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Federal Signal Corporation

Fourth Quarter Earnings Conference Call

February 27, 2020

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CONFERENCE CALL PARTICIPANTS

Walter Liptak, *Seaport Global Securities, LLC*

Ken Newman, KeyBanc Capital Markets

Chris Moore, *CJS Financial Corporation*

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PRESENTATION

Operator

Greetings, and welcome to the Federal Signal Corporation Fourth Quarter Earnings Conference 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. As a reminder, this conference is being recorded.

It is now my pleasure to introduce your host, CFO Ian Hudson. Please go ahead, sir.

Ian A. Hudson

Good morning, and welcome to Federal Signal's Fourth Quarter 2019 Conference Call.

I am 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 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 Jennifer, 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-K later today.

Jennifer is going to start today with her perspective on our performance and then I will provide some more detail on our fourth quarter and full-year financial results. Jennifer will then go over our outlook for 2020 before we open the line for any questions.

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

Jennifer L. Sherman

Thank you, Ian.

I'd like to kick things off by addressing some of the uncertainty that we have seen in global markets in recent years and how we have managed through these challenging times.

As I reflect back over the last four years since I became CEO one thing that stands out to me is the manner in which our businesses have performed when faced with a series of complex challenges, delivering financial results that are outstanding in both absolute terms and in comparison to our specialty vehicle peers.

Since 2016, our net sales and adjusted EPS have grown at a CAGR of 20% and 39% respectively. Internally we refer to this quality as grit, that special blend of perseverance and resilience, and I'm extremely proud of how our teams have demonstrated grit in navigating through the unpredictability that we have seen from time to time in today's dynamic global environment, yet at the same time maintaining a relentless focus on profitable long-term growth.

For example, while many companies were adversely affected by the imposition of tariffs in 2018, our team's proactive approach to pricing and procurement largely neutralized the impact of higher materials costs. With unemployment levels, many companies have recently had difficulties recruiting new employees. At our largest manufacturing facility in Streator, Illinois, we added more than 100 employees in 2019, and we continue to get at least five quality applicants for every open position. This rate of success does not happen by chance.

Over the years, we have worked tirelessly to develop strong connections within the local community through our charitable efforts and the educational programs and attractive benefits that we make available to our employees.

When other specialty vehicle companies experience shortages in the supply of chassis, our vehicle-based businesses were, and will continue to be, relatively unaffected because of their effective management of the supply chain and proactive approach to pre-buying certain inventory.

As I think about 2020, I expect there will continue to be obstacles ahead of us. But I feel confident that with the team's proven track record of anticipating issues and proactively implementing responses, including the application of our 80/20 or ETI principles, we are well positioned to rise to the challenge.

Overall, 2019 was another outstanding year for Federal Signal with our business reporting record annual revenues and earnings. On a consolidated basis, we reported a 12% increase in net sales and a 21% increase in Adjusted EBITDA at a margin of 15.7%. That represented improvement of 110 basis points from last year and performance towards the high end of our target range. This outstanding operating performance contributed to a 27% increase in our adjusted EPS compared to the previous record set in 2018.

Among the many highlights of the year was the completion of the acquisition of the Mark Rite Lines Equipment Company or MRL. As a reminder, MRL is a leading U.S. manufacturer of truck-mounted and ride-on-road marking equipment. The acquisition also included the operations of HighMark Traffic Services, a wholly-owned subsidiary of MRL, which provides road-marking application and line removal services.

Since closing the transaction in July, our collective teams have been focused on integration efforts. While we recognize that there's more work ahead, we are pleased with the progress made so far. I recently attended MRL's largest tradeshow and was impressed with the team's commitment to innovation as evidenced by the number of new equipment features that we had on display as well as the level of customer engagement.

We have also been pleased with MRL's financial performance to date with the acquisition contributing approximately $0.03 to our full-year EPS in 2019.

During the year, we further strengthened our balance sheet, upsizing our revolving credit facility for another five years. Our strong cash flow generation also supported investments in organic growth initiatives, acquisition-related activity, ongoing debt repayment, and cash returns to shareholders.

Entering 2020, our net debt level ratio remains at a very comfortable level. Our order intake in the fourth quarter set a new record for the Company, resulting in a backlog entering 2020 that was at an unprecedented level. The continued strength and demand is reflective of continued traction on the strategic initiatives we have put in place over the last couple of years.

