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Federal Signal Corporation

Second Quarter 2022 Earnings Conference Call

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Walter Liptak, *Seaport Global Securities*

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Greg Burns, *Sidoti & Company*

Marco Rodriguez, *Stonegate Capital Markets*

PRESENTATION

Operator

Welcome to the Federal Signal Corporation Second Quarter 2022 Earnings Conference Call.

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

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

Ian Hudson

Good morning and welcome to Federal Signal's second 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 new 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 second quarter results before turning the call over to Jennifer to provide her perspective on our performance, market conditions, and our outlook for the remainder of 2022. After our prepared comments, Jennifer and I will address your questions.

Our consolidated second quarter financial results are provided in today's earnings release. In summary, our financial results for the quarter was strong, with double digit improvement in sales and operating income, improvement in margins and continued momentum in demand. Consolidated net sales for the quarter were $367 million, up $32 million dollars, or 10% compared to last year. Consolidated operating income for the quarter was $46.2 million, up $7.7 million, or 20% compared to last year. Consolidated Adjusted EBITDA for the quarter was $58.2 million dollars, up $6.3 million, or 12% compared to last year. That translates to a margin of 15.9% in Q2 this year, up 40 basis points compared to last year.

GAAP EPS for the quarter was $0.55 a share, up 15% compared to last year. On an adjusted basis, EPS for the quarter was $0.53 per share, up 6% compared to last year. Order intake for the quarter was again outstanding, with orders of $413 million, representing an increase of $53 million, or 15% compared to Q2 last year. Backlog at the end of the quarter was $795 million, another all time high for the Company and an increase of $358 million, or 82% compared to Q2 last year.

In terms of our group results, ESG's net sales for the quarter were $306 million, an increase of $25 million, or 9% compared to last year. ESG's operating income for the quarter was $39.1 million, up $600,000, or 2% compared to last year. ESG's Adjusted EBITDA for the quarter was $51.6 million, up $1 million, or 2% compared to last year. That translates to an Adjusted EBITDA margin for the quarter up 16.8% compared to 18% last year. ESG's orders for the quarter were $352 million, an improvement of $52 million, or 17% compared to last year.

Turning now to SSG who reported net sales of $60 million in Q2 this year, an improvement of $7 million, or 13% compared to last year. SSG's operating income for the quarter was $10.3 million, up $2.5 million, or 32% compared to last year. SSG's Adjusted EBITDA for the quarter was $11.4 million, up $2.7 million, or 31%. That translates to an Adjusted EBITDA margin for the quarter of 18.9%, up 260 basis points compared to Q2 last year. SSG's orders for the quarter was $62 million, up 1% compared to last year.

Corporate operating expenses for the quarter were $3.2 million, compared to $7.8 million in Q2 last year. The reduction in corporate expenses was partly driven by a favorable year-over-year variance of $2.4 million associated with changes in mark-to-market adjustments of post-retirement reserves. These market-based adjustments benefited our earnings in Q2 this year (inaudible) up approximately $0.02 per share but were unfavorable in Q2 last year. Corporate expenses in Q2 This year also included an acquisition related benefit of approximately $2 million relating to a post-closing adjustment that was received during the quarter.

Turning now to the consolidated income statement where the increase in sales contributed to an improvement in gross profit of $8.2 million, or 10%. Consolidated gross margin for the quarter was 24.5% of 10 basis points compared to last year. The improvement in gross margin was achieved despite a 30 basis point headwind resulting from an increase in the mix of chassis that we supply. These chassis carry very low margins but allow us to better manage our production schedules and serve our customers.

As a percentage of sales, our selling, engineering, general, and administrative expenses for the quarter were down 50 basis points from Q2 last year. During the quarter, we recorded a $1.7 million benefit from acquisition-related activity, compared to $300,000 of expense last year, with the majority of the year-over-year change driven by the receipt of the post-closing adjustments I just referenced.

