



Federal Signal Corporation

Third Quarter 2021 Earnings Conference Call

November 9, 2021

C O R P O R A T E P A R T I C I P A N T S

Ian Hudson, *Chief Financial Officer*

Jennifer Sherman, *President, Chief Executive Officer*

C O N F E R E N C E C A L L P A R T I C I P A N T S

Steve Barger, *Keybank Capital Markets*

Chris Moore, *CJS Securities*

Felix Boeschen, *Raymond James*

David, *DA Davidson*

Greg Burns, *Sidoti & Company*

Marco Rodriguez, *Stonegate Capital Markets*

Walt Liptak, *Seaport*

P R E S E N T A T I O N

Operator

Welcome to the Federal Signal Corporation Third Quarter 2021 Earnings Conference Call.

As a reminder, all participants are in listen-only mode. The conference is being recorded.

I would now like to turn the conference over to Mr. Ian Hudson, Chief Financial Officer. Please go ahead.

Ian Hudson

Good morning, and welcome to Federal Signal's third quarter conference call. I'm Ian Hudson, the Company's Chief Financial Officer. Also with me on the call today is Jennifer Sherman, our President and Chief Executive Officer.

We'll refer to some presentation slides today as well as to the earnings news release, which we issued this morning. The slides can be followed online by going to our website, federalsignal.com, clicking on the investor call icon and signing into the webcast. We have also posted the slide presentation and the earnings release under the Investor tab on our website.

Before we begin, I'd like to remind you that some of our comments made today may contain forward-looking statements that are subject to the Safe Harbor language found in today's news release and in Federal Signal's filings with the Securities and Exchange Commission. These documents are available on our website.

Our presentation also contains some measures that are not in accordance with U.S. Generally Accepted Accounting Principles. In our earnings release and filings, we reconcile these non-GAAP measures to GAAP measures. In addition, we will file our Form 10-Q later today.

I'm going to begin today by providing some detail on our third quarter results before turning the call over to Jennifer to provide an update on our performance, current market conditions, recent acquisition activity, and our outlook for the remainder of the year. After our prepared comments, Jennifer and I will address your questions.

Our consolidated third quarter financial results are provided in today's earnings release. In summary, our businesses were able to deliver meaningful year-over-year improvement in net sales and earnings and an Adjusted EBITDA margin at the high end of our target range, despite the effects of higher material costs and widespread supply chain disruption.

Consolidated net sales for the quarter were \$298 million up \$19 million or 7% compared to last year. Consolidated operating income for the quarter was \$34.3 million up \$300,000 or 1% compared to last year. Consolidated Adjusted EBITDA of the quarter was \$47.4 million up \$1.5 million or 3% compared to last year. That translates to a margin of 15.9% in Q3 this year, compared to 16.4% last year.

Net income for the quarter was \$29.2 million up \$3.9 million or 15% from last year that equates the GAAP earnings for the quarter of \$0.47 per share up 15% from \$0.41 per share last year. On an adjusted basis, EPS for the quarter was \$0.48 per share, an improvement of 14% compared to \$0.42 per share last year. Both our GAAP EPS and adjusted EPS for the third quarter of this year included benefits from a tax planning strategy executed during the quarter, which resulted in approximately \$3.3 million more in discrete tax benefits being recognized in Q3 this year, compared to Q3 of last year.

In the aggregate, these higher tax benefits represented approximately \$0.05 of our year-over-year EPS improvement. Order intake for the quarter was again outstanding with orders of \$350 million representing an increase of \$85 million or 32% compared to last year. Consolidated backlog at the end of the quarter, set another new company record of \$487 million that represents an increase of a \$183 million or 60% from the end of last year.

In terms of our group results, ESG's net sales for the quarter were \$249 million up \$18 million or 8% compared to last year. ESG's operating income for the quarter was \$30.8 million compared to \$33 million last year. ESG's Adjusted EBITDA for the quarter was \$42.7 million compared to \$43.9 million last year, that translates to an Adjusted EBITDA margin of 17.1% in Q3 this year compared to 19% of last year. ESG reported total orders of \$292 million in Q3 this year, an improvement of \$72 million or 33% compared to last year.

SSG's net sales for the quarter was \$49 million this year up 1% compared to last year. SSG's operating income for the quarter was \$7.6 million up from \$7.4 million last year, while its Adjusted EBITDA for the quarter was \$8.5 million up from \$8.2 million last year, that translates to an Adjusted EBITDA margin for the quarter of 17.3% up 50 basis points from last year. SSG's orders for the quarter were \$58 million up \$13 million or \$0.27 compared to last year. Corporate operating expenses for the quarter were \$4.1 million compared to \$6.4 million last year.

Turning now to the consolidated income statement where despite the year-over-year sales increase gross profit decreased by \$1.7 million. Consolidated gross margin for the quarter was 23.8% compared to 25.9% last year with steel and other commodity costs continuing to increase and chassis constraints delaying certain shipments out of our backlog. We experienced a slightly higher unfavorable price cost headwind of around \$5 million during the quarter, about \$2 million higher than we have previously anticipated. With the various pricing actions we have taken including re-pricing of our backlog at a number of businesses. We are expecting to see improvement beginning in the fourth quarter with more price realization expected as our backlog turns.