With the combination of our organic growth initiatives and acquisitions, we are making great progress in diversifying our rental streams and markets. As part of our after-market strategies within ESG, we've established a unifying platform led by the talented team that joined us with the Joe Johnson acquisition in 2016.

With our footprint of service centers strategically positioned across North America, we have over 20 locations from which we can effectively serve our customers by selling parts and providing equipment rental or service offerings. Our efforts in this area are paying off with ESG's aftermarket revenues up 13% year-over-year.

The integration of additional vehicle-based acquisitions as part of this aftermarket platform represents a meaningful growth opportunity, and we are currently in the early stages of adding MRL's product and service offerings to this structure.

We also continue to see strong demand for our range of safe-digging trucks with orders in 2019 increasing by $29 million or 28% from last year. This success is a result of the investments we have made in new product development and channels.

As you may recall, we launched TRUVAC, our dedicated brand of safe digging vehicles, at the beginning of 2019. Since then we've expanded our suite of safe digging offerings through new product introductions, including the launch of the TRUVAC Coyote, a compact hydro excavator for utility, municipal and contractor customers, which maximizes payload and productivity while complying with regional weight regulations.

Another milestone in 2019 was the finalization of our distribution strategy for TRUVAC which included assessing each territory and identifying the best partner for the applicable region. In most cases we teamed with current members of our dealer network, whereas in other areas we entered new partnerships. Optimization of our distribution channels will remain an area focus in 2020.

At our facility in Streator, Illinois, where we manufacture both sewer cleaners and safe-digging trucks, we are continuing our efforts to increase production and reduce current lead times. During the year, unit production at the Streator facility increased by 15% compared to last year as a result of our Build More Trucks or BMT initiative. We are making progress with the expansion of facilities, which will not only add capacity to build additional united, but will also provide extra space to test new products and allow us to optimize production flexibility over the long term.

In 2019, we successfully executed this flexible manufacturing model by producing over 50 units at our Solutions center in Leeds, Alabama. As we move forward, we are diligently working on several ways to differentiate ourselves by improving the digital experience of our customers. We have made investments in technology and established a team dedicated to the support of these initiatives which include the launch of a revamped used equipment marketplace and the exploration of an eCommerce platform.

Within SSG, the teams did a great job navigating through the Ford model year change which impacted the availability of new vehicles in the U.S. during 2019. With the introduction of a series of new products we've been able to further penetrate overseas markets and secure orders from several new municipal customers in the U.S.

We saw an 11% increase in the sales of industrial signaling equipment with most of the improvement the results of expanding into new global markets, optimizing our sales channel, and enhancing our marketing efforts.

These factors contributed to SSG improving its Adjusted EBITDA margin by 190 basis points on a year-over year basis to an impressive 18.3%, with the improvement largely resulting from our pricing actions, improved sales mix, and ongoing execution of our 80/20 for ETI initiatives. Based on its consistent performance, we increased SSG's target range during the year.

Overall, the redesign of our new product innovation process, that we introduced several years ago, continues to gain momentum. We estimate that new products introductions represented approximately $75 million of our organic revenue growth in 2019.

Introducing products with more environmentally-friendly features or technology is a key consideration in the overall value proposition to our customers. For example, our range of vacuum or hydro-excavation trucks are designed to be safe not only to the operators, but to the general public in that the use of the technology avoids the potential for striking gas lines, severing cables, or damaging other underground infrastructure.

Our sewer cleaners include options such as a rapid deployment boom and water recycling technology, both of which provide operating efficiencies and environmental benefits.

In addition, we have recently designed, built, and tested a plug-in hybrid electric sweeper that is now being evaluated by customers.

These are just a few examples. To further document our ongoing commitment to environmental, social, and governance initiatives, we are planning to publish our Inaugural Sustainability Report later this year.

Looking forward, we intend to maintain our focus on new-product development and other growth initiatives in our pursuit of value-added acquisitions.

Over the last four years, we've completed four acquisitions, all of which have been within the specialty vehicle space. While growing our specialty vehicle offerings will remain our primary focus, we are also open to considering smaller acquisitions to expand the product lines and geographic reach of our Safety and Security Systems Group.

