NYSE:MG Q4 2025 Earnings Call Transcript

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Luke | Conference Operator:

Good day, everyone. My name is Luke and I will be your conference operator today. At this time, I would like to welcome you to the Misgrast Group Incorporated Q4 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 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 Tobolsky, Senior Vice President, Finance and Treasurer.

Thomas Tobolsky | Senior Vice President, Finance and Treasurer:

Good morning, everyone, and welcome to Mistrass Group's fourth quarter 2025 earnings conference call. I'm joined today by Manny Stamatakis, Executive Chairman of the Board, Natalia Schumann, President and Chief Executive Officer, and Ed Preissner, 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 Mistrass' SEC filings. The major factors that can cause Ms. Strauss' 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 non-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 8K. These reports are available at the company's website in the investor section and on the SEC's website. I will now turn the conference over to Natalia.

Natalia Schumann | President and Chief Executive Officer:

Good morning, everyone. Thank you for joining us today. It is my pleasure to report to you highlights of our fourth quarter and full year financial performance and provide an update on the progress made to date on our strategic plan and our outlook for 26. Let me first start with fourth quarter results. I am pleased to report that we delivered consolidated revenue growth of 5.1% in the fourth quarter versus the prior year. As we communicated earlier this year, we successfully executed on a number of critical initiatives to restart revenue growth in the second half of 2025. In particular, we generated double-digit revenue growth across several key areas of our business, namely within the airspace and defense, power generation, and infrastructure and markets. Our airspace and defense business, which is our long-term growth engine, led the way with 4.5 million of growth in the fourth quarter, increasing 21.9% over prior year quarter. Power generation was up 3.3 million, representing 33.2% growth over prior year quarter. The industrials and infrastructure verticals were also up 6.7% and 26.8% respectively over the same timeframe. This increases more than offset the anticipated decline in oil and gas revenue due to timing of projects and the closure of unprofitable labs. Our airspace and defense operations, as we have reported throughout the year, have made significant improvements in 2025, driven by new leadership supported by targeted capital investments. We have rebuilt the structure, introduced a hub-and-spoke operating model, and implemented dynamic pricing strategies. In addition to commercial aerospace strengths, demand within the private space and defense industries has also played a favorable role in expanding our growth in this market. These actions led to the record high

performance in our laboratories business, which grew by 61% in our fourth quarter as compared to the prior year. Aerospace and defense expansion plus the double-digit growth in other key industries already mentioned has resulted in favorable business mix, which in turn was a major driver behind the 190 basis point improvement in gross profit margin of 28.4% on gross profit of nearly $51.5 million for the fourth quarter. This contributed to our GAAP net income of $3.9 million and EPS of $0.12 in the fourth quarter and non-GAAP net income and EPS of $7.9 million and $0.20, respectively. We achieved adjusted EBITDA of $24.8 million, which was up 18.2% over the prior year quarter, representing a 13.7% adjusted EBITDA margin, which was a 160 basis point improvement over the prior year comparable quarter. Our fourth quarter adjusted EBITDA and adjusted EBITDA margin represent the highest ever fourth quarter performance achieved in a company's history. Equally important, this performance reflects improved pricing discipline, mix and operating efficiency, and not only one-time actions such as restructuring and lab closures. Next, I would like to provide a few highlights of our full year 2025 results. On a full year basis, consolidated revenue was $724 million, which was slightly up year over year, excluding the impact of laboratory closures. Revenue was up for the full year in our airspace and defense, industrials, power generation, and infrastructure and markets. Our international segment delivered revenue growth of nearly 6% for the year, driven by a diversified platform, most notably solid performance within the industrials and aerospace and defense markets. We had anticipated our second half revenue performance to exceed that of the first half of the year. And this trend materialized, driven by significant improvements across key growth markets while improving margins. We expect to continue this trajectory of profitable growth in the future. Our overall efforts in 2025 resulted in the generation of adjusted EBITDA of $91.1 million for the year, with an EBITDA margin of 12.6%, which exceeded our previously issued outlook. Our intense focus throughout the year was to deliver EBITDA margin improvement. We, in fact, achieved these goals utilizing financial and operational discipline while establishing a strong foundation in 2025 and providing credibility to the market, which our results demonstrated. To summarize our 2025 results, I am very pleased with our performance, achieving adjusted EBITDA at all-time record. This is a testament to our proven business model and client-first mindset. In 2025, I was focused on building a new executive team, eliminated unprofitable business, and streamlined the organization, while focusing on the strategic direction and building new capabilities and developing a winning culture. We have already experienced early success, including recent wins, improved margins, the adoption of new pricing strategies, and an overall new sense of purpose, direction, and intensity, which position us very well for the future. Let me now shift to a brief overview of our most recent progress against our three key priorities in our strategic plan, Vision 2030, the first of which is expanding our share of wallets and transforming our current services into a more comprehensive, integrated, and innovative solutions for our customers. Our data solutions business plays a key role in executing on this priority. This business derives significant value from its more than 20 years of inspection data that we have collected, analyzed, and transformed. into actionable insights for our customers. Specifically, within this business, we achieved great success within our Plant Condition Management Software offering, which grew by 20.7% in the fourth quarter of 2025 and 25.2% for the full year versus the prior year comparable period. This growth was driven by market demand, new customer adoption, and increasing the number of in-house implementations. This offering is a specialized industrial software platform with a high level of recurring revenue. This platform is a part of broader OneSuite asset protection software ecosystem, a cloud-based integrated platform that brings together our various software tools, data services, and analytics into a single connected environment, which helps to keep complex infrastructure safe, compliant, and operating effectively. We expect to enlarge our market share related to our data analytical solutions business as we expand our platform from its original compliance focus to its current risk-based inspection, which will ultimately transition to a more sophisticated, predictive maintenance, and AI-centric platform, reflecting our commitment to continued innovation in data-driven inspection. We are monitoring and driving this data services revenue growth by measuring several interrelated metrics, including sustaining a high year-over-year renewal rate, expanding the percentage of available applications utilized by each customer, and increasing our customer retention. We intend to prospectively report upon the growth rate of this business, utilizing this and related metrics so that you can monitor our progress going forward. In addition to doing more for the existing customers in the oil and gas market, we're also winning projects with new customers, allowing us to diversify our business, which is the second priority within our strategic plan. Examples of successful and market diversification include two recent wins in bridge monitoring contracts in

