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CECO Environmental Corp. (CECO)

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CORPORATE PARTICIPANTS

Peter Kurt Johansson
Senior Vice President and Chief Financial & Strategy Officer, CECO Environmental Corp.

OTHER PARTICIPANTS

Francis Tucci
Analyst, Jefferies Financial Group Inc.

MANAGEMENT DISCUSSION SECTION

Francis Tucci
Analyst, Jefferies Financial Group Inc.

Good morning. My name is Francis Tucci with Jefferies in New York, and it's my pleasure to introduce Peter Johansson, who's the CFO of CECO Environmental. I'm going to let Peter give you a little bit of an overview of the business, and then we'll take into some hopefully poignant questions and maybe some things that other people don't ask. We'll see.

Peter Kurt Johansson
Senior Vice President and Chief Financial & Strategy Officer, CECO Environmental Corp.

I certainly hope so. Good morning, everyone. Welcome from New York City. We're glad to be kicking off day one of the Industrials Conference here in New York. I represent the CECO Environmental business. It's a company not many people know well, but we're inside just about any industrial facility, manufacturing facility or power generation facility, certainly in United States and around the world.

We're a mission-driven company. We have built our strategies and built our culture around three key principles. Our solutions protect people. Our solutions protect the environment and the world in which our businesses and people operate. And we protect our customers' industrial equipment and it help improve their processes. All of that lead to superior environmental outcomes, and we believe we're a leader in delivering solutions that do these three things.

Just real quickly about the company, we're a group of niche solutions businesses that are built around three distinct end markets. We provide solutions for industrial water treatment, industrial air treatment, and energy transition opportunities. About half of our business is outside of the US. We've had a 10-plus-percent organic growth track record since 2020. We've complemented our growth with over a dozen nice programmatic M&A transactions, which has delivered a near doubling of revenue and a quadrupling of earnings since 2020. We have a sustainable value creation model. We have a capital allocation strategy that leads with organic growth, backed by programmatic M&A as a complement. We maintain a healthy balance sheet and, when appropriate, we'll enter the market and buy back stock. We believe we have a management [audio gap] (00:02:18-00:02:30) as most successful small companies.

This slide here is a brief summary of where we do business. We have customers in the diversified industrial markets, many of them are listed here on the top half of the page, and we have a number of customers in the energy and power markets. We're supporting our customers as they make the transition from older forms of energy generation and power management to newer forms, and we'll be in this transition for many decades to come. I mentioned previously we have a business built around three segments. On the lower half of this chart, you see some of the key applications in which we're involved and where we believe we have unique and distinct capabilities to solve difficult and challenging customer problems.

We're a global company. We have a footprint in five important economic zones of the world, North America, Western Europe, the Middle East, Southeast Asia and East Asia. And that's where we tend to focus our investments, focus our development and focus on markets. We do very little of our own manufacturing. We have a select number of sites where we produce technology that we can't source from a supply chain. But a majority of what we deliver to customers is actually produced in partner facilities. This allows us to scale with the demand we're seeing without large influx of capital investment.

And, finally, I'd like to just talk about how we've built our growth model. Prior to 2020, we had a business that was relatively stable, relatively static in terms of top line in order book. But you'll see from 2021 through 2025 a substantial increase. And we believe that in order to drive growth, you have to drive an opportunity pipeline. And we've driven this pipeline now to grow well over five times in five years, a combination of better commercial activity, more focus on targeting markets and applications and through acquiring businesses. We believe our portfolio is very well aligned against the key market drivers in both power and energy generation, industrial water treatment and industrial air treatment.

And quickly on capital deployment, we start with organic growth and we deliver an M&A to complement the growth, maintain our balance sheet, leverage target of 2.0x. And we've bought back about 20 million of our shares over the last four years. What does that resulted in? Well, this is the stock price run from 2021 to about a cup maybe last week, right, Marcio? Yeah. So, $6 to $46. I'm pretty happy about it. Most of our investors seem pretty pleased, but we're not stopping there. We've just started our planning for 2030, because with many of our businesses, we can see macro trends and opportunities and a pipeline out that far and we expect this chart to continue to go up into the right.

And with that, I like to stop and turn it back over to my associate, who's going to ask me some important questions.

