Federal Signal Corporation

Third Quarter Earnings Call

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PRESENTATION

Operator

Greetings. Welcome to the Federal Signal Corporation Third 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 of Strategy and Investor Relations. Thank you, Felix. You may begin.

Felix Boeschen

Good morning, and welcome to Federal Signal's Third 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 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.

Ian will start today by providing details on our third quarter financial results. Jennifer will then provide her perspective on our performance, provide an update on our multi-year growth initiatives and reflect on our updated guidance for 2026. After our prepared comments, we will 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 third quarter financial results are provided in today's earnings release. In summary, we delivered strong financial results for the quarter with 18% year-over-year net sales growth, 19% operating income improvement, a 33% increase in orders, and a 50 basis point improvement in Adjusted EBITDA margin during a record-setting third quarter.

Consolidated net sales for the quarter were $656 million, an increase of $101 million, or 18% compared to last year.

Consolidated operating income for the quarter was $111.4 million, up $17.4 million, or 19% compared to last year.

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Consolidated Adjusted EBITDA for the quarter was $140.4 million, up $24.2 million, or 21% compared to last year. That translates to a margin of 21.4% in Q3 this year, up 50 basis points compared to last year.

GAAP diluted EPS for the quarter was $1.29 per share, up $0.18 per share, or 16% from last year. On an adjusted basis, EPS for the quarter was $1.34 per share, up $0.20 per share, or 18% from last year.

Order intake was again strong, with Q3 orders of $620 million representing an increase of $153 million or 33% compared to last year. Backlog at the end of the quarter stood at $967 million.

In terms of our group results, ESG's net sales for the quarter were $564 million, an increase of $98 million, or 21% compared to last year.

ESG's operating income for the quarter was $101.4 million, up $16.1 million, or 19% compared to last year.

ESG's Adjusted EBITDA for the quarter was $126.4 million, up $21.5 million, or 20% compared to last year. That translates to an Adjusted EBITDA margin of 22.4% in Q3 this year, compared to 22.5% in Q3 last year.

ESG reported total orders of $530 million in Q3 this year, an increase of $159 million, or 43% compared to last year.

SSG's net sales for the quarter were $92 million this year, up $2 million, or 2% compared to last year.

SSG's operating income for the quarter was $22.8 million, up $900,000, or 4% from last year.

SSG's Adjusted EBITDA for the quarter was $23.9 million, up $1 million, or 4% from last year. That translates to an Adjusted EBITDA margin for the quarter of 26.1%, an increase of 50 basis points compared to last year.

SSG's orders for the quarter were $90 million, up 2% sequentially, but down 6% compared to Q3 last year.

Corporate operating expenses for the quarter were $12.8 million, compared to $13.2 million last year.

Turning now to the consolidated income statement where the increase in sales contributed to a $27.7 million improvement in gross profit. Consolidated gross margin for the quarter was 28.9%, compared to 29.1% in Q3 last year.

As a percentage of net sales, our selling, engineering, general and administrative expenses for the quarter were down 50 basis points from Q3 last year. Other items affecting the quarterly results included a $2.3 million increase in amortization expense, a $400,000 reduction in acquisition and integration-related expenses, a $2.5 million increase in interest expense, and a $300,000 increase in other expense.

Tax expense for the quarter was $25.5 million, up $3.1 million from the prior year, with the increase primarily due to higher pre-tax income levels. Our effective tax rate for the quarter was 24.3%, compared to 24.8% last year. At this time, we expect our fourth quarter effective tax rate to be approximately 25%, excluding any discrete tax items.

On an overall GAAP basis, we therefore earned $1.29 per diluted share in Q3 this year, compared with $1.11 per share in Q3 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 year quarter, we made adjustments to GAAP earnings per share to exclude acquisition-related expenses, charges associated with previously discontinued operations, and purchase accounting expense effects. On this basis, our adjusted earnings for the quarter were $1.34 per share, compared with $1.14 per share last year.

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Looking now at cash flow, we generated $91 million of cash from operations during the quarter, an increase of $30 million, or 50% from Q3 last year. That brings the total cash generated from operations in the first nine months of this year to $306 million, an increase of 94% over the same time period last year. The increase in cash generation is primarily due to higher net income levels and working capital management, including a meaningful benefit from New Way.

