NYSE:THR Q4 2025 Earnings Call Transcript

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Conference Operator | Operator:

and welcome to the Thurmond Group Holdings fourth quarter fiscal year 2025 earnings presentation. At this time, all participants are in a listen-only mode. A question and answer session will follow the formal presentation. If anyone should require operator assistance during this 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 our host, Yvonne Salem, Vice President, FP&A, and IR. Thank you. You may begin.

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

Thank you. Good morning, and thank you for joining Thermos Group's fourth quarter and full year fiscal 2025 results conference call. Leading the call today are CEO Bruce Thames and Chief Financial Officer Jan Schott. Earlier this morning, we issued an earnings press release, which has been filed with the SEC on Form 8K, and is 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, Q4 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 comfortable GAAP measures in the tables at the end of the earnings press release. These non-GAAP measures should be considered in addition to and not as 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 recently quarterly report filed with the SEC for more information regarding our forward-looking statements, including the risks 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, future developments, or otherwise, 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 on our strategic initiatives. 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 fourth quarter highlights, which we detail on slide three of our presentation. The fourth quarter was another period of solid execution by our team, which resulted in further strength in our OPEX recurring revenues, continued bookings momentum, and strong margin expansion. Over the past couple of quarters, We detailed how our team has remained focused on our key strategic priorities despite the difficult market conditions. While CapEx revenue trends in recent quarters were weaker than we would have liked, we remain confident that the positive order momentum in our business would translate to an improved growth trajectory. During the fourth quarter, our hard work and dedication paid off as we generated 3% organic growth during the quarter, the first in over a year. These order trends have improved across a range of verticals, most notably the LNG market. After the moratorium on LNG exports from the US was lifted earlier this year, activity has resumed and we're seeing increased bidding and project awards. The activity around natural gas is broad based with numerous projects underway in the Gulf Coast and the Middle East. We built a strong portfolio of