QUESTION AND ANSWER SECTION

Francis Tucci
Analyst, Jefferies Financial Group Inc.

Q

So, let's start with, you talked about globality, what is it about globality in a company your size? [indiscernible] (00:05:45) do we eye complexity or are you really targeting very specific parts around the world where there are key opportunities for you?

Peter Kurt Johansson
Senior Vice President and Chief Financial & Strategy Officer, CECO Environmental Corp.

A

Yeah. When we sat down five years ago and decided what we want the future to look like and where we wanted to participate globally, we were very intentional. When I joined the company, we were 85% North American in our revenue mix, heavily biased in power and energy applications, and had little to no recurring revenue in the portfolio. So what we've done over the last five years is build out balance, balanced geographically, balanced by end market, balanced by revenue type and mix and with a focus on five key economic zones. Those that either have critical decision makers that are making the investment choices on where they're deploying their company's funds or in regions that are spending heavily in either transition or development of their own economies.

And so, you asked a very good question about going global for a company our size. We felt it was important to do that in order that we could take solutions that are ubiquitous or similar across many geographies, but give us the opportunity to scale them and sell to more places. So we picked Korea as a hub, Singapore as a hub, Pune, India is a hub, Dubai as a hub and Texas as a hub. And then we operate our businesses or we have teams that operate around those in sales, engineering, project management and supply chain management to deliver the growth and deliver the results.

Francis Tucci
Analyst, Jefferies Financial Group Inc.

Q

As you think about globality, a lot of people talk about power generation, I want to talk about something a little different, which is water scarcity, something I've been passionate about for a long time. And it had fits and starts, but it feels to me like we're at the precipice of a world in which it's not just the developing countries that have need clean water in your home, in your sink. How are you working around the world with your globality and those hubs that you talked about to address some of these issues?

Peter Kurt Johansson
Senior Vice President and Chief Financial & Strategy Officer, CECO Environmental Corp.

A

Certainly. So what we are experiencing with our industrial customers is, along with them, a lot more pressure to consume less water and reuse much more of what they consume and pollute or contaminate. And many of our customers come to us with the request, how do you treat our water so that we can return it either into the natural state or we use it in our operations? And many of our customers, particularly in water stressed areas in India, the Middle East and parts of Asia, it's 100% reuse as a goal. And so our systems are intended to allow our customers to do that, either reuse a great portion or with certainty return it into the natural state so it can be drawn on by others. So there's a lot more sensitivity paid to quality of water and reuse of water.

The other area we're seeing an important emphasis is, in an operation that actually generates produced water, whether you're mining, you're drilling, you're constructing a project and water is appearing from the soil, from the drilling or excavating operations, how do you capture that produced water and use it for something beneficial? So in water stressed areas in North Africa, the Middle East and India, we're helping our customers take that produced water and convert it either into water for operations or water that can be consumed for cleaning and washing where otherwise potable water would be used.

Francis Tucci
Analyst, Jefferies Financial Group Inc.

Q

How do you think about, obviously, water reuse, wastewater, those are interesting, do you also play in the semiconductor and you play in sort of the higher end ultra-pure markets?

Peter Kurt Johansson
Senior Vice President and Chief Financial & Strategy Officer, CECO Environmental Corp.

A

We do.

Francis Tucci
Analyst, Jefferies Financial Group Inc.

Q

What's the product line that's addressing that?

Peter Kurt Johansson
Senior Vice President and Chief Financial & Strategy Officer, CECO Environmental Corp.

A

Yeah. So, we have some select applications particularly in Korea and Southeast Asia where we work with electronics and semiconductor manufacturers to produce what's known as ultra-pure or ultra-pure high purity water, which is used for cleaning and for the production of the wafers, electronic components and solar panels or solar modules. It's quite water-intensive, and that's an area where a great deal of recycle and reuse is done within the facility itself. Producing ultra-high-purity water is a five-step process. And so we have all five capabilities or technologies in our portfolio. So we have ion exchange capability, we have membrane filtration capability, we have electro de-ionization capabilities, and we have disinfection capabilities.

Francis Tucci
Analyst, Jefferies Financial Group Inc.