the U.S., where our innovative monitoring and data analytical capabilities set us apart. These projects helped to contribute to the growth in our infrastructure and market, which grew by 2.5 million or 26.8% in the quarter and 4.5 million. or 13.2% for the full year. This growth, coupled with recently announced strategic hires, including a vice president of building and infrastructure, further expands our capabilities and create new opportunities across an exciting end market. Another example of executing on this second priority in our recent announcement in December of 2025 of a win of a long-term construction project with Bechtel related to a new LNG terminal for Woodside, which is a multi-billion dollar LNG production and export facility under construction in South Louisiana. This project is one of the most significant energy infrastructure developments in the world and represents a major investment in the U.S. Gulf Coast energy capacity. Additionally, we continue to pursue data center business. Our services provide integrated support throughout the entire data center lifecycle, which is responding to high demand within this sector. Currently, we are performing projects with some of the largest data center owners with the ability to further scale our services throughout the entire lifecycle of the data center projects. This is illustrated in our previously announced partnership with Partula and Kimball to deliver our suite of specialized inspection services to B&K's data service center projects. Our overall diversification efforts including targeted capital expenditures as well as additional strategic sales hires, have bolstered our growth in power generation, industrials, and infrastructure in the second half of the year. This diversified revenue growth demonstrates the success of our differentiated solutions and ability to deliver on customer expectations. The third priority of our strategic plan is focused on building operational leverage by doing what we do today but better through efficiency and productivity gains. We have invested in innovative proprietary technology to assist with digitalization of timekeeping and scheduling to more efficiently monitor the utilization of equipment and productivity of our technicians. In addition, we continue to strengthen our sales and business development teams, all of whom bring industry experience and fresh perspective to our business. In summary, we have executed on several planned actions and initiatives throughout 2025, which have produced favorable outcomes. We believe that this growth reflects the strengths of our people, integrated offering, and continued focus on driving efficiencies across the business. I will share more thoughts on 2026 later, but let me now turn the call over to Ed for more details on fourth quarter results and the highlights of full year 2025.

