Federal Signal Corporation

First Quarter 2025 Earnings Conference Call

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PRESENTATION

Operator

Greetings, and welcome to the Federal Signal Corporation First Quarter Earnings Conference Call.

At this time, all participants are in a listen-only mode. A brief question-and-answer session will follow the formal presentation. If anyone should require Operator assistance during the conference, please press star, zero on your telephone keypad. As a reminder, this conference is being recorded.

It is now my pleasure to introduce your host, Felix Boeschen, Vice President of Corporate Strategy and Investor Relations. Thank you, sir. You may begin.

Felix Boeschen

Good morning, and welcome to Federal Signals first quarter 2025 conference call. I'm Felix Boeschen, the Company's Vice President of Corporate Strategy and Investor Relations.

Also, with me on the call today is Jennifer Sherman, our President and Chief Executive Officer, and Ian Hudson, our Chief Financial Officer. We will refer to some presentation slides today as well as to the earnings 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've also posted the slide presentation and the earnings release under the Investor tab on our website.

Before I turn the call over to Ian, 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 Signals 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.

Ian will start today with more detail on our first quarter financial results. Jennifer will then provide her perspective on our performance and go over our revised outlook for 2025 before we open the line for any questions.

With that, I would now like to turn the call over to Ian.

Ian Hudson

Thank you, Felix.

Our consolidated first quarter financial results are provided in today's earnings release. In summary, we delivered strong financial results for the quarter with 9% year-over-year net sales growth, double digit operating income improvement, gross margin expansion, a 170 basis point improvement in Adjusted EBITDA margin and new records in orders and backlog.

Consolidated net sales for the quarter were $464 million, up $39 million. or 9% compared to last year. Organic sales growth for the quarter was $28 million or 7%. Consolidated operating income for the quarter was $65.7 million, up $11.4 million or 21% compared to last year. Consolidated Adjusted EBITDA for the quarter with $85.1 million, up $14.5 million or 21% compared to last year. That translates to a margin of 18.3% in Q1 this year, up from 16.6% last year.

GAAP diluted EPS for the quarter was $0.75 per share compared to $0.84 per share in Q1 last year. On an unadjusted basis, EPS for the quarter was $0.76 per share, an increase of $0.12 per share or 19% from last year. Order intake for the first quarter set a new Company record surpassing the previous high, which was set in Q1 last year.

In total orders in Q1 this year were $568 million, an increase of $65 million or 13% compared to last year. Backlog at the end of the quarter was $1.1 billion, another all time high for the Company and an increase of $3 million compared to Q1 last year.

In terms of our group results, ESGs net sales for the quarter were $387 million, up $33 million or 9% compared to last year. ESGs operating income for the quarter was $59.7 million, up $8 million or 15% compared to last year.

ESG's Adjusted EBITDA for the quarter was $77.5 million, up $11 million or 17% compared to last year. That translates to an Adjusted EBITDA margin for the quarter of 20%, an improvement of 120 basis points compared to last year. ESG reported total orders of $480 million in Q1 this year, an increase of $52 million or 12% compared to last year.

SSGs net sales for the quarter was $76 million this year, up $6 million or 8%. SSGs operating income for the quarter was $15.8 million, up $2 million or 14% compared to last year. SSGs Adjusted EBITDA for the quarter was $16.8 million, up $2 million or 14%. That translates to an Adjusted EBITDA margin for the quarter of 22%, up 110 basis points compared to last year. SSGs orders for the quarter were $88 million, up $13 million or 17% from last year.

Corporate operating expenses for the quarter were $9.8 million, compared to $11.2 million last year. With a decrease primarily due to lower post-retirement and stock compensation expenses, partially offset by the non-recurrence of a $1.8 million benefit from an insurance recovery that was recognized in Q1 last year.

Turning now to the consolidated income statement where the increase in net sales contributed to a $14.8 million improvement in gross profit. Consolidated gross margin for the quarter was 28.2%, a 90 basis point increase over last year. As a percentage of net sales are selling, engineering, general and administrative expenses for the quarter were down 50 basis points from Q1 last year. Other items affecting the quarterly results include a $700,000 increase in amortization expense, a $300,000 reduction in acquisition related expenses, a $500,000 increase in other expense and a $200,000 reduction in interest expense.

