NYSE:THR Q2 2026 Earnings Call Transcript

Generated on 11/25/2026

Operator | Conference Operator:

Greetings and welcome to the Thermon Earnings Conference Call, Fiscal Year 2026, Quarter 2. 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, please press star zero on your telephone keypad. As a reminder, this conference is being recorded. And it is now my pleasure to introduce to you Yvonne Salem, Vice President of FPA and Investor Relations. Thank you, Yvonne. You may begin.

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

Good morning, and thank you for joining Thermon Group's second quarter fiscal 2026 results conference call. Leading the call today are CEO Bruce Thames, Chief Financial Officer Jan Schott, and Chief Operating Officer Tom Swarovski. Earlier this morning, we issued an earnings 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, Q2, 2026. 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 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 our strategic initiatives. Following Bruce, our Chief Operating Officer, Tom Sarofsky, will share an update on our progress and opportunities in the data center market, which is a key component of our business diversification strategy. After Tom, our CFO, Jan Schott, will provide a financial update and review. 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 it 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 our second quarter highlights, which you can find on slide four. As we committed in our Q1 call, the Thermon team delivered exceptional second quarter results with solid incoming orders, strong revenue conversion, and robust profit capture that exceeded expectations across the board. Our reported revenues were up 15% from last year, which combined with our strong margin execution and operating leverage resulted in a 29% increase in adjusted EBITDA. These second quarter results, combined with a backlog that is up 17% year over year and improved visibility, position us well for the balance of the year. On a trailing 12-month basis, our revenues and adjusted EBITDA have reached records of $509 million and $114.1 million, respectively. We believe our performance reflects the strength of our strategy, the resilience of our business model, and the outstanding execution by our global team, despite a volatile macroeconomic backdrop. I'm incredibly proud of

our team's ongoing efforts to execute our margin improvement initiatives, including tariff mitigation measures, demonstrating steady progress towards our longer term EBITDA margin objectives. Together, These actions enabled us to generate 23.2% adjusted EBITDA margins in the second quarter, with adjusted EBITDA margins growing to 22.4% on a trailing 12-month basis. While we've been pleased with the steady progress, additional opportunities to drive further EBITDA margin expansion remain. This quarter is illustrative of the earnings power of our business, and we remain committed to driving EBITDA margin expansion over the longer term. Our unwavering commitment to our strategic growth initiatives has us well positioned to benefit from a strengthening macro backdrop and several favorable secular demand trends, including reshoring, electrification, decarbonization, and rising power demand. This is evident when looking at our total bid pipeline, which was up 11% at quarter end, with nearly 80% of the opportunities coming from our diversified end markets, including power generation, renewables, commercial, and data centers. I'm also very excited to report that this update will include details of our first order for the new Poseidon Liquid Load Bank. We're seeing extremely strong quoting activity for our data center solutions and expect order activity to accelerate in the coming quarters. Tom Swarovski, our chief operating officer, will provide a more detailed update on the data center market later on this call. The team continued to demonstrate disciplined financial management during the second quarter, and we ended the period with net leverage at one times with total liquidity of 129 million. Our M&A pipeline remains active and we're excited by our strong capital position, which provides us with the capacity and flexibility to act decisively on opportunities to deploy capital in alignment with our strategic priorities. We're encouraged by the strengthening trends in our business and anticipate this momentum continuing into the third quarter. During the first half, we've established a new global engineering center in Mexico to handle the increased project workload driven by the backlog growth we experienced coming into this fiscal year. During the second quarter, we saw a 41% increase in large CapEx revenues driven by two large North American LNG projects as these moved through the design phase into execution. Based upon these factors, we are well positioned to deliver strong second half results and are pleased to raise our full year 2026 financial guidance, which I will cover in more detail in my closing remarks. Before I turn it over to Tom, I'd like to take some time to provide an update on our strategic growth initiatives, which are centered around our 3D strategy of decarbonization, digitization, and diversification shown here on slide five. We believe our focused commitments to our strategic pillars has us well positioned to benefit from several strong secular drivers to generate sustained organic growth moving forward. Turning now to slide six, I will begin with an update on our digitization opportunity. Since launching the Genesis Network, we've received extremely positive customer feedback with over 86,000 installed circuits, up from 58,000 at the end of fiscal 25. We're now beginning to leverage our digital technology capabilities across a broad spectrum of Thermon solutions, including commercial heat tracing, rail and transit, and data center product offering. Our customers need real-time operational awareness and analytics to more effectively manage their business and provide actionable insights to help unlock predictive maintenance, enhance performance, and energy efficiency. This differentiated hardware and software platform helps create value for customers, which drives growth and improves retention while delivering enhanced returns. Turning now to slide seven. I'd like to provide an update on an exciting area of growth in the decarbonization space represented by medium voltage heaters. The electrification megatrend is driving momentum to replace hydrocarbon-fired heating systems with electrical solutions, especially in Europe. Medium voltage heaters offer a compelling alternative with higher efficiency, zero emissions, lower initial capital costs, and lower maintenance expenses, all while providing a higher level of control. Our quantum medium voltage heater product line was launched in 2024, offering voltages from 3,600 volts to 7,200 volts. Our first two orders, totaling nearly 10 million, are now being produced for customers in the U.S. and the Middle East. This market is estimated to be growing at a 17% compounded annual growth rate to 263 million in 2030 with a very short list of competitors. Given Thermon's differentiated capabilities in heat transfer analysis and design, we are leveraging legacy customer relationships in the chemical, general industrial, oil and gas, and food and beverage in markets to grow share. We're seeing strong order momentum with a solid pipeline of high probability opportunities as we work to scale capacity in both North America and Europe. I would now like to turn the call over to Tom Swarovski, our newly appointed chief operating officer, who will provide an update on diversification into the data center market. Tom?