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

Thank you, Natalia. Given some early successes of our strategic efforts, gross profit increased to nearly $205 million for the full year 2025, up 6.4% from $192 million for full year 2025, representing a gross profit margin of 28.4%, which was a 190 basis point improvement year over year, compared to 26.3% in the prior year. As noted in our press release yesterday, our results reflect certain overhead and personal expenses which have been reclassified from SG&A to cost of revenue. The effect of this for the fourth quarter of 2024 was $5.5 million, and for the full year of 2024 was $20.9 million reclassification from SG&A to cost of revenue. This redistribution of overhead and personal expenses had no impact on operating income, net income, or adjusted EBITDA comparability. Selling general and administrative expenses were up $3.6 million in the fourth quarter compared to the prior year comparable period, attributable to strategic investments to grow our business and unfavorable foreign translation conversion. SG&A for full year 2025 was $139.9 million as compared to $135.5 million in the prior year, an increase of $4.4 million. again, due primarily to unfavorable foreign translation conversion in addition to strategic investments to grow our business, the selling component of SG&A, whereas general and diminished rate of overhead spending has been and will continue to be tightly controlled. During the current fiscal year, we revised our presentation of foreign currency losses and gains, which are now included within other expense and income line net. Previously, such amounts were presented within selling general and administrative expenses. The prior year amounts have not been reclassified due to immateriality. This change in presentation had no effect on previously reported net income. Gap income from operations in the fourth quarter of 2025 was $10.4 million compared to $10.5 million in the prior year period. Gap income from operations for the full year improved to $40.6 million from $39.8 million in the prior year. Non-gap income from operations in the fourth quarter improved to $15.7 million from $14.3 million, an increase of nearly 10%. On a full-year basis, non-GAAP income from operations improved to $55 million from

$46.2 million, which is an increase of nearly 19% or 130 basis points year over year. We recorded $12.6 million of reorganization and other costs for the full year 2025 and $4.8 million during the fourth quarter, 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 for the full year 2025 was 24.7% as compared to 22% for the prior year we anticipate our effective income tax rate for 2026 to be in the mid 25 range interest expense was 3.7 million for the fourth quarter down by 0.2 million from the prior year period for the full year 2025 interest expense was 14.6 million down 2.5 million from the prior year for the fourth quarter we reported gapman income of 3.9 million or 12 cents per diluted share On a non-GAAP basis, we reported non-GAAP net income of $8 million or $0.25 per diluted share for the fourth quarter. This resulted in GAAP net income of $16.8 million or $0.53 per diluted share for the full year 2025 and non-GAAP net income of $28.1 million or $0.88 per diluted share for the year end of December 31, 2025. This compares to gap in income of $19 million or $0.60 per diluted share and non-gap in income of $22.7 million or $0.72 per diluted share in the prior year period, due primarily to incremental reorganization and other costs incurred in 2025. As committed in the third quarter, we delivered positive free cash flow in the fourth quarter of 2025. and I am pleased to report that we generated $32.1 million of cash from operations and $24.6 million of free cash flow in the fourth quarter of 2025. This compares to $25.7 million of cash from operations and $20.8 million of free cash flow in the prior year comparable period. For the full year 2025, we generated $33 million of cash from operations and $3.8 million of free cash flow, as compared to $50.1 million of cash from operations and $27.1 million of free cash flow in the prior year period. While full year free cash flow declined versus last year, this was driven by three identifiable factors – elevated DSO during our ERP stabilization period, higher restructuring activity, and growth-related CapEx. Two of these three factors are already moderating, and we expect improved cash flow conversion as we move through 2026. We will build upon this cash improvement achieved in the fourth quarter and continue to prioritize improving our cash flow performance in 2026. specifically by leveraging a newly hired vice president of working capital management, as well as by improving back office structure, tools, and accountability to accelerate the order-to-cash cycle and lowering accounts receivable. Our total accounts receivable balance was $154.7 million as of December 31, 2025, up $27.4 million as compared to $127.3 million as of December 31, 2024. This was due to the timing of working capital throughout the year. We are intently focused on reducing our accounts receivable balance below fiscal 24 levels throughout 2026. In addition, increased restructuring charges of $7 million and incremental CapEx investments of $6.2 million year over year, which were anticipated as a part of our strategic plan, also adversely impacted our cash flow. Specifically, our CapEx in 2025 was $29.2 million as compared to $23 million in the prior year. This increased capital expenditure spending in 2025 was heavily focused on the selective expansion of lab capabilities and capacity in addition to strategic equipment purchases focused on improving the safety and efficiency of our field operations. We anticipate maintaining CapEx at this higher level into 2026 to approximately 4.5% of revenue, but maintaining spending thereafter at our prior depreciation level This will enable us to continue to expand and upgrade capacity, particularly at our in-lab aerospace and defense facilities, which have been partially constrained by capacity. These investments are targeted towards areas where demand already exists. The primary return mechanism is improved utilization and throughput, which allows us to convert existing demand into revenue more efficiently rather than relying on speculative growth. Gross debt was $178 million at December 31, 2025, compared to $169.7 million at December 31, 2024, an increase of $8.3 million. Net debt was $150 million at December 31, 2025, compared to $151.3 million at December 31, 2024, a decrease of $1.3 million. Our bank-defined leverage ratio was approximately 2.5 times at December 31, 2025, which is up versus approximately 2.3 times as of December 31, 2024, yet is well within the maximum allowable leverage ratio of 3.75 times. Our capital allocation strategy is to use residual free cash flow to pay down debt to a two-times leverage ratio while maintaining a temporarily elevated CapEx level. We will continue to emphasize debt reduction as our priority use of our residual free cash flow, and we are targeting a debt paydown of approximately $20 million in fiscal 26, in addition to the significant paydown we made in the fourth quarter of 2025. This would result in a defined bank leverage ratio of approximately two times by the end of fiscal 26. In summary, this significant financial improvement reflects our proactive cost management, operational efficiency leverage, and focus on higher margin businesses. And this success was attributable to a new and invigorated executive team reducing unprofitable business and being laser focused on our strategic direction, all while building new capabilities and developing the culture to win. Let me now turn the

