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Federal Signal Corporation

Second Quarter 2026 Earnings Call

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Ross Sparenblek, *William Blair*

Tim Thein, *Raymond James*

Walter Liptak, *Seaport Global Securities*

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

Operator

Greetings. Welcome to the Federal Signal Corporation's Second Quarter Earnings Call.

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

Please note this conference is being recorded.

I will now turn the conference over to Felix Boeschen, Vice President, Corporate Strategies and Investor Relations. Thank you, Felix. You may begin.

Felix Boeschen

Good morning, and welcome to Federal Signal's second quarter 2026 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 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.

Ian will start today with more detail on our second quarter financial results. Jennifer will then provide her perspective on our performance, current market conditions, and go over our increased guidance for 2026 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 second quarter financial results are provided in today's earnings release. In summary, in what is typically a seasonably strong period, our businesses were able to deliver 19% year-over-year net sales growth, 21% operating income improvement, an 18% increase in orders, gross margin expansion, and a 60-basis point improvement in Adjusted EBITDA margin during a record-setting second quarter.

Consolidated net sales for the quarter were $670 million, an increase of $106 million, or 19% compared to last year. Organic sales growth for the quarter was $31 million, or 6%. Consolidated operating income for the quarter was $118.2 million, up $20.5 million, or 21% compared to last year. Consolidated Adjusted EBITDA for the quarter was $144.4 million, up $26.2 million, or 22% compared to last year. That translates to a margin of 21.5% in Q2 this year, up 60 basis points compared to last year.

GAAP diluted EPS for the quarter was $1.40 per share, up $0.24 per share, or 21% compared to last year. On an adjusted basis, EPS for the quarter was $1.42 per share, an increase of $0.25 per share, or 21% from last year.

Customer demand remained strong during the quarter, with orders of $637 million, representing an increase of $97 million, or 18% compared to last year. Backlog at the end of the quarter was $1 billion, compared to $1.08 billion last year.

In terms of our group results, ESG's net sales for the quarter were $578 million, up $97 million, or 20% compared to last year. ESG's operating income for the quarter was $113.9 million, up $22 million, or 24% compared to last year. ESG's Adjusted EBITDA for the quarter was $138.3 million, up $27.5 million, or 25% compared to last year. That translates to an Adjusted EBITDA margin for the quarter of 23.9%, an improvement of 80 basis points compared to last year. ESG reported total orders of $548 million in Q2 this year, an increase of $107 million, or 24% compared to last year.

SSG's net sales for the quarter were $93 million this year, up $8 million, or 10%. SSG's operating income for the quarter was $22.1 million, up $600,000, or 3% compared to last year. SSG's Adjusted EBITDA for the quarter was $23.2 million, up $600,000, or 3%. That translates to an Adjusted EBITDA margin for the quarter of 25.1%, compared to 26.9% last year. SSG's orders for the quarter were $89 million, compared to $99 million last year. Corporate operating expenses for the quarter were $17.8 million, compared to $15.7 million last year, with the increase primarily due to higher post-retirement expenses and increased medical costs.

Turning now to the consolidated income statement, where the increase in net sales contributed to a $34.2 million improvement in gross profit. Consolidated gross margin for the quarter was 30.4%, a 40 basis point increase over last year. As a percentage of our net sales, our selling, engineering, general, and administrative expenses for the quarter were down 10 basis points from Q2 last year. Other items affecting the quarterly results include a $2.1 million increase in amortization expense, a $200,000 increase in acquisition-related expenses, and a $2.5 million increase in interest expense.

Tax expense for the quarter was $25.3 million, compared to $22 million in Q2 last year, with the increase primarily due to the effects of higher pre-tax income levels, partially offset by a $1.1 million increase in excess tax benefits associated with stock-based compensation activity. Our effective tax rate for Q2 this year was 22.7%, compared to 23.6% in Q2 last year. At this time, we expect that our full-year effective tax rate will be approximately 24%, excluding additional discrete tax benefits.

On an overall GAAP basis, we therefore earned $1.40 per share in Q2 this year, compared with $1.16 per share in Q2 last year. To facilitate earnings comparisons, we typically adjust our GAAP earnings per share for unusual items recorded in the current or prior quarters. In the current and prior quarters, we made adjustments to GAAP earnings per share to exclude acquisition-related expenses and purchase accounting expense effects. On this basis, our adjusted earnings for the quarter were $1.42 per share, compared with $1.17 per share last year.

Looking now at cash flow, we generated $113 million of cash from operations during the quarter, an increase of $53 million, or 89% from Q2 last year. That brings the total cash generated from operations in the first half of this year to $214 million, an increase of 122% over the first half of last year.