products targeting the LNG market, have secured five major awards and are well positioned to capitalize on numerous other opportunities in our pipeline. This bookings momentum resulted in the fourth consecutive quarter with a positive book to build. As a result, our backlog as of March 31st increased 29% from last year, with the organic backlog up 20%, driven by momentum and diversified verticals, coupled with a rebound in certain oil and gas markets. We also made further progress on our operational excellence initiatives, which combined with our more favorable revenue mix, translated to an EBITDA margin of 22.7% during the fourth quarter, a 423 basis point improvement relative to Q4 of last year. These results underscore the strength of the Thermon business system and resilience of our business operating model. And finally, our strict financial discipline and improved operating profitability enabled us to finish fiscal 2025 in a strong financial position with net leverage of just under one times. Importantly, we were able to accomplish this while continuing to invest in our growth initiatives, while also making nearly $14.5 million in optional debt repayments and returning over $14 million and capital shareholders through our share repurchase program all in the fourth quarter. As a testament to our solid financial position, the board has approved refreshing our share repurchase authorization back to the initial $50 million, underscoring our optimism for the future. Turning now to reflect on fiscal 2025, I'm extremely pleased with our team's performance delivering another record year of revenue and adjusted EBITDA. despite what was a very challenging operating environment. On slide four, we provide a snapshot of our 2025 highlights. Our 498 million in revenue was up just 1% over prior year, despite a 37% decline in large capital projects. Our diverse revenue base, making up over 72% of our end market mix, along with growth in recurring revenues and strategic M&A, were instrumental in delivering this year's results. We generated an adjusted EBITDA margin of 22% during fiscal 2025, which was up 86 basis points from last year, reflecting our more favorable revenue mix and productivity gains through the implementation of the Thermon business system. Our earnings growth and solid gross margin expansion of 196 basis points delivered 53 million in free cash flow during the year. More importantly, we generated 536 million in bookings during the year with a book to bill of 1.08 times, demonstrating the favorable trends in our end markets, our strong competitive position, and the hard work and dedication of our team. Our 3D initiatives, which we'll discuss in more detail later on the call, contributed 93 million in revenue during the year. The R&D team also announced 28 new product and software releases during fiscal 25, advancing our solution set from digitization to diversification and decarbonization as well as in the core business. The advancement of our strategy positions us well as we enter our fiscal year with solid momentum, which we illustrate on slide five. The addition of vapor power has expanded our addressable market, increasing our sales pipeline by 25%, even though the business represents just 11% of total revenue today. The favorable book to build, underpinned by strong order trends in recent quarters, has resulted in backlog growth on a year-over-year basis. While there is broader macro uncertainty, we remain encouraged by the favorable trends in our key end markets, which is reflected in our strong bid pipeline, which is up 25% from the end of last year. As we anticipate the opportunities ahead in fiscal 2026, I would like to take a moment to reflect on the strides we've made in advancing our strategic initiatives during fiscal 2025. Now turning to slide six, where we highlight our key strategic pillars. First, growing our installed base. Second, decarbonization, digitization, and diversification. And third, disciplined capital allocation. These pillars underpinned by our dedication to operational excellence form the basis of our long-term value creation framework. I will begin on slide seven with growing the installed base. Over the past 70 years, we've cultivated a loyal customer base that is the foundation of this business and continues to drive meaningful results, even in challenging market conditions. During fiscal 2025, our organic revenues declined only 8%, despite a decline in large project revenues of nearly 40%. On a trailing 12 month basis, our OpEx revenues represented 85% of our total revenues up from the low 70% range just two years ago, providing a more stable and predictable base of revenues. As importantly, these OpEx revenues carry significantly higher gross margins, typically in the 40 to 65% range, well above the levels in our large project business. On slide eight, we underscore the critical components of our second strategic pillar, pursuing diversification, decarbonization, and digitization, otherwise known as our 3D initiatives, to achieve growth above and beyond GDP. By capitalizing on these transformative opportunities and expanding our presence in higher growth, diversified markets, we are positioning the company for sustained profitability and long-term competitive advantage. Diversification shown here on slide nine has been an area where we've exceeded our expectations. The goal of 70% of revenue from diverse end markets was achieved at the beginning of fiscal 25, almost two years early. One of the most significant

