NYSE:THR Q3 2025 Earnings Call Transcript

Generated on 6/10/2026

Operator | Conference Operator:

Greetings and welcome to the Thurmond Group Holdings Third Quarter Fiscal Year 2025 Earnings Conference Call. At this time, all participants are in a listen-only mode. A question and answer session will follow the presentation. If anyone should require operator assistance during the conference, please press star zero on your telephone keypad. Please note that this conference is being recorded. I will now turn the conference over to your host, Yvonne Salem. Vice President of FP&A and Investor Relations. Thank you. You may begin.

Yvonne Salem | Vice President of FP&A and Investor Relations:

Thank you. Good morning, and thank you for joining Thermos Group's fiscal 2025 third quarter results conference call. Leading the call today are CEO Bruce Thames and Chief Financial Officer Jan Schoch. Earlier this morning, we issued an early press release, which has been filed with the SEC on Form 8K. and it's also available on the investor relations section of our website. Additionally, the slides for this conference call can be found in our IR website under News and Events IR Calendar Earnings Conference Call Q3 2025. During the call, we will discuss some items that do not conform to generally accepted accounting principles. We have reconciled those items to the most comparable gap measures in the tables at the end of the earnings press release. These non-GAAP measures should be considered in addition to and not a substitute for measures of financial performance reported in accordance with GAAP. I would like to remind you that during this call, we might make certain forward-looking statements regarding our company. Please refer to our annual report and most recent quarterly report filed with the SEC for more information regarding our forward-looking statements, including the risk and uncertainties that could impact our future results. Our actual results might differ materially from those contemplated by these forward-looking statements, and we undertake no obligation to publicly update any forward-looking statements, whether as a result of new information, further developments, or other ones, except as might be required by law. Today's call will begin with remarks from our CEO, Bruce Thames, who will provide a review of our recent business performance, including an update on the progress we have made to our strategic investments, followed by a financial update and review from our CFO, Jan Schott. Bruce will then wrap up our prepared remarks with an update on our business outlook. At the conclusion of these prepared remarks, we will open the line for questions. With that, I'll turn the call over to Bruce.

Bruce Thames | Chief Executive Officer:

Thank you, Yvonne, and good morning to everyone joining us on the call today. I'll begin my commentary with the third quarter highlights, which we detail on slide three of our presentation. The third quarter was another period of solid execution by our global team, which resulted in continued strength in our OPEX-related revenue, bookings momentum, strong margin capture, and efficient free cash flow convertions. Based on our discipline and execution against our strategic priorities, the cash flow generation of this business, and our strong balance sheet, we are strategically positioned to benefit from the improving demand drivers, which we expect will translate to an improved growth trajectory in the coming quarters. We continue to benefit from our strategic focus on diversifying our revenue base and increasing our exposure to short cycle projects in MRO-related recurring revenue. This has resulted in a revenue base that is both more stable and more profitable. We were also encouraged by the continual momentum in order trends during the third quarter and our strong backlog growth. Our orders increased 11 percent on a reported basis and grew up modestly organically on a constant currency basis. This resulted in another quarter with a positive hit to build. Importantly, our backlog increased nearly 48% on a reported basis and was up 9% organically. The strong backlog growth is being driven by the solid order trends as well as the slightly extended backlog conversion I discussed last quarter. While the slower backlog burn has been a bit of a headwind to our near-term revenue growth, The higher backlog and heavy workload in engineering gives us increased visibility and growing confidence in our growth trends moving forward. The more favorable business mix were the key drivers that enabled us to generate an adjusted EBITDA margin of nearly 24% during the third quarter, which came despite a modest margin drag from our recent acquisitions. While mixed with the key factor in the improvement We also benefited from the cost savings and productivity initiatives we've instituted across the business. We were very pleased with our margin capture during the quarter and believe our third quarter profitability highlights the overall margin potential for the business, providing confidence in the ability to achieve our long-term profitability targets. And finally, our strict financial discipline resulted in strong free cash flow conversion during the quarter. Through the first nine months of fiscal 2025, we generated $24 million in free cash flow, which is up $3 million from last year, despite slightly lower EBITDA. As a result, we paid down $12 million in debt during the third quarter, bringing our net leverage at quarter end down to just over one times. So with that, I'd like to turn to the third quarter results starting on slide four. Jan will cover the financials in more detail, but I want to highlight a few key items. While we are focused on growing our diversified end markets, oil and gas remains an important end market for our business, and we are seeing improving trends in the sector. As I already discussed, we continue to experience improved oil and gas technology during the third quarter, which was driven by broad market strength, including solid trends in chemical, petrochemical, transit, general industrial, in addition to a rebound in oil and gas. We're still seeing extended decision cycles on larger capital projects where we believe customer confidence is improving and we remain encouraged by the growing opportunities pipeline and strong quoting activity. The recent aggressive and broad approach to tariffs has, unfortunately, created additional uncertainty in the business. With the human nature of the trade talks underway, The final outcomes are in question, and we have not yet fully contemplated the potential impact on customer behaviors and the business. However, I would like to take a moment to reinforce Thurmond's manufacturing strategy. We like to be close to our customers with our people, our services, and our manufacturing operations. Our footprint in both the US and Canada allow us to produce in-country to be responsive to customer needs. Our acquisition of property was a further move in this direction. While improving our competitive position, this approach also serves as a natural hint to fluctuations in currency and import duties. We'll be monitoring these trade negotiations closely as the magnitude, breadth, and duration of tariffs becomes clearer. Jan will talk more about the potential exposure later in the call. Our reported revenues declined by 2% during the quarter driven by the ongoing pressure in large CapEx projects. However, our short cycle revenues remained resilient. Turning to slide five, our OpEx revenues increased 13% during the third quarter and were essentially flat organically despite the challenging CapEx spending environment in our business. On a trailer 12-month basis, our OPEX revenues represented 84 percent of our total revenues, up from the low 70 percent range just a few years ago. We do anticipate a rebound in large capital expenditures, which will have an impact on the mix. But the increased exposure to OPEX revenues should continue to provide a more predictable and profitable revenue stream going forward. In addition to improving our revenue stability, our evolving business mix is driving enhanced margin performance. Our 23.7% adjusted EBITDA margin during the quarter was our highest quarterly margin performance in two years and has enabled us to grow our third quarter EBITDA despite the modest revenue decline. Now turning to slide six in our strategic pillars. We continue to make important progress on our strategic priorities during the third quarter, as evidenced by our favorable off-ex revenue trends, margin expansion, and backlog growth. And a key aspect of our strategy has been our goal to reduce exposure to the oil and gas sector. As I discussed last quarter, we achieved our FY26 goal of generating at least 70% of revenues from diversifying in markets. While we remain committed to maintaining or further improving this metric, oil and gas is still an important end market for Thermon, so we have been encouraged by the recent momentum we've seen in this business. In particular, we've seen a pickup in our Canadian oil and gas business driven by increased maintenance activity and drilling programs to support LNG export and additional export capacity with the newly commissioned Trans Mountain Pipeline. I will discuss our in-market outlook in more detail later in my remarks, but we are encouraged by some of the pockets of strength we're seeing in oil and gas and expect we could see further momentum given the priorities of the new administration. We remain focused on our disciplined capital allocation strategy, which is based on a balanced approach between investments in organic growth, strategic M&A, maintaining financial flexibility, and opportunistic return of capital. We continue to successfully integrate the recently acquired VaporPower and Focke businesses. Focke generated solid financial results during our first quarter of owning the business. At VaporPower, we continue to see strong backlog trends and are focused on expanding capacity to convert the current backlog while building on the strong market momentum. We purchased 6.2 million of our shares thus far during fiscal 25, and have approximately $43 million remaining under our $50 million share repurchase program. We continue to see a robust M&A pipeline, and with our current leverage comfortably below our 1.5 to 2 times net leverage range, leaving us in a strong position to continue to execute on our capital allocation priorities. With that, I'll turn it over to Jan, who will provide a more detailed review of our third quarter results. before I wrap up with some remarks on our financial outlook. Jim?