During the quarter, we completed the acquisition of Western Technology for approximately $9 million and paid approximately $13 million to finalize the purchase price closing adjustments related to the New Way acquisition.

We also paid down around $34 million of debt, ending the quarter with $347 million of net debt and availability under our credit facility of $1.04 billion.

Our current net debt leverage remains low, even after accounting for the acquisition of Global Vacuum Systems, which we completed yesterday for an initial payment of approximately $29 million.

With our financial position remaining strong, we have significant flexibility to invest in organic growth initiatives, pursue additional strategic acquisitions, and return cash to stockholders through dividends and opportunistic share repurchases.

On that note, we paid dividends of $9.2 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 fourth quarter. During the quarter, we also repurchased approximately $5 million of shares, buying back around 44,000 shares at an average price of approximately $114 per share.

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

Jennifer Sherman

Thank you, Ian.

As I reflect on the quarter, I am most pleased with the agility and resilience that our businesses exhibited as our teams are executing on our pipeline of strategic initiatives, which helped drive high-teens organic order growth within our ESG group. I will update you on several of these strategic growth initiatives throughout my remarks.

Our third quarter results includes records across consolidated net sales, adjusted EPS, Adjusted EBITDA and Adjusted EBITDA margin, thanks to outstanding contributions from both of our groups.

Within our Environmental Solutions Group, we delivered 21% year-over-year net sales growth and a 20% increase in Adjusted EBITDA.

Adjusted EBITDA margin of 22.4% was in the upper half of our ESG target margin range of 18% to 24%, despite a slightly dilutive impact from recent acquisitions, including the impact of investments we are making at New Way and other businesses to drive long-term profitable growth.

Acquisitions were a material contributor to net sales in the quarter, with New Way and Mega driving notable increases in sales of refuse trucks and mineral extraction support equipment.

Organically, excluding the impact of third-party refuse trucks, ESG net sales grew mid-single digits year-over-year. Growth in our aftermarket business, leveraging the power of our platform to drive internal profit growth initiatives, and proactive management of price/cost dynamics were meaningful organic contributors.

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Demand for our aftermarket offerings remained strong, aided by contributions from recent acquisitions. For the quarter, aftermarket revenue increased 21% year-over-year, primarily driven by higher demand for aftermarket parts, higher used equipment sales, and rental income growth. We continue to experience strong rental demand with rental income up 24% year-over-year, led by growth in rentals of our safe digging trucks and combination sewer cleaners. As a reminder, our aftermarket ecosystem, which spans parts and services, rental, rent-to-own, and used equipment offerings, continues to unlock previously underserved customer cohorts for Federal Signal.

As we have previously noted, our teams are executing on a multi-year growth strategy to drive higher aftermarket revenue across the enterprise. As part of this multi-pronged strategy, we are further scaling and investing in our Build More Parts initiative, whereby we are vertically integrating certain parts production.

We are also expanding our geographic footprint of aftermarket parts and service center locations to better serve our customers and capture more parts opportunities. As an example, during the third quarter, we opened a new branch in Quebec City, Canada. This represents the 20th new service center location we have added since 2019. While just one of many examples of our broader aftermarket strategy, this branch will also allow us to better serve the local Quebec region across our vehicle-based businesses, like Vactor, Elgin, TRUVAC, Trackless, New Way and Switch-N-Go, by increasing equipment uptime through parts and service proximity. For Federal Signal, this drives higher aftermarket parts penetration rates across existing customers while offering a higher value proposition to drive additional conquest customer sales.

We see additional service center footprint opportunities in the coming years. Through cycles, this strategy aims to further mute cyclicality of our earnings streams. In the aggregate, aftermarket represented approximately 26% of ESG revenue in Q3 this year.

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 position us well to absorb more volume into our existing footprint.

Through cycles, we continue to expect approximately half of our annual capital expenditures to be focused on growth initiatives, while the other half focused on maintenance investments.

Shifting to our Safety and Security Systems Group, where the team delivered another quarter of solid results with 2% top line growth, a 4% increase in Adjusted EBITDA, and a 50 basis point increase in Adjusted EBITDA margin. At just over 26%, SSG's Adjusted EBITDA margin for the quarter was in the upper half of our recently raised target range of 22% to 28%.