Other items affecting the quarterly results include a $400,000 increase in amortization expense, and an $800,000 increase in interest expense. With recent increases in interest rates, we currently expect an EPS headwind of $0.02 in the second half of the year compared to our prior outlook. That assumes no significant change in debt levels.

Tax expense for the quarter was up $3.1 million, largely due to higher pre-tax income levels, and a $1.5 million reduction in excess tax benefits from stock compensation activity in comparison to Q2 last year. As a result, our effective tax rate for the quarter was 24.9%, compared to 21.2% last year, representing a year over year EPS headwind of about $0.02. At this time, we continue to expect our full-year effective tax rate to be approximately 25%.

On an overall GAAP basis, we therefore earned $0.55 per share in Q2 this year, compared to $0.48 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-year quarters. In the current year quarter, we made adjustments to GAAP earnings per share to exclude acquisition-related benefits. On this basis, our adjusted earnings for the quarter were $0.53 per share, compared with $0.50 per share last year.

Looking now at cash flow, we generated $15 million of cash from operations during the quarter, representing an increase of 16% over Q2 last year, despite incremental investments in chassis and other raw materials. We ended the quarter with $296 million of net debt and availability under our credit facility of $166 million. Our current net debt leverage ratio remains low and essentially unchanged from Q1.

With our financial position remaining strong, we have significant flexibility to invest in organic growth initiatives, pursue strategic acquisitions, and return cash to stockholders through dividends and opportunistic share repurchases. On that note, we paid dividends of $5.4 million during the quarter, reflecting a dividend of $0.09 per share, and we recently announced a similar dividend for the third quarter. We also funded $2.5 million of share repurchases during the quarter, bringing the total share repurchases so far this year to approximately $16 million.

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

Jennifer Sherman

Thank you, Ian.

Our business were again able to deliver strong operational performance during the quarter despite the ongoing challenges associated with the current supply chain environment, where shortages of hydraulic components, pump cylinders, and certain electrical components continued to make production challenging. I'm continuously impressed by the creative and nimble solutions our teams identify in response to these supply chain challenges.

For example, our teams have secured alternatives suppliers, purchased certain buffer inventory, sought to insource or reengineer products where possible, and modified production schedules based on component availability. Despite the challenges we faced during the quarter, our teams were successful in delivering double-digit top line growth, gross margin improvement, and a consolidated EBITDA margin, which was at the high end of our target range and up 40 basis points compared to last year.

We continue to see increased demands for rentals, parts, and used equipment sales, with the current tightness in the supply chain and extended lead times for new equipment delivery. In the first half of this year, our aftermarket revenues totaled $161 million, a 12% improvement over last year. With additional benefits from our pricing actions and contributions from our recent acquisitions, our Environmental Solutions group reported a $25 million year-over-year sales increase.

Although inflationary pressure persists, our second quarter results included the effects of improved price cost realization, both sequentially and on a year-over-year basis, with the improvement most notable within our dump truck and trailer businesses. We currently expect margins in the second half of the year to be higher than the first half of the year as more of our higher price backlog ships.

Our Safety and Security Systems group had an outstanding quarter with double-digit top line improvement and 170 basis point increase in gross margins, largely due to increased sales volumes and higher price realization. With our efforts to expand our supply base and execution of our ETI principles to insource production of certain materials, component availability for these products has improved in recent months, which resulted in an increase in shipments compared to last year, most notably within our public safety businesses.

Operationally, we benefited from limited coronavirus-related disruption during the quarter. Although coronavirus-related absences were relatively low during the second quarter, we are continuing to monitor case levels associated with emerging variants.

Other highlights of the quarter included the publication of our latest sustainability report, demonstrating our ongoing commitment to environmental, social, and governance initiatives. In the report, we highlight the ways in which we make a difference to our customers, our communities, and our environment. We know that as a global manufacturer of critical infrastructure and safety products, we have the responsibility to do the right thing: operate sustainably with a long-term fact-based view on issues regarding the environment, society and corporate governance, and positively impact our employees, customers, partners, and stakeholders at large. These efforts also positioned as well in the communities in which we operate and serve as a differentiating factor in our ability to attract labor at most of our facilities.

