NYSE:MG Q1 2026 Earnings Call Transcript

Generated on 6/10/2026

Dani | Conference Operator:

Good day, everyone. My name is Dani, and I will be your conference operator today. At this time, I would like to welcome you to Mr. Ask Group Inc. Q1 2026 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 raised 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 Tabolsky, Senior Vice President, Finance and Treasurer. Thank you.

Thomas Tabolsky | Senior Vice President, Finance and Treasurer:

Good morning, everyone, and welcome to the Mistrust Group's first quarter 2026 earnings conference call. I am joined today by Natalia Schuman, President and Chief Executive Officer, and Ed Prisner, 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, contains certain forward-looking statements and above risks and uncertainties as described in Mistrust's SEC filings. The company's factors that can cause 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 8 CAG. These reports are available at the company's website in the Investors section and on the SEC's website. I will now send the conference call over to Natalia Schumi.

Natalia Schuman | President and Chief Executive Officer:

Good morning, everyone, and thank you for joining us today. On the call today, I will cover three areas. Highlights of our strong first quarter performance by the industry verticals and end markets where we provide our integrated offerings. Then I will provide an update on progress made against our strategic plan. And finally, highlights of noteworthy awards and acknowledgments achieved in Q1. Ed will provide additional qualitative context into the first quarter numbers, But first, let me cover the highlights of our first quarter results. Before I do, I want to address three questions we routinely hear from the investors. First, in our aerospace and defense, demand remains strong, and we are focused on expanding capacity and throughput to better convert that demand into revenue. Second, the range in our full-year outlook continues to be driven primarily by the timing and spending levels in our oil and gas business, while our strategic growth markets remain solid. Third, our profitability improvement continues to be driven by a combination of mix, pricing discipline, and operating efficiency. Turning to end market update, I'm pleased to report that we delivered top-line growth of nearly 5%, reflecting the strengths of our diversified platform, key growth areas, and the disciplined execution of our strategic plan, Vision 2030. While the macro environment remains volatile, our team continued to focus on areas where we can control and have the greatest opportunity to win, and that focus is clearly reflected in our results. I will start with the largest end markets. Our oil and gas end market declined by 11.1 million, or 11.5% this quarter. We anticipated a decrease in volumes, which was not due to a loss of market share or competitiveness. Instead, it resulted from two outcomes of specific conditions and disciplined decisions. First, current market conditions and a very busy period in the upstream and downstream sectors driven by a 50% spike in global oil prices over the last few months, have caused several clients to defer maintenance and inspection projects and activities. These macro dynamics affect total demand and all suppliers in our industry. Second, we are intentionally prioritizing profitability and long-term value creation over the near-term low margin volumes. In the late 2025 and throughout the quarter, we selectively chose not to participate in bids that did not meet our margin and return thresholds. This is a strategic shift toward a more profitable and sustainable mix of work, and we are committed to maintaining pricing discipline rather than pursuing low margin opportunities to preserve top-line volume. Taken together, these factors have reduced our oil and gas revenue, but they have strengthened the quality of our backlog and positioned us for improved profitability as market conditions normalize. We remain confident in our competitive position and our ability to capture high value opportunities as they emerge in this market. Regardless, our oil and gas core remains resilient. supporting a significant base of recurring run and maintain business, with more than 60% of our volume occurring at our evergreen accounts. Our aerospace and defense market, our long-term growth engine, led the way in our Q1 growth. In this market, we have achieved revenue growth of $7.2 million, representing a 35.5% increase over prior year. underscoring the importance of this key market as a core engine of our Vision 2030. We continue to gain market share as customers prioritize optimized throughput and productivity, quality, and technical expertise, where our focused investments are paying off. This strong top-line extension was also supported by meaningful volume increases and additional capacity and utilization. as brought online in the second half of 2025. We also realized a benefit as a result of strategic pricing initiatives started in 2025, which are anticipated to continue in 2026 based on the increased market demand. We are now seeing the benefits in both customer satisfaction and improved throughput cycle times, which we believe will continue into the foreseeable future. Consequently, we continue to invest in expanding capacity, and we will manage growth thoughtfully to ensure quality, on-time delivery, and margin integrity as volumes scale. In our infrastructure and market, we delivered increased revenue of 6.1 million, or 84%, marking another exceptional quarter for this key growth market. Demand tied to data centers new construction, and infrastructure development remains robust, and we are increasingly involved in larger, more complex projects for our customers. Our integrated suite of service offerings are gaining traction, creating new recurring revenue streams and deepening our customer relationships on a variety of projects, including bridges, amusement parks, and public sector infrastructure projects as just a few examples. In addition, these projects typically carry margin profiles at or above the company average, reflecting their complexity and technical requirements. This combination of project activity and end market expansion positions our infrastructure business as a meaningful contributor to our long-term value creation. Similar to the infrastructure end market, We have seen positive developments in our power generation and market. We have delivered revenue growth of $1.9 million and 40% over the prior year. The main drivers were our targeted expansion in our at-height offerings, particularly for our wind business, specifically by utilizing our recently extended capabilities and new technologies, which we have integrated and used to access hard-to-reach areas on large structures while meeting all required safety standards and improving field efficiency. Overall, we delivered resilient revenue growth of nearly 