Tax expense for the quarter was $15.7 million compared to a benefit of $700,000 in Q1 last year, with the increase primarily due to the effects of higher pre-tax income levels and the non-recurrence of a $13 million discrete tax benefit, which was recognized in the prior quarter. Our effective tax rate for Q1 this year, was 25.3%. At this time, we continue to expect that our full-year effective tax rate will be between 25% and 26%, excluding discrete tax benefits.

On an overall GAAP basis, we therefore earn $0.75 per share in Q1 this year, compared with $0.84 per share in Q1 last year. To facilitate earnings comparisons, we typically adjust our GAAP earnings per share for unusual items recorded in the current or prior year quarters. In the current year quarter, we made adjustments to GAAP earnings per share to exclude acquisition related expenses and purchase accounting expense effects. Whereas in Q1 last year, we also excluded the $13 million discreet tax benefit that I previously mentioned.

On this basis, our adjusted earnings for the quarter was $0.76 per share compared with $0.64 per share last year. Looking now at cashflow, we generated $37 million of cash from operations during the quarter, an increase of $5 million or 17% from Q1 last year. We ended the quarter with $220 million of net debt and availability under our credit facility of $509 million. Our current net debt leverage ratio remains low even after accounting for the acquisition of Hog Technologies, which we completed during the quarter for an initial payment of approximately $82 million.

With our financial position remaining strong, we have significant flexibility to invest in organic growth initiatives, pursue strategic acquisitions like Hog and return cash to stockholders through dividends and opportunistic share repurchases. On that note, we paid dividends of $8.6 million during the quarter, reflecting an increased dividend of $0.14 per share, and we recently announced a similar $0.14 per share dividend for the second quarter.

During the first quarter, we also repurchased approximately $20 million of stock, buying back around a quarter of million shares, and so far in April, we have repurchased an additional $20 million of stock under our authorized repurchase programs. As you may have seen last week, our Board recently approved an additional stock repurchase authorization of $150 million.

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

Jennifer Sherman

Thank you, Ian.

Our first quarter performance represents a strong start to 2025 inclusive of first quarter records across consolidated net sales, adjusted EPS and Adjusted EBITDA margin. Thanks to the outstanding contributions from both of our groups. Within our Environmental Solutions Group, we delivered 9% year-over-year net sales growth and a 17% increase in Adjusted EBITDA, with higher production levels, growth in sales of our aftermarket offerings, proactive management of price-cost dynamics and contributions from recent acquisitions representing meaningful year-over-year contributors.

In what is typically a seasonally softer quarter, ESGs Adjusted EBITDA margins expanded by 120 basis points year-over-year to approximately 20%, representing a new first quarter record and performance within the upper half of our current margin target range. On the back of our strong backlog and continued healthy order levels, our teams remain focused on building more trucks across our family of specialty vehicle businesses.

As such, combined first quarter production at our two largest ESG facilities, rose double digits year-over-year. From a capacity perspective, our access to labor remains good, supply chain fluidity and supply chain consistency has improved materially and our large scale capacity expansions that we completed between 2019 and 2022 position us well to profitably absorb incremental volumes into our existing footprint.

Additionally, we've made important investments at our Elgin Street Sweeper plant, inclusive of several management hires, expansion of our hourly workforce and continued optimization of our fabrication processes. With these investments, we are confident that we can meet structurally higher demand requirements on the back of market share gains.

Shifting to aftermarkets. Demand for our aftermarket products and services remains high, as revenues grew 11% year-over-year. Given strong rental utilization levels, our teams are diligently managing between ensuring sufficient rental equipment availability and used equipment sales to best serve our customer's needs. In the quarter, both rental revenue and used equipment sales grew double digits year-over-year.

In the aggregate aftermarket, represented approximately 26% of ESG revenue in Q1 this year. I'm particularly encouraged by the progress we've made on our various strategic initiatives in the quarter aimed at expanding our market share, some of which I will address throughout the call. As a reminder, through cycles, we target annual double digit top line growth, split roughly evenly between inorganic and organic growth.