Tom Swarovski | Chief Operating Officer:

Thank you, Bruce, and good morning to everyone. Moving on to slide eight, I'm excited to share updates on a key end market that is now central to our overall business diversification strategy. As we've discussed on prior calls, the unprecedented investments in data centers driven by AI adoption represent a significant and long-term growth opportunity for Thermon. The recent shift to liquid-cooled data centers has created a rapidly accelerated demand for liquid load banks to validate critical cooling systems and power infrastructure. Thermon is uniquely positioned to capture this opportunity, leveraging our legacy solutions. Given the pace of this market, we are proud of how quickly our team has executed. In just four months from project kickoff, we completed prototype builds for our Poseidon and Pontus liquid load bank solutions, and customer demonstrations are already underway. The response has been outstanding. Our quote log now totals roughly $30 million and continues to grow, and we've secured our first order for 20 Poseidon units. Based on management estimates, the liquid load bank market is projected to grow at a 21% CAGR from $84 million in 2024 to $386 million by 2032. We are targeting a 20% to 25% market share within the next 24 to 36 months, and this early traction gives us confidence in achieving that goal. Customers are excited about our differentiated design, which offers clear advantages over our competitors, including compliance with the ASME pressure vessel code, Canada registration or CRN number for Canadian customers, an industry-leading power density or kilowatt to weight ratio, and our pursuit of UL and CUL product certification. combination of these features and benefits position Thermon well to emerge as the trusted partner for mission-critical data center applications. Beyond liquid load banks, remember that Thermon also has significant pull-through opportunities for our traditional product solutions in data center applications, including electric heat tracing, environmental heaters, immersion heaters, tubing bundles, and removable heat blankets. As data center growth accelerates, our commercial team is actively developing channels with owners and operators, HVAC contractors, commissioning firms, and rental houses to ensure Thermon is top of mind for these data center projects. Capitalizing on these opportunities in the data center market is a great example of our strategy in action, creating value for customers and shareholders through innovation and disciplined execution. We look forward to sharing more updates on this exciting growth opportunity in the quarters ahead. With that update, I'll turn it over to Jan for a detailed review of our second quarter results. Jan?

Jan Schott | Chief Financial Officer:

Thank you, Tom, 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 to slide nine, Revenue for the quarter was $131.7 million, a year-over-year increase of 15%. The growth this quarter reflects more favorable spending patterns following tariff uncertainty, improved trends in large project revenues, and continued momentum from FATI. As expected, we also benefited from backlog conversion in the quarter stemming from previous supply chain disruptions and delayed projects. Excluding FATI, organic revenue grew 9% year over year. Our OPEX revenues were $107 million during the second quarter, an increase of 10% compared to last year. Excluding the contributions from FATI, OpEx revenues increased 3% from last year. OpEx revenues represented 81% of total revenues for the quarter. Large project revenue was $24.7 million during the second quarter, up 41% from last year. As we highlighted in last quarter's call, we saw several CapEx projects move from engineering to execution early in the second quarter. We expect this momentum to continue through the balance of the year. Our gross profit was $61 million during the second quarter, an increase of 20% compared to last year. Revenue growth, benefiting from pricing, combined with efficient execution and tariff mitigation measures contribute to the increase in gross profit. As a result, gross margin was 46% for the second quarter, up from 44% last year. The gross margin improvement was notable, given the higher mix of large project revenue for the quarter. Adjusted EBITDA was $30.6 million for the quarter, up from $23.8 million last year, an increase of 29%. Volume growth gross margin improvement, and disciplined cost management partially offset continued investments in growth initiatives. Adjusted EBITDA margin was 23.2% during the second quarter, up from 20.8% last year. Gap earnings per share for the quarter was 45 cents, up 61% from 28 cents in the prior year. Adjusted earnings per share was 55 cents, up