Turning now to market conditions, where demand for our products and aftermarket offerings remains at unprecedented levels (phon). The order momentum has been across the board with year-to-date orders from both municipal and industrial customers each up around 20% year-over-year. On the municipal front, recent discussions with several of our dealer partners have echoed this positive sentiment with many seeing robust demand across virtually all product lines.

The $350 billion American Rescue Plan Act, which is earmarked funding for state, local, and territorial governments for a variety of purposes, including the maintenance of essential infrastructure, such as sewer systems and street sweeping, is continuing to benefit our municipal markets across the country. For example, we are seeing incremental order strength beginning with smaller municipalities purchasing both new and used street sweeping and Sewer Cleaning Equipment in several states, where the equipment purchases are directly attributed to this public funding source.

With the second $170 billion tranche expected to be distributed later this year, including multi-year appropriation and spending deadlines, we expect to see a prolonged meaningful tailwind from the stimulus package.

On the industrial side, demand remains high, particularly for our safe digging products with orders in the first half up 26 million, or 69% year-over-year. During the quarter, we saw strong demand for our trailer products, but some softer orders for dump trucks associated with some tightness in customer chassis supply.

We remain bullish on the potential impact of the $1.2 trillion infrastructure bill, which has $550 billion for new investments in roads, bridges, power, water, and broadband infrastructure, public transport, and airports. Our equipment sales and rentals of material hauling, road markings, street sweeping, sewer cleaning, safe digging, and industrial cleaning equipment stand to benefit from this investment as our equipment is integral to the process of improving and expanding this infrastructure.

Given that these funds have not yet been distributed, we have not yet seen any impact to-date in our orders, although we continue to monitor the developments closely.

I now want to take a few minutes on some of our growth initiatives, starting with an update on new product development initiatives. Our R&D teams remain committed to providing solutions to solve our customers' problems by incorporating state-of-the-art technology enhancements into developing new products. With a focus on features and functionality, our solutions aim to simplify ease of operation and training, reduce operating costs, and maximize asset utilization.

A recent example of this approach is the launch of the Broom Badger, a compact, highly maneuverable street sweeper manufactured by Elgin Sweeper. In launching our Broom Badger, we have developed a new sweeper that replaces a product which we previously sourced from a third party with an innovative street sweeper which incorporates multiple enhancements based on extensive customer feedback.

Of growing importance to the needs of our customer, this new product does not require that the operator have a commercial driver's license, which can be more challenging to obtain, due in part to the legalization of marijuana that has occurred in many states. Internally and externally, the product launch has truly been a collaborative effort, and we look forward to growing our share in the marketplace.

We also continue our efforts to enhance our TRUVAC safe digging product offerings with the recent introduction of the APXX, a heavy-duty vacuum excavator designed for the toughest of conditions. With its innovative design, the APXX maximizes legal payload and aims to make customers time on the job more profitable, while providing operators with high levels of comfort and protection from the elements to support productivity in cold climates.

Other recent examples include reducing operating costs by developing single-engine platform solutions for our street sweeping, sewer cleaning, and road marking businesses, and reducing equipment downtime and troubleshooting by offering onboard diagnostics and the control systems of our sewer cleaners and safe digging trucks.

We continue to identify ways to integrate electrification into our suite of products and offer solutions to our customers on their path towards reducing their carbon footprint and improving air quality without compromising performance. We continue to collaborate with multiple chassis OEMs and have recently taken delivery of our first fully electric chassis and plan to begin field testing an all-electric truck mounted sweeper later this year. In addition, we are experiencing high demand from our dealer network for demonstrations of our plug-in hybrid electric products, specifically the Broom Bear and the three-wheel Pelican.