During the quarter, we paid down approximately $97 million of debt, ending the period with $391 million of net debt, an availability under our credit facility of $1.04 billion. Our current net debt leverage ratio remains low. With our financial position remaining strong, we have significant flexibility to invest in organic growth initiatives, pursue strategic acquisitions, pay down debt, and return cash to stockholders through dividends and opportunistic share repurchases.

On that note, we paid dividends of $9.1 million during the quarter, reflecting a dividend of $0.15 per share, and we recently announced a similar $0.15 per share dividend for the third quarter.

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

Jennifer Sherman

Thank you, Ian.

We are proud of our second quarter financial results, which included new second quarter records across net sales, Adjusted EBITDA, adjusted EPS, and orders, thanks to outstanding contributions from both of our groups. These results underscore the resilience and durability of our business model, the momentum behind our growth initiatives, and the unwavering commitment of our team.

Over the last several years, we have continued to diversify our revenue streams and our end market exposure to different funding sources. As a result of these efforts, we have strengthened the core of our business while muting cyclicality and driving growth over a prolonged period.

Within our Environmental Solutions group, we delivered 20% year-over-year net sales growth, a 25% increase in Adjusted EBITDA, and an 80 basis point improvement in Adjusted EBITDA margin. Growth in our aftermarket business, leveraging the power of our platform to drive internal margin initiatives, and proactive price-cost management were all meaningful organic contributors. Acquisitions also contributed approximately $75 million of net sales during the quarter, with New Way and Mega driving notable increases in sales of refuse trucks and mineral extraction support equipment.

Organic net sales growth was also broad-based across several of our ESG vehicle categories, including vacuum trucks, dump truck bodies, and other specialty equipment. From a capacity perspective, the combination of large-scale capacity expansions that we completed between 2019 and 2022, good access to labor, and continued investments in several productivity enhancing projects positioned us well to absorb more volume into our existing footprint. Consistent with prior years, in 2026, we expect approximately half of our annual capital expenditures to be focused on various growth initiatives, with the other half focused on maintenance investments.

Shifting to aftermarket, demand for our aftermarket offerings remains strong, aided by contributions from recent acquisitions. For the quarter, aftermarket revenue increased 24% year-over-year, primarily driven by higher demand for aftermarket parts, higher used equipment sales, and rental income growth. We are experiencing strong rental demand, as rental income grew by 16% year-over-year, led by growth in our safe digging and combination sewer cleaners. As a reminder, our aftermarket ecosystem, spanning parts and service, rental, rent-to-own, and used equipment offerings, further unlocks previously underserved customer cohorts for Federal Signal.

Our teams are diligently focused on driving more parts revenue across the enterprise. This is a multifaceted approach. First, our Build More Parts initiative, whereby we are vertically integrating certain parts production, remains an early inning. We are investing in manufacturing capacity dedicated to this initiative in the second half of the year.

Second, as our addressable install base of vehicles has grown, we are expanding our geographic footprint of aftermarket parts and service locations to better serve our customers and capture more parts opportunities. For perspective, since 2019, we have added approximately 20 service centers, and we see additional footprint expansion opportunities.

Third, as we integrate acquisitions, this aftermarket ecosystem becomes a powerful flywheel. As part of these plans, our teams are currently pursuing aftermarket growth opportunities across Trackless, New Way, and Mega. In the aggregate, aftermarket represented approximately 25% of ESG revenue in Q2 this year.

Shifting to our Safety and Security Systems group, where the team delivered another quarter of solid results with 10% top-line growth, a 3% increase in Adjusted EBITDA, and an Adjusted EBITDA margin of 25.1% toward the midpoint of our recently raised target range of 22% to 28%. This performance was primarily driven by a combination of volume increases across our public safety and industrial signaling product verticals, proactive price cost management, and realization of certain cost savings, somewhat offset by mixed headwinds.

Lastly, we had another outstanding quarter of cash generation with $113 million of operating cash flow, representing cash conversion of 131% of net income. On an annual basis, we continue to target 100% cash conversion.

Before I comment on current market conditions, I would like to provide some additional context around our end market exposure. As referenced earlier, when I first became CEO in 2016, one of our main objectives was to reduce the cyclicality of earning streams by decreasing our reliance on any single funding mechanism, economic end market, or customer cohort. The result is a substantially more durable revenue profile today compared to 10 years ago, including less reliance on traditional municipal budgets, a significantly larger aftermarket presence, and increased exposure to various niche industrial markets, such as road marking, metal extraction support, hydro excavation, and dump trucks.

