect. So, you know, as I'm, you know, took over right then beginning of the year, we are continuously recalibrating our structure, right? So we continue to assess our portfolio, our teams, we are, as I mentioned before, making it more integrated companies. So we're breaking those silos that we had before we layered the organization. So that's helping us with again, going as a one-stop shop to our customers as a one single front solution. And for us, it will continue, it will be an evergreen effort to make the organization more agile, more efficient, more kind of changing as we need to change, right? So having said that, we do not expect the large restructuring charges or cost moving forward. So there will be some, but it's going to be sort of moderate, let's put it this way. So what we continue to assess and calibrate the organization for sure, our structure and our kind of our costs, right, as well. Ed, do you want to?

Ed Preisner | Senior Executive Vice President and Chief Financial Officer:

Yeah, no, no, absolutely right, Chris. Or in Chinese, sorry. It will moderate, Chris, to your point in the second half. We go after a rather rapid, you know, return and payback for the actions we take. So, you know, continuing to balance headcount and facilities, we had the lab closures we talked about, that will continue, we'll continue to recalibrate as we go. There was a few one-time charges in the first half that won't recur in the second half. We will continue to make sure that the overhead footprint is supportive of the current run rate of revenue and the business. And we're in a good place right now, but that number will definitely drop off. It is significantly higher than last year, at this point through six months, but it will drop back off in the second half and moderate as we go forward. But we will continue to make this an important priority here to make sure that we're continuing to keep the to flex and leverage up with volume and, you know, it's keeping it balanced.

Chris Sakai | Analyst, Singular Research:

Okay, great. Thanks for the answers.

Ed Preisner | Senior Executive Vice President and Chief Financial Officer:

Thank

Chris Sakai | Analyst, Singular Research:

you.

Natalia Schuman | President and Chief Executive Officer:

Thank

Layla | Conference Operator:

you. At this time, I see no callers in the queue, so I will hand the call back to Ms. Schumann for her closing remarks.

Natalia Schuman | President and Chief Executive Officer:

Well, thank you, operator, and thank you, everyone, for joining this important call today and for our continued interest in MISTRUS. I look forward to providing you with an update on our business, Vision 2030, strategic plan, and progress achieved towards our ongoing initiatives on our next call. Thank you very much. Have a good day.

Layla | Conference Operator:

This ends today's conference call. You may disconnect at this time.