



## **Federal Signal Corporation**

## **Second Quarter Earnings Conference Call**

**July 30, 2025**

### **C O R P O R A T E   P A R T I C I P A N T S**

**Felix Boeschen**, *Vice President, Corporate Strategy, and Investor Relations*

**Ian Hudson**, *Senior Vice President, Chief Financial Officer*

**Jennifer Sherman**, *President and Chief Executive Officer*

### **C O N F E R E N C E   C A L L   P A R T I C I P A N T S**

**Timothy Thein**, *Raymond James*

**Sam Karlov**, *William Blair*

**Walter Liptak**, *Seaport Global Securities*

**Steve Barger**, *KeyBanc Capital Markets*

**Christopher Moore**, *CJS Securities*

**Michael Shlisky**, *D.A. Davidson & Company*

**Gregory Burns**, *Sidoti & Company*

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

### Operator

Greetings, and welcome to the Federal Signal Corporation Second 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, please press star, zero on your telephone keypad.

As a reminder, this conference is being recorded.

It is now my pleasure to introduce Felix Boeschen, Vice President, Corporate Strategy and Investor Relations. Please go ahead.

### Felix Boeschen

Good morning, and welcome to Federal Signal's second quarter 2025 conference call.

I'm Felix Boeschen, the Company's Vice President of Corporate Strategy and Investor Relations. Also with me on the call today is Jennifer Sherman, our President and Chief Executive Officer, and Ian Hudson, our Chief Financial Officer.

We will refer to some presentation slides today as well as to the earnings release, which we issued this morning. The slides can be followed online by going to our website, [federalsignal.com](https://federalsignal.com), clicking on the Investor Call icon and signing into the webcast. We've also posted the slide presentation and the earnings release under the Investor tab on our website.

Before I turn the call over to Ian, I'd like to remind you that some of our comments made today may contain forward-looking statements that are subject to the Safe Harbor language found in today's news release and in Federal Signal's filings with the Securities and Exchange Commission. These documents are available on our website.

Our presentation also contains some measures that are not in accordance with U.S. generally accepted accounting principles. In our earnings release and filings, we reconcile these non-GAAP measures to GAAP measures. In addition, we will file our Form 10-Q later today.

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

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

### Ian Hudson

Thank you, Felix.

Our consolidated second quarter financial results are provided in today's earnings release. In summary, in what is typically a seasonally strong period, our businesses were able to deliver 15% year-over-year net sales growth, 20% operating income improvement, gross margin expansion, a 100 basis point improvement in Adjusted EBITDA margin and continued momentum in orders during a record-setting second quarter.

Consolidated net sales for the quarter were \$565 million, an increase of \$74 million or 15% compared to last year. Organic sales growth for the quarter was \$42 million or 9%. Consolidated operating income for the quarter was \$97.7 million, up \$16.6 million or 20% compared to last year. Consolidated Adjusted EBITDA for the quarter was \$118.2 million, up \$20.5 million or 21% compared to last year. That translates to a margin of 20.9% in Q2 this year, up 100 basis points compared to last year.

GAAP diluted EPS for the quarter was \$1.16 per share, up \$0.17 per share or 17% compared to last year. On an adjusted basis, EPS for the quarter was \$1.17 per share, an increase of \$0.22 per share or 23% from last year.

Customer demand remained strong during the quarter with orders of \$540 million, representing an increase of \$67 million or 14% compared to last year. Backlog at the end of the quarter was \$1.08 billion, an increase of \$4 million compared to Q2 last year.

In terms of our group results, ESG's net sales for the quarter were \$481 million, up \$72 million or 18% compared to last year. ESG's operating income for the quarter was \$91.9 million, up \$19 million or 26% compared to last year. ESG's Adjusted EBITDA for the quarter was \$110.8 million, up \$22.6 million or 26% compared to last year. That translates to an Adjusted EBITDA margin for the quarter of 23.1%, an improvement of 150 basis points compared to last year. ESG reported total orders of \$441 million in Q2 this year, an increase of \$45 million or 11% compared to last year.

SSG's net sales for the quarter were \$84 million this year, up \$3 million or 3% compared to last year. SSG's operating income for the quarter was \$21.5 million, up \$3.2 million or 17% compared to last year. SSG's Adjusted EBITDA for the quarter was \$22.6 million, up \$3.3 million or 17%. That translates to a margin for the quarter of 26.9%, up 320 basis points compared to last year. SSG's orders for the quarter were \$99 million, up \$22 million or 28% from last year.