call back over to Natalia for her to give us her outlook on 26th.

Natalia Schumann | President and Chief Executive Officer:

Thank you, Ed. Given that we have established the foundation for future success in 2025, we view 2026 as an opportunistic time in the market to continue on a number of management imperatives towards executing on our strategic plan in order to position Mistrust to unlock its inherent value over the longer term. First, as Ed mentioned, we will be increasing capital expenditures from our historic five-year average of approximately 3% to 4.5% of revenue to expand and upgrade capacity and remove constraints for targeted growth. These investments will be a primary focus on our in-lab business, serving the fast-growing aerospace and defense market. Scale is a key for our customers within this market who demand integrated services in large capacities from their supply chain partners. Additionally, we will invest in CapEx related to innovative AI capabilities in our data solutions businesses. This will enable faster and more accurate analytics and insights for our customers. Our overall CapEx plan reflects confidence in our customer demand trends with compelling ROI expectations. Most importantly, these investments are targeted and sequenced. We do not view margin erosion, leverage creep, or negative free cash flow as acceptable tradeoffs. Our intent is to protect the earnings base while expanding long-term earnings power. Secondly, we will be focused on our go-to-market strategy and invest in our sales-related technological applications and other initiatives. This investment will focus on advancing our effort in marketing and selling our leading proprietary technology and innovative data-centric solutions, such as art crawlers and one-suite digital applications as a suite of data-centric services, providing predictive solutions and strategic insight. By undertaking the strategic initiatives and investing organically for long-term market-leading growth, we will leverage our competitive advantages and strengths to best position ourselves for success and future growth. Accordingly, for 2026, we anticipate full-year revenue growth. to between $730 to $750 million and adjusted EBITDA to be between $91 to $93 million. While we are addressing both CAPEX and targeted operating investments in 2026, we expect adjusted EBITDA margins to remain resilient as we plan to maintain operational discipline and cost control. We also expect net income and EPS to exceed 2025 performance. Importantly, our 2026 outlook does not assume a macro acceleration or strong rebound in oil and gas activity or any contribution from acquisitions. I would now like to our Executive Chairman of the Board, Manny Stamatakis, to offer his remarks.

Manny Stamatakis | Executive Chairman of the Board:

Thank you, Natalia, and good morning, everyone. I would like to offer you a brief board level perspective as we look ahead. 2025 was a very good year for the company, particularly in strengthening our position in data driven inspection, mission critical testing, and aerospace and defense programs. I am pleased with the operational progress and the platform the management has built across these end markets. Particularly, I want to commend the meaningful strides we've made this year in significantly improving our executive team under the direction of our CEO. We strengthen leadership and sharper execution have materially improved our performance and strategic focus. As we enter 2026, the board fully supports management's view that this will be an investment year focused on transforming and modernizing our platform. In our industry, long-term value is created by investing to meet demand within our end markets. In data integrity, digital inspection capabilities, specialized talent, and accreditation for higher complex complexity, aerospace, and defense work. Such investments take time to translate into revenue and margin expansion, but they are essential to sustaining durable growth. Most importantly, the board views 2026 as an acceleration of our strategy via increased investments and a deliberate step to deepen our technical differentiation and expand our relevance to customers operating in regulated mission-critical environments. We are confident in the execution plan, the capital allocation priorities, and the long-term ambitions, particularly as risk-based inspection and aerospace defense spending continue to evolve. I wanted investors to hear clearly that the board views 2026 as a targeted year, which will strengthen the foundation for future growth. I'll now turn it back to Natalia for her to give you her closing thoughts.