We have also strategically diversified funding mechanisms within our publicly funded verticals. These funding sources include water taxes, Canadian provincial and local budgets, law enforcement and police budgets, trash collection fees, airports, U.S. state budgets, military and European local and federal exposure. To provide some perspective on this, while little more than half of our revenue base is tied to some sort of publicly funded mechanism, the largest publicly funded source, U.S. water taxes, impacts less than 15% of our total net sales.

Shifting now to current market conditions, on an underlying basis, excluding the impact of third-party Labrie refuse orders received in Q2 last year. Our orders this quarter increased by 103 million, or 19% year-over-year, with healthy demand across both our Safety and Security Systems group and our Environmental Solutions group.

Within our Environmental Solutions group, orders were up 24% year-over-year, including high single-digit organic growth. Within product lines, we experienced strength in organic demand for vacuum trucks, led by strong increases in orders for safe digging trucks, dump truck bodies and trailers, and aftermarket offerings.

Lastly, our backlog stood at $1 billion at the end of the first quarter, down approximately $80 million, or 8% year-over-year, with $75 million of this reduction associated with a planned decline in third-party Labrie refuse backlog, which was discontinued in the fourth quarter of 2025. At the end of the quarter, our third-party Labrie refuse truck backlog stood at approximately $44 million.

As a reminder, net sales of our backlog-intensive products represented approximately 45% of net sales last year. With that said, given the size of our backlog, we continue to enjoy strong forward visibility for our backlog-driven product line. In fact, while we are making progress, lead times for certain of our products remain elevated compared to our target levels.

As I reflect on our performance through the first half of 2026, I am most pleased with the early financial benefits we are starting to realize from the collective power of the growth platform that we have built over the past decade. The power of this platform, spanning several key centers of excellence, including procurement, our Federal Signal Operational System, supply chain optimization, aftermarket, dealer development, sales channel alignment, data analytics, and new product development, underpins my confidence in our ability to achieve continued earnings growth in 2027 and beyond.

Going forward, it is our intent to further invest in scaling these centers of excellence, which will support both our M&A integration engine and unlock incremental margin expansion opportunities across the enterprise that we have identified. We expect to incur additional expenses in the second half of this year as we scale these centers of excellence.

Simply put, as we contemplate the next phase of growth at Federal Signal, this platform is what will allow our teams to pursue more strategic market share and operational improvement initiatives at a faster pace each year, driving an increasingly unique customer value proposition and an increasingly idiosyncratic earnings growth opportunity through various economic conditions.

As a reminder, through cycles, we target annual low double-digit top-line growth split roughly evenly between inorganic and organic growth. At the same time, we are committed to growing profitably and have implemented associated EBITDA margin targets for our group that we've increased several times over the past years. A couple of highlights.

Starting with margins, as I just noted, we are excited by a number of initiatives that we believe will drive further margin expansion as we begin to leverage the power of our platform more deliberately. We've identified four categories of expansion opportunities over a multi-year timeframe.

First, the continued growth of our aftermarket business, which carries an attractive margin profile. Through cycles, we expect aftermarket revenue to grow slightly faster than the overall company.

Second, execution on several operational initiatives. Some of the largest untapped categories we have identified are focused on optimizing our procurement spend across our specialty vehicle verticals and scaling our 80-20 processes as we internalize our federal signal operating system across the broader enterprise.

Third, driving increased volumes through our expanded footprint while investing in select automation opportunities.

Fourth, the successful execution and integration of acquisitions.

Over a multi-year timeframe, all four of these categories, aftermarket, operational initiatives, leveraging our capacity, and M&A will be important contributors to margin expansion.

On that note, in early July, we completed the acquisition of Western Technology, a manufacturer of proprietary, portable, explosion-protected lighting solutions for niche end markets such as industrial processing, petrochemical, or aerospace. We see strong synergy opportunities as Western will expand our industrial signaling product portfolio, allowing our teams to utilize our existing sales channel and manufacturing operations. Going forward, we see further opportunities to grow SSG through strategic M&A.

We have also been pleased with the integration progress our teams are making at New Way and Mega. We are still in the early stages of our multi-year integration plans, but so far, both acquisitions have exceeded our internal margin and profit contribution expectations in the first half of 2026. Recall, in September of last year, when we announced the New Way transaction, we outlined \$15 million to \$20 million of annual synergies to be achieved by the end of 2028, with synergies split roughly even between cost and revenue.