Corporate operating expenses for the quarter were \$15.7 million compared to \$10.1 million last year, with the increase primarily due to higher post-retirement expenses and increased stock compensation costs.

Turning now to the consolidated income statement, where the increase in net sales contributed to a \$25.6 million improvement in gross profit. Consolidated gross margin for the quarter was 30%, a 60 basis point increase over last year. As a percentage of net sales, our selling, engineering, general and administrative expenses for the quarter were down 10 basis points from Q2 last year.

Other items affecting the quarterly results include a \$700,000 increase in amortization expense, a \$300,000 reduction in acquisition-related expenses, a \$400,000 increase in other expense and a \$300,000 increase in interest expense.

Tax expense for the quarter was \$22 million compared to \$16.7 million in Q2 last year, with the increase primarily due to the effects of higher pretax income and the nonrecurrence of a \$2.6 million discrete tax benefit recognized in the prior year quarter, partially offset by a \$700,000 increase in excess tax benefits associated with stock-based compensation activity.

Our effective tax rate for Q2 this year was 23.6% compared to 21.5% in Q2 last year. At this time, we are expecting our full year effective tax rate to be between 24% and 25%, excluding additional discrete tax benefits. On an overall GAAP basis, we therefore earned \$1.16 per share in Q2 this year compared with \$0.99 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 and prior year quarters, we made adjustments to GAAP earnings per share to exclude acquisition-related expenses, purchase accounting expense effects and certain special tax items where applicable. On this basis, our adjusted earnings for the quarter were \$1.17 per share compared with \$0.95 per share last year.

Looking now at cash flow. We generated \$60 million of cash from operations during the quarter, an increase of \$19 million or 47% from Q2 last year. That brings the total cash generated from operations in the first half of this year to \$96 million, an increase of 34% over the first half of last year.

We ended the quarter with \$204 million of net debt and availability under our credit facility of \$515 million. Our current net debt leverage ratio remains low. With our financial position remaining strong, we have significant flexibility to invest in organic growth initiatives, pursue strategic acquisitions and return cash to stockholders through dividends and opportunistic share repurchases.

On that note, we paid dividends of \$8.5 million during the quarter, reflecting a dividend of \$0.14 per share, and we recently announced a similar \$0.14 per share dividend for the third quarter. During the quarter, we also repurchased approximately \$20 million of shares, buying back around 280,000 shares at an average price of \$71.16 per share.

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

**Jennifer Sherman**

Thank you, Ian.

We are proud of our second quarter financial results, which included new quarterly records in net sales, operating income, Adjusted EBITDA, Adjusted EBITDA margin and adjusted EPS, thanks to outstanding contributions from both of our groups. One of our core competitive advantages enabling such growth within the ESG Group is the scale and power of our specialty vehicle platform. This platform spans several operational categories such as sourcing, supply chain optimization, our Federal Signal operational system, sales channel alignment, dealer development, aftermarket support, data analytics and new product development.

As I review our financial results in more detail, I will highlight certain platform benefits that we are continuing to realize. Within our Environmental Solutions Group, we delivered 18% year-over-year net sales growth and a 26% increase in Adjusted EBITDA with higher production levels, growth in sales of our aftermarket offerings, proactive management of price/cost dynamics and contributions from recent acquisitions representing meaningful year-over-year contributors. In what is typically the seasonally strongest quarter of the year, ESG's Adjusted EBITDA margins expanded by 150 basis points year-over-year to approximately 23%.

Given continued strong order levels and an extensive pipeline of internal market share expansion initiatives, our teams remain focused on building more trucks across our family of specialty vehicle businesses. These efforts to increase production at two largest ESG facilities contributed to increases in sales of street sweepers and safe digging trucks with each up by approximately \$10 million year-over-year. From a capacity perspective, our access to labor remains good, supply chains are largely stable and our large-scale capacity expansions that we completed between 2019 and 2022 position us well to profitably absorb incremental volumes into our existing footprint.