Execution on our strategic initiatives is an important component of that long-term growth algorithm as we look to drive organic growth in excess of end market growth rates. In the quarter, we reported double digit organic growth in net sales of road market equipment and dump bodies driven by healthy end market demand, continued market share expansion efforts and our reputation for high quality products.

In particular, our Ox Bodies business with its primary manufacturing facility in Alabama, continues to expand its geographic reach into key southeastern markets such as Texas and Florida, enabling strong market share expansion runway in critical markets with additional opportunities available going forward.

Further, our most recent acquisitions also contributed positively to top line results with standard adding approximately $6 million of incremental net sales in the quarter and Hog contributing around $5 million of net sales and a little over six weeks post-acquisition. On a full-year basis, we continue to expect that Hog will contribute net sales of between $50 million and $55 million in 2025.

Shifting to our safety and security systems group, the team delivered another outstanding quarter with 8% top line growth, a 14% increase in Adjusted EBITDA and a 110 basis point improvement in Adjusted EBITDA margin. This improvement was primarily driven by a combination of volume increases and favorable sales mix. Within our SSG group, our public safety business led the charge in form of 13% revenue growth with strong margin expansion as the team continues to execute on an active pipeline of opportunities within police end markets.

Lastly, we had another strong quarter of cash generation with $37 million of cash generated from operations up 17% over the prior year. As a reminder, on a full-year basis, we target 100% cash conversion on a net income basis.

Shifting now to current market conditions. Demand for our products and aftermarket offerings remain strong with our first quarter order intake of $568 million representing a 13% year-over-year increase and the highest ever quarterly order intake on record for Federal Signal. The addition of Hog's backlog contributed approximately $21 million of orders in the quarter. As such, excluding the impact of Hog's acquired backlog, orders increased 9% year-over-year.

Our record backlog at the end of the quarter provides excellent visibility for the remainder of the year and for certain key product lines into the first half of 2026. Within our end markets, publicly funded orders increased high single digits year-over-year led by strength and domestic street sweepers and public safety equipment primarily within our North American police business.

Industrial orders rose double digits, led by strength and demand for dump truck bodies, safe digging trucks and road marking equipment. As our teams continue to execute on several important strategic market share initiatives. As an example, within our dump truck body business, more than 75% of the revenue growth in the quarter was derived from conquest customers representing meaningful market share gains.

This success has been a direct result of our strategic initiatives. Beginning with our 80-20 processes aimed at rationalizing our product offerings, which has set the foundation to allow our business to expand geographically while commanding industry leading lead times. This lead time advantage is an important competitive differentiator in the marketplace as it significantly decreases working capital costs for our distribution partners.

Looking ahead, we are excited about future geographic white space opportunities within our dump truck body businesses, and we are executing on various cross selling initiatives across the enterprise, such as driving higher municipal customer penetration.

Lastly, our SSG team had a record order intake of $88 million in the quarter up 17% compared to prior year, as we continue to gain traction across our various market share initiatives within the police market. As an example, within North America, we continue to make progress expanding our share with the existing customers as we secured an order from a large strategic customer in the quarter that is expected to ship later this year. We are also seeing incremental opportunities to gain share across several U.S. state agencies amidst an ever increasing need to keep our communities and law enforcement personnel safe.

Similarly, our European public safety business, Vama, secured a strategic contract win in France underpinning our future growth ambitions in Europe in this arena. In short, demand for our products and services remain strong. Our teams are focused on reducing lead times for certain product categories, while maintaining a healthy order intake.

I now want to take a moment to expand on our various internal initiatives, many of which form the foundation through which we believe we can outgrow our end markets through cycles.

Firstly, I want to address the current macro economic environment and how we are positioning federal signal in light of the recently announced global tariffs. From a high level perspective, our strategy remains largely unchanged. The vast majority of our supply chains are localized to the regions and countries in which we sell our equipment, which results in us sourcing more than 95% of our direct supplies from North America, the majority of which are from the United States.

