NYSE:MG Q2 2026 Earnings Call Transcript

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Lennius | Conference Operator:

Good day everyone. My name is Lennius and I will be your conference operator today. At this time, I would like to welcome you to the Mistrust Group Incorporated Q2 2026 earnings call. All lines have been placed on mute to prevent any background noise. After the speaker's remarks, there will be a question and answer session. If you would like to ask a question during this time and if you have joined via the webinar, please use the raise hand icon which can be found at the bottom of your webinar application. At this time, I would like to turn the call over to Thomas Tobolsky, Senior Vice President of Finance and Treasurer.

Thomas Tobolsky | Senior Vice President of Finance and Treasurer:

Good morning, everyone, and welcome to Mistrust Group's second quarter 2026 earnings conference call. I am joined today by Natalia Shuman, President and Chief Executive Officer, and Ed Prajzner, 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 Mistrust's SEC filings. Thank you for joining us. Reconciliation of these non-US GAAP financial measures to the most directly comparable US GAAP financial measures can be found in the tables contained in yesterday's press release and the company's related current report on Form 8K. These reports are available at the company's website in the Investors section and on the SEC's website. I will now turn the conference call over to Natalia Shuman.

Natalia Shuman | President and Chief Executive Officer:

Good morning, everyone, and thank you for joining us today. Our second quarter results demonstrate continued progress towards the transformation outlined on the Vision 2030, as Mistrust becomes a more diversified, technology-enabled, and less cyclical company. This transformation is increasingly evident in our financial performance and business mix. Growth in airspace and defense, infrastructure, and power more than offset headwinds in oil and gas as our mix continued to shift toward high margins and market, with deeper customer relationships and greater long-term visibility. For the quarter, revenue increased 4.2% to $193 million, marking our fourth consecutive quarter of year-over-year growth. We also delivered record second quarter adjusted EBITDA of $25.8 million, demonstrating the operating leverage in our model, while significantly improving free cash flow by $23.9 million quarter over quarter and continuing to position the business around higher growth, higher value and markets. Let me start with our performance by Ant Markets, which clearly demonstrates the benefits of a more diversified platform. Starting with oil and gas, which remains an important end market for Mistros, revenue declined by 8.5 million or 8.2% compared with the prior year period. This was primarily due to the impact of customer programs exited in 2025, of which the majority impact has already been realized. As we discussed last quarter, certain oil and gas customers have deferred some maintenance and project activity amid elevated commodity prices. This has affected inspection cadence, turnarounds and other work. We anticipate that a majority of the deferrals from the first half of 2026 will continue to be pushed further out. After adjusting for the level of turnarounds in 2026 and work that we exited in 2025, our oil and gas revenue was up 1% in the second quarter, and we anticipate this outlook to continue over the second half within our resilient oil and gas business. We remain selective in the opportunities we pursue with a clear focus on higher margin, higher return engagements rather than volume. At the same time, the second quarter decline in oil and gas was more than offset by strong growth in our strategic end markets, which were up 28% in the aggregate. Starting with aerospace and defense, this market remains one of our primary growth engines, with second quarter revenue increasing by 3.2 million or 13.2% year over year. Our in-lab testing business continues to be particularly strong. Demand is temporarily outpacing capacity due to a healthy backlog, strong customer relationships, and the mission-critical nature of the work we perform for some of the sector's most demanding customers. In response, we are investing meaningfully to expand capacity in our in-lab testing operations with a particular focus on automation and throughput. Along that line, we announced that we have expanded our in-lab capabilities in both Houston and Los Angeles. In these locations, we added equipment and services that allow customers to manage more complex airspace manufacturing workflows in a single facility, from manufacturing support and defect characterization to weld repair, non-destructive testing, and final certification. Over time, we believe these investments in facility expansion, automation, and process improvements could nearly triple our in-lab testing capacity. Importantly, these investments are supported by visible customer demand and will expand our service capabilities while strengthening our role as a trusted supply chain partner. TURNING TO INFRASTRUCTURE is creating meaningful opportunities for us, particularly as customers require quality assurance, inspection, commissioning support and asset integrity expertise across increasingly complex projects. We are shifting more of our focus and resources towards these larger, more complex engagements because they better align with our technical capabilities, deepen customer relationships and support higher value, longer duration work. A good example is our wood-sized Louisiana LNG megaproject, where the scope continues to expand across multiple offerings. The growth we are seeing in infrastructure is another clear example of our Vision 2030 diversification strategy translating into profitable growth opportunities. Our power generation business also delivered strong growth, with revenue increasing by 3.1 million, or 26.4% year-over-year. This performance was driven primarily by continued maintenance demand from wind energy customers. In addition to onshore wind development, repowering activity, and ongoing investment in renewable energy infrastructure. Power generation is also