5% supported by execution across our strategic end markets. This translated into improved profitability with gross profit margin expanding by 120 basis points year-over-year, This improvement was driven by a favorable business mix shift towards higher value work, sustained pricing discipline, and continued operational efficiency. Based on this favorable mix and growth in our major growth markets reflecting the strengthening of our platform, we have generated significant improvements of our EBITDA margins. We have delivered an adjusted EBITDA increase 18.7% as compared to the prior year comparable period, growing adjusted EBITDA from $12 million to $14.3 million. We also expanded our year-over-year adjusted EBITDA margin by 110 basis points to 8.5% from 7.4% in our seasonally low first quarter results. Turning to my second topic. let me provide an update on our continued execution against the key priorities within our strategic plan, Vision 2030. As a reminder, these priorities are expanding share of wallet by delivering more comprehensive, integrated, and innovative solutions for our customers, diversifying into attractive growth markets, and building greater operational leverage through continued efficiency and productivity improvements. Starting with our first priority. Across the energy sector, we continue to see a clear industry trend toward consolidation of spend and accelerated digital transformation, particularly within oil and gas. Our customers are increasingly looking to simplify their vendor base. They are looking for partners we can integrate data and inspection workflows and deliver more predictive technology-enabled outcomes. This plays directly to our strengths, most notably our ability to integrate services, technology, data, and analytics into a unified offering, differentiating us in a way that few others in the industry can match. Continued growth of our PCMS up over 10% in the first quarter over the prior year is evidence of our proven value proposition as we're leading integrated integrity and testing platform delivering comprehensive, innovative, and data-driven insights. We are also seeing momentum with our mechanical integrity turnkey solutions. This is a fully managed, white-glove mechanical integrity program which removes the burden of process safety management, reduces operational costs, and keeps facilities audit-ready through expert-led inspections, data management, and compliance oversight via a fixed monthly subscription. Additionally, over the past year, we have added complementary services, including adjacent mechanical work such as welding, robotics, and drone-based inspection capabilities. which enhance our ability to deliver full-scope and turnkey solutions. The response from our customers has been very encouraging. Our client relationships continue to strengthen. Field interactions continue to increase, leading to deeper engagement and broader opportunity pipelines. Innovation remains a core component of our strategy. Our proprietary automated telegraphic testing crawler, PCMS, and other technologies continue to gain traction as customers look for more real-time insights, automated reporting, and predictive maintenance capabilities. These tools, combined with our longstanding subject matter expertise, are enabling us to solve some of the most complex technical challenges our clients face. We are being invited into earlier stages of project planning and more strategic conversations which is exactly the type of engagement we want. Diversification of customers remains another important component of our strategic plan, and success towards this second priority within our strategic plan provided a significant benefit to our first quarter results. This is evidenced by the previously mentioned growth rates in our strategic market, excluding oil and gas, which combined for an aggregate growth of $15.2 million or a 30% increase across aerospace and defense, power generation, infrastructure, and industrials. Specifically, our focus on aerospace and defense supported by our hub and spoke models has generated meaningful growth over the last few quarters and continues to offer significant upside opportunities. We have also had several notable wins in this market within both the commercial airspace and private space categories. Our positioning in airspace and defense will continue to strengthen as the industry seeks capacity extension to help service the backlog in the area which we are uniquely positioned to capitalize upon. And finally, we continue to drive operational efficiencies across the organization in support of the third priority of our strategic plan. We are deploying digital and AI-enabled tools in our back office to streamline workflows, reduce manual effort, and improve accuracy. At the same time, we are working more closely with our partners to optimize processes, enhance scheduling, and ensure we have the right headcount alignment to support both productivity and growth. Overall, we are making good progress against our strategic plan, benefiting our customers by reducing downtime, improving predictability, and lowering their total inspection costs, which positions us for sustainable long-term value creation. Ed will provide additional details regarding our financial performance during this quarter, but before doing so, I would like to point out a few other notes with the achievements that we realized during this quarter. This quarter, we were honored to be recognized by Frost & Sullivan as the company of the year within the global non-destructive testing field inspection services industry. We view this as an important validation of the progress we are making to integrate the services, technology, and innovation to better meet evolving customer needs. In addition to industry recognition, we continue to earn meaningful recognition from customers, our unwavering commitment for safety and operational excellence. At a long-term evergreen site, our team was nominated for the Gulf Coast Safety Award for maintaining a goal zero injury rate. We have also received the 2025 American Equity Underwriters Safety Award, a distinction earned by less than 2% of all AAEU members. This award recognizes organizations that demonstrate excellence in developing and implementing effective safety management systems. We were selected based on our proactive safety programs, and consistently low claim numbers, reflecting the company's commitment to employee safety and strong leadership engagement. This achievement highlights the strengths of our safety-first culture and the dedication of our teams. In summary, we continue to build momentum in the first quarter of 2026, executing on several planned actions and initiatives, that highlight the strengths of our people, the value of our integrated offerings, and our ongoing focus on driving efficiencies across the business. Now, I would like to turn the call over to Ed to work through a more comprehensive overview of our first quarter results.