Going forward, we want to continue our strategy of producing in-country for country and are proud of our domestic manufacturing operations in the United States, Canada and Europe. As such, we estimate that supplies directly sourced from China comprise less than 1% of our annual cost of sales.

In fact, insourcing certain componentry out of Asia has been an important strategic lever within our SSG business for several years. Since 2022, we have invested several million dollars in three printed circuit board manufacturing lines at our University park facility in Illinois. These additions have not only reduced our reliance on offshore Asian suppliers, but have also expanded our available capacity, while further increasing the quality of our products and realizing important cost savings.

Given the recently announced tariffs, we are currently accelerating several other insourcing activities at SSG, including the addition of a four printed circuit board manufacturing line. While it is more difficult to quantify the exact indirect exposure resulting from tariffs, I would note that chassis costs have historically been treated as a pass through item for many of our specialty vehicle products within the ESG group. As such, we would expect that any potential resulting changes in the price of chassis would be directly passed on to the end customer.

In addition, similar to the post COVID inflationary period, we will look to strategically optimize our supply chains and continue to proactively manage price cost dynamics where necessary. Moreover, with 18 principal manufacturing facilities in United States and three in Canada, we have ample flexibility to strategically shift North American production as needed should the tariff environment change.

Finally, from an underlying demand standpoint, we have seen no material changes in customer behavior in response to the announced tariffs thus far. We are also encouraged by the progress we are making on several important new product development projects across the enterprise that we are starting to accelerate as supply chains has stabilized.

One of our core competitive advantages within the ESG group is the scale and power of our specialty vehicle platform, spanning several operational categories such as sourcing, supply chain optimization, our federal signal operational system, sales channel alignment, dealer development, aftermarket support, data analytics, and new product development.

As part of our growing specialty vehicle platform, we've established a centralized new product development group supporting our various business units led by our chief technology officer. In the long-term, we believe the centralized approach for certain new product development initiatives will drive important scale advantages and awesomely support above market growth rates. One such example is the recent launch of our simplified control systems across many ESG vehicle categories.

Originally launched at our (inaudible) vacuum truck business and currently being rolled out across our dump truck businesses, our new control systems simplify ease of use and are aimed at alleviating one of our customers greatest challenges at the moment, qualified labor availability. We're also excited about the progress we are seeing for adoption of two NPD initiatives, both of which are creating meaningful market share opportunities. Within our street sweeper business, we previously launched the RegenX product, a mid-dump regenerative air sweeper.

This product enables us to strategically expand share in the historically underserved air sweeper market for Elgin, and so far we've received outstanding customer interest. We are currently in the process of structurally raising our production capabilities to accommodate our expansion into this subset of the street sweeper market.

In the fourth quarter of 2024, our SSG group launched its pathfinder perimeter breach warning system, a patented system that enhances police officer safety by providing increased situational awareness and alerting law enforcement personnel of a threat within a 25 foot radius around the police car. When activated, their perimeter breach warning system signals the officer audibly and visually to allow for sufficient reaction time.

Initial interest in the product has been very strong, and we see this innovation, not only as market share additive within our public safety business, but we also see an opportunity to increase overall federal signal content per police car sold.

Finally, we're pleased to announce that we have transitioned to multi-state territory within our exclusive dealer channel to five selected dealer partners with a combined 250 years of experience representing Federal Signal products. As a reminder, our exclusive dealer channel primarily serves certain municipal product lines, including sewer cleaners, street sweepers, and multipurpose maintenance vehicle and accounts for approximately 36% of total net sales.

Turning now to our outlook for the remainder of 2025. Despite current global macro economic uncertainty, our record backlog provides us with visibility to the rest of the year, and with our predominantly North American centric supply base and continued execution against our strategic and operational initiatives, we are raising our full-year adjusted EPS outlook to a new range of $3.63 to $3.90 from the prior range of $3.60 to $3.90. At the midpoint, this revised guidance represents another year of double digit growth and the highest adjusted EPS level in the Company's history.