Jan Schoch | Chief Financial Officer:

Thank you, Bruce, and good morning, everyone. I will review financial results for the quarter, give an update on working capital and free cash flow, and conclude with comments on the balance sheet and liquidity. Moving now to slide seven, revenue in the third quarter was $134.4 million, a year-over-year decrease of 1.5%. BabelCower and FOTSE combined to contribute $13 million of revenue during the third quarter. Acquisition revenues coupled with continued resilience and OpEx revenues mitigated the impact of the ongoing headwinds in a large project business. Excluding BabelCower and FOTSE, third quarter organic sales decreased 11% versus record results last year, mostly from large project sales. large project revenue was $18.6 million during the third quarter, down 45% from last year, as customers continued to delay decisions on large capital projects. Geographically, this weakness was primarily in the U.S.-Latin American region and was fairly consistent across our various market verticals. Our office revenues were $115.8 million during the third quarter of an increase of 12.6% compared to last year, as our customers continue to prioritize maintenance and repair spending. Excluding the contributions from Vapor, Cower, and Saucy, our off-ex revenues were essentially flat in the quarter. We believe that the stable results in our off-ex revenues, despite the challenging capital spending environment, demonstrate the benefits of our long-term customer relationships, deep installed base, and the resilience of MRO spending by our customers. Demand in Canada remained favorable, with sales of 43.5 million, up 6% year over year. EMEA sales were at 13.8 million, up 11%. APAC sales of 9.8 million, declined 3%. And U.S. Latin America sales of 67.2 million, declined 8%. driven by the continued contraction in large project sales. As we are discussing our geographic exposure, I will take a quick minute to build on Bruce's comments regarding tariffs. At this point, the tariff situation is very fluid, and it is clearly too early to predict what the ultimate impact might be on the business. Importantly, as Bruce already highlighted, our manufacturing strategy to be close to our customer helps insulate us from any potential tariffs. Our total cost of goods sold exposed to U.S.-Canada tariffs is roughly 10%, and our products were not impacted by the initial countermeasures Canada had proposed. We believe that our Mexico and China exposure is limited given we have no manufacturing presence, and the combined markets represent roughly 5% of revenue. Adjusted EBITDA was $31.8 million during the third quarter, up from $30.7 million last year, an increase of 3% due to strength in our short cycle revenues and the contributions from VaporPower and FOTI. These were partially offset by declines in our project revenue and continued investments in growth initiatives. Adjusted EBITDA margin was 23.7 percent during the third quarter, up from 22.5 percent last year due to a more favorable revenue mix and productivity gains from operational excellence initiatives. Orders during the third quarter were 139 million compared to 124 million in the same period last year, an increase of 11.4 percent. We saw broad momentum in our order trend highlighted by notable strength in petrochem, transit, and oil and gas. Importantly, nearly 70% of our incoming orders in the quarter were once again from diverse end markets. As a result of the solid order momentum, backlog was $235.6 million at the end of the third quarter, up 48% compared to the third quarter last year. Excluding vapor power and FOTI, backlog increased 9%, on an organic basis only. Moving to slide eight for an update on our balance sheet and liquidity, working capital decreased seven by seven percent to $177.2 million at the end of the quarter as we continued the blockchain optimization efforts while improving lead times and on-time delivery to our customers. CapEx was $1.4 million during the third quarter of 25, down from 2.2 million last year. As a result of our strict financial discipline, free cash flow was 8.5 million in the quarter, bringing our year-to-date free cash flow to 24 million of 3 million, or 14 percent, from the same period last year. We believe our focus on working capital management and solid operating results will deliver another year of strong free cash flow conversion. We paid down $12 million in debt during the quarter, bringing our net debt balance to $115 million. Net leverage was 1.1 times at the end of the third quarter, down from 1.5 times last year. This past October, we completed the consolidation of our Denver facility and the sale of the property, which brought in net cash of $5.8 million and a gain of about $3 million and a quarter. In summary, we are pleased with our financial execution during the quarter as we made further progress on operational excellence initiatives and we generated strong free cash flow, which enabled us to reduce our leverage. Based on our total cash and available liquidity of $136 million, we remain well capitalized and have ample flexibility to continue to support our capital allocation needs, which will be a balance of investments and growth debt pay down, and opportunistic share repurchases. With that, I will turn the call back over to Bruce.

Bruce Thames | Chief Executive Officer:

Thanks, Jan. Before I wrap up with our financial outlook, I thought it might be helpful to provide some updated thoughts on what we're seeing in some of our key markets as we enter the new calendar year, particularly with the immune administration taking over. Over the last several quarters, the industry has faced headwinds due to the pause in large project capital spending, particularly in U.S. land. We believe that delayed investment decision timelines over the last year were due in large part to the uncertainty surrounding interest rates, the presidential election, and the overall economy. While the timing and magnitude of further Fed evening is yet to be determined, and the macroeconomic environment is still uncertain, customer confidence appears to be improving particularly with the election now behind us. While our order momentum in Q4 has remained robust, we haven't yet been able to assess how the threat of tariffs may impact customer behavior going forward. The improved order momentum and quoting activity we've witnessed over the last couple of quarters have been broad-based. I'd like to provide some color on some of the key areas of strength. First, while we are focused on growing our diversified end markets, Oil and gas remains an important end market for our business, and we're seeing improving trends in this sector. LNG project activity has notably increased following the lifting of the hold previously placed on new LNG export permits. Given our technical capabilities and customer relationships, we are well positioned to benefit as project activity resumes. We continue to see favorable trends in our power business doing large part to increasing demands on the grid driven by growth in population, data centers, and EVs. The current administration recently announced Project Stargate, which will provide up to $500 billion in funding for computing infrastructure in support of AI. This program has made $100 billion in funding available immediately, with 10 data centers already under construction in Texas. In slide nine, We see an example of an electric boiler being used as load banks in liquid data centers to simulate both the heat and electrical load of these facilities during the startup phase. These systems are also used for maintenance and testing throughout the life of the data center. While liquid cooled data centers represent only 10% of the market today, they have the distinct advantages of being more cost efficient and allowing higher server densities. It is estimated that liquid-cooled data centers represent as much as 40% to 50% of the new data centers planned for construction in 2025. Another area of strength has been the chemical and petrochemical markets. Both projections for the sector range from 5% to 6% through 2034, and our sales pipeline shows this as the largest sector, representing 16% of the total opportunities through FY27. Overall, we continue to be encouraged by the growing momentum in our business, particularly in some of the markets that have been facing headwinds over the last year, such as LNG and oil and gas. This improved momentum, combined with the favorable secular trends we are benefiting from, such as reshoring, electrification, and decarbonization, give us increased confidence in our growth trajectory, and we're beginning to see this in our improved cooling activity, oil rates, backlog growth. Before I discuss our FY2025 financial outlook, I want to provide some brief comments on the fiscal 2026 targets we provided at our 2023 investor day. We're currently developing our FY26 plan and will provide full year guidance when we report on our full core results in May. I do want to provide some additional color on our targets, which included $6 to $700 million in revenue, and adjusted EBITDA margins of approximately 24% and at least 70% of revenue to be derived from diversified markets. This team has made tremendous progress towards obtaining these objectives over the last four years, driving revenue growth, diversification, and EBITDA margin expansion. And while we remain confident in our ability to achieve these goals, there are two key factors outside of our control that will affect timing. First will be the overall macroeconomic backdrop, and second, the timing and magnitude of acquisitions in our M&A pipeline. Without strength in both, the timeline for achievement will likely push beyond the fiscal year 2026. And now I'll just turn to slide 10. I'd like to discuss our outlook for fiscal 2025. Based on everything we shared this morning, We're maintaining our full-year 2025 guidance that calls for revenue in the range of $495 million to $515 million, adjusted EBITDA in the range from $105 to $110 million, and adjusted EPS in the range of $1.77 to $1.89 per share. The potential impacts of tariffs have not been contemplated in this guidance. Finally, just to wrap things up on slide 11, We're optimistic in our business outlook and the opportunities ahead remain as strong as ever. We've made significant progress in developing a business that is more stable, profitable, and durable across cycles. We believe our large and growing installed base provides us with a resilient aftermarket franchise, which gives us access to a steady stream of predictable and highly profitable MRO revenues. We also remain well-positioned to benefit from several secular growth drivers, including the energy transition and decarbonization, onshoring in North America, and infrastructure spending. We remain confident in these trends, and we believe that the recent spending delays only serve to create pent-up demand when customer confidence improves. Lastly, we benefit from a high-margin, low-capital-intensity business significant cash flow. We continue to maintain strong financial discipline, and with leverage of just over one times, we have the flexibility to pursue our capital allocation priorities. We remain focused on following a disciplined approach to capital allocation, and we will balance these priorities all with a focus on creating long-term shareholder value. That completes our prepared remarks, and we're now ready for the question and answer portion of our call.

Operator | Conference Operator:

Thank you. And at this time, we'll conduct our question and answer session. If you would like to ask a question, please press star one on your telephone keypad. A confirmation tone will indicate your line is in the question queue. You may press star two if you would like to remove your question from the queue. For participants using speaker equipment, it may be necessary to pick up your handset before pressing the star keys. Once again, to ask a question, press star 1 on your telephone keypad. And our first question comes from Brian Drab with William Blair. Please state your question.