insights from fiscal 2017 is the remarkable 220% revenue growth driven by diversification across multiple end markets, even as oil and gas revenues contracted. As we look forward, we remain committed to further diversifying our revenue base through new product introductions and expanding into new emerging markets, such as data centers and nuclear power. That said, our longstanding oil and gas customers remain an important part of the Thermon business at roughly 30% of our total revenues. We've been encouraged by the recent LNG project activity, which we view as a bridge fuel for years to come. These pockets of strength we're seeing contributed to our Q4 bookings with oil and gas up over 50% from last year. Based on the priorities of the newest administration, we're optimistic this momentum can continue. Turning now to slide 10. The decarbonization opportunity remains a critical aspect of our strategy as we look to leverage existing solutions and new product development to meet our customers' decarbonization and electrification needs. The electrification of industrial heating is still in its early stages, and we built both the technical competencies and breadth of solutions to enable this transition. The acquisition of vapor power in fiscal year 24 expanded our product portfolio while increasing our total addressable market for decarbonization and electrification opportunities with the pipeline growing 70% and revenues increasing 85% over fiscal year 24. During fiscal 2025, we took another important step to further advance our decarbonization strategy with the acquisition of FATI. This acquisition brought us a very well-respected brand of heating solutions that is highly complimentary to our legacy portfolio while expanding our global manufacturing footprint. Since acquiring the business, the FATI backlog has essentially doubled due to strong demand from Thermon legacy customers. In addition to our inorganic growth, we have built advanced software analytic tools to validate designs and launch several new products that reduce the total cost of ownership for our customers. While the policy shift in the U.S. has led to a slowdown in decarbonization conversion rates, Europe continues to invest in the energy transition. As outlined on slide 11, we remain highly encouraged by the significant strides we've made in advancing our digitization strategy. The continued investment in our Genesys control offerings reflects our unwavering commitment to delivering leading controls and monitoring solutions that empower our customers with real-time operational insights, enhancing safety, reliability, and efficiency. These solutions now constitute 12% of our total heat tracing revenue, a clear testament to its growing impact. Furthermore, fiscal 2025 saw remarkable growth in our Genesis network installed base, where circuit counts surged by nearly 90%, and we're projecting an additional 50% growth in fiscal 2026. This robust adoption underscores the differentiated value we bring to the market. By enabling our customers to digitize and optimize their maintenance operations, we are not only strengthening our competitive advantage, but also driving success in new capital projects while capturing recurring MRO revenues. This strategic focus positions us well for sustained growth and leadership in the market. Turning now to slide 12. I'm pleased to highlight the transformative impact of the Thermon business system. By streamlining our operations through initiatives such as rooftop consolidation and efficiency improvements, as well as the seamless integration of vapor power and FATI, we've strengthened our operational foundation. This system not only accelerates our progress towards achieving our profitability targets, but also enhances our agility and positions us to deliver a sustained competitive advantage in the marketplace. And finally, As it relates to our disciplined capital allocation strategy, we successfully executed our balance approach during fiscal 2025. As we continue to make important investments to advance our organic growth strategy, we deployed capital for strategic M&A through the acquisition of FATI, recurrent capital to shareholders through our share repurchase program, and made optional debt repayments throughout the year. As we move forward, our strategic focus remains on identifying and executing high value acquisitions that align with our mission to expand and diversify our portfolio of industry-leading industrial heating solutions. With that, I'll turn it over to Jan, who will provide a more detailed review of our fourth quarter results before I wrap up with some remarks on our financial outlook. Jan?