Our aftermarket business has grown to represent approximately 30% of ESG's revenues, and we see additional opportunities to grow that business by expanding into new geographies we believe to be underserved. In connection with those expansion efforts, this year we have acquired certain distribution rights from dealers in Colorado, Montana, and Wyoming by establishing a presence in these territories.

For a relatively low investment, we expect to increase sales of our products and grow our parts, service, and rental revenues.

On the M&A front, we are making good progress integrating our recent acquisitions Ground Force and Deist, and we are pleased with their contributions in the second quarter. Our deal pipeline remains very active, and we continue to expect M&A to be an important part of our future growth.

With our investments in new product development, the potential for M&A, our recently completed capacity expansions of several facilities, relatively good access to labor, and multi-year tailwinds from recent economic stimulus and infrastructure like (inaudible) legislation (phon), we are well positioned for long-term growth.

Turning now to our outlook for the rest of the year. The momentum and demand for our products and our aftermarket offerings that we have seen in recent quarters continued in the second quarter with a 15% year-over-year improvement contributing to another record backlog. Although we expect the volatile supply chain environment to continue, we are encouraged with how our teams have navigated through these challenges so far this year.

Notwithstanding the EPS headwind in the second half of the year associated with higher interest expense, with our performance in the first half of the year, our record backlog and current expectations of component availability, we are raising the midpoint of our full year adjusted EPS outlook by establishing a new range of $1.85 to $2.00. Updated from the previous range of $1.80 to $2.00.

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

Operator?

Operator

The first question is from Mike Shlisky with D.A. Davidson. Please go ahead.

Michael Shlisky

Good morning.

Jennifer Sherman

Good morning, Mike.

Michael Shlisky

Do you hear me okay? Hi. Good morning.

Jennifer Sherman

Yes.

Michael Shlisky

Do you hear me okay?

Jennifer Sherman

Yes.

Michael Shlisky

Great. Quickly further, I had a quick housekeeping question, Ian, for you. Can you maybe give us a little more detail on that post-closing adjustment that you outlined a couple of times during your comments? Was that an earnout that was not earned and was it a cash inflow? I'm just not sure a little bit about what’s going on there.

Ian Hudson

Yes, so Mike, it was for the—related to the OSW acquisition, and it was a post-closing adjustment about—it was a debt-like item, and we worked through it with the other side and ended up receiving—$2 million of cash did come in during the quarter, so that was—for the accounting rules, because it was outside of the year window for purchase accounting, it flows through the P&L, and so that flows through the acquisition-related benefit line on our P&L. So, we've excluded that out from our adjusted EPS and our Adjusted EBITDA, but that's the accounting rules that required us to take that through the P&L this quarter.

Michael Shlisky

Got it. Got it. Thank you. I also wanted to discuss quickly the safety and security products. Results in the quarter looks really strong. Could you just give a little more detail as to some of the products that might have outperformed in the quarter that made it such a great result?

Jennifer Sherman

Sure. It was really across all of our major product lines. They've invested heavily in new product development. It's those businesses, particularly in our public safety systems business, and they were able to—had a very strong P6, in particular. They were able to ship a number of major projects to customers. But we've seen a lot of benefits from 80/20 initiatives that have taken place within that business unit, and we're encouraged by the improvement.

Michael Shlisky

Great. Maybe lastly here, I want to ask about heavy truck chassis availability. There wasn't much comments there during the prepared remarks. We did start hearing some possibility for (phon) improvement yesterday from one of the major Class 8 (phon) truck producers. We’re seeing some fewer red tag chassis, etc. Can you give me an update on maybe how you're faring more recently and how things are looking in Q3 here for the heavy truck chassis availability. Thank you.

Jennifer Sherman

Sure. Sure. It's a tale of two cities. I'll start with TBEI. Our TBEI businesses, we do not supply the chassis. Our customers supply the chassis. That has been a more challenging situation because often there isn't a named customer, so we haven't seen the chassis improvements that we were hoping. If we do see chassis improvements, that would be upside for that particular business. For our Vactor, Elgin, MRL businesses, we're on allocation. But in general, we're receiving the chassis that have been allocated to us, so that has not been a challenge during Q2 as it was, for example, in Q4 of last year.