Brian Drab | Analyst at William Blair:

Hi. Good morning. Thanks for taking my questions. Good morning. The point in time revenue, $99 million, that was, I think, an all-time record. And I'm just wondering if you could, you know, talk about that number a little bit and the dynamics. I mean, I know it's obviously the heating season that drives, you know, this time of year to be strong. But is there anything else in there that was unusual in the quarter and, Are we reaching kind of a new baseline level? I mean, again, acknowledging that this is a seasonally strong period, but a new baseline level of point-in-time revenue going forward?

Bruce Thames | Chief Executive Officer:

Yeah, Ron, so a couple of things to note. First of all, we have seen a more normalized feeding season. And so that has certainly contributed, and we have been focusing on driving recurring revenues on the installed base. It's been a key piece of the strategy, and we're seeing success in those efforts. And then also we've had contributions from some of the acquisitions with point-in-time revenue generated through those as well. And so when you think about those things combined, yes, I think the point-in-time revenues as far as the volume levels were We're seeing really a step change in our business and something we'll continue to drive on a go-forward basis.

Brian Drab | Analyst at William Blair:

Okay, great. And by the way, I guess I should round up to $100 million. It was 99.6. And following on to that, I guess, Bruce, you can envision at some point, maybe it's a few quarters from now, where the overtime large revenue line, you know, has kicked back in and then you have this point in time, you know, foundation that's larger. I mean, it seems like, you know, once that overtime large kicks in, you know, that's where you're, that's your target, that's your expectation, right, a few quarters from now?

Bruce Thames | Chief Executive Officer:

Yes, Brian. And, you know, I think a couple of things to note. Our focus has been heavily on driving recurring revenues on the install base, but we really can't lose sight of the fact that growing that install base through overtime project activity is really how we continue to drive growth. So we are still very focused on the CapEx piece of our business as a means to grow that install base. Given the bookings momentum, given the backlog growth organically of 9%, Given the load that we currently have in our engineering organization and the overall quoting activity, it's pointing towards a return to capital spending and growth there. When we do see that, we would expect to see this revert back. I mean, we're at a very high mix of OpEx-related spending that would probably begin to move back towards the 75%, 80% range. whenever we do see this capex cycle improve and customers begin to release larger capex spending.

Brian Drab | Analyst at William Blair:

And can you talk a little bit about the potential for the release of some of that large capex spending? And specifically, you mentioned LNG projects. What are other types of projects? I know you've talked about hydrogen and biofuel projects. How about also combined cycle natural gas plants and what kind of big projects might we expect to hear you talking about in the next, call it four quarters, next year?

Bruce Thames | Chief Executive Officer:

One of the big things that we've seen is really since the new administration has been in place lifted the ban on LNG export permits is there's been a really a big surge of activity around LNG and so a lot of those projects largely along the Gulf Coast are moving forward and as I had noted in the prepared remarks. Our technical capabilities, the breadth of our solution set and our customer relationships position us well to take advantage of that. The other areas where we see the emphasis on Subsidies around wind, solar, EVs. We do expect to see a pickup in combined cycle natural gas fired plants. And that's really front and center for Our market is very well positioned to take advantage there. We also see a renewed interest in nuclear. And so we've seen some of those projects around refurbishments and expansions in North America. But one of the things we're really excited about, and it's a little further out, but we just won a very nice engineering award for small modular reactors for a customer in Europe, and so we're excited about that and being able to participate in the development of that technology for building some about 3 megawatts capacity in Central Europe. So those are some of the areas we've seen movement. Petrochem can remain strong. It's been a bright spot, general and industrial as well, and certainly we'll see what happens with tariffs, and that's very fluid. you know, that could drive more onshoring in the U.S. particularly, which would be a tailwind as well.

Brian Drab | Analyst at William Blair:

Okay. And then the last question for now, could you comment on gross margin, which was obviously a function of strong point-in-time revenue, but, you know, comment on I think what is, you know, it's got to be the highest gross margin that we've seen for many quarters, at least maybe a few years, but how should we expect gross margin to look in the fourth quarter and maybe beyond, if you could give us a sneak peek at next year?