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

Thank you, Natalia, and good morning, everyone. Let me walk you through our financial performance for the quarter. we delivered resilient revenue growth of 4.6% supported by solid execution across our strategic end markets. Importantly, this growth translated into improved profitability with gross profit margin expanding by 120 basis points year over year. This improvement was driven by favorable mix towards higher value business, sustained pricing discipline, and continued operational efficiency. For the quarter, we generated income from operations of $4.7 million and gap net income of $2.4 million, resulting in gap earnings per diluted share of 7 cents. We are pleased with this performance, particularly given the investments we are making to support future growth. Each of these metrics is significantly improved from the prior year due to higher gross profit dollars generated and lower reorganization costs and interest expense incurred. Adjusted EBITDA was $14.3 million, an increase of 18.7%, reflecting both stronger operating leverage and the benefits of our efficiency initiatives. This resulted in an adjusted EBITDA margin of 8.5%, up 110 basis points over the prior year period. On operating expenses, SG&A increased year-over-year as planned by $1.3 million, or 3.7%. primarily reflecting strategic investments to support commercial execution and enable growth in our strategic areas while maintaining discipline in overhead spending. Importantly, despite these investments, we delivered higher net income and EPS consistent with the expectations we communicated earlier in the year. Turning to cash flow, we generated negative 4.5 million of free cash flow, which represents a decrease of 4.3 million as compared to the prior year quarter. This decrease was attributable to unfavorable working capital dynamics, primarily a reduction in accrued expenses and an anticipated increase in capital expenditure spending of $1.4 million in the quarter. This CapEx investment was heavily focused on the expansion of in-laboratory testing capabilities and strategic equipment focused on improving the safety and efficiency of our field operations. Additionally, as a reminder, the first half of the year is typically working capital intensive for us, making the back half of the year a more meaningful indicator of sustainable free cash flow performance. Regardless, we are dedicating significant time and execution attention to strengthening our cash flow performance. This includes accelerating our use of automation, improving internal processes, and working more closely with our customers to ensure our cash collection cycle more accurately reflects the ROI that we deliver. These efforts have continued to gain traction over the past few quarters, and we expect to return to our historically favorable levels of cash flow in the second half of this year. Our cash flow focus is visible in the decrease in our accounts receivable balance from $154.7 million as of December 31, 2025, to $151.4 million as of March 31, 2026, despite the higher level of revenue activity. We will continue to be intently focused on further reductions to our outstanding accounts receivable balance throughout 2026. While we are encouraged by this progress, our cash flow performance remains below our expectations, and we are intensifying our focus on driving sustainable cash generation across the organization. Our interest expense in the quarter was $2.9 million, which was down $0.4 million, or 13.4%, compared to $3.3 million in the prior year quarter, reflecting decreases in our cost of borrowing. Our effective income tax rate for the first quarter was 13.8%, which was primarily attributable to a recognized discrete tax benefit of $1.7 million due to a realized windfall on compensation expense. Specifically, we received a tax benefit when shares vesting at a higher appreciated value than the original recorded book expense. This was a function of our share price increasing by nearly 80% or over $6 per share compared to the value used in recognizing book expense at the time of the grant in the initial year of the award. We anticipate an effective tax rate of approximately 25% for the full year of 2026. Our bank-defined leverage ratio was approximately 2.4 times as of March 31, 2026, which is down versus 2.5 times at December 31, 2025, and well within the maximum allowable leverage of 3.75 times. Our capital allocation strategy remains focused on the use of residual free cash flow to pay down debt to our targeted two times leverage ratio by the end of 2026, as well as capital investments into higher growth, higher value areas, as governed by our strategic plan. You will note in our earnings release tables that within our disaggregated revenue disclosure by type, we have merged data analytical solutions revenue into field services revenue, and we have retitled this grouping to the Integrated Field Solutions. We did this to accentuate the ongoing integration of our innovative offerings as a key focus of our Vision 2030 strategic goal. Importantly, this change does not impact total revenue, but better reflects how customers increasingly buy and value our service offerings. Accelerating the expansion of our data analytical solutions brand remains a key priority, and we believe this is best achieved by further integration of our technology with our technical know-how in the field focused on customer-centric opportunities. At this time, I would like to turn the call back over to Natalia for her closing remarks before we move on to your questions.