To be clear, we'd like a whole lot more chassis than we're getting. But at this point in time, we're at least receiving what they told us they were going to send.

Michael Shlisky

Got it. That's perfect. I'll pass it along. Thank you so much.

Jennifer Sherman

Thank you.

Operator

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

Jennifer Sherman

Good morning, Felix.

Felix Boeschen

Hi. Good morning, everybody. Hi. Thank you for taking the time. I was hoping to actually follow-up on the chassis availability procurement strategy.

Ian, I think you mentioned the 30 basis point headwind relative to you procuring chassis and running those through the P&L. I guess my question is, broadly, do you think that's going to continue into the second half and into 2023? Is that maybe a permanent shift in how you procure chassis? Just any color on that would be super helpful.

Ian Hudson

Yes, so the drag that we referenced—the 30 basis point drag—that's year-over-year, so in fact, when you think of our EBITDA in Q2, the drag was actually 80 basis points. For the quarter, it was 50 or 60 in Q2 last year, so that's what we talked about the year-over-year impact.

I think for the next—certainly for the next several quarters, while we're in the current situation, I think what we're strategically trying to do is make sure that we can serve our customers. If they're struggling to find chassis, and we have access to chassis, I think that's something we want to work with our customers to assist them in that regard.

I think in the current environment it may continue, but long-term I think we would likely revert back to more of the 50/50 split that we've historically seen.

Jennifer Sherman

Yes, and just to add a little more color to that, our production schedules, as you can imagine, our facilities are dynamic and constantly changing to reflect the realities of each month's supply chain challenges, including chassis. In a situation where we own the chassis, as we have to move the production schedule around, it gives us a lot more flexibility. Certainly, we're not waiting on someone else to deliver the chassis.

Generally, customers would prefer to buy the chassis if they could, because there's a cost savings. In this environment though, it's different.

Yes, it will continue through this year, but I think as supply chain normalizes, we'll see customers revert back to wanting to purchase their own chassis.

Felix Boeschen

Okay, okay. Super helpful color. I wanted to follow-up on the aftermarket business, obviously, another very strong quarter. You mentioned specifically opening some new locations in, I think, Colorado, Wyoming, and Montana. Jennifer, I was hoping you could maybe expand on that, what you think the impact might be over the next couple of years rationale, and if you could talk about how the rental fleet maybe plays into that?

Jennifer Sherman

Yes, so those particular territories were underserved. It creates an opportunity for us, not only for Elgin and Vactor, but also for those products that we sell direct. That would include our Guzzler product line, our MRL product line, and others. We believe that as we move forward, we're going to be able to duplicate the success that our JJE team has had in terms of growing new equipment, parts, service, rental, and frankly, be able to better serve our customers there.

Felix Boeschen

Okay. Then just my last one. You talked about the American Rescue Plan and the second half of those funds have yet to been released, so it sounds like a lot of that would be incremental. But I'm maybe curious if you could talk about municipal demand in general, and if you could maybe talk about the sales cycle, how long it takes? What I'm really trying to figure out is out of that first tranche, how much is already in the backlog versus what might still be on the comp, if that makes sense?

Jennifer Sherman

Yes, absolutely. Depending on the product line, the sales process can take up to a year. It often goes through a public bid process, and it depends if they buy off a state contract that exists or otherwise. We haven't seen a lot of it in our backlog. It's talking to our dealers anecdotally, the funds that are available is opening up new customers that, frankly, in many situations couldn't afford our equipment or it allows an existing customer to augment their fleet with additional equipment.

To-date, we haven't seen a lot in the backlog. More to come as we move forward, and it works its way through these, in most situations, public bid processes.

Felix Boeschen

I'll stop there. I appreciate the time today.

Jennifer Sherman

Thank you.

Ian Hudson

Thanks, Felix.