Bruce Thames | Chief Executive Officer:

Yeah, so I think the assumption we've got in the fourth quarter is we are going to begin to see a stronger mix of projects in the fourth quarter. Now, I think one comment I would want to make is we've got to see the customer sentiment shift. If we don't see movement there, which we've seen some positive indications, if we don't see movement there, I think there could be some downside. We would probably land on the lower end of our revenue guidance, but gross margins would be quite strong and still put us in the midpoint of our EPS guidance. So I think that's an important point thing to note when I look at those margins mix is about half of the improvement year over here the other half is related to productivity and continuous improvement initiatives as well as price so it's pretty evenly balanced and I would go on to say that organically Those margins are quite strong. We've seen about 164 basis points dilution from the acquisitions, but we're very confident that we can bring those businesses up to a similar margin profile over, say, the next 18 to 24 months.

Brian Drab | Analyst at William Blair:

Okay. I am going to ask one more just because I think this is important to make sure that I and everyone has this clear. You're saying it's likely that you'd be for the full year closer to the end, closer to the low end of the revenue range, but gross margin, although maybe down a little sequentially solid, margin overall solid, putting you at the midpoint, closer to the midpoint of the EPS range for the full year.

Bruce Thames | Chief Executive Officer:

Is that right? Yes, the risk will be, Brian, is just on project execution in the quarter. Should that continue to drag, we would expect to be on the lower end of the revenue guide, but in the midpoint of the EPS guide given the margin profile of the business.

Brian Drab | Analyst at William Blair:

Yeah. Thanks very much.

Bruce Thames | Chief Executive Officer:

Thank you.

Operator | Conference Operator:

Your next question comes from Chip Moore with Roth Capital Partners. Please state your question.

Chip Moore | Analyst at Roth Capital Partners:

Good morning. Hey, thanks for taking the question. Bruce, you touched on some of this already, but hey, Bruce, you touched on some of this, but maybe you can provide a little more color on, I guess, just the current bid pipeline and makeup since the new administration took over in January. And then you talked about some of the puts and takes for fiscal 26th. You know, maybe talk about the biggest things you're watching there. Obviously, M&A is timing dependent, but any thoughts on 26?

Bruce Thames | Chief Executive Officer:

Yeah, so, you know, first of all, you know, we'll give full guidance at our night. earnings call for fiscal 2026, but I would say at this time, given just the quote volume and what we believe is improving customer sentiment and optimism, I'd say we're cautiously optimistic about growth in FY26, returning to that organic growth, and then certainly We'll have the contributions of the acquisitions in addition to that. So we're cautiously optimistic about an improving overall scenario, particularly as it relates to larger capital spending in the coming year. Since the new administration has been in place, we have seen a resurgence in quoting activity around a number of different projects. I would say oil and gas activity has picked up. In Canada, we've actually seen growth there year over year, which we've noted. And so that's been very positive. I think part of that is related just to a more normal winter, but also just MRO spending with our customer base.

Chip Moore | Analyst at Roth Capital Partners:

Very helpful. And I guess, you know, a follow-up on tariffs. I think you did a great job outlining, you know, how those could impact you. Is the risk maybe more, you know, indirect around some of that project capital spend? Is that, you know, that uncertainty, is that something you're concerned about?

Bruce Thames | Chief Executive Officer:

Yeah. You know, we understand, you know, roughly, I mean, it depends on, you know, the magnitude, the breadth, and the duration of any types of tariffs and the impact on the business. Our approach to business and our manufacturing philosophy really in country for country helps to insulate us from some of this. The real unknown is what impact might this have on customer sentiment? And so that gives us a little pause. We'd like to see where things land and really understand how customers may or may not react or respond.

Chip Moore | Analyst at Roth Capital Partners:

Helpful. Maybe I could ask one last one. Liquid cooling in the data center, very interesting. I hadn't thought about that as they're usually trying to get the heat out, so interesting opportunity for you. Is that a market you're, you know, still nascent, but is that a market you're active in already, or how are you thinking about that opportunity, and then maybe, you know, you play two sides of it as well?

Bruce Thames | Chief Executive Officer:

Yeah, so, yeah, that's a great question. So we've been trying to highlight where we play in some of these opportunities. This is very nascent, very new. But I'll tell you, we've won three orders that have totaled around $10 million, and we've identified a very large market opportunity, we believe, that we'll be developing on a go-forward basis. And so we're excited about the application, and it's one illustration of how we play. Certainly, when we think about... you know, demand growth for power. Much of that's driven by data centers, EVs, population growth. We're very well positioned to benefit from that, and especially any changes in environmental regs that will make natural gas-fired power plants more in favor. That's certainly going to be an area of benefit, but this is another area we've identified, and we've won some nice business just in the last two quarters.