Our deal pipeline continues to be active and with our healthy cash flow generation and enhanced financial position, we have significant flexibility to pursue additional strategic acquisition candidates.

Taking these factors into account, we remain committed to delivering a long-term shareholder value by growing our top line at a CAGR in the high single digits while maintaining our EBITDA margin performance within our target ranges and generating strong cash flow.

I'll now turn the call back to Ian to go over the numbers.

Ian Hudson

Thank you, Jennifer.

Our financial results for the fourth quarter and full year of 2019 are provided in today's earnings release. Overall, our fourth quarter results represent a strong finish to an excellent year.

Before I talk about the fourth quarter, let me highlight some of our full-year results.

Consolidated net sales for the year were approximately $1.22 billion, an increase of $132 million, or 12% compared to last year.

Operating income for the year was $147.1 million, an increase of $25.6 million, or 21%.

Consolidated Adjusted EBITDA for the year was $191.3 million, up $32.7 million, or 21%, with both of our groups reporting double-digit improvement.

On a consolidated basis, Adjusted EBITDA margin for the year was 15.7%, up 110 basis points from last year, and towards the high end of our target range.

GAAP earnings for the year equated to $1.76 per share, an increase of $0.23 per share, or 15% from last year. On an adjusted basis, we reported full-year earnings of $1.79 per share, which is up $0.38, or 27%, compared to last year.

Total orders for the year were approximately $1.27 billion, an increase of $96 million, or 8%, from last year.

For the rest of my comments I will focus mostly on comparisons over the fourth quarter of 2019 to the fourth quarter of 2018.

Consolidated sales for the quarter were $314 million, an increase of $35 million, or 12%, from last year.

Consolidated operating income in Q4 this year was $36.4 million, up $3 million, or 9%, from last year.

Consolidated Adjusted EBITDA for the quarter was $48.5, up $5.9 million, or 14%, from last year. That translates to a margin of 15.4%, toward the high end of our target range, and up 20 basis points from last year.

Income from continuing operations was $29.7 million in Q4 this year compared to $32.2 million last year when we recognized an $8.6 million benefit associated with a tax-planning strategy in Spain. That equates to GAAP earnings of $0.48 per share compared to $0.53 per share in Q4 last year. On an adjusted basis, our earnings in Q4 this year were $0.48 per share, an improvement of $0.10 per share, or 26% compared to last year.

As Jennifer just mentioned, our order intake for Q4 this year set a new record for the Company, with the $333 million of orders received representing an increase of $35 million, or 12%, from Q4 last year.

On the back of this improvement, we ended the year with a record consolidated backlog of $387 million which was up $49 million, or 15%, compared to last year.

Now, turning to our group results. Within ESG, fourth quarter sales were $252.2 million, up $34.9 million, or 16% compared to last year. The revenue growth was largely driven by increases in shipments of street sweepers, safe-digging trucks, and dump truck bodies, as well as a $17 million contribution from MRL.

ESG's operating income for the quarter was $33 million, up $6.1 million, or 23%, from last year.

Adjusted EBITDA for the quarter was $43.8 million, an improvement of $8.5 million, or 24%, from last year. That translates to an Adjusted EBITDA margin of 17.4% in Q4 this year, up 120 basis points from last year.

ESG's fourth quarter orders were again strong at $271 million, an increase of $31.3 million, or 13%, from last year.

SSG's results for the fourth quarter of this year essentially matched its outstanding fourth quarter of last year. Sales and operating income were largely unchanged at $62.2 million and $11.8 million, respectively. SSG's Adjusted EBITDA for the quarter was $12.6 million, up from $12.5 million a year ago. Its Adjusted EBITDA margin in Q4 this year was again impressive at 20.3%, exceeding the high end of its target range, and up 20 basis points from last year.

Corporate expenses for the quarter were $8.4 million compared to $5.3 million a year ago, with approximately $1.7 million as the year-over-year increase resulting from changes in fair value adjustments to certain reserves. These market-based adjustments benefitted earnings in Q4 last year by approximately $0.02 per share, but were unfavorable in Q4 this year.

Looking now at the Consolidated Income Statement, where the increase in sales contributed to a $9.5 million improvement in gross profit. Consolidated gross margin improved to 25.9% of the quarter, up 10 basis points from last year.