Natalia Schuman | President and Chief Executive Officer:

Thank you, Ed. Before we move to Q&A, let me close with a few final thoughts. This was a strong quarter marked by positive revenue growth and once again, meaningful improvement in profitability. This was our third consecutive quarter delivering mid single digit revenue growth. Our results reflects the discipline execution of our teams and the continued momentum we are building across the business. We are seeing clear benefits from the actions we have taken to strengthen our commercial capabilities enhance operational efficiency, and expand our integrated offering. We are scaling up our platform by investing in both capital and operating expenditures, focusing on the existing demand in our key growth markets. We will continue to prioritize diversification while also maintaining margin discipline in the oil and gas sector. In addition, we were proud to receive significant recognitions this quarter from the industry experts who acknowledge our leadership and innovation and from the customers who recognize our commitment to safety, quality, and doing the right thing. These acknowledgments reinforce the value we bring to the market and the dedication of our people across the globe. We are pleased with these achievements and recognition and even more proud of the people behind it. it is clear signal that our strategy is working and that we are well positioned to lead in the next chapter of innovation in our industry. Given our performance to date, we are reaffirming our full year guidance of revenue between $730 to $750 million and adjusted EBITDA between $91 and $93 million. As we have discussed previously, the range in our outlook is primarily driven by the expected timing and spending levels in our oil and gas end market. Oil and gas field inspection may continue to be impacted by high crude oil prices into the second quarter of 2026, while we continue to see solid demand and execution in our strategic growth markets. We remain confident in our ability to execute, deliver on our commitments, and continue building momentum through 2026 as we deepen our customer relationships, expand our integrated offerings, and further strengthen Mistra's position in the market. With that, let me turn the call over to our operators so we can take your questions.

Dani | Conference Operator:

Thank you. We will now begin the Q&A. For today's session, we will be utilizing the raised hand feature. If you would like to ask a question, simply click on the raised hand button at the bottom of your screen. Once you have been called upon, please unmute yourself and begin to ask your question. Thank you. Our first question today comes from John Franz Rebbe, Sedoti & Co. John, you may now unmute your line and ask your question. Thank you.

John Franz Rebbe | Analyst, Sedoti & Co.:

Good morning, everyone. Thanks for taking the questions. I'd actually like to start with some comments you made, Natalia, about the oil and gas sector. You said that you did not pursue certain business that contributed to down results on a year-over-year basis. Am I to understand if this is business that you had in calendar 2025 that you let go in calendar 2026?