Chip Moore | Analyst at Roth Capital Partners:

Very good call. Appreciate it.

Operator | Conference Operator:

Thank you, Bruce. Your next question comes from John Bratz with Kansas City Capital. Please state your question.

John Bratz | Analyst at Kansas City Capital:

Good morning, Bruce. Good morning, Jan. Good morning. Jan, just some commentary, if you could, on your SG&A spending. It continues to be pretty high. And I know you're investing on growth initiatives and so on, but as we look ahead, will that begin to ease a little bit and we begin to see some leverage on that line?

Jan Schoch | Chief Financial Officer:

I think on the near term, we would expect it to be relatively flat going forward. And that's, you know, really a function of just, you know, if you look historically, the M&A that we've added on was faulty and in vapor power. But I would say, you know, kind of where we were for the third quarter, probably staying flat for the near term going forward at that rate.

John Bratz | Analyst at Kansas City Capital:

At dollar rate or the ratio?

Jan Schoch | Chief Financial Officer:

The total rate.

John Bratz | Analyst at Kansas City Capital:

I'm sorry, what? Dollar.

Jan Schoch | Chief Financial Officer:

The dollar rate.

John Bratz | Analyst at Kansas City Capital:

Oh, okay. Okay. All right. Okay. And the acquisition, $13.3 million contribution in the quarter, I guess I was looking for a little bit more. Can you parse it out a little bit between VAPOR and the Italian acquisition? And is VAPOR continuing to perform in line with your expectations? Yes.

Bruce Thames | Chief Executive Officer:

Yeah, John, so a couple of things. One is revenues from acquisitions were below our expectations. FOSTI, in our first quarter of ownership, actually performed exceptionally well. Just as a reminder, there's about a 12 and a half million euro trailing 12 revenue business with a backlog of $15 million. So very strong backlog. The challenge there is really around growing capacity, and, in fact, this week we've got teams there doing Kaizen events, reorganizing the factory floor, and working to improve throughput. Vapor is a business that really fell short. We had a couple of major projects or major orders that were going through production and did not convert in the quarter, and so we fell fairly short. in revenue, and we expect to pick up some of that in the fourth quarter. But our big focus there is on increasing capacity both on the factory floor as well as in the supply chain in order to convert what is roughly a $45 million backlog in that business. And while we've seen really strong market momentum, we had another quarter of positive book to bill in that business. And so we're excited about the market potential for growth, but we've really got to work through some of the capacity constraints to take full advantage of it.

Jan Schoch | Chief Financial Officer:

And I will add just, you know, even with that, what Bruce said, you know, our measure for kind of evaluating our M&A on first-year accretive, we were about flat with paper power, and we expect that trend to kind of reverse out and be accretive going forward for the next quarter.

John Bratz | Analyst at Kansas City Capital:

Okay, thank you. And Bruce, on the LNG front, obviously there's a big opportunity there. And in December, the DOE came out with their LNG report, and it wasn't that flattering. And I know the Trump administration has to come up with a rebuttal, so to speak. And I guess I am concerned, and I don't know how concerned the industry is, that now that the pause has been lifted, if the rebuttal report, so to speak, isn't all that strong, are we just going to see some additional lawsuits filed and things just get further pushed to the right in the LNG area? And I guess, how is the industry thinking about that?

Bruce Thames | Chief Executive Officer:

Yeah, John, I'll tell you just from our customer engagement, it feels like they're very positive on the outlook of being able to secure permits on a go-forward basis. We've also seen a number of customers take existing permits and use those and expand the plans for the capacity for export. So we've seen some of that type of activity. And I'll be honest, I don't really have an opinion or any insight or information as to any litigation or legal actions that may happen.

John Bratz | Analyst at Kansas City Capital:

All right, Bruce, thank you very much.

Jan Schoch | Chief Financial Officer:

Thank you. Thank you.

Operator | Conference Operator:

Thank you, and there are no further questions at this time. I'll hand the floor back to management for closing remarks.

Bruce Thames | Chief Executive Officer:

All right. Thank you, Diego, and thank you all for joining on the call today. We appreciate it. We hope to speak to you between now and the May timeframe. We look forward to reporting out on our full year at the end of May.

Operator | Conference Operator:

Thank you. With that, we conclude today's call. All parties may disconnect. Have a good day.