Jan Schott | Chief Financial Officer:

Thank you, Bruce, and good morning, everyone. I will review the 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 to slide 14, I will start with our fourth quarter highlights. Revenue in the fourth quarter was

$134.1 million, a year-over-year increase of 5%, driven by continued momentum in OPEX revenues, including solid growth at Vapor Power, and contribution from Fatih. Please note that vapor power is now included in organic results. Our strategic focus of diversifying our revenue base and increasing our exposure to short-cycle projects and MRO-related recurring revenue continues to benefit our business. This was partially offset by softness and large project revenue. As Bruce mentioned earlier, we are beginning to see improved booking momentum in our large project business. Large project revenue was $22.3 million during the fourth quarter, down 5% from last year. Compared to the previous quarter, however, we saw revenue increase 20%, another indicator of improved momentum in CapEx spending. Our OpEx revenues were $111.8 million during the fourth quarter, an increase of 7% compared to last year, highlighting the benefit of our strong and loyal installed base of customers and the stability of maintenance and repair spending. Excluding the contributions from FATI, OPEX revenues increased 4% from the same period last year. OPEX revenues represented 83% of total revenues for the quarter. Orders increased 19% on a reported basis and were up nearly 14% organically, with balanced strength across our diversified end markets, including strength in chemical, petrochemical, and rail and transit markets. We also saw a rebound in oil and gas, particularly LNG, as Bruce mentioned earlier. As a result, our fourth quarter book to bill was 1.04 times up from 1.03 times in the prior quarter. Looking at our results by geography, U.S. lamb sales increased 6% due to continued strength in OPEX revenue and improved large project trends. Revenue in EMEA was up 51% on a reported basis to 15 million and up 18% excluding the contribution from FATI. Canada sales of 40 million were down 6% from last year due to the general macroeconomic conditions in the country. Revenues in APAC were 9.2 million. Adjusted EBITDA was 30.5 million during the fourth quarter, up from 23.6 million last year, an increase of 29%. Solid revenue growth and strong operating performance were partially offset by continued investments in growth initiatives. Adjusted EBITDA margin was 22.7% during the fourth quarter, up from 18.5% last year due to a more favorable revenue mix, disciplined cost management, and productivity gains. Moving to slide 16 for an update on our balance sheet and liquidity, Working capital increased by 3% to $167.6 million at the end of the quarter due to timing of collections. CapEx was $3.1 million during the quarter, flat compared to last year. Free cash flow during fiscal 2025 was $52.9 million, down from $55 million last year. While we remained focused on working capital management and strong free cash flow conversion, the modest decline in free cash flow was driven by technology investments tied to our ERP implementation. We repurchased 14 million in shares during the fourth quarter, bringing our total share repurchases for 2025 to over 20 million. As Bruce mentioned earlier, After purchasing $24 million to date under our original share repurchase program, our board approved a refresh of the program back to $50 million. We paid down $14.5 million of net debt during the quarter, bringing our net debt balance to $99 million and are reporting net leverage at the end of the year of 0.9 times. we are currently working with our bank group to extend the maturity of our existing credit facility, which becomes current in September, 2025. In summary, the fourth quarter wrapped up a year of strong financial discipline for Thermon. We successfully executed our capital allocation priorities, including continued investments in organic growth, capital deployed for acquisition, and opportunistic return of capital through our share repurchase program. And we did all of this while still maintaining a strong balance sheet. Based on our total cash and available liquidity of $137 million, we remain well capitalized and have ample flexibility to support our capital allocation needs and will continue to balance investments in 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. Moving now to slide 17. As we enter fiscal year 2026, we remain focused on navigating a dynamic global trade environment with discipline and agility. Tariffs continue to present both direct and indirect challenges to our cost structure, particularly in the form of elevated input costs and near-term margin pressure. Our current assumptions include 25% tariffs on steel and aluminum, 30% on goods from China, 25% reciprocal tariffs from Canada and Mexico, and 10% for the rest of the world. Based upon these assumptions, we're expecting an annualized impact of roughly 16 to 20 million on a gross basis prior to mitigating actions, which are already underway. While our direct market exposure to China remains low, representing just 2% of total revenue, we're mindful of second and third order effects through our supplier and

distributor networks. These ripple effects are being closely monitored and addressed through proactive supply chain management. To mitigate these impacts, we're executing a multi-pronged strategy. First, pricing actions. We've implemented targeting price increases to offset rising input costs while maintaining competitiveness and customer value. Second, USMCA compliance. We're committed to preserving our USMCA qualifications, which continue to provide a strategic advantage in North America. Third, global footprint optimization. With manufacturing operations in the US, Canada, India, and Europe, we are leveraging our global footprint to shift production and sourcing in ways that reduce tariff exposure. Fourth, supply chain reconfiguration. We are actively evaluating and reconfiguring our supply chain to minimize tariff related disruptions and enhance resilience. Despite these headwinds, we're entering fiscal year 26 with strong order momentum and a healthy backlog, which reinforces our confidence in the underlying demand for our products and the strength of our customer relationships. We remain calm, focused and confident in our ability to manage through these challenges while continuing to deliver long-term value for our shareholders. And now if you'll turn to slide 18, I'll discuss our outlook for fiscal 2026. Looking forward, The uncertainty created by the volatile and rapidly changing trade environment makes it very challenging to ascertain the second and third order impacts from tariffs, particularly as it relates to customer behaviors and the demand environment. Our guidance assumes the current tariff levels remain in place, resulting in margin headwinds in the first half of the year, offset by price increases in the back half of the year as mitigating actions take full effect. Given the uncertainty with tariffs and the overall global economy, the current guidance contemplates slowing growth in the second half of the fiscal year. Based upon these factors, we're providing fiscal 2026 financial guidance that calls for revenue in a range of $495 million to $535 million, representing 3.5% growth at the midpoint of the range. Adjusted EBITDA is in a range of $104 million to $114 million, essentially flat at the midpoint of the range. Our guidance assumes a modest decline in adjusted EBITDA margin, largely as a result of the expected lag before our tariff mitigation efforts in the first half will flow through to possibly impact results in the second half. Given the dynamic nature of tariffs, global trade and policy changes, we'll provide updates on the business and our mitigating actions throughout the year. Finally, as we conclude on slide 19, I want to express my deep appreciation for the efforts of the Thermon team throughout fiscal 2025. Their dedication and innovation have positioned us as a leader in industrial process heating with a resilient business model and efficient operational framework. While the ongoing tariff dynamics present challenges, we remain acutely focused on the things within our control. With a strong financial foundation and clear strategic priorities, we are confident in our ability to capitalize on opportunities, mitigate risks, and deliver sustained value for our shareholders. That completes our prepared remarks. We are now ready for the question and answer portion of our call.