Natalia Schuman | President and Chief Executive Officer:

That's right, John, and good morning. You're absolutely correct in your understanding. So in the late 2025 and throughout this quarter, we had made strategic decisions to selectively exit low-margin run and maintain business. So this is intentional, again, to bring us to the high-margin work and utilize our technician capacity to for that high value and high margin work.

John Franz Rebbe | Analyst, Sedoti & Co.:

Got it. I just wanted to make sure. And given the high oil prices and the high production rates that we're seeing here in North America, is there still concern about deferments on maintenance spending to the right, or do you think that will eventually catch up, I don't know, in the third quarter or so? What are your thoughts on that?

Natalia Schuman | President and Chief Executive Officer:

Yes, so we see, of course, you know, oil prices are still quite favorable for us, right, being on a high end. However, there is some delays in deferral of the maintenance. The operators and producers do not want to stop for maintenance at this time, but we see the demand is still there. So we will most likely see some impact in Q2 as well. But, again, this is very much of a near-term development. So we still believe that there will be potential rebounds. And it comes with increased rise of failure, right? So when you ask, it's working to the, you know, when they're working to the maximum, so there is some potential failure that could occur. So demand is still there.

John Franz Rebbe | Analyst, Sedoti & Co.:

Got it. And then just switching to A&D, another great quarter for the business. Could you talk a little bit about adding capacity, maybe give us some more color on what that means to us and when you expect to recognize the revenue related to capacity additions?

Natalia Schuman | President and Chief Executive Officer:

Yes, thanks. So we have started, as you might remember, at the second half of 2025 to invest in our capacity. So some of that investments already, and I mean equipment and machinery and mostly the ultrasonic tanks, right, they came online in this quarter. So we're already seeing that capacity impact or effect of the capacity expansion in our results in Q1. So with that, obviously, what is important to understand that We're also bringing additional labor. We need to train our people as we're bringing this new equipment and new capacity online. We also added shifts across our core operations and hubs. So we now have in two of our hubs, we have three shifts going to meet the demands. and we expect to add more ships and other hubs that we have. So that's what we're doing in terms of the capacity. So it's not necessarily building new labs, but it's really making sure that we're utilizing our existing lab to the full capacity because the demand is there and the industry is struggling with the capacity and the supplies.

John Franz Rebbe | Analyst, Sedoti & Co.:

And just on that, I know you said you're going to add shifts, but as far as staffing is concerned, are you at the optimal level or do you still need to add staffing?

Natalia Schuman | President and Chief Executive Officer:

We're adding some staffing, so yes.

John Franz Rebbe | Analyst, Sedoti & Co.:

Okay. Thank you. I'll get back to you. I appreciate the answers.

Dani | Conference Operator:

Thanks, John. Thank you. Our next question comes from Alex Reigel at Texas Capital Securities. Alex, you may now unmute your line and ask your question. Thank you.

Alex Reigel | Analyst, Texas Capital Securities:

Thank you. Good morning, Natalia, and very nice quarter. You mentioned better pricing initiatives. Can you expand upon this and discuss how broad the action is across your business?

Natalia Schuman | President and Chief Executive Officer:

Yeah. Hi, Alex. Good morning. Certainly. So pricing initiatives is a large contributor to our overall improved margins. So we have started pricing initiatives mostly in the ANZ sector and infrastructure where we believe that demand is is supportive of increased prices. So, and that we continue to benefit from that initiative. So we started in the second half of the year, 2025, and now we see the impact across, you know, in going into the Q1 as well, and we'll most likely see it in Q2. So, but again, that's all because the demand is high and it supports our strategy We are very disciplined in the work we're taking in because, again, of that limited capacity. So we need to be very, very thoughtful and mindful how we manage the client demand. And, again, the team is executing well. That pricing strategy is working quite well.

Alex Reigel | Analyst, Texas Capital Securities:

And then, secondly, in aerospace and defense, growth is very impressive, particularly Can you talk a little bit about the sustainability of this revenue base and maybe the longevity of these new relationships and contracts that you have with your customers?