At this time, we are pleased to share that we are tracking ahead in the realization of our cost synergy targets, and we continue to identify incremental opportunities. The early successes of both of these integrations is a testament to our best-in-class record of achieving or exceeding our targeted synergies and the vast majority of the 17 acquisitions we have completed during my tenure as CEO. With each acquisition, we continue to learn and improve, and I want to acknowledge the outstanding efforts of our teams whose collective accomplishments have created significant Shareholder value. Looking ahead, there's more to come. We are energized by an active M&A pipeline as we continue to evaluate strategic opportunities across both of our operating groups.

Turning now to our outlook for the remainder of 2026, with our record-setting second quarter performance, our current backlog, and continued execution against our strategic and operational initiatives, we are raising our full-year adjusted EPS outlook to a new range of $5.12 to $5.30 from the prior range of $4.80 to $5.05. We are also raising our full-year net sales outlook to a new range of between $2.58 billion and $2.67 billion from the prior range of $2.57 billion to $2.66 billion. Lastly, we are reaffirming our CapEx outlook of between $45 million and $55 million for the year.

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

Operator

Thank you. We will now 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 your line is in the question queue. You may press star, two if you would like to remove your question from the queue. For participants using speaker equipment, it may be necessary to pick up your handset before pressing the star keys. One moment, please, while we poll for questions.

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

Steve Barger

Thanks.

Jennifer Sherman

Good morning, Steve.

Steve Barger

Good morning. Yes, that was a lot. I really appreciate the commentary about diversity of funding mechanisms. Just because visibility into that has been a big investor topic for the past month or two. Overall, how would you characterize funding across those different sources and just visibility for the back half and into next year?

Jennifer Sherman

Yes, thank you, Steve. As I mentioned in my prepared remarks, we have been very purposeful in terms of diversification of those funding sources, really with the objective of creating a very resilient and durable business model. As we look across that and we say plus or minus 55-ish percent comes from public revenue. As I talked about in my prepared remarks, the largest portion of that would be water taxes, which is less than 15%. Within that public revenue, there is also Canada, which is an important end market for us. There is also the European market. There is a little piece of the U.S. and Military portion of that. Then there is a little piece of refuse fees in there. But there is also, we get a lot of questions about the municipal piece.

Probably the way to think about it is the way that we think about how do we categorize our businesses. You think about the other specialty equipment category where our pure play municipal business resides. That other special equipment category is about 25% of our overall business. Within that category, you have got refuse, which is the largest portion in that category. You have our metal extraction business. You have got our road marking and high pressure water blasting business. You have our Elgin Street Sweeper businesses. Those three businesses, each one of them is mid to high single digit percentage of our overall net sales.

We get a lot of questions about the municipal exposure. Our truly only pure play municipal exposure would be street sweepers. Those budgets have been holding. They are funded primarily through property taxes and sales taxes. When you look at the external data, it continues to grow consistent with GDP type rates. Although our street sweeper orders were down in Q2, there were other parts of that other specialty equipment that were strong.

Our metal extraction orders were up. Our road marking and jet streams were solid. Our refuse orders were slightly above where we had planned. We talked about last September that we thought in 2026 that that refuse market would be down. But overall, we feel very good about those diversification of funding sources and then the outlook going forward.

The last thing I would say is 45% of our business is backlog driven. That gives us pretty good visibility. That billion dollars of backlog sets us up for a good second half and a strong beginning to 2027.

Steve Barger

Really comprehensive answer. I appreciate that. I guess just to recap, if I look at that in aggregate, the funding mechanisms look secure as you go into the back half and next year.

Jennifer Sherman

Yes.

Steve Barger

Perfect. Then you talked about investing in aftermarket capacity, which obviously makes sense as that approach is 25% of ESG revenue. What dollar level are you investing toward? As you've grown that business, what's the incremental return on capital for those aftermarket investments?

Ian Hudson

Yeah, I think, Steve, we've maintained the CapEx guide of $45 million to $55 million for the year. We're not talking about significant CapEx in terms of these investments that we're making. They're relatively modest investments that we're making to mainly existing facilities, just primarily to drive the Build More Parts initiative.

In terms of the increment, I think Jennifer mentioned in her prepared remarks, the margin on the aftermarket business is more attractive. The delta isn't quite as significant as you may see in some other industries for a couple of reasons. Primarily, we command some pretty good margins on our existing equipment sales as well, but it is a slightly more attractive return. As we go forward, that's one of the things that we think about when we see the opportunity to drive further margin expansion is just continued growth of that aftermarket business. The returns are attractive, certainly when you look at the relatively low level of investment in the facility that we're referring to here.