Additionally, we are reaffirming our net sales outlook of between $2.02 billion and $2.1 billion. We are also reaffirming our expectations for double digit improvement and pretext earnings and EBITDA margin performance in the upper half of our target range. This updated outlook assumes that the current trade agreements and recently announced tariff policies remain in place. Lastly, we are reaffirming our CapEx guidance of between $40 million and $50 million for the year.

With that, we are ready to open the line for questions. Operator?

Operator

Thank you.

At this time, we will be conducting a question-and-answer session. If you would like to ask a question, please press star, one on your telephone keypad, a confirmation tone will indicate that your line is in the question queue. You may press star, two if you would like to remove your question from the queue. We ask that analysts limits themselves to one question and a follow-up, so others may have an opportunity to ask questions. For participants using speaker equipment, it may be necessary to pick up your handset before pressing the star keys. One moment, please, while we pull for questions.

Our first question comes from Steve Barger with KeyBanc Capital Markets. Please proceed with your question.

Jennifer Sherman

Good morning, Steve.

Jacob Moore

Hi, good morning. This is actually Jacob Moore on for Steve today. Thank you for taking our questions.

Jennifer Sherman

Absolutely.

Jacob Moore

First for me, I just wanted to ask about lead times compared to three months ago or maybe a year ago, and how that relates to open capacity. I mean, the big backlog is great for visibility, but it sounds like you're working rather hard to deliver more to your customers. I'm trying to get a sense for a potential need for you to invest in additional capacity from here versus how much capacity you still have that just needs to be unlocked.

Jennifer Sherman

Sure. Let's talk. We'll start with the capacity question. Across the enterprise, we're running between 70% and 72% capacity, so we think we have plenty of capacity at our existing facilities to support the increased production going forward whilst out there. We also have opportunities within our service centers, where we can build trucks. A good example of that would be that currently we're building guzzler trucks in Leeds, Alabama.

With respect to lead times, I'm pleased to report about the progress we've made, particularly with our three wheel street sweeper. That lead time right now is running at about six months, which is where we'd like it. That was the project that we referenced last year where we started with respect to our throughput improvement initiatives at Elgin to support our strategic growth initiatives. We're working diligently also on our four wheel line to reduce those lead times.

As we talked about, production was up at our two largest facilities within our ESG group in Q1, and overall, we were pleased with the progress that we're making.

Ian Hudson

Yes. Jacob, just as it relates to the investments, we continue to make investments in a number of our businesses, certainly nothing to the level that we have the last couple of years. About 50% of that CapEx guide that Jennifer referenced earlier on the call, that $40 million to $50 million, about half of that is growth investments, the rest would be maintenance.

As an example, we've made some investments in adding capacity within our water blasting business, as well as our mineral extraction business, as we see some nice potential on the mineral extraction side. We've made some investments, but it's certainly not to the level that we had when we did the large expansion of our street to facility, for example. That's all factored into that $40 million to $50 million CapEx guide.

Jacob Moore

Okay. Great. That's really great color. As my follow-up, I just wanted to ask about what you're seeing in the backlog as it relates to the cadence for the rest of the year. Is there anything in there that would indicate lumpiness in a particular quarter for either sales or margin?

Jennifer Sherman

Nothing stands out.

Ian Hudson

Yes. I mean, the one thing, Jacob, just as Jennifer alluded to it, the backlog gives us good visibility to the rest of '25. For certain key product lines, it stretches into the first half of '26. From a cadence standpoint, there's a portion of the backlog that stretches into 2026.

Jacob Moore

Understood. Thank you very much.

Jennifer Sherman

Thank you.

Operator

Our next question comes from Ross Sparenblek with William Blair. Please proceed with your question.

Jennifer Sherman

Good morning, Ross.

Sam Karlov

Good morning, Jennifer. This is Sam Karlov for Ross. Thanks for taking my questions.

Jennifer Sherman

Hey, Sam

Sam Karlov

Can you give us a sense of how April ESG orders have trended? I know you touched on this in your prepared remarks, but I just wanted to confirm that the first quarter strength in ESG orders was not a pull forward of demand ahead of tariff impacts on chassis.