Natalia Schuman | President and Chief Executive Officer:

Yeah, so look, this industry is certainly doing really well. OEMs, you know, their backlog remains at record levels, and demand is quite strong across OEMs. you know, the commercial airspace and especially defense. We're seeing defense is doing really well in Europe. But primarily, the constraint is not demand, right? So, demand is high. What we're seeing is the supplier capacity and labor availability and materials availability. So, that's what kind of still a constraint. So, we see that backlog to We believe the backlog will continue across 2026. So we need to continue to expand our capacity and invest in our capacity to help the industry. So on the client side, you know, we have longstanding relationships with all customers, and we continue You know, we're expanding those relationships through, again, adding more capabilities and service offerings. If we look specifically in the A&Z, what customers really value in that particular sector, they value capacity, they value quality, and they value speed. So those three elements, we continue doing well in those three, and therefore our customers appreciate what we're doing on our side, so they are increasing their orders with us. We serve, you know, the major operators in this sector. So, again, it's long-term contracts, long-standing relationships that we have.

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

Just to drop this down one more level, Alex, sustainability is, I think, the key part of your question. This capacity we're building, it's for new aircraft deliveries. It's for rocket and satellite launches. It's for new vessels of naval transport. you know, hardware being procured. This is long cycle backlog that's there, you know, that will be here for the longer term. We're chasing that down. So, the sustainability is there. It's a question of catching up to it and helping the customer, you know, get into their backlog is what we're focused on.

Natalia Schuman | President and Chief Executive Officer:

And most interesting is that customers are willing to co-invest with us. So, they are certainly, you know, seeing that where we are where our unique differentiators are, especially in UT testing. And so they're willing, again, to bring the capacity, expand the capacity to bring more equipment online. They are willing to invest with us.

Alex Reigel | Analyst, Texas Capital Securities:

Very helpful. Thank you.

Dani | Conference Operator:

Thank you.

Alex Reigel | Analyst, Texas Capital Securities:

Thank you, Alex.

Dani | Conference Operator:

Thank you. Our next question comes from Goshi Sri. Goshi, you may now unmute your line and ask your question. Thank you. Good morning, Goshi. Goshi, you may now unmute your line and ask your question. I'll come back to Goshi. In the meantime, I'll take a question from Gerard Sweeney at Ross Capital. Gerard, you may now unmute your line and ask your question. Thank you.

Gerard Sweeney | Analyst, Ross Capital:

Good morning, Sally. Good morning, Sally. Thanks for taking my call.

Natalia Schuman | President and Chief Executive Officer:

Welcome, Jerry. Glad to have you.

Gerard Sweeney | Analyst, Ross Capital:

Thank you very much. I appreciate it. I just had a question on data centers. I think this is an area that you're exploring, and just our work in the industry really shows that some of the front-end work is really starting to emerge in some numbers with other companies. So just meaning concrete being poured, sites being prepped, and I think the opportunity for you guys is more testing what I call outside-the-walls equipment, sort of almost like a mini power station for these sites. for these entities, but I want to see how this opportunity develops. What's the opportunity for you maybe to shed a little bit light on that front?

Natalia Schuman | President and Chief Executive Officer:

Indeed, Jerry, thanks. Very good opportunity for us. We are in early stages there, but you're absolutely right that data centers, especially on the COPEX side when they're being constructed, they resemble the most part, you know, power and utilities work where we're helping our customers which was to make sure that we inspect the size and installation of the equipment. We're doing essentially the same testing that we do for the power generation, but on the new fields for data centers. So there we're kind of looking at it as it's the same services that we provide, You know, it's ultrasonic testing, it's visual inspection, magnetic particle testing, audiography, right? All of those testing, it's the same services and new use case. What we're doing on a data center, we invest heavily on more on a go-to-market strategy where we're connecting on a deeper level with our customers. And step-by-step, we're proving our credibility. We're proving our reliability. In that particular sector, right, as we all know, what customer values is quality. They value that there's insurgency. So that's what, you know, again, capacity. And that's what we can provide to them because this is a very fast-growing market, as we all know. So we're very optimistic, and you're absolutely right. It's a great opportunity for us.

Gerard Sweeney | Analyst, Ross Capital:

Is there any way you could frame out maybe the opportunity for, like, I don't know, an average or large data center, some of the work or the non-destructive testing aspect that you may be able to entertain at one of the facilities?

Natalia Schuman | President and Chief Executive Officer:

What do you mean? Could you please repeat it?

Gerard Sweeney | Analyst, Ross Capital:

I mean, how much revenue opportunity would there be for Ms. Ross to do some of this testing work at some of these, you know, an average-sized data centers developed?