Lastly, we had another outstanding quarter of cash generation with $91 million of operating cash flow, up 50% year-over-year. Our cash generation is the fuel for our compounding model: acquire, integrate, delever, and then repeat. On an annual basis, we continue to target 100% cash conversion.

Shifting now to current market conditions, the underlying fundamentals across our end markets remain favorable and supportive of strong demand for our equipment and services. As an example, within our vacuum truck end market we are seeing increased adoption of safe digging trucks in the United States as use cases for the technology proliferate across various applications and demand for investment across North American utility infrastructure projects remaining strong.

Within metal extraction support, we are seeing tailwinds from North American megaprojects and high commodity prices.

Across our diversified mix of publicly funded end markets, we see stable funding mechanisms supportive of replacement demand for our specialty vehicles and public safety equipment.

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Within aftermarkets, as our install base of equipment has grown, we are experiencing strong underlying demand for our aftermarket parts and services.

A higher interest rate environment has also historically increased the value proposition of our rental and used equipment offering and remains an important part of our strategy to mute cyclicality of earnings streams.

With that in mind, on an underlying basis, excluding the impact of third-party Labrie refuse orders received in Q3 last year, our orders this quarter increased by $158 million, or 34% year-over-year.

Within our Environmental Solutions Group, orders were up 43% year-over-year, including high-teens organic growth.

Within product lines, we experienced particular strength in organic orders for vacuum trucks, other specialty equipment and aftermarket offerings, led by strong increases in orders for safe digging trucks, road marking trucks, sewer cleaners and metal extraction support equipment.

We are also pleased with the progress we've made this year reducing lead times for street sweepers and are encouraged with the sequential improvement in street sweeper orders we have seen across each quarter this year.

Somewhat offsetting these increases was a slight year-over-year reduction in SSG orders, driven by lower international orders for public safety equipment compared to Q3 last year, when we received a large fleet order in Spain. Despite this year-over-year order decline, demand within SSG remains strong, with the Q3 order intake of $90 million representing its third-highest quarterly orders on record, surpassed only by Q2 and Q3 of last year.

Looking ahead, we expect SSG to report organic year-over-year order growth in Q4.

In aggregate across the enterprise, we believe our various strategic growth initiatives are resulting in market share gains.

Lastly, our backlog stood at $967 million at the end of third quarter, down approximately $25 million compared to Q3 last year, with $71 million of this reduction associated with the 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 $33 million, about $5 million higher than we had anticipated at the beginning of the quarter due to delays in the timing of deliveries.

As a reminder, net sales of our backlog-intensive products represented approximately 45% of our 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 lines.

Shifting now to an update on our multi-year growth strategy, 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 groups that we have increased several times over the past years.

Starting with our M&A strategy. As Ian just noted, yesterday we announced the acquisition of Global Vacuum Systems, a Texas-based manufacturer of custom liquid vacuum tank, or LVT, trucks. Code LVTs are equipped with vacuum systems designed to collect and transport regulated or hazardous materials such as liquid waste, sludge and contaminated debris in compliance with Department of Transportation regulations. The customer base in this market is primarily comprised of commercial customers such as national environmental service providers and waste haulers that serve a broad range of end markets, including industrial, oil and gas, environmental services, municipal, construction, utilities. We see the acquisition as a logical extension of our existing vacuum truck product lines, as we identify code LVT

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offerings as a gap within our current product portfolio in an attractive niche subsector of vacuum trucks with high barriers to entry.

From a synergy perspective, by leveraging our existing sales channel across our Vactor, TRUVAC, Guzzler, Westech and New Way brands, we see significant cross-selling opportunities. Additionally, we plan to leverage the power of our platform to drive synergies across aftermarket parts and service support, operations, and new product development.

Lastly, the transaction includes the acquisition of Global's 87,000-square-foot manufacturing facility in Texas for approximately $15 million, which also provides us with attractive incremental manufacturing capacity and access to talent, given its proximity to Texas A&M University, as we grow our vacuum truck portfolio long term.