As a percentage of sales, our selling, engineering, general, and administrative expenses for the quarter were up 50 basis points from Q4 last year largely due to the increase in corporate expenses that I just mentioned.

Other items affecting the quarterly results include a $400,000 increase in acquisition-related expenses, and a $300,000 decrease in interest expense. In Q4 this year, we recognized income tax expense of $4.8 million largely due to the increase in pre-tax income levels which was partially offset by the recognition of approximately $3 million of discreet tax benefits, primarily due to the resolution of state tax audits and stock compensation activity. Collectively, these items added about $0.05 to our fourth quarter EPS.

During the quarter we also released $800,000 of valuation allowance that had previously been recorded against state-deferred tax assets. In Q4 last year, we recognized an income tax benefit of $1 million, primarily due to the recognition of the Spanish Tax Back Planning Benefit that I mentioned earlier, partially offset by additional tax expense on higher income.

Excluding the release of the State Tax Valuation Allowance, our effective tax rate for the full year of 2019 was 22.4%. That rate included benefits and releases of tax reserves, resolutions of tax audits, and stock compensation activity. Absent any similar benefits, we currently expect that our tax rate will revert to a more typical range of between 25% and 26% in 2020. That is the same range as we had anticipated entering 2019.

The normalization of our tax rate in 2020 will represent a year-over-year EPS headwind of up to $0.09. On an overall GAAP basis we've, therefore, earned $0.48 per share in Q4 this year compared with $0.53 per share in Q4 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. We also typically exclude special tax items like the state tax valuation allowance release in the current year and the tax planning benefit last year.

On this basis, our adjusted earnings in Q4 this year were $0.48 a share, up 26% compared with $0.38 per share in Q4 last year.

Switching now to our cash flow which was very strong in the fourth quarter. We generated $44.8 million of operating cash flow in the quarter, more than double the amount generated in Q4 last year. That brings the total amount of operating cash flow in 2019 to $103 million, an 11% improvement compared to last year.

The improved cash flow facilitated a $30 million debt reduction in the quarter as well as continued strategic investments in new machinery and equipment and other organic growth initiatives like the expansion of our manufacturing facilities in Streator, Illinois and Rugby, North Dakota.

At the end of the year we had around $269 million of availability under our credit facility, with the option to increase that by an additional $250 million for acquisitions. Our strong financial position allows us to continue to invest in organic growth initiatives like ongoing new product developments and facility expansions.

In 2020, we are anticipating that our cap ex, including investments associated with ongoing plant expansions, will be in the range of $30 million to $35 million. At the same time, we remain committed to pursuing strategic acquisitions and funding cash returns to shareholders. On that note, we paid a dividend of $0.08 per share during the fourth quarter, amounting to $4.8 million, and we recently announced a similar dividend for the first quarter of 2020.

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

Jennifer L. Sherman

We entered 2020 with a record backlog that is 15% higher than a year ago. In addition, conditions in most of our end markets remain healthy, as demonstrated by our record fourth quarter order intake, and we continue to gain traction with our strategic initiatives.

While ESG's backlog provides us decent visibility into the first half of 2020, lead times for certain products, particularly sewer cleaners and safe-digging trucks, remained extended. With the expansion of our Streator facility, we have taken steps to reduce those lead times. We expect to start seeing benefits from increased production in the second half of the year.

Within our industrial markets, we continue to be bullish about our prospects with respect to our safety initiative, and are monitoring further developments on a regulatory front closely.

The number of used equipment units available at auction continues to be at normal levels, supporting healthy used equipment demand in the market. During 2019, that has helped us with the flow of sales out of and into the fleets of our rental partners.

Utilization levels for the major product lines within our own rental fleet continued to exceed our target levels, but we have seen some normalization in the last two months. With more rental units available in the market, we have seen an increase in the return of units during what is typically a seasonally slow period for rentals, and that has impacted utilization in comparison to the unusually high levels we saw at the same time last year when customers were returning rental equipment for longer periods because of more limited availability.

Overall, our rental income in 2019 was up more than 10% on a year-over-year basis, and we continue to believe rentals are a key strategic initiative for the Company.