Conference Operator | Operator:

Thank you. And if you would like to ask a question at this time, please press star 1 on your telephone keypad. A confirmation tone will indicate that the line is in the question queue. You can press star 2 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. We'll pause for a moment while we pull for questions. And our first question comes from Chip Moore with Roth Capital Partners. Please state your question.

Chip Moore | Analyst, Roth Capital Partners:

Hey, Morgan. Thanks for taking the question. Hey, Bruce, I wonder if you could elaborate on, you talked about LNG seeing a bit of a resurgence. Can you elaborate a bit on that, what you're seeing, how that might translate?

Bruce Thames | Chief Executive Officer:

Yeah, Chip. Since the lift of the moratorium in the January timeframe, there was always really a number of projects that were in the queue in our pipeline, and we've seen those move forward pretty quickly. And as I noted in the prepared remarks, the areas of strength we've seen have been along the US Gulf Coast, as well as in the Middle East. And some of those are field developments, as well as export facilities. As we look at our pipeline ahead, there's a number of opportunities that are still out there. We're tracking around $80 million in LNG opportunities for our content. So we see really some nice tailwinds there in that sector.

Chip Moore | Analyst, Roth Capital Partners:

Great. I appreciate that. And maybe just on... FY26, you talked about, I think, some margin headwinds maybe here in the first half before the pricing kicks in. And then maybe growth being a little more challenging in the back end. Maybe just any more detail there on what you're thinking and directionally and cadence. Thanks.

Bruce Thames | Chief Executive Officer:

Yeah, great question. So we've put together a task force. We're looking very closely at the inflationary impact of tariffs to our input costs. And while it's a moving target, we see there'll be a near-term impact to gross margins in the first half of the year. We've already moved on pricing in a number of areas to be able to offset that. As usual, our pricing, we have about a 60-day window or lag before that is effective through our channel partners and with customers. So there's a lag effect there. There's also work that's in backlog, particularly around project activity, some of which we don't have the opportunity to go and renegotiate. So we anticipate that will be a margin. Those will create some margin headwinds in the first half. However, we have pricing power. We've been able to pass price increases in the past. I look back at COVID and the inflationary impact there. We were able to pass those on. My expectations, we've moved fairly quickly here, and so we should begin to see that flow through late in the second quarter and see that fully offset any inflationary input cost we see in the first half. The looking more at the demand environment, certainly when you look at the leading indicators as we come into this fiscal year, there's nothing that would indicate that there's a big slowdown in the back half, but it's just a more cautious approach given the uncertainty. It's difficult, I think, for customers to parse through the data, particularly as it relates to deploying capital. And so it's our general belief that this could create a headwind in in the back half of the year although the leading indicators we track have not indicated that to be true yet fantastic appreciate it i'll hop back in queue thanks and your next question comes from brian drab with william blair please see your question good morning thanks for taking the questions

Brian Drab | Analyst, William Blair:

I just wanted to maybe first build on that last question. And first, how are you thinking about, you know, the overtime category in your forecast for fiscal 26? Is it, you know, obviously is it, you know, down a lot in fiscal 25? Are you forecasting that to be about the same, I guess, given the overall guidance?