Taking a step back, following the acquisitions of Hog, New Way, Mega and Western Technology, Global marks our fifth acquisition completed within the last two years. While all five of the transactions have varied in size, they are all excellent examples of our M&A growth strategy. Going forward, we continue to expect our acquisitions to vary in size, but we remain committed to achieving mid-single-digit annual net sales growth contribution from M&A on average over a multi-year period going forward. This is consistent with our annual track record dating back to 2016.

Shifting to an update on our various integration efforts, we are excited about the continued progress our teams are making at New Way, Mega and Western Technology. We are still in the early stages of our multi-year integration plans for many of these transactions, but so far both New Way and Mega have exceeded our internal margin and profit contribution expectations every quarter 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 between cost and revenue.

We are pleased with the integration progress at Mega, our third acquisition as part of our metal extraction support vertical, alongside Ground Force and TowHaul. At this point, we have successfully merged our Mega and Ground Force sales channels, and we are actively pursuing a host of efficiency and proven opportunities across the combined vertical, including manufacturing, operations, freight, procurement spend and aftermarket parts.

Lastly, one frequent investor question we receive is to dissect our targeted annual mid- to high-single-digit organic net sales goal through cycles.

Through cycles, we think about our organic growth in three buckets. One, pricing. Two, end market volume growth. And three, execution of various share strategic initiatives, including integration plans aimed at gaining market share and outgrowing our end markets. In any given year, we expect each bucket to contribute 1 to 3 percentage points of net sales growth. The last bucket, execution on strategic initiatives, is comprised of numerous bottom-up initiatives across each individual product line and each manufacturing facility across the broader Federal Signal family.

To use a baseball analogy, as a team, we are focused on ensuring that each individual product line and each individual facility has enough singles and doubles within their strategic growth pipeline to support our long-term organic growth algorithm.

What is exciting and different today compared to just a few years ago is two items.

First, we have grown our specialty vehicle platform over the last decade. We are identifying incremental opportunities to leverage our scale across brands.

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Secondly, our increased scale is allowing us to build out centers of excellence, spanning procurement, our Federal Signal operational system, supply chain optimization, aftermarket, dealer development, sales channel alignment, data analytics and new product development. These centers of excellence are structural drivers that accelerate certain enterprise-wide strategies, providing opportunities for revenue growth and margin expansion.

Turning now to our outlook for the rest of the year, demand for our products and our aftermarket offerings remain strong overall with our third quarter orders up 33% year-over-year. Within our third quarter performance, our current backlog and continued execution against our strategic growth initiatives, we are raising our full-year adjusted EPS outlook to a new range of $5.20 to $5.32, up from the prior range of $5.12 to $5.30.

Primarily due to anticipated delays in deliveries of third-party refuse trucks, we are also narrowing our full-year net sales outlook to a new range of between $2.61 billion and $2.64 billion, from the prior range of between $2.58 billion and $2.67 billion.

Lastly, we are maintaining our CapEx outlook of $45 million to $55 million for the year.

In closing, given that this is our last earnings call of this year, as I sit here today, I believe we are well positioned to achieve another record year in 2027, with the pipeline of our strategic growth initiatives, further integration progress across our recently completed acquisitions, and additional M&A opportunities. Federal Signal continues to strengthen its resilient operating model, underpinned by durable through-cycle earnings growth.

At this time, I think we're ready 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 that your line is in the 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 comes from Tim Thein with Raymond James. Please proceed with your question.

Tim Thein

Thank you. Good morning.

Jennifer Sherman

Good morning.

Tim Thein

Thank you. Apologies, I missed a little bit in the beginning, so please forgive me if this is redundant.

Maybe, Jennifer, if you could just give more color to the extent, again, that I didn't miss it, in terms of the order activity within ESG. Any notable standouts as you think about maybe segmented between your contractor versus your governmental customer base? Just any kind of high-level comments, again, just in terms of underlying order trends?

Then Part B of the question, too, is as you think about—not asking for '27 guidance, but as you think about that construct of organic growth—I guess I'm specifically curious about pricing, kind of that 1-to-3 range

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that we think about historically. On the one hand, you do have the world's contending with higher costs pretty much across the board, so presumably a little bit more pressure as you go into next year. But I also know there's a balance there just given how much pricing has been taken in some of the product categories in recent years. Just thinking about how you kind of balance that equation. Thank you.