Jennifer Sherman

Yes. I'll start with a couple things. Given our backlogs for certain products, particularly sewer cleaners and certain street sweeps that stretch into '26, it would be difficult to pull forward to avoid tariffs, particularly with our ability to surcharge backlogs if we would need to. The second thing is just I would point you again to the strength of the orders across the board.

Again, our publicly funded orders increased high single digits, industrial orders increased double digits year-over-year, and again, it wasn't any one particular business. For example, on the industrial side, we saw strength in dump truck body orders, safe digging trucks, and road marking equipment.

I guess I also want to emphasize, we spent some time on the call talking about the success that we've had regarding execution on our strategic initiative around gaining additional market share. We're really encouraged by the results that we saw, for example, at our dump truck body business, where over 75% of the growth in net sales was from Conquest customers. Overall, we just haven't seen any fundamental change in the underlying demand in our end markets, our products.

Sam Karlov

Got it. That's what we figured, that's helpful. Then just quick follow-up. On that dealer reassignment, so that $13 million of orders that were pushed out of the fourth quarter, were those all recaptured in the first quarter or are some of those expected to come later in the year?

Ian Hudson

Yes. There was some—as it relates to the transition, there was some in—some of the dealers placed orders, but it wasn't a meaningful driver of the growth that we saw year-over-year.

Sam Karlov

Got it. I appreciate the color. Thanks guys.

Operator

Our next question comes from Tim Stein with Raymond James. Please proceed with your question.

Tim Stein

Good morning.

Jennifer Sherman

Good morning.

Tim Stein

Good morning. Good morning. The first question maybe for Ian was just on the ESG margins. Obviously, the aftermarket growth that you realized was certainly helpful and supportive, but I'm just curious if there's anything else that we should be mindful of in what is normally a seasonally softer quarter from a margin perspective? Was there anything in terms of maybe accelerated product shipments or any kind of mixed benefit or along those lines that may have taken some and may pulled forward into the quarter? I'm just trying to think as to how we should be thinking about the balance of the year.

Ian Hudson

Yes. Nothing particularly unusual, Tim. I think you referenced in your question, the fact that Q1 is typically on the softer side because of the after market business, typically is lower in Q1. That is than in subsequent quarters. As the weather improved, there's more projects, so that has some benefits to the rental parts and service business. The other thing that we've talked about and Jennifer talked about the production increases at factor in Elgin that has some offering leverage as we ramp up production and actually leverage the capacity we've added the last couple years. As we ramp up production that has an impact and was one of the drivers of the year-over-year margin improvement. We would expect that to continue as we move forward and we continue to make progress with increasing production and trying to reduce those lead times. But there was nothing really unique or unusual in the quarter as it relates to ESG margins other than the continued progress on production and just the seasonality of Q1. Besides that, nothing unusual.

Tim Stein

Okay.

Jennifer Sherman

Yes. I guess I add that we continue to see further margin expansion opportunities through execution on strategic initiatives going forward.

Tim Stein

Okay. Helpful. Then just on the industrial orders, I think in a quarter that the government's telling us where GDP's going backwards and all these cautious comments from pretty much everything across industrial land, then you see your orders up double digits. I think everyone's trying to understand what's underneath some of this. But specifically, within that dump truck business, not one you've had for super long, and so I'm just curious how that behaves in a normal cycle, I guess, if what we're in now is at all normal?

But I'm just trying to understand if we've heard from several of the OEMs talking about them taking their build rates down on the chassis side, I know that that's not going to perfectly marry up with your business, but it's become a sizable piece. Maybe just a minute or so in terms of what you're seeing within that business. Thank you.

Jennifer Sherman

Sure. Dissecting that, I'll start with the essential nature of many of the products that we manufacture, particularly road marking and the initiatives we've had to gain market share. With respect to safe digging. I referenced last year a team that we put together to examine how do we go to market and what improvements we can make with respect to both the product and go to market. We're tracking success on that initiative and teams are doing a really good job in terms of expanding market share and we saw success on those initiatives in Q1.