Bruce Thames | Chief Executive Officer:

Yes, roughly. The way we're thinking about this right now is that we actually saw a really nice backlog build in overtime projects. In fact, our engineering workload is really at an all-time high, and that's related to the return of capital projects that we've seen really building. We anticipated that coming into this year, and it really began to manifest, particularly in the fourth quarter. But we've had four consecutive quarters of positive book to bill. So this has been building. Our assumption at this point is that the incoming order rates for these larger capital projects will be muted until we get more clarity on trade policy going forward, and we'll begin to burn through those through the second half of the year. So that's essentially the assumptions we have at the

midpoint of our guide. If we look at our guide overall, the upper end of the range would be really what we would have maybe anticipated had we not had some of the trade disruptions and given the momentum we have seen in the market leading into our fiscal 26. The lower end of the range would assume an erosion in the overall trade negotiations and an escalation in the trade conflicts.

Brian Drab | Analyst, William Blair:

Okay, thanks. Can I ask you to comment on, you know, how you're thinking about at the midpoint of the range, how you're thinking about the, you know, the OPEX spending, you know, the point in time segment?

Bruce Thames | Chief Executive Officer:

The mix should be fairly consistent to what we saw in 25. It should be fairly consistent when you look at our guide at the midpoint.

Brian Drab | Analyst, William Blair:

Okay. Can you talk at all about, you know, other categories or, you know, other end markets where you're seeing some of the improvement in the CapEx spending? You talked about the LNG being a standout, but are there other areas? And can you update us at all on if you're seeing any incremental demand from the data center opportunity that you mentioned last quarter?

Bruce Thames | Chief Executive Officer:

Yes, so I'll start with just the overall demand environment. General industrial remains strong. It's one of our largest booking segments in the fourth quarter. It represented almost 32% of the bookings in the quarter. Chemical, petrochemical, we saw it almost 17.5%. in the quarter. So we've seen some strong demand there. As I noted earlier, oil and gas, which has been weak for quite some time, we've seen an uptick there, particularly as it relates to LNG. And when we look overall, renewables, we still see opportunities. And that was actually up, although it's a fairly small percent of revenue, but that was up fairly sharply in the fourth quarter as well. Rail and transit, we've seen some really strong bookings. Our backlog there has grown to about 36 million, of which we anticipate executing about 17 million of that in the coming year. The one thing To note here around data centers, we've done more work there, and that is a real opportunity around load banks, and we've got some work underway. We'll provide some more updates on that in upcoming calls, but that is a real opportunity in the market, and we're very active in trying to develop and execute on that opportunity we see.

Brian Drab | Analyst, William Blair:

Okay. I'm going to save my questions for later, but I just want to make sure I have one thing, high-level idea correct here. It seems like what I'm hearing from you today is that, you know, backlog's up 20% organically. You've got some momentum in some different end markets. The CapEx environment at the moment looks like it's improved materially, but, you know, just, you know, Instead of like a lot of companies are doing polling guidance, you're just saying we're going to give a broad kind of a broad range. There's a lot of, you know, the consensus view is that there's going to be a slowdown later this year, you know, overall macro. So you're taking all of this into account and just saying, let's be cautious. But it seems like the high end of the range, you know, it could be in play here. Is this a fair way to interpret everything that I'm hearing today?

Bruce Thames | Chief Executive Officer:

Yeah, I think that's a really good way of summarizing it, Brian. I think the high end of the range, as I said, if we see some real progress on some of these trade agreements, we get more clarity on the tariff environment going forward. I think customers can become more comfortable with deploying capital, which we've seen that momentum building, quite frankly, for at least the last three quarters. And we began to see it manifest in our Q4 with expectations that would come through in fiscal 26. So we're being more cautious in really the demand side of the equation, just given the uncertainty that we see and our customers are seeing in the trade environment.

Brian Drab | Analyst, William Blair:

Got it. Okay. Thanks for all the detail.

Bruce Thames | Chief Executive Officer:

We'll talk to you later. Yes.