45% from $0.38 last year. Second quarter orders were flat compared to the same period last year. On an organic basis, bookings declined 4% year over year, primarily driven by rail and transit following last year's significant surge. Momentum from FATI, where we continue to benefit from broader decarbonization trends, helped offset the organic decline. our overall book-to-bill ratio for the quarter was 1.0 times, down modestly from the prior year, consistent with timing variability in project awards. Backlog increased 17 percent on a reported basis and was up 4 percent organically due to the positive book-to-bill in the quarter combined with project timing. Turning to performance by geography, Year-over-year sales in U.S. lamb were up 8% compared to the prior year, driven by the ramp in several large CapEx projects. Revenue in Canada increased by 10%. Trends in EMEA remained strong, with revenue doubling, driven by solid performance in our organic business and contributions from FATI. In contrast, APAC experienced a 4% decline primarily due to ongoing uncertainty surrounding global trade policies with China. Moving to slide 10, for an update on our balance sheet and liquidity, working capital increased by 10% to $172 million at the end of the quarter, driven by FATI, higher inventory in preparation for fall heating season, and materials purchased in advance of tariffs. CapEx was 3.1 million during the quarter, compared to 1.9 million last year, which includes capital investments to support growth initiatives. Free cash flow during the quarter was 4.4 million, down from 6.7 million last year, as we invested working capital in inventory build, increased project activity, and the timing of shipments. We repurchased 6 million in shares during the second quarter, bringing our total shares repurchased since the start of fiscal 25 to 36 million. We currently have 39 million remaining under our current authorization as of the end of the quarter. We ended the quarter with net debt of 110 million and a net leverage ratio of 1.0 times. In summary, we continued our financial discipline during the second quarter and remain focused on maintaining a strong balance sheet. We have $129 million in total cash and available liquidity as of quarter end, providing us with ample financial flexibility to execute on our balanced capital allocation strategy, which remains focused on driving growth both organically and through strategic acquisitions while balancing opportunistic share repurchases and debt reduction. With that, I will turn the call back over to Bruce.

Bruce Thames | Chief Executive Officer:

Thanks, Jan. We're obviously very encouraged by our second quarter results and the accelerating momentum across our markets, particularly the move of several large projects from engineering to execution. I'm proud of our team's disciplined execution on margin initiatives, including swift and effective actions to mitigate the impact of tariffs, combined with meaningful progress on our margin expansion efforts. With this momentum continuing into our fiscal third quarter, we're on track to deliver a strong second half to our fiscal year. Based upon the improving visibility in our business, we are pleased to raise our full year 2026 financial guidance for both revenue and adjusted EBITDA. As we detail on slide 11, our revised fiscal 2026 financial guidance calls for revenue in a range of 506 million to 527 million, representing 4% growth at the midpoint. We are raising adjusted EBITDA guidance to a range of 112 million to 119 million, representing 6% growth at the midpoint. Our guidance continues to assume that the current tariff structures remain in place and any future announcements do not have a notable positive or negative impact on input costs or customer sentiment and the improved business trends we've seen are sustained. As I've outlined in the past, we remain highly focused on effectively managing the factors within our control. As you can see here on slide 12, we've made significant progress in our 3D growth strategy over the last five years, driving double-digit top-line growth with adjusted EBITDA growing at two times the rate, despite the contraction in large capex spending we experienced in fiscal 25. Turning now to slide 13. We believe we are strategically positioned to benefit from several powerful secular drivers, including reshoring, electrification, decarbonization, power and data centers. We're in an extremely strong financial position with more than sufficient financial flexibility to continue pursuing our strategic priorities, including the discipline allocation of capital, all with an ongoing focus on generating long-term value for our shareholders. That completes our prepared remarks. We are now ready for the question and answer portion of our call.

Operator | Conference Operator:

Thank you. We will now be conducting a question and answer session. If you'd like to ask a question, please press star 1 on your telephone keypad. A confirmation tone will indicate that your line is in the queue. You may press star 2 to remove yourself from the queue. For participants using speaker equipment, it may be necessary to pick up your handset before pressing the star keys. One moment, please, while we poll for questions. And the first question comes from the line of Justin Agis with CJS Securities. Please proceed with your question.