As a percentage of sales, our selling, engineering, general and administrative expenses for the quarter were down 160 basis points from Q3 last year. Other items affecting the quarterly results include \$200,000 increase in acquisition-related expenses, a \$200,000 increase in other income, and a \$100,000 reduction in interest expense. Tax expense for the quarter decreased by \$3.3 million largely due to the recognition of the tax planning benefits that I just mentioned. Our effective tax rate for the quarter was 12.8% compared to 23.1% last year. At this time, we expect our full year effective tax rate to be approximately 18%.

On an overall GAAP basis, we therefore earned \$0.47 per share in Q3 this year, compared with \$0.41 per share in Q3 last year. To facilitate earnings comparisons, we typically adjust our GAAP earnings per share for our unusual items recorded in the current or prior year quarters. In the current year quarters, we made adjustments to GAAP earnings per share to exclude acquisition-related expenses and purchase (audio interference) on this basis, our adjusted earnings for the quarter with \$0.48 per share compared with \$0.42 per share last year.

Looking now at cash flow, where we generated \$16 million of cash from operations during the quarter up 8% from Q3 last year. That brings the year-to-date operating cash generation to \$55 million. Towards the end of the quarter, we increased our borrowings in anticipation of the Ground Force acquisition, which we completed in early October for an initial payment of \$43 million. We ended the quarter with \$164 million of net debt and availability under our credit facility of \$240 million. Our current net debt leverage ratio remains low.

With our financial position remaining strong, we have significant flexibility to pursue strategic acquisitions, invest in organic growth initiatives and return cash to stockholders through dividends and opportunistic share repurchases. On that note, we paid dividends of \$5.5 million during the quarter, reflecting a dividend of \$0.09 per share and we recently announced a similar dividend for the fourth quarter. We also funded share purchases of \$3.2 million during the quarter at an average price of \$38.44.

That concludes my comments. I would now like to turn the call over to Jennifer.

Jennifer Sherman

Thank you, Ian.

Our teams again delivered growth in both the top and bottom line while achieving Adjusted EBITDA margin towards the high end of our target range, despite well-documented widespread supply chain disruption, and a very challenging commodity cost environment. We entered the quarter with delivery commitment dates from our chassis suppliers that positioned us well to satisfy our sales and delivery expectations for the second half of the year.

Thanks mainly to the proactive efforts of our purchasing and engineering teams and the temporary shutdown of our production facility in Streator, Illinois for a two week period around the 4th of July holiday, following the suspension of chassis production at one of our suppliers, we had not experienced any

significant chassis supply constraints through the end of July. However, as the quarter progressed, we began to experience significant delays in delivery dates from most of our chassis OEM partners with deliveries pushed out weeks or months with little notice. In many circumstances, we received a week's notice of the delay.

Beyond chassis, we are experiencing some other supply chain tightness ranging from pumps to electronic components, but for the most part, we have to date been able to navigate through the difficulty, it remains a challenging situation. Chassis delivery delays are significantly disrupting our production schedules and hampering our ability to maximize production efficiencies and deliver products to our customers.

The team has worked tirelessly to mitigate the impact of this short-term disruption by continuously adjusting production schedules in an effort to satisfy record customer demand but we are not operating at our usual level of efficiency. While the teams have performed admirably, we estimate the delays in chassis deliveries and various other parts shortages, along with the constant production schedule adjustments caused an adverse top-line impact of approximately \$30 million during the quarter. Importantly, none of these orders are lost or canceled, but the shipment timing out of our backlog has been pushed out to reflect the revised chassis delivery dates.

As we did last year with the pandemic so far this year, our businesses have been able to navigate through a variety of supply chain related issues and deliver an EBITDA margin of almost 16% demonstrating that as a company, we are more resilient than in the past and we continue to believe that at this level of margin performance, we would rank within the top (inaudible) of our specialty vehicle peers. Performance at these levels during turbulent times is both a real testament to the efforts of our teams and the successful diversification of our revenue streams and end market exposures that has taken place over the last several years through a combination of organic growth initiatives, and M&A.

As it was in Q2, our aftermarket business was again an area of strength providing a favorable shift in mix during a seasonally strong third quarter. Overall, our aftermarket revenues in Q3 this year were up \$12 million or 18% over last year, growing to represent a higher share of ESG's revenues for the quarter at around 30%. Rental activity and demand for used equipment continues to be strong with rental income in Q3 up 29% year-over-year and used equipment sales exceeding \$10 million for the third successful quarter. As we approach the winter months, we expect that rental activity may be seasonally down in comparison to the peak periods of Q2 and Q3, but we expect used equipment demand to remain strong given the current tightness in the supply chain and longer lead time.