Within our dump truck business, industry data on new housing starts has a generally positive outlook for 2020, and we've seen uptick in demand over the last few months with TBEI reporting year-over-year order growth of 20% in the fourth quarter.

On the municipal front, our U.S. markets remain healthy overall, with continued strong demand for sewer cleaners. Within public safety markets, we are hopeful that the lingering effects from the Ford model year change will be substantially resolved and SSG will continue to target market-share gains through new product introductions in geographic expansion.

With the upcoming presidential election and general global economic uncertainty, much of which is outside our control, we have less visibility into the second half of this year at this time. Along with many other companies we are watching the situation with respect to the outbreak of the coronavirus.

To add some context for Federal Signal, we have no manufacturing operations in Asia, and the amount of materials that we source directly from the region is less than $10 million.

With a limited amount of direct purchases, current inventory levels, and the potential to find alternative suppliers, we do not expect any direct impact to be significant based on what we know today. However, there's a little more uncertainty with respect to the indirect impact that any extended disruption in the supply chain may have on our ability to procure materials from our domestic suppliers who may procure sub-components from the region. We will continue to monitor events as they evolve.

As we mentioned earlier, the application of our 80/20, or ETI principals was a contributing factor to the margin improvement at SSG in 2019. ETI is, and will remain, a critical part of our culture, and we continue to educate our people on its principles.

And, finally, our financial position entering 2020 is very strong, with low-debt leverage and ample liquidity, allowing us to remain true to our capital allocation priorities.

Turning now to our outlook. Although seasonal effects typically result in our first quarter earnings being lower than subsequent quarters, we are anticipating year-over-year growth with earnings in the first quarter of 2020 expected to represent a similar percentage of our full-year outlook as in 2019.

For the full year, we are projecting top line growth and double digit improvement in pre-tax earnings over a record 2019. In addition, the normalization of our 2020 tax rate to a range of 25% to 26% will represent a year-over-year EPS headwind of up to $0.09. With that, we expect adjusted EPS for the year to be within a range of $1.84 and $1.94. This would represent year-over-year growth of between 3% and 8% over a record 2019 despite the EPS headwind from the normalization of our tax rate in 2020 that we mentioned earlier.

With that, we are ready to open the lines for questions.

Operator

Thank you. We're now conducting a question-and-answer session. If you would like to be placed in the question queue, 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'd 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. Once again, that's star, one to be placed in the question queue. One moment, please, while we poll for questions.

Our first question today is coming from Walter Liptak from Seaport. Your line is live.

Jennifer L. Sherman

Good morning, Walt.

Walter Liptak

Hi, good morning. Good, solid end to the year, especially on the orders. I wanted to ask about the challenges that are out there and just the uncertainty, and—so far, in 2020, have you seen any changes in the order pattern from where they were in the fourth quarter.

Ian Hudson

Based on what we've seen in January, Walt, no. We've—you know, January was a very strong order month, so we haven't seen anything to date that would indicate any meaningful change.

Jennifer L. Sherman

Yes, I opened the call with comments about the teams and our success navigating through difficult challenges over the last four years. There are a number of factors out there, some of them outside our control, and our teams are working diligently in terms of putting plans in place. I feel very confident that we will do a good job maneuvering through whatever challenges that might be out there that we need to face.

Walter Liptak

Okay, great. If I could ask one about pricing and price costs in 2020. I know a lot of the material costs have subsided, but how are you doing on pricing in 2020? Did you raise prices, and how do you look at, or how do you see the price/cost situation?

Jennifer L. Sherman

Several of our businesses have annual price increases that take effect on January 1. It really depends business-to-business. We haven't seen a lot of pushback with respect to those price increases. Again, Walt, as you know, we're very focused on the application of our 80/20 principle, and as we do evaluations of product lines, there are certain product lines that, as we assess the need for them, that we will increase prices to respond to our market conditions.

Walter Liptak

Okay, great. I guess speaking of 80/20, the Safety Group did a great job with profitability in that 200, almost 200 basis points of margin improvement. You're at the top of the range now. Where do you think you can get the margins or the plans in place for 2020 to further improve Safety's margins?