benefiting from broader investment in power infrastructure, including demand associated with the rapid expansion of data centers. As customers invest across both traditional and renewable generational assets, we are continuing to diversify our customer base and position the business to capture opportunities across multiple technologies and end markets. Together, our improved sales mix and operational efficiencies contributed to a 10 basis point expansion in gross margin in the second quarter. Combined with disciplined expense management, This helped drive a record second quarter adjusted EBITDA, demonstrating the operating leverage in our model. Let me now take a few minutes to provide an update on the continued execution of the three key strategic priorities within our Strategic Plan Vision 2030. As a reminder, these priorities are, first, expanding world share by delivering more comprehensive, integrated, and innovative solutions for our customers. Diversifying into attractive growth markets Building greater operational leverage through continued efficiency and productivity improvements With respect to our first strategic priority, expanding wallet share, our proprietary technology solutions, including the ARC crawler, monitoring technologies, and PCMS data offerings, continue to play an increasingly important role in our customer inspection programs. These solutions improve inspection quality, support better decision making, and provide actionable insights into customers' managing complex asset integrity needs. As customers continue to invest in asset integrity and digital transformation, particularly in power and energy, these capabilities are becoming more deeply embedded in customer workflows and helping strengthen long-term partnerships. To further accelerate our progress, I'm pleased to report that we have hired an executive director of AI, leading our AI adoption and forming an AI center of excellence for MISRAS Group's data solutions organization. Focus on applying AI to asset protection, mechanical integrity, inspection intelligence, engineering productivity, automation, and customer facing data solutions. On our second strategic priority, diversifying into attractive growth markets, we continued to make meaningful progress during the quarter. We secured notable contract wins across wind energy, commercial diving, and marine infrastructure service lines, underscoring the breadth of our capabilities and the value we can deliver beyond traditional NDT offerings. We also hosted a Technology Day in Houston during the second quarter, giving customers a first-hand look at our capabilities and service offerings. The event was well attended and the feedback was positive across a range of industries. These events helped deepen engagement with existing customers and introduce prospective customers to the broader Mistrust platform. During the second quarter, we also expanded our relationship with U.S. Department of Defense, securing additional project awards that reflect the strengths of our technical expertise and our ability to support mission-critical infrastructure and asset integrity requirements. Together, these wins reinforce our strategic focus on broadening our end market exposure while driving sustainable growth across our platform. For our third strategic priority, building great operational leverage, we continue to advance automation, digital initiatives across the organization. These efforts are focused on improving workflow efficiency, working capital management, collections activity, information processing, and productivity in support functions. While these AI and automation initiatives are still in the very early phases, they are helping us create a more scalable operating platform by reducing administrative burden and allowing teams to focus on high-value work. As we continue to build innovative solutions and drive operating leverage, labor availability remains an important consideration. The market for qualified technicians remains tight, and we continue to compete for specialized talent. We have responded by sharpening our recruiting approach and enhancing technicians benefit plans in targeted areas where demand is the strongest with the goal of filling labor gaps while maintaining the quality of tech and technical expertise our customers expect. Overall, our strategic plan continues to gain traction and is increasingly evident in our results. We are strengthening technology and service integration, expanding into higher growth markets, and improving operational efficiency, all of which are positioning Mistrust for more sustainable, long-term value creation. Before Ed walks us through the financials, I want to briefly highlight a few additional achievements from the quarter that reinforce the progress. First, Mistrust was recently recognized by markets and markets as a star in both entity inspection services and entity inspection equipment, reflecting the strengths of our asset protection platform and technical capabilities. Second, Mistrust was added to several Russell growth and defensive benchmarks as a part of the latest reconstitution of the Russell family of indices, which we believe can broaden visibility and support trading liquidity over time. And finally, we recently launched AE Scout and rapid deployment acoustic emission monitoring solutions that complements conventional NDT inspections and strengthen risk-based inspection and integrity management programs. AE Scout gives operators a practical way to collect evidence quickly between traditional inspection intervals, helping them prioritize inspection resources, reduce unnecessary disruption, and make more confident decisions. It also supports our emerging integrity management as a service model as we aim to deliver more comprehensive, innovative solutions for our customers. In summary, we continue to execute against our long-term transformation under Vision 2030. We are expanding in aerospace and defense, infrastructure and power, managing oil and gas with discipline, and investing in the highest return areas of the business to support profitable growth. Now, I would like to turn the call over to Ed to walk through a more comprehensive overview of our second quarter results.