I am specifically encouraged by the progress we are making at our Elgin Street Sweeper plant, where we have successfully completed a host of capacity investments spanning fabrication process optimization, expansion of our workforce and several new management hires. These structural changes will enable us to capitalize on the strong demand we see for our RegenX product, a mid-dump regenerative air sweeper that will enable us to expand market share in the historically underserved air sweeper market for Elgin.

Shifting now to aftermarkets, where demand remains strong with revenues up 13% year-over-year. Our teams continue to drive higher parts penetration rates across our specialty vehicle businesses, which contributed to a 13% year-over-year increase in parts sales. Additionally, given strong rental utilization levels, our teams are diligently managing between ensuring sufficient rental equipment availability and used equipment sales to best serve our customers' needs. In the quarter, rental revenue again grew double digits

year-over-year. In the aggregate, aftermarket represented approximately 24% of ESG revenue in Q2 of this year.

In the quarter, we also reported double-digit growth in net sales of metal extraction support equipment driven by healthy end market demand, our reputation for high-quality products and continued channel optimization efforts at Ground Force and TowHaul. In fact, since we completed the acquisition of TowHaul in the fourth quarter of 2022, our teams have grown our distribution partner network for metal extraction support equipment by approximately 15%. These ongoing channel optimization efforts, coupled with the application of our Federal Signal operating model have helped contribute to more than a 70% increase in combined net sales for Ground Force and TowHaul over that same timeframe while expanding margins.

As we look ahead, we see further channel optimization opportunities across this platform, and we are energized by an accelerating new product development pipeline, both of which we believe will unlock further share expansion opportunities. Our most recent acquisitions also contributed positively to top line results in the quarter, with Hog contributing approximately \$21 million of net sales and Standard adding approximately \$12 million of incremental net sales.

Shifting to our Safety and Security Systems Group. The team delivered another outstanding quarter with 3% top line growth, a 17% increase in Adjusted EBITDA and a 320 basis point improvement in Adjusted EBITDA margin. This improvement was primarily driven by a combination of proactive price/cost management, volume increases in our warning systems business and the realization of certain cost savings.

As we shared on our last earnings call, in-sourcing certain componentry from Asia has been an important strategic lever within our SSG business for several years, including the addition of three printed circuit board manufacturing lines at our University Park facility in Illinois since 2022. We continue to see benefits associated with these actions in our financial results in the form of cost savings realization, product quality improvements and expanded available capacity. We are on track to add a fourth printed circuit board manufacturing line before the end of this year, which we expect to provide incremental benefits in 2026 and beyond.

Lastly, we had another strong quarter of cash generation with \$60 million of cash generated from operations, up 47% over the prior year. As a reminder, on a full year basis, we target 100% cash conversion on a net income basis.

Shifting now to current market conditions. Demand for our products and aftermarket offerings remain strong with our second quarter order intake of \$540 million, representing a 14% year-over-year increase and the highest ever second quarter order intake on record for Federal Signal. In fact, our SSG team had a record order intake of \$99 million during the quarter, an increase of 28% compared to last year. Our backlog at the end of the quarter provides excellent visibility for certain key product lines for the remainder of this year and into the first half of 2026.

Within our end markets, orders for our publicly funded offerings were up double digits year-over-year with broad-based strength across product categories at both ESG and SSG. Within SSG, we continue to target opportunities to gain share access across several U.S. law enforcement agencies. Similarly, we are seeing strong market demand for our domestic warning systems and within our European public safety business.

We also saw broad-based demand for our industrial offerings with industrial orders also up double digits year-over-year, notwithstanding a \$25 million year-over-year decline in third-party refuse truck orders associated with the anticipated nonrecurrence of certain regulatory-driven fleet orders received from customers in Ontario, Canada during Q2 of last year.

We are particularly encouraged by the momentum we are seeing in demand for our safe digging trucks with orders up more than \$20 million year-over-year. As safe digging adoption across the United States continues to increase, we see future volume opportunities, both across our external dealer network and

through our expanded direct sales team. In short, demand for our products and services remain strong. Our teams continue to remain focused on reducing lead times for certain product categories while maintaining a healthy order intake.

I would now like to spend a moment discussing our progress on several strategic growth initiatives and provide an update on our through-cycle margin targets. As a reminder, through cycles, we target annual low double-digit top line growth split roughly evenly between inorganic and organic growth. Execution on our strategic initiatives is an important component of that long-term growth algorithm as we look to drive organic growth in excess of end market growth rates.