Ian Hudson

Yes. I think, Walt, if you go back to the—I think it was the second quarter of '19 that we actually increased the high end of the target range of our business, and that was really because we'd seen something of a set change in the business in terms of the impact that new product development has had on that business. We talked also about the expansion of the distribution channels. We're doing more business now globally within certain of our product lines within SSG. We felt confident that we will be able to consistently perform within those target ranges. That's really why we increased it. The fourth quarter is—if you look back at last year, it was also really, really strong. I think our EBITDA margin in Q4 of last year was also in excess of 20%.

The fourth quarter tends to have some seasonal strength to it within that business, particularly, really, on the systems side where we could get some large orders for systems that we were able to ship before the end of the year. That's really what drives the seasonal strength in SSG in the fourth quarter.

Walter Liptak

Okay, great. Okay. Thanks. I'll get back in queue.

Ian Hudson

Okay.

Operator

Thank you. I have questions coming from Steve Barger from KeyBanc Capital Markets. Your line is now live.

Jennifer L. Sherman

Good morning, Steve.

Ian Hudson

Hi, Steve.

Ken Newman

Hey, good morning, guys. It's actually Ken Newman on for Steve.

Ian Hudson

Hi, Ken.

Jennifer L. Sherman

Hi, Ken.

Ken Newman

Hey, good morning. Just curious. I appreciate the color on the $75 million of organic revenue coming from new products in the year or in the quarter. I'm just curious. How, how should we think about contributions from new product development in 2020 that's contemplated in the guide, and maybe any color in terms of the total addressable market, whether that's grown or changed for your new safety initiatives across the business?

Jennifer L. Sherman

Yes. Well, I'll start with Safety again. We have adjusted that total accessible market estimate over the last couple of years. It continues to go up, and that's really because we're educating customers about the values of safe digging with demonstrations and we continue to track demonstrations. Those are an important indicator because in certain circumstances this type of equipment replaces backhoes and shovels.

I think the other thing that's very important that could have a meaningful impact on the size of the addressable market would be increased regulations. We're encouraged by what we've seen. During 2019, with three additional states, adopted legislation recognizing safe digging as a best practice. We've also in the past several years seen OSHA adopt regulations that acknowledge that safe digging is a best practice. We expect that mark to continue to grow.

With respect to other new product development, we continue to believe that—we target high single-digit growth, half of that coming from acquisitions, and the other half coming from organic growth initiatives.

We've got more ideas in the pipeline as we move forward. The teams are very energetic about this. What's really exciting to see is we've started this journey several years ago. We've had some good winds and it's really changed the culture of the Organization about new product development.

These are exciting teams to work on and we feel really good about the pipeline that we have in place for those projects.

Ken Newman

That's really great color. I just want to switch over to the M&A pipeline. I know you had mentioned maybe in more—a higher preference from smaller bolt-on deals out of ESG. As you kind of think about the candidates within that business, has—any change to how you look at—what are the parameters you look for in an acquisition? Are these candidates that you're—that's in the pipeline today, are they immediately accretive to the business or margins?

Jennifer L. Sherman

Yes. Let me just clarify, Ken. With respect to ESG, we're open and looking at acquisitions in everything from $50 million to a couple hundred million dollars. The pipeline is—we're looking at a number of different sizes, and we're very committed to our discipline acquisition criteria. Specialty vehicles, particular focus on work trucks is an area of focus. The aftermarket is also something that we think has a lot of opportunity and we're continuing to expand our platform.

My comments on the call about SSG were really to indicate that we're very pleased with the performance and the stability that Mark Webber's leadership has brought to that organization. We believe that now that they're in the position to—we're looking at some bolt-on type acquisitions that would be smaller for SSG. We wanted to let you all know about this kind of exciting new development in out M&A strategy. But keep in mind, the primary focus is really going to be in the ESG area.

Ian Hudson

Ken, I would add just on the kind of the financial filters that we look at, there really hasn't been any change in those. We're still looking for businesses that, over time, can operate within those target ranges that we have. They may not—at the time we buy them, they may not be performing within those ranges. But after we apply our ETI principles to those businesses, we would expect them to be performing within that range. That's one of the main filters. As we do diligence on an acquisition, that's what we look for.

Jennifer L. Sherman

Yes. I guess I'll add a little bit more color commentary in terms of—I talked on the call about the MRL acquisition and integration. This Management team is—every time we do a new acquisition, we're getting better at it. I'm really pleased with the performance of the acquisitions that we've done during my tenure as CEO. Acquisitions will continue to play a meaningful part in our growth story going forward. We think there's a lot of opportunity out there.