Q

And how are you thinking about [indiscernible] (00:10:20) put the capital equipment into the semiconductor plant or to the wafer fab. What does the service contract look like? Are you able to capture that revenue stream over years and then upgrade? I mean, maybe help walk the investors through sort of a five-year map on some of these opportunities.

Peter Kurt Johansson
Senior Vice President and Chief Financial & Strategy Officer, CECO Environmental Corp.

A

Certainly. Five years ago, the company was really focused on capital equipment sales and didn't think much about the aftermarket or recurring revenue stream. Today, many of our applications come with designs with the end in mind or with service in mind. And we're trying to position ourselves to be that partner for when an upgrade or repair or an overhaul is required of the system, they come to us for the technical advice and for the project management of that repair service. We don't have the maintenance teams that do that work. Our customers like to use their own employees for that service themselves inside the facility, particularly in Asia where they're very focused on internal control and maintaining very secure the technical data or the intellectual property of their processes.

Francis Tucci
Analyst, Jefferies Financial Group Inc.

Q

And maybe, a word that's always overused in the industrial world is the application of software, artificial intelligence. How are you thinking about – I mean, you have a pretty broad set of assets. Are you able to take the data that you use to like understand predictive maintenance? Are you able to be there onsite to kind of help your customers? Can you maybe talk a little bit about that?

Peter Kurt Johansson
Senior Vice President and Chief Financial & Strategy Officer, CECO Environmental Corp.

A

We're very early in understanding the power of AI and how it will impact our business. We generate a lot of information from the proposal phase, the engineering and design phase, the manufacturing and operations phases. Our customers historically have been very reluctant to allow us access to that information. But they're beginning to at least entertain the conversations about how we get access to that information, we can improve subsequent cycles of design and actually do a better job in the upfront engineering.

One other area we're applying AI tools is ingesting the voluminous documents we receive from customers in the specification and pre-engineering process. We get thousands and thousands of pages of very complex documents to define what we built or how we should build what we're selling. The AI is a very nice way to back up the human element in reviewing those documents so you don't make a mistake or miss a key point and have an engineering or design error that can lead you to a cost overrun, or in the worst case, a redo.

Francis Tucci
Analyst, Jefferies Financial Group Inc.

Q

Yeah.

Peter Kurt Johansson
Senior Vice President and Chief Financial & Strategy Officer, CECO Environmental Corp.

A

And so, that's where we're applying the tools to help us. We're also beginning to run pilots in our various functional areas to look for improvement in transaction and data-intensive processes like accounting and IT.

Francis Tucci
Analyst, Jefferies Financial Group Inc.

Q

So like, we're at the front-end of the engineering spend being able to be much more leverageable?

Peter Kurt Johansson
Senior Vice President and Chief Financial & Strategy Officer, CECO Environmental Corp.

A

Absolutely.

Francis Tucci
Analyst, Jefferies Financial Group Inc.

Q

Which is kind of interesting because that makes you a lot wider in your ability to serve the customer base.

Peter Kurt Johansson
Senior Vice President and Chief Financial & Strategy Officer, CECO Environmental Corp.

A

And faster. And we've got a pilot running now with a business where we're actually ingesting specification data, selecting product from past or historical designs with known suppliers and known supply chains, and integrating –

or backwards integrating that to the vendors. And we're beginning to put in some functionality where we can actually make – at the time we're making a proposal, we're actually updating parametric cost from a vendor. It'll be a very powerful tool if we can take that and spread that across all of our businesses. Today, we're piloting it within one of the United States.

Francis Tucci
Analyst, Jefferies Financial Group Inc.
Q

So, I want to step back for a minute. You and Todd have taken over a company that I think, again, from an outside perspective, you've done a little bit disservice to the amount of cultural change that you've been able to ingest, put into this organization. You talked about 2030, maybe think about when you two got in and you started out, you saw the foundation...

Peter Kurt Johansson
Senior Vice President and Chief Financial & Strategy Officer, CECO Environmental Corp.
A

Yes.

Francis Tucci
Analyst, Jefferies Financial Group Inc.
Q

...and the stock price performance kind of speaks for itself. What was it that you saw back then? And what is it that you continue to see from an investor point of view? You take the stock from $6 to 40s, going from $40 to $100. I mean, how do you think about that? From an organizational, from a strategy, from a – do you have the foundation to do that? What do you need and how do you get it done?