Conference Operator | Operator:

Thank you. And a reminder to ask a question, press star one on your phone. Your next question comes from Justin Ages with CJS Securities. Please state your question.

Justin Ages | Analyst, CJS Securities:

Hi, thanks for taking the questions. Hey, Justin. With the debt pay down and the share buyback and then refresh, can you just give us a little more detail on your capital allocation priorities?

Jan Schott | Chief Financial Officer:

Yes. Hi, Justin. I'll take that one. You know, I guess first and foremost, you know, we have our capital investments for growth. And that's in the same range that we've done in prior years with two to three percent CapEx, two percent of sales. And then probably with all of the technology investments that we have going in, that's about one percent for next year. So that's first and foremost. You know, second, I would say we do. Obviously, with the refresh of the share repurchase program, we'll look for opportunistic opportunities to buy shares. We bought 14 million shares this last quarter, really taking advantage of some dips due to other macro economic things that were happening. But we think that that's really a path forward and we'll continue on that plan. And then the other aspect is also that we do have an active M&A pipeline. And in this environment, really, you know, just looking for buying opportunities, to be honest. But I think, you know, that's something that we're very focused on. And with $137 million of liquidity, we have a lot of, you know, tailwinds at our back really looking, you know, hoping to execute something in the near term and on M&A.

Justin Ages | Analyst, CJS Securities:

Okay, I appreciate that. And then you just mentioned that guidance includes this $5 million one-time tech investment. Can you just give us a little more color on what that entails?

Jan Schott | Chief Financial Officer:

That's mostly associated with our ERP implementation that we have ongoing. We'll be implementing kind of in stages across the globe, really over the next year and a half or so. And so we're actually looking forward to, you know, having more color on that, I guess, in future calls. But that's underway right now.

Justin Ages | Analyst, CJS Securities:

Okay. Thank you. And then last question. On Thurmond, you know, long-term initiatives, and particularly on the EBITDA margin target. Just wanted to know, you know, what steps are you taking to get there? Do they include some of these mitigation efforts that are now part of, you know, offsetting some of the tariff impact? Just any color on that.

Bruce Thames | Chief Executive Officer:

Yeah, so certainly the higher input costs create some headwinds in the near term, but I still feel confident that the same levers that we have to pull in the business exist on a go-forward basis to continue to drive EBITDA margin expansion. We saw some very nice Gross margin expansion in the year, about half of that was related to mix. We had about 196 basis points, and so half of that was mixed. The other half was the Thermon business system and the rooftop consolidation we did earlier in the year with consolidating operations into San Marcos, as well as the continuous improvement efforts that we've made going forward. So we continue to see that as a lever. to be able to drive gross margin expansion. And then certainly as we look forward, price is always an opportunity and we tend to be able to get price in the marketplace. New product introductions create opportunities as we work and implement the Thermon business system in our new acquisitions. Those were a headwind to our gross margin profile this year, but we're confident there's a path to get those more in line with the averages of the market the overall enterprise. And so those are opportunities for margin expansion. And then last but not least, as we drive growth and volume, we get operating leverage on the fixed cost basis. So those are really the levers that we see pulling on a go forward basis. We were able to improve 86 basis points this past year. I believe we can continue to drive those changes, although I do see Just a setback this year, given the impact of tariffs on input costs and a lag of being able to push that through to the market.

Justin Ages | Analyst, CJS Securities:

I appreciate the answers. Thank you.

Conference Operator | Operator:

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

John Bratz | Analyst, Kansas City Capital:

Good morning, Bruce. Good morning. Maybe a little more clarity on the tariffs. You said the gross impact is $16 to $18 million. Obviously, you have some mitigation efforts, but when you think about the upcoming year, what might be the net impact for the full year, considering the mitigation efforts?

Bruce Thames | Chief Executive Officer:

Yeah, so on a gross basis, we gave a range of $16 to $20 million. Yes, that's right. And we believe on a net impact, it's somewhere in the $4 to $6 million range within the current fiscal year.