Ken Newman

That's great color. Last one for me, and I'll jump back into the queue. I just wanted to kind of hit back on Walt's prior questions. Maybe more on the consolidated side. You are at the top end of your consolidated EBITDA margins target for the year. Has there been any thought to increase those margin targets? Has the near-term uncertainty really make it harder for you to achieve those kinds of levels given maybe some, some more moderation in demand when you weigh it out against progress in your 80/20 initiatives?

Jennifer L. Sherman

Yes. I think Ian referenced the fact that we did increase the SSG margin in 2019. What we want to see is continued performance at that high end of that range before we would make any type of adjustment. As we move through 2020 we're continued to focus on operating our businesses within those ranges.

Ken Newman

Got it. Thanks.

Operator

Thank you. Our next question is coming from a Chris Moore from CJS. Your line is now live.

Chris Moore

Hey, good morning.

Jennifer L. Sherman

Good morning, Chris.

Chris Moore

Good morning. Maybe, Jennifer, you just talk a little bit more about one of the things you touched on your 2020 initiatives, that the further optimization of distribution and just maybe some more details there.

Jennifer L. Sherman

Yes. I mean we have an outstanding dealer network for our municipal products. This year we introduced—in 2019 we introduced the TRUVAC line, and we did an assessment of each of the dealers in the territory to optimize distribution of that particular product. In the majority of cases, we partnered with our existing dealers. There were some examples that we partnered with entities outside of our dealer network. We were very fortunate because of the attractive growth opportunities for the TRUVAC line to identify, in particular, one strong partner in the Colorado/Oklahoma area that were just signed up. We'll continue to do that assessment and make sure that we're optimizing our channels so we can best serve our customers.

Chris Moore

Got it. Thank you. Yet you—you talked about kind of from where you sit today that conditions in most end markets remain favorable. Could you perhaps talk about those where things are a little less favorable at this point?

Jennifer L. Sherman

Yes. We've talked previously, Carl, about TBI business for our trailer business. We continue to monitor the Class 8 Chassis situation. It's a small part of our business, but it's one that we've seen the orders can be lumpy through different quarters, and we're learning more about that business. That would be one that we will continue to monitor.

On the SSG side of our business, we are confident that we're through the Ford model year changeover, but that's an area where, actually, the proof is in the pudding. I want to see those cars at a regular sustainable rate. So that's another area that we're continuing to monitor as we move forward.

Chris Moore

Got it. A last question from me. Just on the Streator expansion, beyond just more capacity, can you talk a little bit more about what that brings to you, the flexibility, etc.

Jennifer L. Sherman

Sure. I was down there a couple of weeks ago and visiting with the team. Really impressed with the progress that was made, and we expect to see the benefits in the second half of the year. It's kind of like having a garage that's empty because all of a sudden now we've got lots and lots of ideas in terms of even beyond our original ideas of what we can do. We're looking at a possible—the space is possible area to—if we were to buy a small product line, that type of acquisition, we could possibly fold it into the Streator facility. With respect to new product development, particularly in adjacent areas, it gives us the manufacturing footprint that we need to pursue that type of area.

As we look at some of these—we talk a lot about—and this is a focus we really believe that differentiates our products from the environmental features on our products. The testing is absolutely critical, so as we move forward (inaudible). We're also looking at it as a training center for not only Vactor, but for our customers and other Federal Signal locations. So a lot of excitement.

Really, what—where I'm encouraged is our ability to attract people. We hired the people we need for the expansion during 2019 because we've been training them. So as the facility goes online, the expansion goes online, they're ready to go. We hired over 100 people, and we're still getting five qualified applicants, and it's a real credit to the team down there and the relationships that they've developed at, I believe it's three local high schools, where our welding supervisors are in the schools training people. We donate equipment to the people, and they're very strong connections.

It is a preferred place to work in the area, and something that we're all very proud of.

Chris Moore

Got it. Helpful. That's good stuff. I'll jump back in line, but I appreciate it.

Jennifer L. Sherman

Thank you.

Ian Hudson

Thanks, Chris.