Peter Kurt Johansson
Senior Vice President and Chief Financial & Strategy Officer, CECO Environmental Corp.
A

Yeah. So, starting five years ago when Todd joined the company, what he saw during his, call it, early investigation of the business, he joined in interesting times, there's COVID, and he couldn't meet a single employee for nine months. He did all his investigations onboarding via remote with Teams or via telephone. Now, that was a blessing in disguise because it gave an opportunity to go really deep into the company without a lot of expectations from the board or from investors. And what he was able to discover was a portfolio of brands that were very powerful and that had been under managed or underappreciated. His successors had slightly different mandates, or slightly different in mindset. But one thing they didn't have was a strong growth orientation. Todd's always had a strong growth orientation. And what he was able to conclude, and one of the main reason I joined, is there was so much – in these businesses, there was what we categorize as full potential that across most of the, if not all of the, brands' ability we thought to take up the revenue base by 400%.

Francis Tucci
Analyst, Jefferies Financial Group Inc.
Q

It's really interesting, because I mean you personally came from some really well-managed companies, IDEX, Sundyne, none of them grew.

Peter Kurt Johansson
Senior Vice President and Chief Financial & Strategy Officer, CECO Environmental Corp.
A

That's right.

Francis Tucci
Analyst, Jefferies Financial Group Inc.
Q

And so, what's the difference? Because you have a portfolio of great brands, they're growing. And some of these peers are – IDEX, great [ph] peer trace (00:16:14), anywhere between 15 and 20 times forever, never grew.

Peter Kurt Johansson
Senior Vice President and Chief Financial & Strategy Officer, CECO Environmental Corp.
A

Exactly. And I think what Todd and I were focused on two things first. The first thing we focused on was a growth model. Could we create commercial teams focused on discrete or specific end markets where they could build leadership in a niche and drive outside growth – outsized growth? And we were able to do that. Then we began to focus on how do we convert orders to revenue to gross profit in an efficient way and get gross margins up. So now we had enough cash flowing in at the gross profit level so we could invest in G&A resources to grow the footprint, but also in M&A.

And if we step back and think about our end markets, they're fragmented. They are not consolidated. With the exception of the gas turbine support and gas turbine exhaust management side of our portfolio. So, there's plenty of consolidation and growth opportunities both globally as well as within markets themselves. So we saw fragmented markets, we saw small to medium sized competitors for whom we have relative scale advantages, and we had what we thought was excellent commercial teams that hadn't been unleashed. In Todd's first year, I believe he spoke with 90 people in the commercial side of the business, called the sales and engineering piece of the business that were customer facing. The answer he got from almost everyone is our customers love us, they call us whenever they need us.

Francis Tucci
Analyst, Jefferies Financial Group Inc.
Q

That's like the old story I heard about IDEX with gas, like, they would just get the orders on the fax machine, [ph] they came in over the fax because it's (00:17:56) so well known.

Peter Kurt Johansson
Senior Vice President and Chief Financial & Strategy Officer, CECO Environmental Corp.
A

Absolutely. And so now you take a business that's focused on doing the same things well for half a dozen end markets waiting for the phone to ring, to a group of people that are now motivated to take those solutions and find the other end markets that would benefit from the same approach and put them on the road, change their incentives from answering the phone and executing a project to building a pipeline and developing a market. So behind this cultural change was a focus on winning and winning right, new incentives, and taking off or at least removing some of the barriers in the organization that were present under Todd's predecessor around taking chances in adjacent markets.

Francis Tucci
Analyst, Jefferies Financial Group Inc.
Q

And you took a lot of complexity out of the business by getting rid of – doing some divestitures.

Peter Kurt Johansson
Senior Vice President and Chief Financial & Strategy Officer, CECO Environmental Corp.
A

That's right.

Francis Tucci
Analyst, Jefferies Financial Group Inc.

Q

How do you not let the complexity creep back in?

Peter Kurt Johansson
Senior Vice President and Chief Financial & Strategy Officer, CECO Environmental Corp.