Ed Prajzner | 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 second quarter. As Natalia mentioned, we delivered revenue growth of 4.2% supported by strong execution across strategic end markets. Importantly, that growth translated into improved profitability, with gross profit margin expanding by 10 basis points year over year and income from operations expanding by 53.6%. These improvements were driven mainly by our continued focus on a favorable mix shift towards higher value business and continued operational and overhead cost efficiencies achieved across the business. SG&A decreased year over year by 1.1 million or 2.7% compared to the prior year period. Excluding the impact of foreign currency translation in 2025, SG&A expenses increased 1.7 million or 4.6%. The year-over-year comparison was affected by a change in presentation adopted in 2026, under which foreign currency gains and losses are reported within other income and expense net. Previously, these amounts were included within SG&A. The prior year amounts were not reclassified as the impact was not material. Operating income was $12.9 million for the second quarter, compared to $8.4 million in the prior year period, an increase of 53.6%. This represented a nearly 60% conversion of incremental revenue year over year into operating income in the second quarter. On the bottom line, we generated gap net income of $7.6 million, resulting in gap earnings per diluted share of $0.23. On a non-gap basis, net income and earnings per diluted share were $9.1 million and $0.28 per share, respectively. These significantly improved results, GAAP and non-GAAP, net income and EPS, all more than doubling, reflect our strong performance, particularly given the investments we are continuing to make to support future growth. Adjusted EBITDA was $25.8 million, an increase of 7% over the prior year quarter, and represents our highest ever second quarter adjusted EBITDA to date. Adjusted EBITDA margin was 13.3%, up 30 basis points year over year, reflecting stable operating performance, continued cost discipline, and the benefits of our ongoing mixed shift. Turning to cash flow, both cash flow from operations and free cash flow significantly improved during the second quarter. This progress reflects focused management attention on upfront billing, cycle time, customer escalations, and proactive collection efforts. We generated a free cash flow increase of $23.9 million compared to the prior year quarter as a result of higher net income generated and significantly improved working capital dynamics. This progress achieved during the second quarter aligns with our previously mentioned focus on driving sustainable cash generation and we remain intently focused on further improving conversion as we continue to view cash generation as a critical area of focus for the business. We will continue to dedicate significant time and execution attention to strengthening cash flow performance. That includes accelerating the use of automation, including AI, improving internal processes, and working closely with customers to ensure cash collections better reflect the value and benefits that we deliver. These efforts have shown progress over the past few quarters, and we expect to return to historically favorable cash flow levels in the second half of the year. Our capital allocation priorities remain unchanged. Invest in high growth opportunities, strengthen the balance sheet through disciplined debt reduction, and maintain flexibility to pursue attractive strategic opportunities. We also recently extended our credit facility by one additional year to allow us more optionality as we incorporate Vision 2030. Our interest expense in the quarter was $4.1 million, which was down $0.1 million, or 2.4%, compared to $4.2 million in the prior year quarter, reflecting decreases in our borrowing cost. Our effective income tax rate for the second quarter was 23.1%, and we anticipate an effective tax rate of approximately 25% for the full year 2026. Our bank defined leverage ratio was approximately 2.2 times as of June 30, 2026, which is down versus 2.4 times at March 31, 2026, and is well within the maximum allowable leverage of 3.75 times. And this is the lowest level it has been since 2018. 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 continue to make capital investments into higher growth, higher value areas as governed by our strategic plan. We appreciate your continued support. And at this time, I will turn the call back over to Natalia for her closing remarks.