Operator

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

Jennifer Sherman

Good morning, Walt.

Walter Liptak

Thanks. Good morning, guys. Great quarter. Just as a follow-on to the last one and regarding the road bill that you brought up and commented that the money's not flowing yet. I wonder if you could give us any insight into what you think the timing might be. I think one of the things that's different this time is you own MRL. What are they saying about, within the road bill, and maybe the timing of when that money is going to flow?

Jennifer Sherman

With respect to the infrastructure bill that was passed late last year, the appropriation schedules are still working out the details. We do believe, however, as we noted in our prepared comments that almost every one of our product lines in the ESG—in our ESG businesses is positively impacted. Our dump truck business, our road striping business, sewer cleaning, street sweeping, so we're very encouraged and excited about the opportunities. Given the capacity expansions that we've made and our relatively good access to labor, if we get some relief from supply chain we will be in an excellent position to respond to that incremental demand.

Walter Liptak

Okay. Great. You guys pointed out the orders in ESG, the $352 million roughly, that looked really good, and called out a few things, I wonder if you could, maybe a little more slowly, go into the some of the details of the mix of products. I think I heard you say that the safe digging products, you saw growth of 69%, I'm not sure if I heard that right. But what were those numbers and where are you seeing the safe digging demand?

Ian Hudson

Yes, so Walt, the biggest drivers of the order improvement would be—it's kind of four large categories, I would say. Sweepers were up 50% year-over-year, that's about 20%, so $20 million improvement. Aftermarket was up 10%. Safe digging in the quarter was up 46% for the first half of the year, that's where the 69% that we cited. That's in the first half of the year. Safe digging orders, first half of the year, they were up 69%. Then we saw—in Q2, we saw some really strong growth and orders for our trailer products. Those were up about $17 million year-over-year, and that's a growth rate in excess of 150%.

Those four categories of product line were the main drivers of the improvement that we saw Q2 year-over-year.

Jennifer Sherman

There are also some other positive metrics that we look at. For example, TRUVAC demos were up 10% year-over-year in Q2.

Walter Liptak

Okay. That sounds great. I wonder if you can just comment on the pricing of the new orders. Is there enough pricing in there to capture the inflation that you've seen? The backlog, if I recall, last couple of quarters, there were still some backlog that had been repriced or maybe had not been repriced, I'm wondering if you could just refresh us on the pricing that you think you've got in the backlog?

Ian Hudson

Yes, so Walt, it's something obviously we're looking at very closely. We saw sequential improvement in price cost in Q2. We had a favorable impact on a year-over-year basis of about $4 million. As we move forward, we're continuing to expect favorable year-over-year impacts. But the situation continues to evolve, and obviously, we're watching it closely.

I think Jennifer mentioned in her prepared remarks that we're expecting to see second half of the year margins to improve over the first half of the year, and we're still expecting that the second half of this year to be up over the second half of last year. Continuing to expect strong margin performance for the year and improved price realization as we move forward.

Walter Liptak

Okay. Great. Okay. Thank you very much.

Jennifer Sherman

Thank you.

Operator

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

Jennifer Sherman

Good morning, Chris.

Chris Moore

Good morning, guys. Good morning. Thanks for taking a couple of questions. Just maybe a follow-up on the backlog pricing. I know, historically, you haven't been able to reprice government backlog. We're hearing that there had been some exceptions to that in Q2. Was that your experience, or no?

Jennifer Sherman

Yes, we were able. We went back, and for some of our product lines, through a combination of surcharges and repricing, we did reprice some of our municipal backlog. Just to reflect the reality of the marketplace that we're living in right now.

Chris Moore

Makes sense. In terms of the revenue guide, maybe just talk a little bit about the mix of volume versus price at the midpoint of guidance.

Ian Hudson

Yes, I think, Chris, it would be generally similar to what we've seen so far this year, a price realization during Q2 was about 6% or 7%. I think, when you look at our year-over-year, top line growth that we've guided, I think on the organics—we obviously have the acquisitions contributions. But then the organic piece I think is going to be a fairly even split between price and volume.