Natalia Schumann | President and Chief Executive Officer:

Thank you, Manny. I'll close by thanking all of our customers and partners who contributed to our superior results throughout 2025. And in particular, I would like to sincerely thank all of our mistrust team members from the front lines to the back office for their tireless efforts in executing on their day-to-day tasks. while embracing transformative change in the evolving strategy of our company. These efforts are creating value for our customers and in turn for our shareholders. We look forward to updating you on our performance as we progress further in 2026 towards our strategic goals. And with that, let me turn the call back to the operator for questions.

Luke | Conference Operator:

Thank you. We will now begin Q&A. For today's session, we will be utilising 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 upon, please unmute yourself and begin to ask your question. Thank you. We will now pause for a moment to assemble the queue. Our first question comes from Mitchell Pinera with Sturdy Bantam Co. Please unmute your line and ask your question.

Mitchell Pinera | Analyst at Sturdy Bantam Co.:

Hi, can you hear me?

Natalia Schumann | President and Chief Executive Officer:

Yes, Mitch, hi.

Mitchell Pinera | Analyst at Sturdy Bantam Co.:

Good morning. Okay, great. Good morning. So, hey, so I, you know, a couple questions. So Aerospace and Defense, it's your, had a great quarter, and it's obviously a big part of, it's your longer-term growth engine, I think, as you said. So I'm curious about, And you also, in other remarks, you talked about good visibility. So I guess when you look at backlog of your customers, both in the space side and the aerospace side and then on the defense side, what kind of confidence do you have in that? Number two, from a capacity, you talked about expanding capacity, right? Is that at all revenue limiting in 2026, or you have plenty of capacity to do what you need to do? And then, you know, are you winning new business with these customers? And if so, how are you doing that in terms of capabilities, or is it, you know, just curious how you're doing it?

Natalia Schumann | President and Chief Executive Officer:

Yeah, thank you. Thanks for this question. I will start with customers. Indeed, we do have very good close relationships with our customers. We meet with them specifically in aerospace and defense I'm talking about. We meet with them monthly to evaluate their demands. We know what they expect. And as I mentioned before, for them, scale and capacity matters. We also have established the hub and spoke model that allows us to use that platform at large for our customers. So regardless of their location, we are able to assist that, but, again, by expanding the capacity. When talking specifically about capacity and your questions whether we do have constraints, Yes, we do have constraints, and that's exactly where we're going to invest to remove those constraints, to then increase the utilization, increase the throughput, increase the productivity, and then sort of unlock the demand into really into the revenue. So that's essentially what we're doing in aerospace and defense. We have great visibility in the demand, and These customers are, as you know, you

know, in aerospace and defense, there is a strong demand for NDT, particularly NDT testing, and they don't have enough of in-house capabilities. So... They are certainly looking for other suppliers who can support them and who can be large enough to support them. And, yes, we're winning new business, so we're celebrating adding a few new customers this year, and this is all thanks to our team that's there on the ground, and they're doing a really good job.

Mitchell Pinera | Analyst at Sturdy Bantam Co.:

And just one more question on aerospace and defense. So in terms of capabilities, is this a target area for maybe a tuck-in acquisition? Do you have any plans for something like that, or are you looking at that, or do you think you can sort of do it just through your own CapEx, your own internal investments?

Natalia Schumann | President and Chief Executive Officer:

Look, you're absolutely right. The growth and depreciation comes from the capabilities depth in that business specifically. So we have commented before that we are enlarging our offering. In addition to NDT testing, we now do welding, machining, repairs, cleaning. and so on, so that is quite critical for our customers. In terms of acquisitions, as you can imagine, it's very pricey acquisitions at this moment. Of course, we are always looking at our capital allocation strategy, but at this time, we believe that the highest return on our capital is organic expansion. And we believe that we are capable of building these capabilities and organically expand our capacities. I can give you a good example in, you know, Q4 demonstrated that. To respond on demand, we, in one lab, we added 100% of headcount, basically in large headcount. We removed that constraint, and we were able to generate 100%. increase in revenue of 61%. Can we repeat it? Probably not to that extent, but we already see the ways how we can remove existing constraints to generate additional revenue.

Mitchell Pinera | Analyst at Sturdy Bantam Co.:

Okay, helpful. Thank you. And then, you know, I mean, with obviously the disruption in the Middle East, I'd love to hear your thoughts about how You know, it may be affecting operations or how you view the first quarter. Is there any insight you could provide there that would be helpful?