As part of our strategic initiatives, we have been actively accelerating our good, better, best product strategy across several specialty vehicle businesses with the scaling of certain entry-level products aimed at penetrating historically underserved market subsegments for Federal Signal. Examples of such offerings include our Vactor iMPACT, Elgin Broom Badger and the TRUVAC Paradigm. These products not only unlock deeper penetration of new customer cohorts at different price points, but also represent non-CDL options for customers, thereby expanding their available labor pool. Looking ahead, as we begin to fully integrate Hog in 2026, we see incremental opportunities to advance this strategy across road marking offerings.

Secondly, similar to the success we are seeing at Ground Force and TowHaul, we are pursuing several other cross-selling and sales optimization efforts across our specialty vehicle platform. One such example is our Switch-N-Go product line that we are actively pushing through our company-owned sales channel in Canada. While this initiative remains in early stages today, we are pleased with the progress we are seeing as we look to expand Switch-N-Go brand into Canada.

Thirdly, as we continue to execute on our acquisition strategy, each additional acquisition should further strengthen our platform and widen our value proposition in the marketplace. Hog is an excellent example of this. We are encouraged by Hog's first full quarter under Federal Signal ownership and have already identified substantial future synergy opportunities spanning operational efficiencies, go-to-market strategy, aftermarket optimization and the usage of Hog's unique customer education technology across other Federal Signal products. We remain committed to expanding Hog's margin profile as initial synergies are realized in 2026 and beyond.

Looking ahead, our teams continue to work through our pipeline of M&A opportunities spanning both operating groups. We are currently experiencing one of the most active M&A environments since we embarked on our growth strategy in 2016 and believe that Federal Signal is well positioned to continue driving shareholder value via accretive M&A in coming years.

Turning now to our revised EBITDA margin targets. Shortly after I became CEO, we implemented a set of strategic objectives with associated EBITDA margin targets for our groups and the Company overall. In setting these targets, our intention was to operate within the range on an annual basis through different business cycles. As demonstrated by our past performance, these margin targets have served as the cornerstone of our business operations, and we have aligned our internal compensation practices accordingly.

Last year, we raised the EBITDA margin targets for our Safety and Security Systems Group to a range of 18% to 24% from the previous range of 17% to 21%. Today, building on the success that our teams have driven, we are raising our EBITDA margin target for our Environmental Solutions Group to a new range of 18% to 24% from the previous range of 17% to 22%.

As a result of increasing the margin targets for ESG, we are also increasing our consolidated EBITDA margin target to a new range of 16% to 22% from the previous range of 14% to 20%. Similar to our past approach, these targets do not present any sort of long-term ceiling, and we remain committed to driving profitable growth going forward.



Turning now to our outlook for the remainder of 2025. With our record-setting second quarter performance, our current backlog and continued execution against our strategic and operational initiatives, we are raising our full year adjusted EPS outlook to a new range of \$3.92 to \$4.10 from the prior range of \$3.63 to \$3.90. We are also raising our net sales outlook to a range of \$2.07 billion and \$2.13 billion from the prior range of \$2.02 billion and \$2.10 billion. This updated outlook assumes that the current trade agreements and tariff policies remain in place.

Lastly, we are reaffirming our CapEx guidance of between \$40 million and \$50 million for the year.

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

### **Operator**

Thank you. We will now be conducting a question-and-answer session. If you would like to ask a question, please press star, one on your telephone keypad. A confirmation tone will indicate your line is in the question queue. You may press star, two to remove yourself from the queue. For participants using speaker equipment, it may be necessary to pick up your handset before pressing the star keys.

First question comes from Tim Thein with Raymond James. Please go ahead.

### **Jennifer Sherman**

Good morning, Tim.

### **Timothy Thein**

Hey, good morning. Thank you. I had two questions. The first is on the specifics within the margins in the quarter for ESG, you highlighted a few dynamics in the release. I'm just curious if you would highlight—you mentioned price cost, obviously, the aftermarket growth, though that wasn't as large as the increase in the whole goods volume. I don't know, maybe, Ian, is there a notable highlight that you would call out in terms of a particular driver on the improved margins in the quarter?