Jennifer Sherman

Sure. I'll start with both our publicly funded and our industrial orders were strong in quarter.

From a product perspective within ESG, out of our big product categories, vacuum trucks, aftermarket and other specialty equipment orders were up pretty nicely year-over-year in the quarter.

If you double-click into the products, outside of aftermarket, we really saw strength across safe digging trucks, sewer cleaners, metal extraction and road marking. What was encouraging, again, is another great quarter for our aftermarket business, and then it was a number of product categories within ESG that saw nice organic growth.

Offsetting some of that strength was slightly lower orders for dump trucks on a year-over-year basis, although year-to-date those orders were up nicely. Pretty pleased with the overall progress.

With respect to '27, as I sit here right now, we're well positioned to have another year of growth in '27. As you know, through the cycles, we target low digit annual growth, split—low digit, I'm sorry,—top line annual growth split 50-50 between M&A and organic. As I talked about in the prepared remarks, we feel pretty good about the fundamentals of our end markets. And we're pretty excited about the pipeline that currently exists of internal initiatives we have underway, with particular emphasis on the power of the platform. What I'm continuing to see is the scale of that power of the platform provides opportunities for both revenue growth and EBITDA margin growth.

The only other thing I would note that we've talked about a lot in the past is, as you look at the organic growth algorithm in '27, you have to factor in the discontinuance of that Labrie business. We originally thought we were going to deliver about $80 million of trucks in '26. We've delivered about $50 million. We have about $33 million to go, and as we kind of look at Q4, we think some of that $33 million is going to slip into 2027. We saw about $5 million move from Q3—out of Q3, and that was really kind of the primary driver of the basis for our revised revenue guide for Q4.

Tim Thein

Very good. Thank you, Jennifer.

Operator

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

Chris Moore

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

Understanding the role that Labrie had, so ESG organic growth would have been mid-single digits. I guess what was it actually? And the midpoint of revenue guide at $2.625 million, what would that roughly imply from an organic growth level for the year?

Ian Hudson

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The guide, Chris, I think the guide would imply—I think for Q4 particularly, the range is $6.59 to $6.89. That's what's implied in the guide, so we're implying year-over-year Q4 growth of 10% to 15%, of which we'd expect about half to be organic, similar to what we've experienced over the last few years.

I think the other part of your question was during the quarter. We were probably in the 5% to 6% range, a little lower than what we've experienced at the beginning of the year. That was embedded in the guidance, and it was really mostly a function of our higher build rates during Q1 of '26. Really, it's a result of the comparison in Q1 of 2025 because we had a sizable step-up in production in Q1 and Q2 at many of our factories in order to reduce some of the lead time. So, the organic growth rates were a little higher in the first half of the year than we experienced in Q3, but still, on a full-year basis I still think we're expecting that high-single-digit organic growth, as we've experienced in the last couple of years.

Chris Moore

Perfect. That sounds good.

Obviously, generating a lot of cash, just maybe from—I think nine months, $305 million cash flow from operations. What are the puts and takes that '27 could be in the same range? I'm just trying to understand if '26 is an anomaly or if this strong cash flow is something that can stay at a reasonably close level moving forward.

Ian Hudson

I think, Chris, we continue to target that cash conversion of 100%. I think the average for the last five years has been a little higher than that, closer to 105%. We're certainly higher than that this year.

One of the factors that has contributed to the really strong cash flow in the first nine months of the year is the impact of the New Way acquisition, which, at the time of acquisition, they had more elevated levels of working capital than we would typically see in the rest of our businesses and the teams have just done an outstanding job reducing some of those working capital metrics, focusing on collection of receivables, working down some of the inventory levels, and that's been a really nice tailwind to cash generation.

That's something that probably is more abnormal, I would say, in 2026. But with that said, our businesses continue to generate strong cash flow and we'd continue to expect cash conversion north of 100%.

Chris Moore

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

Ian Hudson

Thanks, Chris.

Operator

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

Ross Sparenblek

Hey, good morning, guys.

Jennifer Sherman

Good morning, Ross.