Natalia Schumann | President and Chief Executive Officer:

Yes, certainly. We have not seen a material direct impact. Our footprint in that region is very limited. But, of course, there's a lot of uncertainty, and we continue to monitor geopolitical developments. Our customers are still evaluating what it means to them. Obviously, as you well know, if the oil price, as a result of these events, if the oil price goes up, the upstream activities will be intensified within the U.S., and it will positively impact us, but at this time it's too premature to say.

Mitchell Pinera | Analyst at Sturdy Bantam Co.:

Okay. And then just one more question. So, you know, you – In terms of – obviously, oil and gas is the majority of your business at the moment, and the faster-growing segments, aerospace, energy, you know, your power generation, I guess I could say, infrastructure, they're going to be your focus or obviously, you know, your growth focus, let's say. Is – um could you talk about um new customer uh wins bid activity in those in those application in those segments um you know what do you think the growth is going to come from existing customers a balance between existing customers and new customers And also, if you could talk about sort of the margin profile of these growth businesses as compared to, say, your company average.

Natalia Schumann | President and Chief Executive Officer:

Yes, thank you for this question. It's a very good one. It actually touches on two of our strategic priorities that we intently focus on. One is oil and gas customers, where we are expanding our offerings and services, and that's where, again, we believe very strongly that we are we are able to participate in oil and gas customers' digitalization efforts. And by offering to them our data services and data analytics and AI tools, we're able to help them to be more efficient as they're looking at their performance. So there we're talking about expanding that existing client base, so expanding the share of their wallet, and we're talking expanding of the margins, right? We intently focus on margins profile in our core markets of oil and gas. The second priority is the diversification, and those industries, like you mentioned, is infrastructure, power generation. where we, again, we're winning new contracts. It's all about capabilities and all about building that go-to-market strategy. So while we're working on capabilities, while we're investing in that part, we're also looking at how best to competitively position ourselves. You know, again, a great example will be data centers. We have what it takes when it comes to data centers. It's the same services we already provide for our core client base like oil and gas, but here we're using a new use case. So it takes a little time to get this going, but we already had that win. And margin profile, to answer to your question, is higher because those services are in high demand at the moment, and the demand is very visible. So that allows us to, again, position us competitively well and still generate sufficient amount of margins.

Mitchell Pinera | Analyst at Sturdy Bantam Co.:

And just one more question. I'm sorry. Sure. When you look at the revenue guidance for this year, you know, the difference between the low end of the range and the high end of the range is what? What type of – why would we be at the low end versus why would we be at the high end?

Natalia Schumann | President and Chief Executive Officer:

Good question. So, basically, the reason is – There is a couple of scenarios that we're looking at, right, and our large share of our business is still in oil and gas. And so our customers, although they did already – present themselves as, I would describe it, less pessimistic, but they're still quite cautious. So it's a large portion of our business. So depending on how oil and gas customers do this year would largely impact our performance. So we're quite confident when it comes to, you know, airspace and defense, infrastructure, power generations, we will generate sufficient amount of growth there. But, again, it's a smaller share of our total revenue. and therefore we are dependent on the oil and gas market. We are making, again, all this strategic plan is about to diversify as much as possible, so we are less dependent, but at this time, this is our scenario, so it all depends how well we do in the oil and gas market.

Luke | Conference Operator:

Well, thank you. That's all for me. Thank you. Our next question comes from John Franzrad with Sedoti & Co. Please unmute your line and ask your question.

John Franzrad | Analyst at Sedoti & Co.:

Good morning, everyone, and thanks for taking the questions. I'd like to start with the fourth quarter results, especially the improvement in the gross margin profile. I was wondering if you could quantify, you know, how much of that is pricing versus mix versus maybe exiting some of the unprofitable businesses. Can you kind of