### **Ian Hudson**

Yes. I think probably the largest component, Tim, is, as you mentioned, the increased production at our two largest ESG facilities, we've had the objective to really reduce lead times for quite a while now. As we've had success increasing production at those facilities, that has some attractive drop-through in terms of leverage. That in addition to, as you mentioned, the other components we alluded to in the release, the growth in the aftermarket business, which has a slightly more attractive margin profile. That grew 13% year-over-year.

The favorable price/cost dynamics as we've managed through that as well as just some of the underlying operating efficiencies that we generate through the 80/20 principle. That's probably in order of magnitude as I listed those off. But yes, the biggest component would be just the efficiencies from the increased production levels.

### **Timothy Thein**

Okay. Thank you. Maybe just more of a big picture question, just with respect to the recently signed tax reform that can have a myriad of impacts. But I was just thinking, Jennifer, in terms of conversations with customers in terms of maybe from a depreciation standpoint, does it start to maybe move the needle a bit more, probably not so much for your publicly funded customers. But I'm curious about impacts and how you're thinking about it from a demand perspective. Then secondarily, do you think that has any impact on just the M&A landscape? Does it maybe bring more properties to the table or not? I'm just curious if you think that has any meaningful impact either way in terms of more M&A volume? Thank you.

**Jennifer Sherman**

Yes. We believe that the bonus depreciation provisions in the Big Beautiful Bill could be a benefit for our industrial customers and provide some incentives for those customers to purchase new equipment given that these bonus depreciation rules make the economics of the equipment purchases more attractive. With respect to the M&A landscape, I'll restate what I said on the call in terms of it is a very active environment that we're in right now. We have a number of opportunities that we're reviewing both for our SSG team and for our ESG team. I don't expect it to have any kind of meaningful impact this particular year.

**Ian Hudson**

Tim, just on the bill itself, we aren't expecting a significant impact on our effective tax rate in '25 or '26. However, we are expecting to get some benefit from a cash tax savings standpoint just as a result of the bonus depreciation rules. Yes, so we're pleased that those tax benefits that we've had in the past have been restored.

**Timothy Thein**

Thank you very much.

**Jennifer Sherman**

Thank you.

**Operator**

Next question, Ross Sparenblek with William Blair. Please go ahead.

**Sam Karlov**

Hey, good morning.

**Jennifer Sherman**

Good morning.

**Sam Karlov**

This is Sam Karlov on for Ross. Thanks for taking my question. I'll start with margins. Outside of the expected overhead absorption from the underutilized manufacturing capacity, can you talk about what other factors led you to increase your through-cycle margin targets?

**Jennifer Sherman**

Yes. I think it really comes down to we examined the pipeline of our internal initiatives that we believe can prove margin additive, and those include several things. First, continuing to raise production and continuing to leverage our capacity expansions, our growing aftermarket business, we are really pleased with the year-over-year growth in parts. Continuing to realize the synergies from acquisitions that we've done. We talked about the SSG in-sourcing that we've done. We believe that provides further opportunities and execution of the Federal Signal operating model. As we move forward, we have a high degree of confidence of our execution of these initiatives in the long term.



Again, these margin targets are meant to be through the cycle. They're not aspirational targets. Internally, we take them very seriously because they are an integral part of our annual compensation system at each of our businesses.

**Sam Karlov**

Got it. That's super helpful. Then as a follow-up, can you give us an update on what you're seeing in the territories you reassigned earlier this year? Have you seen any disruption? Have you been able to successfully retain customers in the region?

**Jennifer Sherman**

Yes. I would say that the order intake for that particular territory was in line with expectations. We understand that it takes time to gain traction as the new dealers expand their sales teams to serve these territories. They're also making investments in the infrastructure needed to serve these particular territories, and that takes time. But long term, we believe there's opportunity for increased market share for our products. The short answer is we're very pleased with what we've seen thus far.

**Sam Karlov**

Got it. That's helpful. I will leave it there. Thanks, guys.

**Operator**

Next question, Walter Liptak with Seaport Global Securities. Please go ahead.

**Walter Liptak**

Hi. Thanks, guys. Congratulations on a nice quarter.

**Jennifer Sherman**

Thank you, Walt.

**Walter Liptak**

I just wanted to go over these margin target ranges again and just to get a clarity. You increased the ESG margin range, and you went over why that was. But SSG, did you increase margin targets there?