Chris Moore

Got it. Just maybe more big picture, and obviously, they're interrelated, but which would concern you more, a meaningful further increase in interest rates or a modest recession?

Jennifer Sherman

Well, we don’t really like either one of them. But I think that what—I'll respond to each. In terms of meaningful increase in interest rates, I think what differentiates Federal Signal is, given the amount of government funding that's available, as we move forward, we continue to believe that will be a multi-year tailwind. The other issue is how our products are funded, particularly our largest single product line is sewer cleaners and those are primarily funded through water taxes, so we don't see for that particular product line. For example, the type of ups and downs that you might see through others.

I think the other issue is, if you look at our performance through the pandemic, which was a different set of facts. We've got a pretty resilient, nice mix of available. The other issue that we hear from some of our customers is they're having problems attracting labor. Attracting labor is going to be very important to the success of the infrastructure bill. And if there was a recession, perhaps there's some loosening of that labor market. That loosening of the labor market could drive more demand of our product from those federal funds.

With respect to interest rate increases, right now we believe that our equipment is essential. Again, that federal funding, I think is going to be an important differentiator as we move forward.

Finally, nobody likes to execute in a down cycle. But I'm very proud of the teams and the processes that we have in place. If we need to execute in a down cycle, we will, and I think that we—the proof is in the pudding. During the pandemic, we executed very well, and we will continue to do so.

Chris Moore

Got it. Very helpful. I will leave it there. Thanks, guys.

Ian Hudson

Thanks.

Jennifer Sherman

Thank you.

Operator

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

Jennifer Sherman

Good morning, Greg.

Greg Burns

Good morning. Morning. How much of the debt is variable?

Ian Hudson

We have an interest rate swap that fixes about $75 million of our debt. The rest will be variable.

Greg Burns

Okay. It seems like you're doing a good job of improving your production capacity. But when we look at the backlog and the demand in orders that you're seeing. If supply wasn't a constraint, how much additional revenue could you support in a quarter? How much production capacity is sitting idle right now?

Jennifer Sherman

Depending on the facility, anywhere from 20% to 40%. That's really driven by the investments that we made beginning in the 2019 through 2021 period. As we talked about, we expanded Vactor, pretty meaningful $25 million expansion, our largest plant. We expanded Lake Crystal, we expanded Rugby, we expanded MRL. We've made some investments in our Leeds facility in Alabama. All of those expansions, we have the backlog, we're in a relatively good position on labor, we need some relief for supply chain.

Greg Burns

Okay, and then I guess…

Jennifer Sherman

The answer is that I think we're incredibly well positioned as these incremental orders come in from various federal bills that we've cited.

Greg Burns

Yes. Okay. Typically the business has a little bit of quarterly seasonality, but with the backlog you have, do you expect that to be smoother or whatever you could—how much ever you could produce to demand—should the seasonality for a little while until the backlog normalizes be less muted, or more muted?

Jennifer Sherman

It's typically because of rentals and where we primarily rent. Q2 and Q3 are stronger quarters for our aftermarkets group.

Ian Hudson

But as it relates, Greg, to the new equipment sales, you're right, that should be fairly even with the backlogs we have. There isn't much—weather doesn't play much of a factor there. Unless, there's some dramatic weather that prevents some shipments towards the end of the quarter or something to that effect. But you're right on the new equipment sales, it should be fairly evenly spread, provided the supply chain holds.

Greg Burns

Okay. Great. All right. Thank you.

Operator

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

Jennifer Sherman

Good morning, Marco.

Marco Rodriguez

Good morning, everyone. Morning. Thanks for taking my questions. I don't know if I missed this, but on your growth rates for revenue orders and backlogs, did you break down what was the organic portion of that?

Ian Hudson

Yes, so on the order front, of the 15% order improvement, about 9% was organic, and then with a fairly even split between volume and price. The acquisitions would be about 6%. On revenue, the acquisitions added about $25 million, $26 million of revenue growth.