Natalia Schuman | President and Chief Executive Officer:

I understand your question, Jerry. Thanks. So basically the way we think about it, that data centers are in our infrastructure and markets vertical. So the way we think about it, this vertical will grow double digits this year and beyond. So the revenue potential is there. Again, it's the small steps because we are not known in data centers today. but we're clearly making right now the good steps, and we have a path to earn that credibility, that respect in that industry. So we're making steps, but I could not quantify a specific revenue that will come in 2026. So, but we believe because it's a smaller, smaller vertical for us, we will continue to grow it. You know, as we mentioned before, this particular quarter is growing 84%. So, and that's obviously quite good growth. I don't think it will be every quarter, but certainly double digits, that's our expectation.

Alex Reigel | Analyst, Texas Capital Securities:

Great. I appreciate it. Thanks for that.

Natalia Schuman | President and Chief Executive Officer:

Thank you. Thank you, Jim.

Alex Reigel | Analyst, Texas Capital Securities:

Thank you, Sherry.

Dani | Conference Operator:

Thank you. I'll head back to Ghoshy Sri from Singular Research. Ghoshy, you may now leave the line. Good morning. Thank you.

Ghoshy Sri | Analyst, Singular Research:

Good morning, guys. Can you hear me now? Yes.

Dani | Conference Operator:

Yes. Good morning.

Ghoshy Sri | Analyst, Singular Research:

Okay, awesome. Good morning. Thank you. Thanks for taking my call, and congratulations on diversifying the clientele portfolio. You mentioned in the Q1 release that you're exiting the lower margin run majoring accounts. Can you give us a sense of how much of that revenue you've already exited versus how much of that is still in the portfolio? Where there is another trend of that revenue that could come out either in the top line in H2 or in that fiscal 27 improvements?

Natalia Schuman | President and Chief Executive Officer:

Yes, thanks, Goshi. So basically, if you look at 11 million decline in oil and gas, so about two-thirds of that decline is attributed specifically to those decisions, the exit of low-margin work. So we do think that it will persist or we'll see some impact going to Q2 and Q3, but the intention is to offset that decline with the high-value work. So we are working closely with our clients to expand that wallet share with our integrated solutions. So we believe that by, you know, making those actions, in executing on this very intentional strategy about bringing additional services, like we introduced, again, welding, we introduced cleaning, you know, the light craft work to bring the client's turnkey solutions, we are increasing our margins. So we believe we will be able to sort of offset that negative impact of those exits, right, where we walked away from some contracts by this high-value work. We're quite optimistic about that.

Ghoshy Sri | Analyst, Singular Research:

Awesome. I just want to get a bit more color on the A&D margins. So when you win the new A&D capacity contracts, the ones that require upfront capital investment in equipment and these technicians, when we look at the incremental margins after the first year, the contract versus the second or third year as utilization matures, I'm trying to understand whether there will be a, whether if there's a rapid growth in A and D in the near term is nearly, is initially dilutive to margins before becoming accruative, whether you are capturing full margin economics for all, you're capturing it from day one.

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

I'll take that one, Galshi. Great question. No, no, it's not, it's not, don't think of it in terms of dilutive. These are, our hub and spoke model is mature, it's expanding, so we're adding on, extending the extending the product line extension, doing more technical steps for customers. So there is a ramp up when you build the equipment, you buy it, you configure it, you test to a standard, then you ramp up and you're testing more parts per ship for the customer. So, yes, you gain efficiency and a learning curve as you go, but these aren't greenfield sites we're building. We were expanding existing in-lab facilities, scaling them up, for many common customers and doing more for them. One more step that was either before or after the original test we did, we're annexing it on to what we do. So it's not – there's a slight learning curve as we do it the first time, you know, bringing in new parts or things we haven't tested before. But, no, it's not – there's not a major, you know, dilutive period there as you're ramping up there. It's minor, and then you come up the curve. once the equipment is fully installed. If it was a brand-new part for a brand-new customer needing a new piece of equipment, yes, that might take you 12 months to get there. But normally there's an extension of something we're already doing or, you know, testing and repeating the work on bar stock, plate stock, component parts we've done before. So it's generally not something entirely new. But, no, it's an incremental thing that does ramp up in a relatively short period of time versus, you know, having a long learning curve.