**Jennifer Sherman**

Yes. We had increased the margin targets for SSG in the second half of last year. The team's had a fantastic quarter, as we talked about in the prepared remarks. But given that recency, also that particular team we've talked about has 1% of Federal Signal COGS is exposed to China. It's really the predominant source of that is our SSG team. We're monitoring the tariff situation as we move forward.

We have an internal initiative to in-source additional printed circuit board lines that we're on track to do. Given the recency of our raise of the EBITDA margins for SSG, we'll continue to monitor it. But again, I'll emphasize that we are committed to raising those ranges longer term and very pleased with the progress the teams at both SSG and ESG made during the quarter.

**Walter Liptak**

Okay. Great. Yes, it sounds like that in-sourcing of sourced components is going great, and you mentioned the fourth PCB line going in. How far along are you in that in-sourcing? Is this like the final production line or is there more to go after this?

**Jennifer Sherman**

Yes. I think we're on track, and we expect for it to be fully operational by the end of the year. I think it's important to understand that there are several benefits for SSG team regarding this in-sourcing initiative. One is that it supports the higher growth volumes, but it provides a lot of flexibility for us as we launch new products. We found that it's really accelerated our new product development efforts. We think it could have potential benefits as we expand the SSG platform through M&A. We believe there's future opportunity beyond the fourth printed circuit board line.

**Walter Liptak**

Okay. All right. Great. Just to follow up on that first question again. The profit margins in SSG were really good this quarter. Is that something where we're just being cautious on it or is that a sustainable margin in the back half of the year? Is that in the guidance?

**Ian Hudson**

Yes. I think, Walt, obviously, the team had an outstanding quarter, and there was a couple of things that helped on the margin front. We had some favorable changes in inventory reserves, that's not necessarily baked into the guidance that that's going to repeat in the second half of the year. We also had some of the benefits from the in-sourcing initiatives, and that would be something that we would expect to continue to realize going forward.

As Jennifer mentioned, while we do have a fairly limited exposure on the tariff front, the business that does have most of that exposure is SSG. We're waiting to see how that really plays out. We've baked into the guide the current state. But I think that was probably in terms of the outlook or not raising the targets, for example, for SSG, we want to wait and see how that plays out just to get some additional time behind us.

**Walter Liptak**

Okay, good. Maybe one last one around this in-sourcing. You've done great with the PCB lines. Have you started looking at other things that you might want to in-source and just make yourself? Is this a longer opportunity or do you think the PCB is just a unique opportunity that you had?

**Jennifer Sherman**

Yes. I would say across all of Federal Signal, our businesses are constantly evaluating that in-sourcing, outsourcing balance and looking for opportunities when it makes sense to bring particular componentry in-house.

**Walter Liptak**

Okay. All right, great. Thank you.

**Operator**

Next question, Steve Barger with KeyBanc Capital Markets. Please proceed.

**Steve Barger**

Thanks. Good morning.

**Jennifer Sherman**

Good morning.

**Steve Barger**

It's really good to see the product strategy generating strong results. How do you think about the good, better, best approach, increasing the ESG TAM? Or what could that add to the growth algorithm?

**Jennifer Sherman**

Yes. This has been an effort that we've really been working on over the last couple of years. Going back to our long-term growth algorithm, as you know, we target low double-digit growth, about half of that coming from organic growth initiatives. This is one of the strategies that helps us get those extra points beyond regular end market growth. We're able to leverage our NPD teams. We're able to leverage channel. It really opens up new customer base for us and given the strength of our brands in those particular end markets, we're encouraged by the success that we've seen thus far. In summary, when we talk about how do we outgrow the market, this is an important part of that particular strategy long term.

**Steve Barger**

Do you have enough data to really be able to quantify the share gains at the low end where you didn't participate before?

**Jennifer Sherman**

Yes. As part of our data analytics team, our teams are getting more granular in terms of understanding market share. As we look across the various businesses, our market shares range somewhere between 20% and 50%. Part of it is how you define it. That gives us a lot of opportunity in different categories to continue to expand and grow.

**Steve Barger**

Got it. You had a line in the prepared remarks about Hogs internal tech that you're spreading across other product lines. What is that specifically? Can you talk about any other technology initiatives that you have in place that are helping widen competitive advantages?