Natalia Schumann | President and Chief Executive Officer:

you know put a bandwidth around where the improvements came from absolutely i will start and qualitatively and then ed will add if anything um so so there's a three um three distinct factors that um that influence our performance in uh in q4 uh and you know it's a mix a favorable revenue mix Number one. Number two, it's improved pricing discipline. And number three is really the operating efficiency. So there's less impact of the unprofitable branches or laboratories closures, and we'll talk about it. But let me unpack it a little bit. So obviously, revenue mix comes with the expansion of the airspace and defense, right? It's our laboratory business, contributed really well. as well as our data services. So, again, we saw great growth in PCMS due to multiple implementations. So that's revenue mix that contributed to higher gross margins. If I have to quantify, so let me touch on the pricing first. So pricing discipline, so we, as we already mentioned in the presentation, in 2025 in the beginning, we had established very rigorous pricing programs, and now they are working really well. So the pricing discipline, and, again, in the Q1, in the Q4, when we had a surge in demand in aerospace and defense, we were able to apply that pricing discipline, and we had some expedited fees, and, in fact, it's, again, had a positive impact on our gross margins. So if I have to quantify it, it's probably think about it as 25% price and 75% volume, specifically in airspace and defense. And then on operating efficiencies, right, it's obviously there is some restructuring impact, but it's minimal. It's around 1.5%, but it's not big. So it's really the effect of price and the mix.

John Franzrad | Analyst at Sedoti & Co.:

Got it. And just maybe to reframe one of the previous questions, is there a way to call out how much of your aerospace and defense revenues are just in defense?

Natalia Schumann | President and Chief Executive Officer:

Just in defense, I probably would say, and we can follow up with you on that, I probably would say it's 70% airspace, commercial airspace and private space, and about 30% to 35% in defense. We have good presence in defense in international segments, and that's where we see that increase, again, as defense budgets are going up. So it clearly benefits and creates positive impact.

John Franzrad | Analyst at Sedoti & Co.:

Understood. And, Natalia, it seems to me like you're taking maybe a more cautious view to the oil and gas sector. in 2026 than you were, say, a few months ago. Does that extend into the current upcoming turnaround season, or are you just looking at 2026 as a whole?

Natalia Schumann | President and Chief Executive Officer:

A couple of comments here. Let me start with turnarounds, right? So we had exceptionally good turnaround season in 2025. So whenever turnarounds happens, it's usually not every year because customers have to extensively plan planned for turnarounds. So it's usually once in three years, once in two years. So this particular year, 2026, is not that robust when it comes to turnarounds. So that's number one. That certainly will have some impact. We still have quite good visibility into turnarounds already for Q1 and Q3, but certainly that's Apologies for Q2 and Q3, but certainly this is something that we are still working on. Secondly, you know, if you look at oil and gas, again, what we hear from our customers, they actually do not spend as much on CapEx. They're projecting to be flat or somewhat down. What it means for us is... they will maintain their maintenance budgets, right? So they want to get their life, more life out of their assets, basically. And so that means that it should favorably impact us. So I don't foresee some negative impact in oil and gas by any means. I do see that we have a very good opportunity, and especially with our data services. But we have to

be a bit, you know, cautious. Again, to me, I think it largely depends on the spending of our oil and gas customers.

John Franzrad | Analyst at Sedoti & Co.:

Understood. And I got a bunch of more questions, but I'll ask this last one to get back into the queue. Regarding the CapEx increase to 4.5%, is that viewed as a one-time 2026 phenomenon, or do you expect to be spending at an elevated level for maybe a couple of years?

Natalia Schumann | President and Chief Executive Officer:

That's right. We anticipate CapEx to remain at elevated levels in 2026 and into 2027, but then we anticipate the intensity to moderate after that and kind of following the completion of our key initiatives that are driven by our strategic plan. So that's the outlook. And then we expect our COPEX to return to our historical depreciation levels after 2027 to about 3% of revenue.

John Franzrad | Analyst at Sedoti & Co.:

Got it. Thanks for taking the questions. I'll get back to you.

Natalia Schumann | President and Chief Executive Officer:

Thank you, John.

Luke | Conference Operator:

Our next question comes from Gaushi3 with Singular Research. Please unmute your line and ask your question.

Gaushi3 | Analyst at Singular Research:

Yeah, hi. Can you hear me? Yes, hi. Good morning. Yeah, just a few questions from my side. Firstly, on the international, the profitability seemed to have improved quite nicely there. So just was wondering, are those gains concentrated in just a couple of standout contracts or countries, or do you feel that you've made more systemic changes in pricing, cost, structure, or customer mix that should make that improvement more sustainable in 2026 as well?

Natalia Schumann | President and Chief Executive Officer:

It is structural improvement, just to answer to your questions directly. We did have – international had a good year, very good year. We had overall 6% increase in our revenues and improved margins profile. So there in international we have quite diversified platform. So, in fact, oil and gas was slightly down in international for the year, but we did have good increase in airspace and defense. We had good increase in infrastructure, good increase in power generation. So, the international segments and the teams in Europe and elsewhere did really, really well. From margins profile, you know, we will invest slightly in our international facilities as well. So we will see some capacity enlargement and capacity constraints removal. So we would anticipate margins to be sustainable in the long run.