John Bratz | Analyst, Kansas City Capital:

And that'll be mostly in the first half, correct? Correct. Correct. Okay. Okay. All right. Good. Okay. And then secondly, when you look at the competitive landscape – Are any of your competitors in a better position regarding tariffs and trade policy and all this other stuff, in a better position or worse position? Any thoughts on the competitive landscape given the new trade policies?

Bruce Thames | Chief Executive Officer:

That's a difficult question, especially just given the complexity and interconnectedness of global supply chains today. But what I can say is about our position. And given our operating footprint in the U.S., about 50% of our production is from the U.S., we have a significant presence in Canada as well. We do a lot of in-country, four-country production. The acquisition of FATI increased our operating presence in the European continent and certainly has been really a bright spot when we look at just the overall demand environment there for FATI. for decarbonization and electrification solutions. And that business, we acquired it with about a $15 million backlog. It's almost doubled since that time. And our ability to serve that on the European continent is a real advantage. And then we do have operations in India that will begin to leverage to serve more of the Asian continent. And we certainly, as we look at our M&A opportunities, we're looking for potential acquisitions that would mirror a FATI that would give us a larger operating footprint in Asia, just for these types of situations, just to diversify our risk base. Yeah. We've made a lot of progress since COVID. We've done a lot to build more resiliency into our supply chains. I think that really exposed weaknesses, not only in us, but with others. We've never been heavily dependent upon China. So I think that's a real advantage. that we have over some others. The one thing I would note is that while we're not dependent, we are exposed in second and third order effects with our suppliers and their supply chains. Although again, people have diversified away from China and have multiple sources. So we'll just have to see how a lot of this flows through. But we've factored all of that into our guide.

Conference Operator | Operator:

Yep. Okay. All right, Bruce, thank you very much. Thank you. Thank you, and the next question comes from Brian Drab with William Blair. Please state your question.

Brian Drab | Analyst, William Blair:

Hi, I'm back with just one clarification. On the one-time technology investment, $5 million, this is not being adjusted out of, obviously, is what you're indicating. It's not being adjusted out of your guidance or EPS calculation, and it seems like you know, that would be about 100 basis point headwind to operating margin and EBITDA margin. Is that the right way to think about it?

Jan Schott | Chief Financial Officer:

No, this would be adjusted out of – or on the adjusted EBITDA calculation in APS.

Brian Drab | Analyst, William Blair:

Okay, so you are – okay, so I'm glad I clarified that. So you're saying – you're just calling it out that it is an adjustment. Okay. I just missed it. I just wanted to make sure. Okay. Okay, so there is a – you are expecting a margin headwind – you know, excluding this situation. Okay. All right. Thank you very much.

Jan Schott | Chief Financial Officer:

And it's not, it's, it's, you know, I think it's, it's obvious, it's obviously not something that we do every year and don't plan to. So.

Brian Drab | Analyst, William Blair:

Right. Right. And well, that was my other question is that this goes away then in that you're expecting to the 5 million to be the entire investment and for that to be a fiscal 26 event and fiscal 27, it's the plan is for this not to be an expense line. Is that right?

Jan Schott | Chief Financial Officer:

Yes. I mean, we will have some, I think, some very marginal investments going into 27 for just some of the, you know, acquired entities that will roll into the new ERP system. But the majority will be in fiscal 26, yes.

Brian Drab | Analyst, William Blair:

Okay. Okay. Perfect. Thanks very much.

Conference Operator | Operator:

Thank you. Thank you. Ladies and gentlemen, that's all the questions we have for today. I'll now hand the floor back to Bruce Thames for closing remarks.

Bruce Thames | Chief Executive Officer:

Yeah, thank you, Diego. And I'd like to, again, thank our Thermon employees around the globe for their contributions to a successful 2025. And thank you all for your interest in Thermon. If we don't speak to you in the coming quarter, we look forward to you joining us on our next earnings call. Thank you and have a good day.

Conference Operator | Operator:

Thank you. All parties may now disconnect.