A

We've begun, as part of our CECO 2030 planning, we built the core infrastructure of an operating model with one of the principal objectives is to remain lean and focused around the smallest possible operating unit that makes sense. So we have created platforms or OpCos that are between $15 million and $50 million in size that are focused specifically on applications in end markets where they can be leaders, with a minimum number of resources within each business to deliver the results, whether it's an engineering or manufacturing output. So we're not building large P&L organizations, we're not building back segments, we're not going to layer in some of the overheads that you'd expect to see in some growing businesses, we actually think the other way. When a business gets to about $100 million in size, we're beginning to ask the question, is it too big? Do we need to split it again and segment it further so they can maintain focus and be as lean as possible? And then, behind them, give them core operating processes and accounting, IT contract services, comp and benefit, some of the corporate things in a systematic, consistent way globally and digitize and automate those.

Francis Tucci
Analyst, Jefferies Financial Group Inc.

Q

And the internal systems are capable of being able to manage all that?

Peter Kurt Johansson
Senior Vice President and Chief Financial & Strategy Officer, CECO Environmental Corp.

A

They're on their way. We're two years into a four-year transformation, but we've got half the company there. We focused on North America first. We'll be beginning to integrate European systems and then Asian systems next.

Francis Tucci
Analyst, Jefferies Financial Group Inc.

Q

And so when you and Todd look at the business performance, like, what are the key things to look at? You mentioned gross margin a few times. I assume gross margin, [ph] GMX (00:20:36) expansion, top line growth. What...?

Peter Kurt Johansson
Senior Vice President and Chief Financial & Strategy Officer, CECO Environmental Corp.

A

So our three KPIs are orders – or starts with size of our pipeline. And our pipeline has a validated two-year look at the opportunities that are going – we believe are going to come to market and are going to be bid and awarded. And so it's the growth of the pipeline over time. Then it's our conversion rate from pipeline to order, and that top – orders are really strong leading indicator of future revenue. Our rule of thumb is the backlog today is orders in 12 month – is revenue in over the next 12 months. So as backlog continues to grow and we fill in with a shorter cycle or book-to-ship orders, we're going to continue. As long as backlog grows, the order pipeline is increasing, revenue will continue to grow, and that's a very strong indicator for us.

Then it's conversion to gross profit, and our two largest costs are materials and our project teams that are executing. So we have to have the best people executing and we have to have the greatest focus on purchasing smart and purchasing at the right level whether it's fabricated or raw. And we've seen gross profit margins grow from 30% to mid-35%, 36%.

Francis Tucci
Analyst, Jefferies Financial Group Inc.
Q

That's pretty impressive over five-year growth.

Peter Kurt Johansson
Senior Vice President and Chief Financial & Strategy Officer, CECO Environmental Corp.
A

So, we think we've got that stable now and it's working, and now, we're beginning to work on how do we generate more leverage on our fixed cost base. We have about 23% G&A in the engineering sales and G&A in the business. We need to get that to 18% or 19%. As we scale, we'll continue to see improvements there. That will move us well on our way to our mid-teens or higher EBITDA target.

Francis Tucci
Analyst, Jefferies Financial Group Inc.
Q

[indiscernible] (00:22:18) [audio gap] (00:22:20-00:22:31)

Peter Kurt Johansson
Senior Vice President and Chief Financial & Strategy Officer, CECO Environmental Corp.
A

Let's focus on the sales and engineering costs of our business. That's where our platforms or operating companies need to add to their business to deliver the revenue. Well, revenue looks like backlog 12 months prior. So, they've got a pretty good view of the resources they need to deliver that backlog. But it's the G&A expenses that we're really focused on. And that's, I mentioned previously, AI will help us there. Process standardization will help us there. Our migration to a single global ERP tool, which we're halfway through, will get us there. And frankly, just continuous improvement every day. And Todd and I come from a continuous improvement background.

A buzzword that is out there, a lot of people are using the tool now, it's called 80/20.

Francis Tucci
Analyst, Jefferies Financial Group Inc.
Q

Yeah. Everyone's 80/20.

Peter Kurt Johansson
Senior Vice President and Chief Financial & Strategy Officer, CECO Environmental Corp.
A

Everyone's doing 80/20. We've been thinking about 80/20 for – since we started, I've been thinking about 80/20 for the last 20 years. I mean, for those of you who aren't aware of it, so it's 20% of what you do generates 80% of the value of what you do. In most cases, 20% of what you sell or to whom you sell generates well over 100% of your operating income. So the balance of that, the other 80%, can almost be largely beside the point unless there's a strategic reason to keep it.