Demand for our product offering continues to be as strong as ever as demonstrated by our outstanding third quarter order intake of \$350 million, contributing to another record backlog, reflecting strength across our end markets. This sediment has been widely shared by our customers and dealer partners and seems to be further solidified by the economic stimulus package, which passed earlier this year, in that package, approximately \$350 billion was earmarked for state, local and territorial governments for a variety of purposes, including the maintenance of essential infrastructure, such as sewer systems and streets. As a provider of equipment used for these essential services like sewer cleaning and street sweeping, we stand to benefit meaningfully from any additional aid that may be provided to state and local sources for these purposes.

Conversations with our dealer channel suggest that the first \$175 billion tranche started to be distributed by the treasury in May with a second tranche expected next year. This is supported by the ongoing strength of U.S. municipal orders, which were up 50% for both the quarter and year-to-date period was notably strong demand for street sweepers and sewer cleaners. In fact, so far this year, our U.S. municipal orders for street sweepers are up \$46 million or 84% over last year while sewer cleaner orders are up \$45 million or 64% over the same period.

We are also seeing strong municipal demand within SSG with most of its order improvement this quarter resulting from higher demand for public safety equipment in both domestic and international markets. Within our industrial end market, we've also seen a 50% year-over-year improvement in domestic orders. The improvement has been almost across the board, but notably for our TRUVAC safe digging trucks and for our Guzzler industrial vacuum loaders, which collectively were up \$45 million or 87% year-over-year. Simply put supply chains cannot keep pace with the momentum and demand that we are currently seeing in almost all of our end market.

I would now like to spend a minute on our acquisition of Ground Force Worldwide, which we completed in early October.

Ground Force is headquartered in Post Falls, Idaho, and is a leading manufacturer of specialty material handling vehicles that support the extraction of metals with its current product portfolio, including fuel and lube trucks, water trucks, dump bodies, and rock-spreaders. Ground Force also supports the recurrent after-market (phon) needs of its customers through parts and service offerings. The acquisition further bolsters our position as an industry leading diversified industrial manufacturer of specialty vehicles for maintenance and infrastructure markets with leading brands of premium value adding products and a strong supporting aftermarket platform.

Over the last 12 months, Ground Force generated revenues of approximately \$34 million with an EBITDA margin within our group target range. The acquisition augments our current materials hauling portfolio by adding a range of specialty vehicles that support the extraction of metals demand for which is expected to benefit from vehicle electrification and other green initiatives. The transaction is also expected to provide opportunity for a long-term value creation through operational improvement and organic growth initiatives, while also providing a platform for further acquisitions in this space. Although it has only been one month, we are encouraged by the strong order to be that Ground Forces deemed for its products.

This morning, we also announced the signing of a definitive agreement to acquire the assets and operations of Deist Industries. Deist is the parent company of Switch-N-Go and Bucks Fabricating, both of which are located in Pennsylvania, like Ground Force at MRL this was another proprietary deal underlying our strong reputation in the industry. Through its Switch-N-Go business Deist designs, manufacturers themselves interchangeable truck body systems for class three to seven vehicles in the work truck industry. Depending on the application, this interchangeable system allows for the use of multiple bodies on a single chassis, helping customers to optimize their asset utilization and providing the potential to reduce their carbon input footprint.

Bucks designs manufacturers and sell a full line of waste hauling products, including front/rear loading containers and specialty roll-off containers. Over the last 12 months Deist has generated revenues of approximately \$41 million with a double-digit EBITDA margin. The Deist acquisition represents another attractive product line extension, and it expands our presence into new end markets, such as street care and (inaudible) hauling. With many common partners within our existing distribution and channels, the acquisition creates an attractive opportunity to develop and deliver innovative new products and solutions to our customers and optimize the distribution of our products. We expect that both acquisitions will be accretive within the first year. The acquisitions reiterate our expectation that M&A will continue to contribute meaningfully to our future growth.

Turning now to our outlook for the rest of the year.

We continue to see strong momentum in our markets has evidenced by the 50% improvement in both U.S. municipal and industrial orders so far this year. With a record backlog demand for our products is outpacing the current capacity of our supply chain. When we raised our guidance last quarter, we assumed no significant delays in deliveries from our chassis suppliers. However, during the quarter such

delays were more prevalent than we had anticipated causing increased disruption to our production schedules. We expect that the volatile supply chain environment will continue for the rest of the year and therefore we are adjusting our full year adjusted EPS outlook to a new range of a \$1.68 to a \$1.78. The size of our range is reflective of the highly volatile environment in which we are currently operating, but performance at that level would represent the Company's second-best year ever in terms of EPS. Our new outlook range also excludes the impact of a one-time non-cash pre-tax pension settlement charge of approximately \$11 million, which we expect to incur in the fourth quarter in connection with a defined benefit pension annuitization project.

We remain encouraged by the long-term opportunities for all of our businesses, which would be further bolstered by the infrastructure legislation recently passed by Congress. We're already starting to see the benefits from the economic stimulus packages, which started to be made available to municipalities earlier this year. We also expect the infrastructure bill with \$550 billion in new spending we could see capital equipment demand increase to support infrastructure investments in areas such as roads, bridges, electrification, broadband, clean energy and water and public transportation buildup.