To dump trucks, when we bought the dump truck business back in 2017, one of the initiatives that we had was to mute cyclicality of that business in terms of diversification of the end markets. It was a very geographically focused set of businesses, where they predominantly focused on a range of 750 miles around the plant, where the trucks were manufactured. As part of our integration efforts and leveraging the power of the specialty vehicle platform, we, a couple years ago, started initiative to expand into new territories and we're in the beginning innings of that initiative.

I talked about on the call about the success that we've had in Florida and Texas. We have a number of initiatives to continue expanding both market share and diversifying the end markets for the dump truck body business.

Tim Stein

Right. Thank you.

Ian Hudson

Thanks, Tim.

Operator

Our next question comes from Chris Moore with CJS Securities. Please proceed with your question.

Chris Moore

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

Jennifer Sherman

Morning, Chris.

Chris Moore

Good morning. You guys historically have good pricing power. Contractually, have the right to reprice backlog. Is that something that's happened at all? Just trying to understand the possibility of that for the balance of the year.

Jennifer Sherman

Yes. Again, let's talk about our direct supply base. As you know, 80% of our sales in the United States, and they're supported by 18 manufacturing facilities. 15% of our sales, we're talking about for '24, are in Canada supported by three manufacturing facilities. We have a couple percentage points in Europe supported by a manufacturing facility there.

Again, our supply base is in country for country, and it also gives us some flexibility there. To date, given that 95% of our supply base is in North America, with the vast majority of that being in the U.S., we're in a pretty good position with respect to the direct suppliers in results of any tariffs. With respect to chassis, that's typically a pass through expense, and to the extent the chassis manufacturers have different surcharges, we will be passing those on to customers.

Also, as we've talked about in previous calls, we're also reducing the amount of chassis that we supply. For example, in our dump truck business, we never supply the chassis. We think we're very well positioned as we sit here today. As we move forward, we will continue our efforts with respect to supply chain optimization and price cost optimization as needed to respond to any changes.

Chris Moore

Got it. I appreciate it. Along those same lines, so you have talked about less than 1% sourcing from China. My understanding is that some SSG competitors source quite a bit from China. Just trying to figure out if that's accurate and is that helping you or do you expect it to help you in the second half of the year?

Jennifer Sherman

Yes. Great question. The 1% we sourced from China is predominantly our SSG businesses. If you would've gone back five, six years ago, that number would've been higher. It's lower and continuing to decrease because of the onshoring initiatives that we have in place that we're currently accelerating. Vis-a-vis the competition, we do believe that it gives us an advantage on the SSG side.

Chris Moore

Perfect. Maybe just the last one. In this obviously very uncertain market, just from an M&A standpoint, curious from a valuation perspective, what you're seeing out there.

Jennifer Sherman

Yes. Our pipeline continues to remain full. Again, as we've talked about in the past, we've developed a reputation as a buyer of choice. We talk about long run double digit revenue growth with about low double digit, with about half of that coming from M&A and we would expect that to continue.

Chris Moore

Sounds good. I will leave it there. Thanks, guys.

Operator

Our next question comes from Michael Shlisky with D.A. Davidson. Please proceed with your question.

Linda Wally

Hi, this is Linda Wally (phon) on for Mike. Thank you for letting us ask questions. My first question is what are your thoughts on your rental business in 1Q? Did it grow and what's your near term outlook for that business?

Ian Hudson

Yes. The rental business grew, it was part of the aftermarket businesses that was up 11%. The rental income was up double digits year-over-year. It continues to be a very important strategic initiative for us. Not just the pure rental, but that used equipment sale is key. It gets us access to different customers at different price points, so that's a very important strategic initiative of ours.

In addition to the rental linkup being up double digit, used equipment sales we're also up double digits. That's an important tool to have in our toolbox. As within the situation we have with sewer cleaners and sweepers with the long lead times, having the ability to rent or to sell used equipment to those customers is important.

Jennifer Sherman

Yes. I'll add, as we continue to execute on our new product development initiatives, the rental fleet also provides an opportunity for us to accelerate adoption of some of those new product development features or functionality that we're introducing to the market.

Linda Wally

Got it. Then I'll double click on the questions the others asked about backlog and pricing. Did you get a sense that there was a pull forward of demand from folks looking to get in front of price increases from tariffs? Then I also wanted to check, seeing higher costs from tariffs, what is your ability to go back and raise prices on orders already in backlog? Any color there would be helpful.