Jennifer Sherman

Yeah, I'll just add a little bit of color to that. I was with the team at their offsite up in Canada last month, and the team has identified some geographic expansion opportunities. We will be opening up some new offices, again, very low CapEx.

Number two is in my prepared remarks, I talked a lot about Build More Parts, and that's an area we will be investing in. We see a lot of growth potential. Then, again, we really like the durability and resilience of this aftermarket segment. We manufacture work trucks, and they need parts. They need service. Rental income was up year-over-year, used equipment sales were up. This continues to be a very important part of the Federal Signal family.

Steve Barger

Understood. Thank you for all the detail.

Jennifer Sherman

Thank you.

Operator

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

Ross Sparenblek

Hey, good morning, guys.

Jennifer Sherman

Good morning, Ross.

Ross Sparenblek

Hey, it looks like some strong order growth in the quarter. I believe, you know, organic ESG orders look like they're up around 9%, although you noted that street sweepers were down in the second quarter. When we think about the Muni channel overall, can you just get a sense on what the inventory channels look like? Do you think it's kind of balanced? Was there potentially some pre-buy and destocking now?

Jennifer Sherman

Yeah.

Ross Sparenblek

Or just any other dynamics you've seen?

Jennifer Sherman

Yeah. We didn't see a lot of pre-buy this quarter. We haven't built in pre-buys for the rest of the year in terms of our projections. We continue to monitor the EPA regulations, understanding that they're not finalized. If something does change there, it could potentially be upside.

With respect to refuse as we announced, when we announced the transaction last year, we expected that refuse would be down this year, and that's what we built into our valuation model and the price that we paid. Right now, refuse is on the order side is operating slightly ahead of our model. As I mentioned on the call, with respect to integration and some of the cost synergies, we've been, we've realized some of those earlier than we anticipated.

With respect to inventory in the channel, many of our specialty vehicle categories don't really carry a lot of channel inventory. We feel really good about what we're seeing right now. Again, kind of building what I said earlier, aftermarkets represented about 25% of ESG's revenue this quarter. Then we saw very strong performance there. They were up 24% year-over-year. Each of those rentals was up, used equipment was up, and parts was up.

Again, as we look at kind of those different end markets and the different pieces, we feel really good. That's what led to the significant increase in our guidance for the second half of the year.

Ross Sparenblek

Okay. That's helpful. The expectation then is chassis disruption that started to alleviate in 2024, that's in the rear view. Potentially going into the next year, we'll have smoother comps and just kind of a normal GDP plus type of activity in the channel. Okay.

Jennifer Sherman

Based on what we know today, the answer is yes.

Ross Sparenblek

Okay. That's helpful. Then just on the margin side, nice lift in the EPS guide, some interest there, but SG&A stepping up. Maybe just some of moving parts there. Higher SG&A in the second half potentially. Maybe what type of incrementals we should be underwriting. I get the sense of the confidence here is coming from just the progress making on the aftermarket side.

Ian Hudson

Yeah. I think a couple of things, Ross. I think, obviously the momentum that we're seeing on the aftermarket side of the business, and also some of the traction we're seeing on the integration of the acquisitions, they're tracking both Mega and New Way are tracking slightly ahead where we thought they would be. That has some margin upside for the year. I think when we went into the year, we were expecting those acquisitions to be slightly dilutive. But I think where we sit today, we actually think that that dilution is not going to be there.

I think if you look at the guide for the year, that would imply they were expecting margin improvement on a year-over-year basis. Yeah, the investments that we referred to, they are in the second half of the year, but not overly material in the sense that when you look at the context of the raise for the rest of the year, that's implied in the guide.

Ross Sparenblek

Okay. On the SG&A side, the expectation is that as a percentage of sales, they should be stepping down year-over-year in the back half? Ian, what do you imagine?

Ian Hudson

I think more of the upside is probably in the gross margin area as opposed to SG&A. I mean, we're not adding significant costs from an SG&A standpoint. They're really not relatively nominal investments we're referring to. Most of the uplift, I think, would be on the gross margin front.

Jennifer Sherman

Yeah, we are adding some people, though, to drive some of the longer-term benefits that I identified, I think, with respect to the power of the platform.

Ross Sparenblek

All right. Nice quarter, guys. Thank you. I'll pass it along.

Jennifer Sherman

Thank you, Ross.

Operator

Our next question is from Tim Thein with Raymond James. Please proceed with your question.

Jennifer Sherman

Good morning, Tim.