We are a leading manufacturer of specialty infrastructure and maintenance equipment and anticipate increased demand for the majority of our product offerings, including equipment sales and rentals of dump trucks and trailers, safe digging trucks, road marking equipment, sewer cleaners, and street sweepers. While also benefiting our new acquisitions Ground Force and Deist. With our recent capacity expansions, we are well positioned to respond once the current supply chain constraints improve.

Over the last several years, we have transformed our end market exposure and implemented a revenue diversification strategy that has enabled us to adjust as needed to market conditions. With an ongoing focus on 80/20 principles, Federal Signal has become a more resilient business, delivering a consistent level of EBITDA margin above many of our peers. As Ian noted in his comments, our financial position and liquidity are strong enabling us to pursue strategic acquisitions like Ground Force and Deist. Our current M&A pipeline continues to be very active.

While we continue to make progress on our vehicle electrification roadmap and will soon be initiating customer trials and demonstrations of our hybrid three wheel Pelican Sweeper, we have also solidified an agreement with a development partner for the hybrid system integrated into our plug-in hybrid Broom Bear. Our electrification roadmap also includes all electric versions of our truck mounted sweepers, and we are collaborating with more than one chassis OEM on designs that will provide uncompromised performance for our customers. We anticipate field trials to begin in 2022.

Our ongoing commitment to environmental, social, and governance initiatives also position us well in the communities in which we operate and as differentiating factor in our ability to attract labor at most of our facilities. Recently, we took a survey and in our three largest facilities, which compromised—comprised almost half of our U.S. hourly workforce, we currently have approximately 20 hourly job openings out of almost a 1,000 positions.

On that note, we recently issued our second annual sustainability report, which highlights many of our accomplishments in this area, including our Project 85 initiatives to increase vaccination rates across the organization. Although we continue to make progress on this initiative, we still are experiencing some COVID-related disruptions at certain facilities.

At this time, I think we're ready for questions. Operator?

Operator

The first question is from Steve Barger of KeyBanc Capital Markets. Please go ahead.

Steve Barger

Thanks, good morning.

Jennifer Sherman

Good morning, Steve.

Ian Hudson

Hi, Steve.

Steve Barger

I'm going to start with the near-term outlook. If I just look back at the last few years revenues, generally similar plus or minus in 4Q relative to 3Q, will that be the same this year or just help me balance the record backlog versus the reduced guidance around the supply chain issues?

Ian Hudson

Yes. I think, Steve, the trends that we typically see in the fourth quarter relative to Q3 are—aftermarkets is typically stronger in Q3, with the weather-related factors that that can slow down a little bit in Q4. As we look at revenue in Q4 on a year-over-year basis, I think we are expecting some improvement over the last year. But the wildcard is the chassis delivery dates. We believe we're in a good position with respect to the commitment dates we've got from the suppliers. That's the one variable that we can't really control.

Jennifer Sherman

If we've learned anything through Q3 it's that until we have the chassis on hand those dates are fluid at that.

Steve Barger

Yes. No, totally understandable. We probably shouldn't, Ian, you said year-over-year improvement, but we probably shouldn't be thinking a big sequential improvement just based on the current environment?

Ian Hudson

I think that's fair, Steve.

Steve Barger

Okay. Just same question on EBIT, will that be down sequentially or can you drive some improvement in this environment or are the input costs and just general inefficiency going to make that tough?

Ian Hudson

I think the environment makes it tough to get sequential improvement. I think the one area where we are seeing some signs of improvement is on price cost headwind. We had a headwind of about \$5 million in Q3. We're expecting that gap to narrow in the fourth quarter as we've taken a number of actions on the pricing of a backlog and as more of that ships out, that's when we start to realize more price. We'll start to

see that improve in Q4, albeit with, we were still expecting a headwind of in the range of \$2 million to \$3 million in Q4 before that starts to really normalize as we enter '22. Then there's just the general inefficiencies, as Jennifer described, some of the shortages in not only chassis, but some of the other components make running a production facility and production schedules with the constant changes. It makes it fairly inefficient.

Steve Barger

Yes. Well, on a happier note is, with a record backlog, is that all slated to be delivered next year assuming you can get all the parts that you need?

Ian Hudson

Yes.

Steve Barger

2Q was your best revenue quarter ever with all the capacity additions and now the M&A, what do you think quarterly revenue can run at efficiently? Can you be over \$350 million, \$360 million on a sustainable basis per quarter?

Ian Hudson

I think, we obviously have the seasonality aspects of the business, Steve with Q2 and Q3, typically the strongest at, with respect to the aftermarket side of the business. We also have the two acquisitions that that will factor in. I think all of that taken into consideration, I think the answer would be yes. Yes, we would expect that.

Steve Barger

Great. I have more questions, but I'll jump in line. Let someone else go.

Ian Hudson

Okay, thanks, Steve.

Jennifer Sherman

Thank you.

Operator

The next question comes from Chris Moore with CJS Securities. Please go ahead.

Chris Moore

Hey, good morning, guys. Thanks for taking a couple of questions.