Natalia Schuman | President and Chief Executive Officer:

Also, just to add to that, right, also think about that we're not just adding equipment. What we did and, you know, what contributed to our results already in Q4 of 25 and now in Q1 is adding shifts. So, you know, we used to have one or two shifts per site, per hub. Right now we have in two of the largest hubs, we have three shifts going in. So just by aiding staffing, by aiding labor, we already could generate a higher throughput for our customers. That, in our view, is also expanding capacity, if I can characterize it as such.

Ghoshy Sri | Analyst, Singular Research:

Okay, awesome. Thanks for the call. And you mentioned that part of that A&E growth and the lab growth is going to require new certified technicians, what is the market for that kind of labor at the moment? Are you seeing, would you see any wage inflation for certified NDP technicians? And if so, will you maintaining a disciplined pricing approach? How would that play out?

Natalia Schuman | President and Chief Executive Officer:

It's a great question, and indeed, there is always a shortage of MDT technicians on the market, and that's another reason why we're making such a strategic decision to exit some of the low-margin work, because we believe our technicians are deserving high-value work. So we're utilizing the technician capacity in the right way. So, it's very, you know, tough to find technicians and then obviously train, test, you know, onboard and so on. So, it takes time. It takes effort. So, we want to make sure that they utilize in the right way, in the right contract, in the right relationships. So, but it is an issue on the market. So, the good news from NISTRA, right, as a company, we've been around for many, many years. We're a very credible player. So it's a choice. We are the choice for technicians to join. So that's, you know, again, something that's going for us. And we are giving opportunities for technicians in terms of upgrading their skills so they can get better pay as time goes. So that's the way we look at it. So it's just to look at it from their perspective, right, what is in for them, but at the same time, we have to make sure that we match them with a high value work and not low margin, you know, work in contrast.

Ghoshy Sri | Analyst, Singular Research:

I'll make this my last one. You know, you've combined your data analytics solutions into the integrated fuel solutions category. I understand that reflects the kind of the vision 2030 integration strategy. But from a modeling kind of investment perspective, the PCMS and the data business are kind of key to the long-term multiple expansion story. Can you give us a discrete metrics on the data business in Q1, whether the revenues growth is recovering, recurring revenue percentage, new customer logos, any kind of color on new vertical wins outside of the oil and gas?

Natalia Schuman | President and Chief Executive Officer:

Absolutely. Something that we're very proud of is the growth of PCMS continues to be quite strong. And, again, as we're introducing integrated solutions, so we show that we generated about 8 million, 8.2 million in cross-selling opportunities. In PCMS specifically, we had 11 new logos in Q1, again, great achievement by the team, plus 29 extensions. So when it comes to data and integrated solutions and PCMS specifically, what we see, once we implement it at one site, the customer wants to implement the solution at another site. So we have 29 extensions specifically for PCMS software across this particular quarter. Again, from a modeling perspective, we project double-digit growth in that area. We continue to invest, especially when it comes to AI capabilities. Our clients are very much, you know, collaborating with us and seeing how we can overcharge the insights and information that we're providing to them to make decisions. So they're working very closely with us. as we continue to innovate in that space of specifically data and PCMS. So we're very optimistic about those integrated solutions. Again, they're leading that shift specifically because, remember, PCMS is mostly in oil and gas and petrochem at the moment, so we believe that there are some other applications to other industries, but the biggest opportunities are in oil and gas. And that's where shift is going from low-margin, low-value work to more integrated solution and more high-value and high-margin work, where we're utilizing that technology, we're utilizing the data, and specifically PCMS. So it continues to be a key metric for us. We're looking at the customer renewals rate. We're looking at, you know, how many – applications within this suite of software our customers are using. And again, we continue to track those. And we will report transparently to you as well on our development specifically in PCMS area.

Ghoshy Sri | Analyst, Singular Research:

Awesome. Thanks for the call. I'll get back in the queue. Thank you. Thank you.

Dani | Conference Operator:

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

Natalia Schuman | President and Chief Executive Officer:

Well, thank you. Thank you, Danny, and thank you, everyone, for joining this important call today and for your continued interest and mistrust. I look forward to providing you with an update on our business and progress achieved towards our ongoing initiatives on our next call. And have a good day, everyone.

Dani | Conference Operator:

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