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Ross Sparenblek

For a seasonally weak quarter, that was your strongest in a couple of years, especially for ESG. Do you see this as more macro-driven or some of your internal efforts? Just on the back of that, where are you kind of seeing the strongest visibility as we look after the '27 and beyond, as we think about some of the product categories like metals, roads, safe digging?

Jennifer Sherman

I think both were strong, but what I was particularly encouraged was in the success that we're making on these internal growth initiatives, particularly around the power of the platform. Again, I would say we're in early days there, with a lot of opportunity. Again, it was the year-over-year pretty dramatic improvement in growth in orders within ESG across many of our product categories: sewer cleaners, mineral extraction, aftermarket, road marking, hydros that I think gives us confidence that 2027 will be another record year at Federal Signal.

Ross Sparenblek

Okay. Got a couple inbound this morning. Any chance you could help us put a little bit more precision on bridging the gap to the high-teens organic ESG orders in the mid-single digit, just some of the parts there?

Jennifer Sherman

Ross, I'm sorry. You broke up in the first part of the question.

Ross Sparenblek

Oh, sorry. We've had several inbounds this morning asking if you could help us bridge the gap on the high-teens organic ESG orders and the mid-single-digit sales, just the bits and parts on how we get there.

Ian Hudson

Sure. When we think about kind of the mid-single-digit organic growth, price was about 3% during the quarter. Then the remainder would be a combination of volumes and mix. That's the breakdown of the organic sales component.

On the order front, as I think Jennifer alluded to, it was really strength across many different product lines that we saw in the organic order growth. Within ESG, I think our orders were up 43%, and then if you break down, if you're looking at the orders then there would be in that kind of the high-teens. Yes. And, Ross, obviously, most of that would be New Way contribution. Western, on the SSG side, really had nominal contributions to orders.

Ross Sparenblek

Okay, that makes sense. Then just maybe sneak in one more. With the parts billed out from the service centers, you noted that this was your 20th since 2019. Can you give us a sense of where that penetration stands today? Are we halfway through that process? Do you feel pretty good on where we're sitting on service centers?

Jennifer Sherman

I think the service centers that I referenced support our sales of direct products, and we have quite a bit of white space, both in Canada and in certain regions of the U.S.

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I think the other thing that's really important to understand is as we add new products, both organically and through M&A, there's opportunities to leverage those service centers for those products where we sell direct.

Ross Sparenblek

Okay. It sounds like there's still some room to grow here.

Jennifer Sherman

Absolutely.

Ross Sparenblek

Fantastic. I'll pass it along. Thank you.

Operator

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

Jennifer Sherman

Good morning, Steve.

Jacob Moore

Thanks. Good morning. This is Jacob on for Steve.

Jennifer Sherman

Hi, Jacob.

Jacob Moore

Thank you for taking our questions. First one on refuse. Yesterday and then also just this morning, both of your largest refuse competitors indicated that order patterns are shaping up pretty nicely ahead of a potential recovery in '27, so hopefully you're seeing a similar trend at New Way. I guess the question is, is that true, and, If so, could you provide any insight that you have into the timing of an inflection and maybe what the growth setup is looking like there?

Jennifer Sherman

I'll start with when we announced the acquisition last September, we were pretty clear that we thought the industry would be down double digit this year, and that was something we factored into our deal model for New Way. We've been—and it's really been tracking—the first couple quarters we were pleased with the order patterns. We're pleased with the traction that we're getting on the strategic initiatives.

I think as we talked about the synergies we said that we expected to achieve the cost synergies first, the revenue synergies later during that three-year period. We expect the industry, consistent with what you said, to normalize in 2027 and then grow from there.

We're really encouraged by the progress we're making. We like the stability of the refuse industry long term, which is similar to some of our other ESG specialty vehicle businesses with respect to consistent

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replacement demand, heavy usage, and significant opportunities, we believe, for further aftermarket growth.

Finally, we saw a nice sequential pickup in orders in Q3 from Q2, consistent with what you said.

Jacob Moore

Understood. That is helpful. Thank you.

The second one from us is, I know you talked in the prepared remarks about having capacity to grow into with the current footprint. Could you maybe provide any insight into the utilization rate of that current capacity, or maybe differently, if you prefer, what sort of revenue levels, just roughly, you could support if you filled that out? Then the final one here is just, where do you want or need more capacity to support your own medium-term growth goals?