Jennifer Sherman

Good morning.

Chris Moore

Good morning. Maybe we go back to a sore subject. Chassis shortage, can we maybe talk a little bit about the root cause there? Is the chassis manufacturers just in the same position as other industrials where their supply chain is backed up? Is there something more structural there? Or just trying to understand a little bit better.

Jennifer Sherman

It really comes down to the microchip issue. They're waiting on certain chips. We are encouraged by the public statements that the various supply chain—various OEM chassis manufacturers have made in connection with their earnings call, and that they believe that the worst is behind them. We have yet to see that, but as we go into '22 we're hopeful that the public statements they've made, we will benefit from because we clearly have the demand. What comes down to it is basically supply chain. I would say the vast majority of it has been chassis. The teams have done an excellent job in terms of working through other issues. There have been other issues, but we've worked through the majority of them, but we need to get this supply—we need to get this chassis situation stabilized in order to build the record backlog that we have.

Chris Moore

Got it. Do the chassis manufacturers, do they give you a '22 outlook that they're looking at this point in time, or how much visibility do they have beyond this quarter that they'll even talk to?

Jennifer Sherman

They give us information regarding '22. What we've been able to do is take that information, and as you know, we've encouraged our dealers to also procure chassis and in some situations, the end customers to procure chassis, and we're optimistic about that initiative, because if our dealers are successful and end customers are successful and particularly municipalities usually have pretty good clout with the local chassis manufacturers to get those chassis, we're anticipating that we'll be in a better position in 2022.

Ian Hudson

Yes. I think, Chris, the other thing that gives us comfort is that we are not exclusive '21 chassis supplier. We use many different types of chassis. We can build on any type of chassis. We are not reliant on any one sole provider, so I think that is helpful. Also, absent the TBI business where the customer always provides the chassis, we are about a 50/50 split in terms of when we provide the chassis or when the customer provides the chassis. In terms of how we look forward and procure sufficient chassis to ship the backlog, we're working, as Jennifer said, with our dealers, with our customers and with our own suppliers to try and maximize the availability for next year.

Jennifer Sherman

The team has also done a really nice job qualifying new chassis that historically we haven't used to help supplement the amount of chassis that we'll have available in 2022.

Chris Moore

Got it. Just last one for me, any sense that there is much—I know orders have been great—any sense there's much order acceleration by customers that they factor in the long (inaudible) now?

Jennifer Sherman

No, we've taken a look at that. Our sense is no. Because a couple of things, one is the number of named units. Number two is many times, particularly on the municipal side of our business, it goes through a public bid process. We are starting, as I mentioned in my comments, to see the benefits of the initial stimulus package, and we expect the infrastructure legislation, once signed by the President, to provide a meaningful long-term stimulant for orders over the next several years.

Chris Moore

Got it. I appreciate it. I will jump back in line.

Operator

The next question comes from Felix Boeschen with Raymond James. Please go ahead.

Jennifer Sherman

Good morning.

Felix Boeschen

Hey, good morning, Jennifer and Ian.

Ian Hudson

Good morning.

Felix Boeschen

Hey, I was hoping to go back to a capacity question. As we think about maybe the next couple of years, you obviously talked about stimulus package flowing. You've now got infrastructure built. It doesn't seem like demand is the problem. I know you guys have expanded your physical footprint quite a bit over the last couple of years. Are there any projects on the horizon or do we think we need to expand capacity more to stay up with demand? I'm just trying to think about the next two, three, maybe four years holistically, Jennifer?

Jennifer Sherman

Yes. Great question. Just to remind everybody, we completed this year. It was delayed in part because of the pandemic, the ability to increase capacity 40% at our largest facility that manufactures sewer cleaners and hydro excavators in Streator, Illinois. In addition to that, we've done capacity expansions that are road marking business at two of our dump truck businesses, one in Lake Crystal, Minnesota, and one in Rugby, North Dakota. In addition to that, we've significantly expanded capacity at one of our service centers.

As we move forward, we believe that we're in very good shape to support this increased demand. The other thing, I have to do a shout out to the team. If you look at our access to labor, understanding it can be a challenge from time to time at certain companies, but overall we're doing pretty well and we've just got a great team. I think that our local management teams do a super job working with our hourly teams, and I believe we're really well positioned to support the additional order that we expect to see in part due to the infrastructure bill.

Felix Boeschen

Okay. That's helpful. Then Ian, I appreciate the comments on the \$5 million price cost headwinds that go into Q3 and 4Q, how should we think about early 1H '22 from that perspective? I just wanted to understand, is the vast majority of that headwind in the dump truck book?

Ian Hudson

Yes. That's correct, most of that is in the dump truck, really, with the impact of the increase in the cost of steel. It's mainly been felt in the dump truck side of things. As we enter the first quarter of next year, we'll expect—I think what we're expecting is it to be somewhat neutral and then maybe even start to turn a little bit as we go forward.