Jennifer Sherman

Sure. No, we did not get any sense that there was a pull forward with respect to tariffs. Backlogs are relevant for a little bit more than 50% of our business, and given that our lead times for certain products stretch into '26, it'd be hard to jump ahead of those particular tariffs. If in fact the tariffs did impact our products going forward, we would have the ability to surcharge the backlog.

The other thing I would add, one of the things that we closely look at is where did the order strength come from? In this quarter, the order strength was really across the board: publicly funded orders, increased high signal digits, and then industrial orders increased double digits. Again, it was strength and dump truck bodies, safe digging trucks and road marking equipment. We look what product lines are driving those increases in orders, and we're pleased that we saw strength across the board.

Linda Wally

I see. I'll squeeze in one more. Could you give us any update on integrating Hog into MRL and the rest of the road marketing business?

Jennifer Sherman

Yes. Absolutely. We owned it for a little bit over six weeks in Q1. We have a team led by Mark Weber, our Chief Operating Officer, that is leading that integration. We had a corporate team that was assigned to the Hog operations who was in Stewart. Several of us attended their large trade show, which fell shortly after closing the after show in Orlando. Very positive reception by the customers and we're pleased with the progress that we're seeing thus far on the integration side.

Linda Wally

Thank you. I appreciate the time this morning.

Jennifer Sherman

Thank you.

Operator

Our next question comes from Greg Burns, Sidoti & Co., please proceed with your question.

Greg Burns

Morning. When we…

Jennifer Sherman

Morning, Greg.

Greg Burns

…look at the demand, you're seeing on the industrial side of the business. You didn't mention the infrastructure bill, but I just wanted to circle back on that and see where we are in terms of the benefit that you might derive from the spending there on those projects and maybe what ending we're in in terms of your ability to monetize that demand.

Jennifer Sherman

Sure. Less than 20% of the funds have actually been spent, less than 50% has been obligated and another 70% has been announced. We believe that we'll see benefits with respect to a number of our vehicle businesses, specifically, dump trucks, safe digging and road marking. To date, it has been nominal given the dollars that have been spent. We think that we've seen nominal benefits on the dump truck site.

Really the benefits—the increase in orders on dump trucks, we've been able to tie back to our market share expansion efforts and our conquest and account efforts. We're going continue to monitor this going forward, and we think it creates opportunities over a multi-year period.

Greg Burns

Okay. Great. Thanks. Then when you look at your aftermarket business in terms of maybe your need to invest in that fleet, where do you stand there and is there a chance maybe you at some point prioritize maybe some of your own production? I know in the past maybe there's been some quarters where that's created a little bit of a revenue headwind. I just wanted to get a feel if that might be something you consider for this year.

Ian Hudson

Yes., It's something Greg that we monitor very closely. Every month we have aa meeting with a team to track by product, by geography. We look at utilization both time and financial. We also track used equipment sales, we track the number of turndowns. I think we have invested in the fleet Q1, I think we've mentioned it. That is typically a period that we would use some of our production to add units to the fleet essentially because you want them to be added to the fleet in the April, May timeframe, getting ready for the season as the weather improves, certainly in the northern parts of DUS and in Canada.

I think what it gives us is it gives us some flexibility on the production side. If we see the need to add units to the fleet, we can, and if we see things slow down, we can adjust the production schedules accordingly. But, it's something we monitor closely and we balance the production levels at the factories accordingly.

Greg Burns

All right. Thank you.

Operator

There are no further questions at this time. I would now like to turn the floor back over to Jennifer, Sherman for closing comments.

Jennifer Sherman

In closing, I would like to reiterate that we are confident in the long-term prospects for our businesses and our markets. We remain focused on executing against our strategic framework and managing through the current macro economic uncertainty. We would like to express our thanks to our stockholders, employees, distributors, dealers and customers for their continued support. Thank you for joining us today, and we'll talk to you soon.

Operator

This concludes today's teleconference. You may disconnect your lines at this time. Thank you for your participation.