Jennifer Sherman

Right now, I'll say a couple things. We announced yesterday the acquisition of Global. It picked up an 80,000-plus manufacturing facility we bought as part of that transaction. Our intention is to leverage that capacity to support the growth of our vacuum truck businesses, so we're very encouraged about that.

As we talked about previously, we also have additional excess capacity as part of the New Way transaction.

Then we continue to build out capacity by this year. We're building two different warehouses on the property of current existing facilities, so building out more capacity.

With all that being said, excluding the Global transaction we're running around mid-70s. I think that sets us up for—we have the capacity we need, particularly with the addition of Global, and once we complete those warehouses, to support the year-over-year growth for '27/28.

We'll continue to look at it through acquisitions and through this kind of warehousing model and some small additions at existing facilities. I think we've got a pretty good plan to support the growth. We also can leverage those service centers, too.

Jacob Moore

That's really helpful color. Thank you very much.

Operator

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

Jennifer Sherman

Morning, Walt.

Walt Liptak

Good quarter, guys.

I wanted to ask about the selling price increases. You've got inflationary pressure in the first half, and in the second half, accelerating. I wonder if you could talk a little bit about how you're dealing with that, especially in the ESG part of the business. I'd just point out, to me, it looks like the operating leverage was really good, but maybe a step down from the first half.

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Ian Hudson

Walt, just maybe taking a step back, in terms of our raw materials, our major exposure is really steel, and we tend to lock our pricing on steel on a six-month basis. Typically, that's to align with our lead times.

So, we typically will experience some inflation on this during Q4. We factored some of that into the guidance. We expect that to continue into '27, and that is something that we are contemplating when we set the pricing of our products today.

As it relates to other cost increases, I think like most companies, we're monitoring the freight market. For us, that's a low single-digit percentage of our overall cost stack, and often, that's a pass-through for the customer.

Overall, for the quarter, pricing was about 3%, 3.5%. We were net price/cost positive in absolute dollars, and it was also slightly margin-increased, so that's a positive on a year-over-year basis.

The other thing I would say is that where we probably have a higher concentration of steel in some of our dump truck products, that's where the lead times are a little shorter than some of the other ESG businesses, so we can react a lot quicker to inflationary pressures through pricing, as we've demonstrated in previous years as well.

I think that's the approach; the locking of the steel gives us some pretty good visibility to the cost, and that's something we can consider in the pricing of our products.

Walt Liptak

Okay, great. Just switching gears to a comment, Jennifer, that you made, you talked about, I think, within ESG, something called conquest customers. I think that's a new term. I wonder, is that just something that you brought up for the first time on a call? I wonder if you can talk a little bit about what that means.

Jennifer Sherman

Particularly with some of our AI initiatives, and as we leverage channel across the enterprise, we've identified certain customers, particularly on the direct side, with either our new equipment offerings, our used offerings or our rental offerings and that we can really provide a complete package to. Our teams are aggressively working to gain market share.

Where I'm pleased is, if you look at the orders for ESG, some of that growth was with customers that we define as conquest, that we haven't done business with before.

So, just very solid execution on the market growth initiatives, and part of that's represented by these conquest sales. We are encouraged by what we saw and how that sets us up for 2027.

Walt Liptak

Okay, great. It makes sense.

Maybe a last one for me. The stock hasn't been doing great, but you've got $152 million of buyback authorization left. I wonder about the timing. Are you trying to be opportunistic with this? How should we think about your buyback?

Ian Hudson

I think, as you may have seen we had about $5 million of buybacks during the quarter. Obviously, in terms of our allocation priorities, we have organic growth and M&A, and then the dividends and opportunistic

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share buybacks. I think as we've demonstrated in the past, when we feel it's the right time to be opportunistic, we'll certainly look into that.

Jennifer Sherman

As you referenced, the strong cash generation, we're in an excellent position to be able to execute against those buybacks.

Walt Liptak

Okay, great. Thank you.

Operator

The next question comes from Kyle Menges with Citigroup. Please proceed with your question.