Felix Boeschen

Okay. Got it. Then just my last one, aftermarket has obviously been super strong this year. Specifically rental looks like it's firing on all cylinders. I'm curious if you could comment maybe on your expectations for 2022 from a fleet addition perspective. Do you feel you have enough capacity or should we think about that ramping up? I'm just trying to understand how much that business can grow into 2022 looking at your balance sheet?

Ian Hudson

Yes. I think that's exactly right, Felix. As we look forward with the prospects from the infrastructure bill and the economic stimulus package, we continue to expect rental to be a really important tool. Not only for us, but also again, we have a number of strong rental partners. We expect to see some good activity with those rental partners. We've had some pretty good strong used equipment sales out of the fleet this year, just with some of the long lead times and the chassis constraints. We've seen some really nice demand for used equipment. I think year-to-date, we're up about \$10 million, about 38% year-over-year on the used side. There is a need to replenish that fleet and then and then grow it and we factored that into a plan for '22.

Jennifer Sherman

We also will be adding some new products that haven't been traditionally in the fleet, particularly our road marking equipment. We're excited about that initiative.

Felix Boeschen

Okay. Got it. I appreciate it. I'll stop there.

Ian Hudson

Thank you.

Operator

The next question comes from Michael Shlisky with D.A. Davidson. Please go ahead.

Jennifer Sherman

Good morning.

David

Hi there. Good morning. This is David on for Mike this morning. I have a question about—have any customers express concern about their budgets for new equipment given the higher prices for fuel, labor costs and other costs?

Jennifer Sherman

It's a question that we ask frequently and the answer is generally no. Nobody likes higher prices, but we've been very successful in terms of doing a number of price increases across the vast majority of our businesses. Some of our businesses have had multiple price increases this year and people understand the dynamics of the economy that we're living in right now. Very little cancellations.

David

That's very helpful. Then my last question, a question on the Deist acquisition, is this a regional company with the business mostly near the Pennsylvania area, or is it already a coast-to-coast business? How do you envision expanding the dealer footprint for their products?

Jennifer Sherman

Yes. Thank you for asking that question. We're really excited about this acquisition. Their product, the Switch-N-Go product, can think about it as a system that allows you to use one chassis and multiple different types of bodies on that one chassis. They've been growing regionally, primarily east coast right now. We believe, one, we have capacity at other locations to build this product. In addition to that, we believe that our relationship with our distribution partners, we can also grow product. It's a very exciting opportunity. Our team is headed out there this afternoon to meet our new employees and we think this is going to be an important growth engine going forward.

David

Awesome. Thank you very much.

Operator

The next question comes from Greg Burns with Sidoti & Company. Please go ahead

Jennifer Sherman

Good morning, Greg.

Greg Burns

Good morning. Just had a question about the oil and gas market. I know you've diversified a lot since the last time oil was at these levels, but can you just remind us maybe how big oil and gas is in terms of revenue currently and maybe what it was at the peak in '07, '08?

Jennifer Sherman

Yes, sure. It was \$90 million-ish at the peak. It dropped down to \$30 million. The products that we have that target that end market, our hydro excavation equipment or Jetstream equipment. We have certain of our SSG equipment that targets that market. Again, it is upside for us, and we look at it that; we've got to channel into that market. As oil prices increase, we think it creates opportunity for the Company.

Ian Hudson

Yes. I think, Greg, for the most part, we have the rental activity, some of that is that equipment is used in the oil industry. With the growth that we've seen in rental and also used equipment sales on the aftermarket side, some of that is likely being used in the oil patches. We've also seen, as Jennifer mentioned in her comments on the industrial side, orders for both our safe digging trucks, as well as the industrial vacuum loaders. They are up year-to-date in excess of 80%. Really good demand for those products. They can be used in many different industrial applications, but they would include oil and gas as well.

Greg Burns

Okay. Then since you mentioned safe dig, I know you've invested a lot in that initiative and there's been a lot of customer education going on in terms of the benefits of that. I would assume with the infrastructure build there's going to be a lot of potential applications for safety and equipment. Do you have any specific initiatives to target those opportunities, leverage the market education you've been doing over the last couple of years to stimulate demand for those products?

Jennifer Sherman

Yes, absolutely. We continue to rely very heavily on demos, and we found that participation in regional trade shows is important, and we continue to develop our utility channel which is critical. We believe that the investment that the government is making in broadband internet will be an important catalyst for growth for that product line. The other thing I would add is, as we go into 2022, I'm excited about some of the new product development initiatives that we'll be announcing relating to our safe digging line of products, more to come.

Greg Burns

Okay, great. Thank you.

Operator

The next question comes from Marco Rodriguez with Stonegate Capital Markets. Please go ahead.

Jennifer Sherman

Good morning.

Marco Rodriguez

Good morning. Thanks for taking my questions. I wanted to follow up on part of the last question, but just broad perspective of marketing and the infrastructure bill that's obviously going to be a positive tailwind for you guys. I'm just wondering if you have any new marketing initiatives or activities that you might be launching or helping your distribution partners launch to gather or grab more share of that infrastructure spend that's coming, or do you believe that perhaps your brand awareness is in a pretty good point right now?