Operator

Thank you. As a reminder, it's star, one to be placed into question queue. Our next question is coming from Greg Burns from Sidoti & Company. Your line is now live.

Ian Hudson

Good morning, Greg.

Jennifer L. Sherman

Good morning.

Greg Burns

Good morning. In relation to your revenue guide for next year I guess. Is there anything—anymore quantitative guideposts you could put on, what that means by you expect growth—I mean similar to ‘19 plus, because I know you have a full year of Mark Rite Line in there? But is there any previous sense of maybe what you mean by growth on that top line in 2020?

Ian Hudson

Yes, I—Greg, we don't typically guide to revenue for a, for really for a couple of reasons, and one of them is probably the application of lay—LA-220 (phon) principles, because over the last few years they're working certain product lines or that we, we've maybe—well, with the margin profile hasn't necessarily been as attractive of whose life that we'd maybe walked away from or, if in those situations where we would have been able to get the margin to improve, we've actually given away some of the top line because we've walked away from those product lines.

That's really the reason that we don't dive to the top line because we're very focused on performing within those EBITDA margin targets.

Greg Burns

Okay, thanks. Just a—going back to the Streator expansion. Maybe I was—I misunderstood the timing of it, but I thought it was supposed to be online sometime in maybe the first quarter, or maybe it was the first half of the year. Maybe it is still on track, but is it on track to come online in an expanded capacity from where you thought it would be? Maybe a few quarters ago when you announced the expansion? And once it is online, how much added capacity does that expansion bring? Thanks.

Jennifer L. Sherman

Yes. We were delayed from our original announcement due to the wet weather that occurred in Illinois in the spring of 2019, and we updated you all about that situation. That created an 8-to-12-week delay. But since then, we've been on target. Originally we announced the expansion. I think we talked about kind of the end of the first half of the year. So that's been pushed into the third quarter. But that's no different than what we talked about in the last couple of calls.

We're starting to move into the space over the next couple of weeks. The vast majority of equipment is there. We have the people hired. It's really exciting. We've got a program in place now where in the schools we're having signing days for Vactor, similar to what they do for college athletes to come work at the facility. So a lot of great energy in the community around this expansion and the opportunities that it creates.

We've talked about the capacity, the addition in terms of capacity, as being 30% to 40%. But that's over time, too, because our first project and first focus will be on reducing lead time for our sewer cleaning and safe digging lines. As I mentioned earlier, it will support some of our new product development initiatives and some of the additional testing requirements of these kinds of trucks.

Greg Burns

Okay, great. Then on safe digging, I know you've kind of revamped the channel, and there's a little bit of an evangelical element to this. You have to educate the market. So how you feel going into 2020? Are you seeing maybe more trials or higher conversion rates? Is the channel now more up-to-speed where you might see a—even a pick-up from the nice growth you saw in '19? How do you feel about your position going into 2020 based on some of the groundwork you laid in 2019? Thanks.

Jennifer L. Sherman

Yes, I mean, our orders in '19 were up 28%. That was a good year. I think it's absolutely critical. Distribution is critical and the launch of the TRUVAC brand and the strong distributors that we have in place is critical to success. We have been very focused on building out our product line of space-digging trucks, so we introduced the Coyote. It was down at our tradeshow last week, at the WWETT Show. And demonstrations as we talked about the importance.

I think where the step-change comes is increased regulation. These talks are mandated. For example, in Ontario, Canada, on certain applications, and the—what we've seen in terms of the progress of regulation in the U.S. has been pretty dramatic over the last three years. As that continues, I think that's going to drive a lot of the additional demand.

Greg Burns

Okay, thank you.

Operator

We've reached the end of our question-and-answer session. I'd like to turn the floor back over to Jennifer Sherman for any further or closing comments.

Jennifer L. Sherman

In closing, I'd like to reiterate that we are confident in the long-term prospects for our businesses and our markets. Our teams are performing at a very high level and remain focused on delivering high-quality results. We remain committed to investing in our businesses and our people to generate sustained, long-term success for our shareholders. Our foundation is strong and we are focused on delivering profitable, long-term growth to the execution of our strategic initiatives.

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 will talk to you next quarter.

Operator

Thank you. That does conclude today's teleconference. You may disconnect your line at this time, and have a wonderful day. We thank you for your participation today.