Kyle Menges

Thank you. I wanted to follow up on the dump truck orders. Sounds like they were down a little bit year-over-year. Maybe it's a tough comp also, perhaps, is that really where uncertainty around EPA27 and chassis going into '27—is that really where that's showing up? Just would love to hear some color on what you're seeing and hearing from customers in that market as we approach year-end and start to look into 2027.

Jennifer Sherman

I would note that they were down year-over-year but up year-to-date.

With respect, we really haven't seen material pre-buy activity, and we would typically see it in one of the areas, as you noted, which is dump trucks. Frankly, there's still uncertainty around some of the chassis regulations for this year.

I think it's important to understand we're chassis agnostic. We understand that there are a variety of different chassis OEM strategies in response to some of the proposed regulations, and we're happy to work with all of them. Our objective always is to meet our customer needs.

With that in mind, we are looking forward to the finalization of those regulations, as we think that it will give our customers more clarity on their desired chassis choices.

Kyle Menges

Got it. That's helpful, Jen.

Then a follow-up on New Way. Just would love to hear any early feedback on reception, I guess, in Canada. Then I think from my understanding you've got a couple new products that you might be fast-tracking development of in New Way to maybe more effectively compete in that market. We'd just love to hear an update on that, and maybe timeline of when those products could move from development into commercialization.

Jennifer Sherman

Let me just start with kind of a general shout-out to the New Way team, because they've just done—we've had four full—three full quarters and a partial quarter, and just really off to a strong start in terms of building a team. It was just really an outstanding base that we started with, and we've added some people, particularly in the second half of this year. We're aggressively, as you referenced, fast-tracking some new

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product development. I was down at our Booneville plant a couple weeks ago, had an opportunity to meet that team, actually see some of the new products in action, and just encouraged by what I saw.

These are demo-intensive products, so we're in the middle of our multi-quarter Canadian penetration strategy. We've seen some early customer success with some initial orders, but it's probably a bit too early to give a defined update. But the customer reception is good, and we're excited to introduce these new products to them, and really leverage the service centers and teams that we have in place in both Canada and the States. We are encouraged by—we've really started to work with those existing New Way dealers. In fact, they're in our offices today, planning for 2027. So, just overall, a very positive report.

Kyle Menges

Great to hear. Thank you, guys.

Operator

Once again, if you would like to ask a question, please press star, one on your telephone keypad.

Our next question comes from Greg Burns with Sidoti and Company. Please proceed with your question.

Jennifer Sherman

Good morning, Greg.

Greg Burns

A lot of talk about your organic or market share kind of growth initiatives this quarter, and obviously some strong order growth across a lot of product lines. But maybe looking back year-to-date and maybe prospectively, where have you been gaining the most share and where do you see the most opportunities? What markets do you see the most opportunities in for you to gain share going forward?

Jennifer Sherman

Again, I'll repeat: where I'm always encouraged is just the broad-based share gain across several Federal Signal businesses. Aftermarket had a particularly strong quarter, with parts, rental and used equipment all being up very meaningfully.

We talked about sewer cleaners, hydros, just a lot of opportunity there in terms of some of these megaprojects in both utility and some of the data center work that's going on, and we see those as multi-year opportunities.

The mineral extraction,—the Ground Force and Mega teams have just done a super job in terms of integration and pursuing new end markets, particularly some of the success they've had with water trucks.

Road marking—we put those three companies together—Hog, MRL and Blasters—and this year, the teams really aligned those sales teams, and we've seen some good positive momentum there. While maintaining—that business has got a really nice aftermarket tail also.

SSG. Look, they're outstanding in terms of new product development. As I mentioned in my prepared remarks, we expect our fourth quarter to be up year-over-year, and I see some good momentum there.

Overall, it's the strength of the results across several business units. And again, supplying equipment to a diversity of end markets.

Greg Burns

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All right. Great. Thank you.

Operator

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

Jennifer Sherman

Thank you. In closing, as we enter this Thanksgiving season, I want to take a moment to thank our dedicated employees and loyal customers and dealers and distributors and shareholders. Thank you for joining us today, and we will talk to you soon.

Operator

This does conclude today's teleconference. You may now disconnect your lines. Thank you for your participation.

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