Jennifer Sherman

Well, first of all, there's always opportunity for improvement. But last year we talked about our Reclaiming Tomorrow Together initiative. As part of that initiative, we invested in acceleration of our digital marketing efforts. The teams have done a really nice job with that, both in terms of the amount of material that's available, the accessibility of that material and the ability to train our end customers easier. We put, for example, beginning this year, there are QR codes on every sewer cleaner that we produce that provide training opportunities at various points on the product. We believe that, that initiative is going to be critical in terms of reaching end customers and educating them about the values of our product.

We also believe that we're in a unique position, because we have between us and our dealer partners, we have a complete portfolio of product offering what meaning, whether you want new, used, rental, we're able to satisfy that customer demand, which is often mixed. Again, we're also working in terms of developing products that don't require a CDL license, which is important particularly with some of the marijuana laws that have been passed. We think we're incredibly well positioned. We've got the products. We've got the capacity. We've got the talented people to build the product. A lot of opportunity for us going forward.

Marco Rodriguez

Excellent. Very helpful. Maybe this question is a little bit early, but on the Deist acquisition, you mentioned double-digit EBITDA margin. Is it fair for me to assume that that's below perhaps your target ranges? Then if you can maybe talk about how you see some of those synergies you mentioned unfolding over the next 12 months to 18 months?

Ian Hudson

Yes, I think, Marco, it's (inaudible) currently on a TTM if it's below our target range, but we think there's enough room for improvement. We can get it within our target range. It's similar to some of the other acquisitions that we've done in the last couple of years. We do believe there are a number of synergies, particularly as Jennifer mentioned about pushing the product through the channel and expanding production into some of our other facilities. We think there is—there's room for improvement of the margin, but also gaining some benefits on the synergy side.

Jennifer Sherman

Again, what I'd add there too is, a real credit to our teams and the reputations that they've developed in the industry. This is the second example this year of a proprietary deal. We're really pleased to welcome the Deist team members to Federal Signal.

Marco Rodriguez

Excellent. Then last good question for me, corporate expenses had a meaningful decline sequentially in year-over-year. Were there any one-time items that drove that? Or can you talk about what was going on in that quarter?

Ian Hudson

Yes, nothing—in terms of the year-over-year change, it was almost as if the timing real impact of some changes in stock comp and incentive based comp, but on a full year, if you look at the year-to-date, I think

it was fairly even, about \$18.6 million. I think we were down maybe \$200,000 year-over-year. It was a bigger change in the quarter than it was on a year-to-date basis.

Marco Rodriguez

Thank you, guys. I appreciate your time.

Ian Hudson

Thanks, Marco.

Operator

The next question comes from Walt Liptak with Seaport. Please go ahead.

Walt Liptak

Hi, good morning, guys.

Jennifer Sherman

Good morning, Walt.

Walt Liptak

Hi, I wanted to ask one for Ian, he gave us that \$5 million price cost headwind number. I think you said in your prepared remarks there was \$30 million of revenue that shifted out. There was also supply chain disruptions to the factories near people. Can you take a stab at quantifying what the inefficiencies were during the quarter for the timing of shipments and other supply chain problems?

Ian Hudson

Yes, well, the \$30 million was really, as we—as Jennifer mentioned entering the quarter, we had those from commitment dates from the suppliers and those delays, we believe caused an adverse impact on the top-line of about \$30 million. Of what we did ship, the \$5 million price costs went—was the impact of what was shipped. There's no real overlap with the \$30 million there. As it relates to inefficiencies, that's a bit harder for us to actually quantify, albeit it was—it's obviously—it's embedded within the gross margin decline that we saw. It's hard to put up an exact pinpoint number on just the general inefficiency because it's safe to say that we are certainly not offering a normal level of efficiency. When we have backlogs at this level, we can produce the equipment efficiently, but when you're constantly adjusting the production schedule it has an adverse impact.

Walt Liptak

Okay, great. Yes, recognizing how difficult it is to get in chassis, what are you telling your customers, like what's the lead times at this point on getting a truck delivered, and, understanding that there's a lot of different trucks that you make, I wonder if there's a ballpark of it used to be three months, now it's six months, something like that?

Jennifer Sherman

Yes. Some of it depends on whether the customer can obtain the chassis. In some situations the customer is able to obtain a chassis and get it to us, and then we can ship it relatively quickly. For many of our businesses, we're not even taking orders if they don't have an identified chassis. In other situations, it can vary from a couple months to six months. But we are—a critical part of our strategy in '22 is to educate our dealer network and our somewhat—in some situations our end customers about the need for them to procure chassis directly. We think that will mitigate some of the chassis disruption that we've experienced in Q3 and we'll experience in Q4.

Walt Liptak

Okay, great. When you look at this chassis situation, are you keeping up with your cost—with the competitors, are the lead times any difference between yours and competitive products?

Jennifer Sherman

That's not something we've heard. In many situations, ours are better, but in general we believe that we're at least equal and, in many situations, better.