Justin Agis | Analyst, CJS Securities:

Hi, morning, all. Good morning, Justin. I wanted to... You know, start on the large CapEx side, which was a nice surprise there. You know, in the prepared marks, you mentioned a couple LNG projects in North America and some momentum. Are you expecting more in the same business, more in LNG there? Or is there some other large CapEx projects that are kind of coming into focus?

Bruce Thames | Chief Executive Officer:

You know, yeah, Justin, last quarter we spoke about five projects we'd won in LNG, and certainly that's an area where we're seeing growth. And so we really focused when we came in the year on about – our backlog was up about 29% year over year. We really were – had a big backlog of work in engineering. Since we've established a global engineering center in Mexico and have staffed that up and that team has become productive. And what we're seeing there is those projects move from the design phase into execution. And we saw a couple of those move forward in the second quarter of this year, which led to our large CapEx revenues being up 41% year over year. So we do expect that flow to continue through the back half of the year. And as we look forward, our LNG pipeline is up 140% year over year when we look at those opportunities. So we are seeing some robust activity in the LNG market.

Justin Agis | Analyst, CJS Securities:

That's very helpful. Thank you. And then shifting to the digitization, you know, Nice update. You guys hit that 50% growth that you laid out from the $58,000. Can you just give us a little more detail on what drives those efforts? Is it additional sales? Is it really the tip of the spear that differentiates your product from competitors?

Bruce Thames | Chief Executive Officer:

Yeah, so I think it's actually a few things. One is... It is the tip of the spear and it really helps differentiate us from the competition and improves our win rates so that we can grow the installed base. It also increases really the customer engagement throughout the lifecycle of the asset, which really helps us to capture those recurring revenues over time. So that's one of the big benefits that we see from the digitization effort. And the things we highlighted this quarter is we built this platform of both software and hardware, and we're now leveraging that across a wide range of Thermon solutions in the marketplace. So thus far, we've really introduced it into the industrial heat tracing in markets and product lines. It's also now being offered in our commercial line of heat tracing products, which We just launched in the last year with the Evo controller. And then we're also moving that into rail and transit for switch heating, particularly around our Hellfire units. And then our most recent launch of the Pontus and Poseidon load banks include these software and hardware tools in these units as well. So we really see this as being an enabler across all

Operator | Conference Operator:

a wide range of our solutions in the marketplace i appreciate the color thanks for taking the questions and the next question comes from the line of brian drab with william blair please proceed with your question hi good morning thanks for taking the questions um you know morning um

Brian Drab | Analyst, William Blair:

gross margin is really solid in the quarter, obviously. But that was also, you know, in a quarter where you had the, you know, some of the CapEx projects stepping up. Can you talk about the, you know, that dynamic, maybe the margins in some of the bigger projects that are coming through and I mean, is everything else that you're doing offsetting maybe some lower margins of big projects, or do these projects have really good margins?

Jan Schott | Chief Financial Officer:

Hey, Brian, this is Jan. I'll take that question. Yeah, you're actually spot on. We did have, I guess, large projects, as you know, typically don't have As good a margins as our rest of our projects. And so we did have an unfavorable impact from those. But offsetting that this quarter were just we had increased volumes. So operating leverage from that. We also had, you know, our thermal on business systems productivity gains that we continue to see really help our margins, you know, really be solid. We had pricing that we saw flow through in the quarter. So we did see a benefit from that. Our tariff mitigation efforts are absolutely helping. And obviously those work in tandem with price and then new product introduction. And so I think, you know, you'll you know, you'll continue to see, you know, we're very focused on, I would say, the adjusted EBITDA margin. not so much the gross margin. As you saw, I think on slide three, our trailing 12 months gross margin is at 45%. And we did see, you know, higher this quarter, and it was really due to all those contributing factors. But we'll continue to, you know, push for continued expansion in our margins. And I think, you know, our aspirational goal is to get to 24%. The midpoint of our revised guidance is at 22.4%.

Brian Drab | Analyst, William Blair:

Got it. Okay. So in terms, I know you said to focus on EBITDA margin, but can I ask, you know, for the second half of the year, directionally, how to think about gross margin? And I guess the 22.4%, you know, it looks like for EBITDA margin, that means kind of sustaining this, at least sustaining this 23% level is probably the goal for the second half of the fiscal year?

Jan Schott | Chief Financial Officer:

Yeah, absolutely. I think that would be the goal. For gross margins, I think we'll continue to see strong margins. If you look at that historical rate, I think that should be instructive for what we would expect for the balance of the year.