Marco Rodriguez

Got it. Very helpful. In terms of—just coming back to the supply chain issues, I think we've covered the chassis situation pretty well. But in the last quarter, you guys were talking about just other parts were also causing some issues when it came to manufacturing efficiencies and things. Can you give us an update on that side of the supply chain?

Jennifer Sherman

Yes, there hasn't been a lot of change. We continue to see shortages of hydraulic components, pump cylinders, and certain electrical components. That's created pretty fluid production schedules at our facilities. We're constantly changing the production schedule to reflect the reality of each month’s supply chain challenges. I would note, our ESG group is about the same. Our SSG group has seen some improvement. There's still room to grow (phon).

Marco Rodriguez

That’s very helpful. Sure, sure. In the presentation on your website, you do talk about some automation initiatives, can you maybe describe a little bit more what you're thinking about in terms of automating? Then how should we be thinking about this as it relates to any Capex spend or P&L spend and timing?

Ian Hudson

Yes, I think that, Marco, some of the investments we're making in things like robotic welding machines in certain locations really to improve efficiencies, that's typically something that we always consider as part of our 80/20 approach.

I'd say from a Capex standpoint, outside of the University Park facility purchase that was in Q1, which is going to result and in our Capex for the year looking higher than typical years. Our typical run rate on Capex is $25 million to $30 million. That would contemplate investments of the nature we just talked about at many of our facilities, we would consider investing in machinery that improves our production processes. so that would be contemplated in that $25 million to $30 million.

Marco Rodriguez

Got it. Last quick question, just following-up on some of the questions on pricing adjustments. I understand that everyone is operating in an environment there where prices are continually going up and people have been pretty much reserved to that fact. It's been a little bit easier, perhaps, for yourself and others to push through those pricing adjustments. I'm just curious if you're maybe starting to see any sort of push back, any changes in sentiment as it relates to that?

Jennifer Sherman

In general, no. There's very high demand for our equipment, and we've been relatively successful passing on surcharges and/or price increases.

Marco Rodriguez

Excellent. Great. Thanks a lot for your time, guys. I really appreciate it.

Jennifer Sherman

Thank you.

Operator

The next question is a follow-up from Walt Liptak with Seaport. Please go ahead.

Walter Liptak

Hi. Thanks. Yes, I just wanted to ask a follow-up. I think it was on Mike's question about SSG, and you called out some larger project systems that helped the quarter, I just want to confirm that that's what you said. Have those orders continued to come in? If I recall, those are a little bit lumpy. I wonder if there's a trend there.

Ian Hudson

Yes, most of the improvement, Walt, was actually driven by our public safety equipment, both here in the U.S. as well as over in our Vama business in Spain. The majority of the improvement that we saw around the top line was driven by those businesses. What Jennifer mentioned was, even with that said, there was improvement with our other product line systems as well as the industrial signaling equipment.
The growth was across the board.

But what had driven the systems improvement was, to your point, a couple of larger projects which we typically see, but I don't think what we saw this quarter was anything out of the ordinary in terms of the historical patterns that we've seen.

The backlog for that business is still pretty solid, and I think you'll see the backlog for that entire business at SSG is about almost double what it was at the same point of last year. We've seen some really, really good interest and demand for our products within all of SSG.

Walter Liptak

Okay. Great. 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

In closing, I would like to reiterate that we are confident in the long-term prospects for our businesses in our markets. Our foundation is strong, and we are focused on delivering profitable long-term growth through the execution of our strategic initiatives. Demand for our products is at an all-time high, with federal stimulus and infrastructure legislation offering potential for further multi-year momentum.

I would also like to thank all of our employees with a special shout out to our purchasing, engineering, and operations teams at are businesses for their commitment, creativity, and dedication, addressing this challenging supply chain environment. In addition, I would 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 conference call. You may disconnect your lines. Thank you for participating. Have a pleasant day.