Tim Thein

Good morning. Good morning. The question is on aftermarket and thinking about the initiatives you're putting in place to expand that. Obviously, real nice growth in the quarter. I think in the past, we've talked about maybe a long-term target that of that part of the portfolio getting to 30-ish percent of ESG revenues. I recognize that year-to-year, there can be fluctuations depending on where those OEM volumes are coming in and how that impacts the overall kind of percentage. But as you've now integrated New Way and you think about some of these company-specific initiatives, are you still thinking about that as kind of a realistic target and any sort of—I know a timeline is hard to put on it, but is 30% of segment revenue still a kind of achievable target to put out there?

Jennifer Sherman

Yeah, I think I have a couple things to add to that. One is as I stated in my prepared remarks, we would expect aftermarkets to grow faster than the Company. My objective is I want to grow both the numerator and the denominator. A couple critical things are going to contribute to the growth of aftermarket. One, it's going to be somewhat dependent on what acquisitions we do. New Way, as we talked about when we purchased the company, we're two full quarters in, but parts are about 11% of their overall revenue. We see some upside as we move forward, and that's an important synergy that the teams are working on.

Many of our businesses right now are running at 30% on the part side, but there's no structural reason why it can't be 30%. As I mentioned earlier, a lot of it's going to depend on the M&A and the mix of the businesses that we buy. But we are fully committed to growing aftermarkets. Again, what I talk about internally all the time is the durability and resilience of our business model. Aftermarkets is an important part of that.

Tim Thein

Got it. Okay. Maybe just to make sure I got what Ian was going through. The net income guide goes up, I don't know, $17 million, $18 million on a pretty marginal change in revenue. Is it the traction on the growth in aftermarket and some of the M&A integration performing better than expected? Are those kind of the two big drivers?

Ian Hudson

Yeah. Tim, there's a lot of pieces, as you can probably imagine. But if you think about the big ticket items, the growth in the aftermarket business and then the traction on the recent acquisitions. I think Jennifer mentioned that we're tracking ahead of the cost synergies that we originally kind of communicated at the time of the New Way transaction. Those would be kind of the two bigger pieces.

Jennifer Sherman

I think some of the operational improvements that our teams are working on. Again, what I think is important to understand here is it's not any one thing. We have a number of initiatives, and we don't need every single one of them to hit. We just need enough of them to hit. As we looked at the second half of the year and we looked at where we stand, we have a lot of confidence of our teams to execute on those initiatives and set us up for a strong 2027.

Tim Thein

Got it. Thank you very much.

Operator

Our next question is from Walt Liptak with Seaport Research. Please proceed with your question.

Jennifer Sherman

Good morning, Walt.

Walter Liptak

Good morning, guys. Hey, great quarter. I'd like to ask one from 50,000 feet. You've been beating your EPS numbers and raising guidance so far this year. The orders this quarter looked really good. When you think about how your year is progressing, is it execution on the Build More Trucks initiative that's resulting in the EPS upside or is it something else?

Jennifer Sherman

One of the things about Federal Signal is that we're not overly reliant on any one initiative. As I mentioned earlier, we've got a number of different initiatives. In this quarter and for the rest of the year, it's strong year-over-year growth in aftermarket. They're up 24%. Strong performance by the acquisitions, strong performance by our mineral extraction group, solid performance by the road marking group, strong performance by the vacuum truck group. SSG had another solid quarter. Our TBI businesses had a very solid quarter.

I go through all that detail to say we've got just broad-based strength and that's really what gave us confidence in terms of the guidance raised for the second half of the year. As we're very focused on 2027 and what do we need to do to continue to drive these many initiatives across Federal Signal in order to continue to build both the resiliency and durability of this business model, the diversification around the end market of the business model, and set us up for not only a strong second half of the year, but strong '27.

Walter Liptak

Okay. That sounds great. Kind of along those lines, you provided sales and EPS guidance range that's fairly broad. Maybe this is an Ian Hudson question. What's the difference between sort of the high end of the sales and EPS guidance and the low end? What's assumed in the low end?

Ian Hudson

Yeah. I think in the low end, while we talked about, we still have 45 million of third-party refuse trucks to deliver, we don't necessarily control the timing of when those come to us. That would probably be something that, if that didn't materialize, that would kind of lead us towards the lower end as revenue guide. On the flip side, I think the continued momentum of some of the strategic initiatives would probably take us towards the upper end. Those are probably the variables on the top line guide.

Walter Liptak

Okay. Great. Then maybe the last one for me, I wanted to ask about, you kind of commented that the New Way business is ahead of expectations, I think, on some of those new orders that you were thinking were going to decline. Why do you think that is? Is it because you're integrating new way into your dealer channel? What's going on there?