**Jennifer Sherman**

Sure, absolutely. Last week, we had our Board meeting down at Hog. One of the things that we took a look at to demonstrate for our Board is their virtual reality training modules. It does everything, three parts to it. One is the, how to operate the equipment, which provides very important training, particularly when several of our customers have labor constraints. Number two, provides different live training regarding repairing equipment. Then finally, it provides access to historical manuals. It is something that we were impressed by the Hog team. We look to leverage that training for other Federal Signal products.

Another example would be their control systems. They've developed very sophisticated control systems that simplify operation of the equipment. We know in our voice of customer studies that, that's something that's very important particularly as labor has turned over for several of our customers. As we move into '26, we'll be looking for opportunities to leverage that technology across the Federal Signal Specialty vehicle platform.

**Steve Barger**

Got it. Okay. If I can just sneak one more in. On the M&A front, it seems like you've become a preferred buyer. Can you talk about what you're seeing for multiples in the specialty vehicle market broadly and what you're seeing on the books that are crossing your desk?

**Jennifer Sherman**

Yes, absolutely. Two parts to it. One is we continue to proactively source deals, and we have developed a reputation as a buyer of choice. In those deals, just repeating, we're really developing a solid pipeline for our SSG business that our intent is to grow that business both organically and through M&A.

On the ESG side, we're continuing to grow that internal pipeline. We also see deals that are brought just by various bankers. I would say that depending on the asset, the interest in the asset, the multiples are all over. It would be hard to quantify because there really is a wide range of multiple expectations out there.

**Steve Barger**

Got it. That's good color. Thank you.

**Jennifer Sherman**

Thank you.

**Operator**

Next question, Chris Moore with CJS Securities. Please proceed.

**Jennifer Sherman**

Good morning, Chris.

**Christopher Moore**

Good morning. Congrats on a terrific quarter.

**Jennifer Sherman**

It is a good morning.

**Christopher Moore**

That's right. Orders strong, \$450 million, up 14%, especially impressive given the exceptionally strong Q1, \$568 million when you had to wonder if maybe there was some pull-through from the tariffs. I guess it's the same question there. How would you view Q2 from that perspective? Is likely much pull forward from what you can tell?

**Jennifer Sherman**

Yes. A couple of things I'll comment on. First of all, when we look at the order composition between publicly funded and industrial, it was pretty broad-based across the board, which was encouraging. Our metal extraction support, vacuum trucks, particularly led by safe digging, sweepers, SSG were all up double digits year-over-year. We don't believe that we saw any significant pull forward in orders from tariffs. If you think about our business, 50% plus is from publicly funded customers. They typically don't pull forward orders given the nature of the RFP or bid board type processes.

**Christopher Moore**

Got it. Very helpful. During the Q1 call, you talked about some SSG competitors sourcing quite a bit from China and that being potentially helpful down the line. Are you seeing much from that? Or just any thoughts there?

**Jennifer Sherman**

Yes. I think that it's probably too early to comment on that particular issue. But I'd just be remiss if I didn't give a shout out to our SSG team. The public safety equipment orders were up \$11.4 million domestically and internationally were up \$5.2 million. Just really strong across the board. Our warning systems business was up \$2.3 million, mostly domestic. As I mentioned, they had a record order intake of \$99 million in the quarter. What I want to emphasize here is the teams are really driving strategic initiatives to expand their market share.

**Christopher Moore**

Got it. I was going there next. Maybe just my last one. Just cash flow overall, terrific first half, cash flow from operations. Just any more thoughts on the balance of '25 moving forward?

**Ian Hudson**

Yes. I think, Chris, we continue to target on an annual basis, 100% cash conversion. That's operating cash flow over net income. I think if you look at where we are year-to-date, we're at just over 80%. We think there's still room for some improvement in the second half of the year. I would also note that when you look at the year-over-year improvement in cash generation, we had \$60 million in Q2 this year, and that was up nicely over last year. That's despite an increase in tax payments year-over-year because in Q2 last year, we received a refund of about \$14 million back. That increase was notwithstanding the fact that, that didn't repeat. We were really pleased with the cash generation during the quarter. We think second half of the year, we'll continue to see strong cash generation.

**Christopher Moore**

Terrific. I will leave it there. Thanks, guys.

**Ian Hudson**

Thank you.

**Jennifer Sherman**

Thank you, Chris.