Gaushi3 | Analyst at Singular Research:

Okay. And then, secondly, on your largest, let's say, strategic accounts, particularly in the oil and gas sector, how has your wallet share and contract duration trended over the last 12 to 18 months as you have shifted towards higher value, more integrated offerings? Are you seeing any change in competitive dynamics or insourcing there that would make the wallet share harder to hold in 2026?

Natalia Schumann | President and Chief Executive Officer:

I would not – and thank you for this question. I would not say it's harder to hold the wallet share. It's just we see that there is more appetite from our customers to consider the – digital platforms to consider data analytics, data insights. So, and we see this is a very good opportunity for us to introduce the higher value work to them, right, that benefits them as they continue to execute capital discipline. Having said that, they're also increasing their risk managing spending, right? So, again, to increase the efficiency, the operational excellence, the asset life extension. And so they have higher demands. All our strategic customers come to us to help them to create that digital data platforms now, right? So there's much more appetite to look at this type of solutions, the integrated offering. So that's what we see in particularly there. So it's not it's harder to keep and retain the volume, but we are shifting away from the commoditized kind of just entity services to more value-driven solutions where we are – expanding our offerings to include data analytics, to include digital data, to include the digital platform. And that's what we're essentially doing, expanding that services portfolio for our existing oil and gas customers. And, again, you know, from the bid activity, from the – From the, you know, our sales activity, we see that increased interest. And because, again, they're very much in tune with what they need to do in terms of the risk management when they expect more from their assets, right? Because, you know, there is a more low, right, the bigger probability of failure. So they have to manage their risks better.

Gaushi3 | Analyst at Singular Research:

Okay, understood. That's all from my side. Thank you. Thank you.

Natalia Schumann | President and Chief Executive Officer:

Thank you.

Luke | Conference Operator:

Our next question comes from Alex Ragil with Texas Capital Securities. Please unmute your line and ask your question.

Alex Ragil | Analyst at Texas Capital Securities:

Thank you very much. Very nice quarter. As it relates to the restructuring actions over the last 12 months or so, can you talk to or quantify the long-term cost savings and also address sort of any negative revenue headwinds that you could be facing in 2026 because of this?

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

Thanks, Alex. I'll address that question. So, yeah, the restructuring was elevated in 25 over 4. You saw that $12 million. That's a combination of severance in there from headcount reductions. There's lease breaks in there and other strategic actions we've taken to really drive, you know, efficiencies and productivities. So there is a good payback on much of that. I mean, the facilities, the lab closures that we talked about throughout the year, There is payback there. That's an uplift to the margins. There was no contraction of business. There's not a negative revenue implication from those restructurings. We really are streamlining and driving for efficiency, more throughput. Natalia mentioned earlier getting another shift of operational effectiveness out of an existing site by really de-bottlenecking. our own sort of self-induced capacity constraints, that's a big part of what restructuring is about, is really to have clean line of sight, de-layering the organization to speed up, you know, decision making. So there's a lot of soft benefits as well there, but most of that cost is out. Again, some of the heads got replaced. That's not a direct one-for-one savings, but facilities is definitely a savings. And there was some one-time expenses here, driving strategy and other things, and restructuring in 25. This number will moderate significantly in 26, so that number will come back down. It was also, you know, a drag on our free cash flow a little bit. But we look for returns on the, you know, the reward expense that we booked here, and, you know, you will see that kind of reflecting itself in 26.

Alex Ragil | Analyst at Texas Capital Securities:

And then as we look out longer term, can you help us or remind us what your sort of longer-term organic revenue growth and EBITDA margins could look like for this business that you're improving?

Natalia Schumann | President and Chief Executive Officer:

Yes, thanks, Alex. So when we look at our strategic plan, we're looking at a CAGR about 5% through 2030. And for margins, our aspirations are to reach 15% margins. Maybe that margin. That's the profile we're looking at.

Alex Ragil | Analyst at Texas Capital Securities:

Very helpful. Thank you very much.

Luke | Conference Operator:

Thank you. At this time, I see no callers in the queue, so I'll hand the call back to Ms. Schuman for her closing remarks.

Natalia Schumann | President and Chief Executive Officer:

Thank you, Luke, and thank you, everyone, for joining this call today and for your continued interest in Mistrust. I look forward to providing you with an update on our business, strategic plan, and progress achieved towards our ongoing initiatives on our next call. Thank you, everyone.

Luke | Conference Operator:

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