Natalia Shuman | President and Chief Executive Officer:

Thank you, Ed. Before we move to Q&A, let me close with a few final thoughts and provide our outlook for the remainder of the year. We delivered another strong quarter highlighted by our fourth consecutive quarter of year-over-year revenue growth. We also delivered record second quarter adjusted EBITDA. Demonstrating the operating leverage in our model. The steps we have taken to sharpen our go-to-market approach, streamline operations, and broaden our integrated solutions are producing tangible results. Therefore, we're increasing our full-year guidance ranges up to $740 million to $755 million in revenue and up to $92 million to $95 million in adjusted EBITDA. This range reflects continued strengths in our strategic growth markets, particularly offset by a low level of activity in our oil and gas end market, attributable to ongoing macroenvironment factors, including higher crude oil prices. We continue to see favorable demand trends, particularly in our aerospace and defense and infrastructure end markets, which we expect to support growth throughout the remainder of the year. We remain focused on strengthening operational execution, driving greater efficiency, and further improving cash flow and working capital performance. Our strategic plan continues to gain momentum. We are expanding wallet share, deepening customer relationships, and advancing technology and data-enabled solutions that make Mistrust more differentiated and better positioned for sustainable, profitable growth. Thank you. I'll close by thanking all of our Mistrust employees from the front lines to the back office for their tireless efforts in executing on their day-to-day tasks while embracing transformative change and the evolving strategy of our company. These efforts are creating value for our customers and in turn our shareholders. I look forward to updating you on our performance as we progress toward our strategic goals. And with that, let me turn the call back to Liniers for questions.

Lennius | Conference Operator:

Thank you. We will now begin Q&A. For today's session, we'll be utilizing the raise hand feature. If you'd like to ask a question, simply click on the raise hand button at the bottom of your screen. Once you've been called on, please unmute yourself and begin to ask your question. Thank you. We will now pause a moment to assemble the queue. Your first question comes from the line of John Fransrib with Sidoti & Co. Please unmute your line and ask your question.

John Fransrib | Analyst, Sidoti & Co.:

Good morning, everyone, and thanks for taking the questions. Natalia, I'd like to begin where you just left off. It sounds to me that in raising your revenue guidance for the year, it's more a function of better demand and A&D and infrastructure and that you anticipate oil and gas to remain, I don't know, in a little bit of a flat to down profile in the second half. Is that a right assessment?

Natalia Shuman | President and Chief Executive Officer:

That's right, John. Hi. Yeah, thanks for the question. It's indeed correct. We see strengths in our strategic growth markets that we outlined there, airspace and defense, infrastructure, power, and oil and gas is our core market. But there what we see is it's more of a stabilization. Currently, we saw if we take out the turnaround and the exited programs, so we saw about 1% growth in Q4. Q2. So we anticipate sort of flat to moderate growth in Q2 and Q3 and Q4. So that's how we look at it.

John Fransrib | Analyst, Sidoti & Co.:

Got it. Got it. Thanks for that clarification. And I guess this is another thing that you said in your prepared remarks, and I don't know if I interpreted correctly. But you talked about the increasing capacity during your breakdown of A&D being up threefold. Is that threefold just for A&D related projects or is that threefold for all lab related work?

Natalia Shuman | President and Chief Executive Officer:

Most is for in lab work. So what we're doing is we're expanding our capacity in in lab and the markets that we serve in our laboratory operations is Airspace and Defense and Industrials. So both markets will benefit from that expanded capacity. And we project, again, according to our strategic plan, Vision 2030, we project to triple our capacity by the end of 2027.

John Fransrib | Analyst, Sidoti & Co.:

Got it. That's significant. And I guess one last question. Can you give me your thoughts about the 60% drop down, I think is what you mentioned, Ed, the conversion? Is that a sustainable kind of number in this kind of environment that seems relatively impressive?

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

Thanks, Sean. Great question. Yeah, that was for the second quarter. For the full year, it's actually slightly higher than that. And yes, in the in-lab business, in the data business, there is a fixed cost element. So when volume rises, yes, there is a very attractive contribution margin drop down there. And you'll see that in many past quarters when volume spikes up, you get a significant drop down there. So that's a good percentage to use in future periods. That's sustainable. Absolutely.

John Fransrib | Analyst, Sidoti & Co.:

That's great. I'm going to throw in one oddity question. The other income number or the revenue number was $8 million and change, and that's the highest number it's been in years. I'm just curious if there's any abnormal job or anything. Maybe you can just explain a little bit what's going on there.