**Operator**

Next question, Mike Shlisky with D.A. Davidson & Company. Please go ahead.

**Jennifer Sherman**

Good morning, Mike.

**Michael Shlisky**

Good morning. Can I ask about how orders are progressing so far in the first month of the quarter here in July? If you got any phone calls, maybe after the first week of July with some folks on the industrial side

that felt they could have come out of the woodwork with some one Big Beautiful Bill order that they've been holding off on until they had some certainty. Has that been a factor at all in the orders in July thus far?

**Jennifer Sherman**

Yes. We don't typically comment on pending quarter orders. We haven't heard a lot yet because it's relatively new on the impact of the bonus depreciation benefits for industrial customers. But we would expect as we move forward, that could be a possible benefit.

**Michael Shlisky**

Great. Also wanted to ask a little bit more about the good, better, best strategy and the margin impact. As you introduce new products there to fill in spot, it sounds like the smaller chassis side without CDLs, is there a margin impact we should be thinking about there? Or is having your ATI initiatives enough to keep the overall margins for those products halfway decent here?

**Jennifer Sherman**

Yes. I think it's really important to go back to that each one of our business units has EBITDA margin targets as part of their annual compensation system. We take these targets that we set with the Street very seriously. As we develop new products, as we acquire companies, we look through the lens of those margin targets in terms of continuing to increase our EBITDA margins over the long run.

With respect to these particular products, there's an important factor, it's also important to look at that we have available capacity. These particular products would continue to utilize some of that capacity, which has favorable economics. We've also found that some of these products too can be, particularly on the industrial side, in addition to opening up new markets, they might buy a good or better product. Then over time, they would move up into the best product. Finally, it creates stickiness and opportunities for our aftermarket team long run. It really has been in the products that I cited, the Paradigm, the RegenX, the Badger product, we're really encouraged by the results that we're seeing to date.

**Michael Shlisky**

Outstanding. I'll pass it along. Thank you very much.

**Jennifer Sherman**

Thank you.

**Operator**

Next question, Greg Burns with Sidoti & Company. Please go ahead.

**Gregory Burns**

Good morning.

**Jennifer Sherman**

Good morning.

**Gregory Burns**

In the SSG segment, when we look at the revenue recognition this quarter versus maybe the strong orders and backlog, was that just a timing issue in terms of when the orders came in? Or was there any production

bottlenecks, which caused some of that order intake to be pushed out to later quarters? Then within the orders, was there any particularly large fleet type orders or anything worth calling out there? Or was it just broad-based order demand?

**Ian Hudson**

Yes. The order versus sales disparity, Greg, that again, as you mentioned, is mostly timing just in terms of when it came in because typically, within that business, we can receive the order and ship it within the same quarter sometimes. The backlog for SSG, as you probably would have seen, is at a record level. Backlog typically isn't as relevant a metric for SSG as it is for some of our ESG businesses. That's really just a reflection of just the timing of when the orders are received.

There wasn't anything of a material nature in terms of large fleet orders. We had some larger orders from certain customers, but nothing I would necessarily call out in terms of an unusually large fleet order on the SSG side.

**Gregory Burns**

Okay, great. Thanks. Then in terms of M&A, are there any new markets that you're looking at or interested in potentially entering? Within your existing markets, are there any that offer particularly good opportunities for you where you think you're subscale and you'd like to get bigger in those markets given the opportunities that you see ahead for maybe some of those areas?

**Jennifer Sherman**

Yes. I'll reiterate that our pipeline is about as active as it's been. One of the areas that we're encouraged by is the opportunities for our SSG business. We've been working on developing that pipeline over the last couple of years. We think there's a number of opportunities, both currently and in the long run.

With respect to the ESG side, we're continuing to look at new verticals. We're looking at filling in holes within existing verticals, geographic expansion, particularly for our aftermarket team. A lot of opportunity out there. Again, that being that buyer of choice proves to be valuable in many of those acquisitions.

**Gregory Burns**

Okay. Thank you.

**Jennifer Sherman**

Thank you.

**Operator**

Thank you. I would like to turn the floor over to Jennifer for closing remarks.

**Jennifer Sherman**

Thank you.

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



We would also like to express our thanks to our stockholders, distributors, dealers and customers for their continued support. Thank you for joining us today, and we'll talk to you soon.

**Operator**

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