Jennifer Sherman

Yeah. When we did our extensive diligence on this transaction last year, one of the issues we identified is excess inventory and system, not just a New Way across the refuse industry. When we built our model and our valuation, that's what we reflected. I think, frankly, you know, listening to other OEMs, that turned out to be accurate. From a revenue standpoint, we're kind of spot on our model. From an order standpoint, we're slightly ahead.

From, we identified that $15 million to $20 million of synergies that we expected to achieve by the end of 2028. On the cost side, we've achieved some of that earlier than we anticipated. We've identified a number of opportunities. We're running ahead of our plan right now. Two quarters. We're only two quarters into this. But I'm really pleased with the kind of strength of our integration team.

I would add that on the Mega side, the teams are doing a super job. We were just out at Ground Force earlier this week for our Board meeting. We had a great conversation with that team. Again, it really is a testament to the integration successes that we've had during my tenure as CEO. More to come. Very early days, but I'm pleased with our progress.

Walter Liptak

Okay. Great. Maybe just a final, final one for me. The acquisition that you announced, can you provide us with more details? What's the name of it? How big are the revenues? Is there going to be accretion?

Jennifer Sherman

It's Western Technologies. It's very small. It's the first acquisition that SSG did. We're not expecting anything material in 2026. More to come as we move forward, but it's small.

Walter Liptak

Okay. Great. Thank you.

Jennifer Sherman

Thanks, Walt. Thank you.

Operator

Our next question is from Chris Moore with CGS Securities. Please proceed with your question.

Jennifer Sherman

Good morning, Chris.

Chris Moore

Good morning, guys. Just a quick one. The 6% organic growth, maybe I missed it. It's just a rough breakdown on price and volume there.

Ian Hudson

Yeah. Price, Chris, was about three, three and a half of that. Then the volume and chassis would be the rest.

Chris Moore

I got it. I know you've already talked a lot about New Way. It sounds like you're ahead of plan on the cost side. As you said, it's still early in the mix. I know you were talking about ‘28 is where you really would see the full benefits and, you know, that 40% to 45% of accretion in ‘28. I think what I'm hearing is ;28 is still the year where you see the full benefits. It's just perhaps the curve to get there is a little bit quicker, a little bit steeper earlier than you anticipated. Is that fair?

Ian Hudson

I think that's correct. Chris, if you think about the earlier achievement of some of the cost synergies, I think the revenue synergies are probably more gradual as we get through ‘28, as we look to perhaps one of the initiatives is to the expansion really in growth into Canada. That's something that will likely take some time as we build up that channel. The revenue synergies will likely be kind of more gradual through that timeframe. But we're, yeah, we're slightly ahead on the cost side.

Jennifer Sherman

We're very pleased with the progress to date, understanding that we're only two full quarters in.

Chris Moore

Got it. Maybe my last one, it just feels like you can't talk to any company these days without at least referencing AI. Are you spending any dollars there? Is there any obvious role for it within your ecosystem?

Jennifer Sherman

Absolutely. During this quarter, we actually added an individual to our leadership team who's leading our efforts. We've been working on a number of projects over the last couple of years that Felix has led, and I'm going to let him walk you through them quickly.

Felix Boeschen

Yeah, Chris, absolutely. I mean, I think we're in the earlier innings, but we've identified a number of interesting opportunities. Again, when you kind of think about the power of the platform we've talked about, data analytics is one of those core benefits that we're starting to build out. A little bit early in terms of sizing it, but over time, we think it'll be additive to some of our organic revenue growth initiatives.

Chris Moore

Got it. I appreciate it, guys. I will leave it there.

Jennifer Sherman

Thank you, Chris.

Operator

Our next question is from Mike Shlisky with DA Davidson. Please proceed with your question.

Jennifer Sherman

Good morning, Mike.

Linda

Hi, guys. This is Linda on for Mike.

Jennifer Sherman

Hi, Linda.

Linda

Hi, Jennifer. Question, I want to follow up on the New Way commentary about the orders. We've heard commentary from the other two waste truck companies the last few days that they seem to say different things. Basically, I want to know, what's driving the difference between what you're seeing and what some other positive and negative commentary that is elsewhere in the industry? Is it product mix, customer exposure? If you could give me some more color, that would be helpful.

Jennifer Sherman

Yeah. I think I need to start to go back to September when we announced the acquisition. We were very clear, based on our research, that we thought that the industry was going to be down overall. The refuse truck industry would be down in 2026 because we thought there was kind of excess inventory in the system as lead time started to reduce. We built our model. We anticipated it and built our model for the transaction around the—with the assumption that the industry was going to be down in 2026.