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

Other income you're referring to, John? Other revenue. Oh, other revenue? Yeah. Oh, sorry, that's the otherwise not classified industries. It's a lot of smaller call-out work. It's not fitting in the other predetermined end markets, but it's another example of our good diversification where we're picking up lots of work in different places beyond our core markets. But that's what that is, a mix of industries, and a lot of that's project work and call-out work in lots of different diverse places.

Natalia Shuman | President and Chief Executive Officer:

You know, one of the examples, you know, John, is like cruise operators, right? So that we would classify kind of in other revenue stream because it doesn't really, you know, falls into the infrastructure or power, you know, but we still provide this type of services and, you know, our customers rely on us.

John Fransrib | Analyst, Sidoti & Co.:

No, just because it was double the first quarter and I had to look back a lot of years and still haven't found it at this kind of a threshold. So it's just something I noticed. But thanks for taking the oddball question, if you will. Of course. Thank you.

Natalia Shuman | President and Chief Executive Officer:

Thank you, John.

Lennius | Conference Operator:

Thank you. Your next question comes from the line of Alex Rigel with Texas Capital Securities. Please unmute and ask your question.

Alex Rigel | Analyst, Texas Capital Securities:

Thank you and good morning. Very nice quarter. Can you discuss some of the backlog trends by segment?

Natalia Shuman | President and Chief Executive Officer:

Sure. Hi, Alex. You know, when we look at kind of backlog, we really not kind of define that our visibility is not defined by like a single backlog metric. On the field side, our visibility is often better reflected by the recurring activity and longstanding kind of contracts and customer relationships and embedded integrated programs that we have. So in lab, we have reserved capacity where we have strategic agreements with our customers.

And there we see a minimum volume that we negotiate with our customers. So we do have the visibility into the volume for foreseeable quarters. And then we do see, obviously, confirmed backlog of the turnarounds, for example, or other projects in infrastructure and power. So, but again, it's not a single metric of backlog that defines our visibility, if you like.

Alex Rigel | Analyst, Texas Capital Securities:

And then last quarter, you mentioned that you were starting to build an M&A pipeline. How has that progressed?

Natalia Shuman | President and Chief Executive Officer:

Our strategic plan does not depend on any transformative M&A. It really depends on executing on Vision 2030 and strengthening our cash flow, reducing leverage. Having said that, we're obviously looking at opportunistic opportunities where we can enhance our capabilities. We continue to look and build the pipeline, but I cannot give you anything concrete at this time.

Alex Rigel | Analyst, Texas Capital Securities:

That's great. Thank you very much.

Natalia Shuman | President and Chief Executive Officer:

Thank you, Alex.

Lennius | Conference Operator:

Thank you. Your next question comes from the line of Gaoshi Shree with Singular Research. Please unmute your line and ask your question.

Gaoshi Shree | Analyst, Singular Research:

Good morning, folks. Can you all hear me? Yes. Hi. Hi, Gaoshi. Hi, good morning. Good morning. My first question is a little bit on a color on that in lab revenue. It was slightly sequentially down. I know last quarter you said the third hub goes to three shifts around the summertime and possibly a fourth by the year end. Are those still milestones still on schedule? And when does that actually start impacting kind of the revenue life?

Natalia Shuman | President and Chief Executive Officer:

Indeed, in-lab revenue largely depends on unlocking our capacity. So whenever we make an investment, there is a lead time until these investments will come online, meaning that we can generate the revenue. Usually the lead time is about 9 to 12 months. So as we continue to invest in the lab network, we would see that the growth could be Thank you very much. Customers are proactively reserving their capacity. So they're looking for improved turnaround times. They're looking at the flexibility. And we see that this, again, gives us enough visibility into the revenue growth in lab specifically. But it depends on the investments that we're making and how soon and how fast they come online.

Lennius | Conference Operator:

Thank you. At this time, I see no callers in the queue, so I will hand back for closing remarks.

Natalia Shuman | President and Chief Executive Officer:

All right. Thank you, Alenius, and thank you everyone for joining our call today and for your continued interest in MISRAS. Our story remains straightforward. We are diversifying into faster growing end markets, improving our business mix, Expanding margins, strengthening cash flow and investing in capabilities that support long-term earnings power. We remain confident in our ability to execute against our 2026 objectives and create sustainable value for our shareholders. That's pretty much it. Have a good day.

Lennius | Conference Operator:

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