Brian Drab | Analyst, William Blair:

Got it. And then maybe I'll just ask one more for now. It's great to see these larger projects releasing or moving to execution in the LNG industry. I think you said two moved to execution, but there's five in the pipeline. What is the potential timing for the other three to move to execution? And then secondly, are there other large projects in the funnel that might release outside of LNG?

Bruce Thames | Chief Executive Officer:

Yeah, Brian, I don't want to over-index on LNG. Those were the two larger projects we saw move forward this quarter. But if you look, and I would say more broadly, you know, our business was up about 15% year over year. Our diversity in markets were up roughly a 15% equivalent to an oil and gas was up similarly. So this is not an outsized move in oil and gas. And so I'd like to make sure we don't over index on that. So yes, there are a much broader range of projects that are beginning to move through execution and they include A whole host of other end markets, whether that's we do have some in the chemical petrochemical. We have some also in in power, certainly in other areas around, you know, our other end markets as well. So we are seeing it's more broad based move. And when we looked at last year, we did see a contraction in capex spending, and that was not in any given sector. It was fairly broad-based. And so the shift we're seeing now is also fairly broad-based when we see these projects coming back and moving to execution in the back half of the year.

Brian Drab | Analyst, William Blair:

Okay. Just really quickly, the data center opportunity and the medium voltage center opportunity are really new and buildings, how much of that impact the second quarter results, or is that, that's really more just, you know, coming in the next few quarters, really?

Bruce Thames | Chief Executive Officer:

Right, that's a great question. There's zero impact in the second quarter, and these projects, this, we're just beginning to book orders, which Tom had noted in the prepared remarks, so we want our, secured our first order, which we're excited about. We've got a growing quote log that we feel we've got some high probability opportunities there. And then with media voltage, we've secured our first two orders. Those are being built as we speak. And we're working to scale capacity in both North America as well as in Europe. so we can grow that business going into our fiscal 27. So we're excited about both of those areas for growth and we're really well positioned with a differentiated product offering and a fairly narrow range of competitive, when we look at the competitive landscape, we're really well positioned.

Brian Drab | Analyst, William Blair:

All right, congratulations on the great results.

Jan Schott | Chief Financial Officer:

Thanks, Brian. One clarifying thing I just want to point out is obviously the gross margin going forward will be dependent upon the mix. So that's kind of the, you know, if there were any headwinds, that would be it.

Brian Drab | Analyst, William Blair:

Understood. Understood. Not surprising. Thanks. Yep.

Operator | Conference Operator:

And the final question comes from the line of Chip Moore with Roth. Please proceed with your question.

Chip Moore | Analyst, Roth:

Good morning. Thanks for taking the question, and congrats as well. Bruce, I guess, you know, I think we've addressed most of the key items. I guess for me, just maybe following up on your last comments around scaling capacity for medium-volt cheaters and the opportunity in data center, just how it seems like you have a lot of organic opportunity in front of you. How are you thinking about organic investments versus inorganic? And, you know, are you still tracking bolt-ons and just what are your priorities here? Thanks.

Bruce Thames | Chief Executive Officer:

Well, you know, Chip, great question. First and foremost, you know, our priority is investment in organic growth initiatives, and that has not and will not change. But we are fully funding that really through additions in our SG&A to be able to support the growth in that business, as well as through CapEx spending to enable that growth by scaling off capacity in our factories. So that is all embedded in our guidance and underway. As Janet noted in her prepared remarks, our balance sheet is in really great position, and we have a strong pipeline of opportunities that we are very focused on really looking for that next inorganic growth opportunity that will augment our 3D strategy going forward. And so we're very focused on really moving forward and looking at those inorganic growth opportunities. So really thinking about the business, driving that organic growth, which we've identified these couple of key areas, but also really the inorganic piece is going to be important to continue to drive growth in the business going forward.

Chip Moore | Analyst, Roth:

Great. And maybe one last one that just popped in my head, Bruce. you know, the government shutdowns out there? Is there any, you know, risk of delays at all on projects or anything like that?

Bruce Thames | Chief Executive Officer:

Yeah, we really don't have any exposure to government contracts, so it's really a non-event for us. So it's really not a problem.

Chip Moore | Analyst, Roth:

Great. Thank you very much. Thank you.

Operator | Conference Operator:

And ladies and gentlemen, that does conclude the question and answer session. I would like to turn the floor back over to Bruce Thames for any closing remarks.

Bruce Thames | Chief Executive Officer:

Thank you all for joining us here today. We appreciate your interest in Thermon and looking forward to giving you an update for our third quarter in the January, February timeframe. Thank you.

Operator | Conference Operator:

thank you that does conclude today's teleconference. We thank you for your participation. You may disconnect your lines at this time.