Walt Liptak

Okay, great. It's great to see the M&A deals happening. Congratulations on that. With the supply chain issues, how are you factoring that in when you're doing valuations? Because I guess we don't really know when this is going to come to an end, so that creates volatility around your own EBITDA, but also around the companies that you're acquiring. How are you working that into the price?

Jennifer Sherman

Yes, there's a considerable earn out here. That's part of how we're addressing that issue. We're also looking at part of the diligence very carefully, at steel and what their assumptions are. But again, if you look at the performance of Deist over the last 12 months, they've grown and their EBITDA margin has been, as we talked about, low single digits. We paid a reasonable multiple compared to what's going on in the market right now. We believe that there's opportunity for improvement going forward. Particularly if you think about, it's a pretty cool product, the Switch-N-Go product, and we believe through our dealer and other distribution channels, there's an opportunity to grow it across both the U.S. and Canada.

Walt Liptak

Yes. It looks very innovative. Okay. How is the deal pipeline looking at this point? Are you comfortable doing more acquisitions?

Jennifer Sherman

Yes. The deal pipeline is full. Acquisitions will continue to be a meaningful part of our growth going forward.

Walt Liptak

Okay, great. Thank you.

Operator

The next question is a follow-up from Steve Barger with KeyBanc Capital Markets. Please go ahead.

Steve Barger

Thanks.

Jennifer Sherman

Hi, Steve.

Steve Barger

As you advertise, you've been acquisitive in niche businesses over the past few years. Nice diversifier, but naturally it makes modeling tougher for us on the outside. Are you thinking about increasing guidance transparency for revenue, just to give investors a better benchmark to think about plans versus outcomes?

Jennifer Sherman

Yes, we're thinking about it.

Steve Barger

Okay. How long do you think that process will be?

Jennifer Sherman

We understand what you're saying. The issue is every time we buy something, it changes, so.

Steve Barger

Right. Yes.

Jennifer Sherman

But I will say we're very excited about the acquisitions, the multiples we paid and the opportunity that they present for Federal Signal.

Steve Barger

I agree. I think it's a great strategy. I just think it has the potential to introduce a lot of volatility to consensus numbers, just because of our inability to really triangulate on what this increasingly diverse portfolio is going to do.

Jennifer Sherman

Fair point.

Steve Barger

If I look back over maybe five years, your free cash flow margin is running around 7%. With you getting more acquisitive, can you talk about Capex intensity for the three deals you've done this deal? What free

cash flow looks like for those companies? Are they additive to free cash flow margin? Or will it take awhile for them to get there to where the portfolio is?

Ian Hudson

I think, Steve, yes, when we looked at the Ground Force would be in line with our free cash flow profile. Deist, it's just maybe a tick below, but we expect with some of the improvements and as we push this product through the channel and expand it, we think they'll be somewhat in line, but I don't think there's a huge disparity between the profiles of the two businesses and our free cash flow profile.

Jennifer Sherman

The Capex requirements are relatively low.

Steve Barger

We shouldn't expect to see a big step up in Capex next year or anything just based on whatever M&A activity you're undertaking?

Ian Hudson

Not relating to these businesses. The one item on the Capex side of things that's—is on our radar screen is some facilities, we have leases that are expiring at certain facilities. We're looking at some of those in terms of whether a lease versus buy decision, plus a couple of those locations. That may cause Capex to be slightly abnormal for that eventuality.

Steve Barger

Understood. Then you've been taking these discrete tax actions or strategies which has moved the tax rate around this year. Is that permanently changing the tax rate? Or how should we model that for '22 and '23? Just broadly speaking.

Ian Hudson

Yes, it's not necessarily a permanent change. It does allow it—the benefit was more in terms of just, we now believe we're going to be able to use some of the tax assets that previously we didn't. It was almost like the release of an allowance for doubtful (phon) accounts (inaudible). It's an asset that we now believe we will be able to use. As we go forward, we would expect the tax rate to be, absent any changes in the corporate tax rate, I think our typical run rate is in the 25% range. That's what we expected entering (inaudible), so that's our normal, absent any of these discrete items and assuming no features.

Steve Barger

Will these discrete items run into next year or should we just think 25% is the right way to model?

Ian Hudson

I would say this would be, as we look at next year, it would be a headwind with the reset of tax rate to about 25% rate.

Steve Barger

Got it. Okay. Thanks.

Jennifer Sherman

Thank you.

Operator

This concludes the question-and-answer session. I would like to turn the conference back over to Jennifer Sherman for any closing remarks.

Jennifer Sherman

Thank you. In closing, I'd like to reiterate that we are confident in the long-term opportunities for our businesses and the prospects for our recent acquisitions. Our portfolio of businesses includes many market leading brands with solid fundamentals. Our foundation is strong, and we are focused on delivering profitable long-term growth through the execution of our strategic initiatives. I would like to give a public thank you to all of our employees for their commitment, creativity, and dedication addressing this challenging supply chain environment. I would also like to express our thanks to our stockholders, distributors, dealers, and customers for their continued support. Thank you for joining us today. We'll talk to you soon.

Operator

This concludes today's conference call. You may disconnect your lines. Thank you for participating. Have a pleasant day.