What I said is, look, our revenue, we're kind of spot on our model, and our orders, which we said we believe the industry would be down, we're slightly ahead of where we thought we were going to be from an order standpoint. I'd be remiss if I didn't give a shout out to our team who said, listen, we think this industry is going to be down, and we built a model around that, and we're tracking right in accordance with that model.

We anticipate as we move forward, as we get tractions on our dealer development initiative, our Canadian initiative, some of our NPD that we're investing in other things, that we'll have share grain, and we'll continue to grow. Very pleased with kind of where we are, understanding that we're only two quarters in.

Linda

Very helpful. Yeah, I also want to follow up on the commentary on the municipal budget situation. You mentioned that there were mixed order activity this quarter. Do you expect the same trends going into the second half in 2027 as well, or do you expect things to change?

Jennifer Sherman

Yeah, I guess what I want to point out is of that 55%-ish that comes from public funds, our only pure play U.S. municipal business is street sweepers. As I talked about earlier in my remarks, it's mid to high single digits for overall revenue. As we look at the fundamentals of the funding mechanisms for local municipalities for our products, which would be sales tax and property taxes, they continue to remain steady. But we have worked very diligently and been successful in diversification of those public revenue sources.

We're exposed to water taxes, we're exposed to refuse collection fees, police budgets, the Canadian provincial and federal governments, some of the U.S. government, state government. It is a really nice mixture of funding sources with our only kind of pure play U.S. municipal piece being street sweepers, which is a relatively small portion of federal signals overall revenues.

Linda

Got it. My last question, could you discuss the corporate costs for the quarter? I think they were up a little over $2 million from the prior year. Yeah, I would like to get some more color on that.

Ian Hudson

Yeah. Yeah, you're right, Linda, they were up year-over-year. The biggest drivers, the two main drivers, are just higher post-retirement expenses. Then we also saw some increased medical costs on a year-over-year basis.

Linda

Got it. Yeah, thank you for your time.

Jennifer Sherman

Thank you, Linda.

Operator

Our next question is from Greg Burns at Sidoti & Co. Please proceed with your question.

Jennifer Sherman

Good morning, Greg.

Greg Burns

Good morning. The decline in the SSG margin, what was the driver there? I guess maybe relative to the mix?

Ian Hudson

Yeah, it was mostly mixed, Greg. It was just certain shipments. We had a larger shipment that went to some customers. There was someone on the system side that were just, on a year-over-year basis, it was just a slightly diluted from a margin standpoint. But still, the 25% margin, it's right at the midpoint of our recently increased range of 22% to 28%. I think the 26.9% comp in Q2 of last year was a record. We still feel very good about SSG's performance in the quarter. The 25%, as I said, is right at the midpoint of that recently increased target range.

Greg Burns

Okay. Sorry, go ahead.

Jennifer Sherman

No, go ahead, please.

Greg Burns

I was just going to ask another question around the Western acquisition. I know most of your acquisition activities obviously happened on the ESG side of the business. This is the first on the SSG side, obviously very small. But I just wanted to kind of understand the broader opportunity for SSG to leverage M&A, kind of that platform model that you've used on the ESG model. What's the opportunities there? How might Western inform how you're looking at the opportunity on that side of the business?

Jennifer Sherman

Yeah, there's a number. This is a very fragmented industry. There are a number of opportunities to leverage audible and visual technologies for different end markets.

The other area, so we are looking at several acquisitions, both here in the U.S. and outside the U.S. We're also, in addition to that, police is the largest piece of SSG. As we look at outfitting of police cars, there's some ancillary equipment that would be very attractive. Again, it really falls in that same category as ESG, these niche end markets where there's some type of pretty significant motor barrier to entry around certifications or operating in hazardous environments. We're pleased by the first acquisition the team has done. We've got a number of other ones in the pipeline that we're working on and excited about the outlook on the M&A side for both SSG and ESG.

Greg Burns

Okay, great. Thank you.

Jennifer Sherman

Thank you.

Operator

We have reached the end of the question-and-answer session. I'd like to turn the floor back over to Jennifer Sherman, President and Chief Executive Officer, for closing comments.

Jennifer Sherman

In closing, I would like to note that during the quarter, we published our latest annual sustainability report, which is available on our website. The report highlights our progress against our emission reduction goals, our new targets, and our ongoing community engagement efforts. It is our people that define the unique culture at Federal Signal, and we remain committed to investing in the local communities in which we operate. We would also like to express our thanks to our stockholders, 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.