Francis Tucci
Analyst, Jefferies Financial Group Inc.
Q

Or said in another way, 80% of your time is normally wasted on stuff that doesn't matter.

Peter Kurt Johansson
Senior Vice President and Chief Financial & Strategy Officer, CECO Environmental Corp.
A

Absolutely true. And so, we take that mindset into administrative support, into selling efforts, into some engineering activities. Perfect is the enemy of good enough. Well, we have that conversation a lot. Customers aren't paying us for perfect. They're paying us for what the PO says. So let's be very careful on how we engineer and how we deliver. And so, we're building that mindset into the culture as well.

Francis Tucci
Analyst, Jefferies Financial Group Inc.
Q

Let's shift gears for a second. Let's talk about M&A.

Peter Kurt Johansson
Senior Vice President and Chief Financial & Strategy Officer, CECO Environmental Corp.
A

Yes.

Francis Tucci
Analyst, Jefferies Financial Group Inc.
Q

Obviously, the deal environment is getting better. How do you think about all these businesses that are out there? I mean, what's the screen? I mean, you could go out and buy 15 different things if you want. You haven't, which I'm not saying you should. What do you look for? I mean, what are the key criteria as you go out there in this relatively target-rich environment that we're entering? How do you make the decision?

Peter Kurt Johansson
Senior Vice President and Chief Financial & Strategy Officer, CECO Environmental Corp.
A

Yeah. So we think about M&A second after organic growth. So we build our organic growth strategies and then we identify areas in that strategy or gaps in that strategy that we need to fill, be it a technology gap, process or an applications gap, a geographic gap, might even be a resource gap. We've done two transactions. We call them acqui-hire. We actually found 30-plus really talented engineers that brought applications and sales knowledge to the business that happened also to be on the Samsung, Hyundai and LG approved vendor lists. So anywhere they go in the world, we get to go with them. So that was a deal we did in Korea. We didn't buy a business in Korea for their earnings. We bought it for 30 really talented people.

So there's a number of reasons you do acquisitions, but for us, it has to – and this is what we call the Type 1 acquisition, which is a bolt-on or tuck-in. It's augmenting our core organic growth strategies. And that was 10 of our 12 deals. Then with category two would be a new platform or new OpCo. And the last two transactions were that. Verantis Environmental, it's an outstanding environmental solutions business with a footprint in Shanghai, Singapore and Ohio, that are known for being the premier scrubbing solution for exhaust gas treatment for semiconductor fabs, electronics production and solar wafer fabs. A global leader known to be that. And then we bought Profire Energy. Both those businesses exist now as standalone operating companies inside of CECO. Inside of a group of related businesses, but with their own GM, their own engineering leaders, their own FP&A leader, their own project management, own sourcing guys. And their job is to go build the application suite globally and win more than a fair share of their business opportunities.

Type three is kind of a transformational opportunity, where you bring another larger company into the CECO family that will give us the benefits of scale, but also may change the portfolio mix substantially, whether it is a in-market focus or a kind of a financial profile. Those are very few. They're hard to do. But we're always talking to people about what we could do that would change the trajectory of CECO in a way to CECO 2030.

Type one acquisitions are sourced by our OpCos or our platform teams, type two acquisitions we source from the corporate development organization, and type – call it type three or transformational organizations happen with people like yourself, for instance, that are in the industrial landscape that know what other companies are thinking about, and how when you put them together might create an even bigger, better company than the one plus one of a basic math.

Francis Tucci
Analyst, Jefferies Financial Group Inc.
Q

That's interesting. And it feels like the discipline is there now.

Peter Kurt Johansson
Senior Vice President and Chief Financial & Strategy Officer, CECO Environmental Corp.
A

It is.

Francis Tucci
Analyst, Jefferies Financial Group Inc.
Q

I was trying to get...

Peter Kurt Johansson
Senior Vice President and Chief Financial & Strategy Officer, CECO Environmental Corp.
A

Well, there's three things we focus on when we screen. The first is, does it advance our strategy? Does it close the gap? Will it accelerate organic growth once it's integrated? Because we view a business – if we can't take an acquired business and grow it at least twice as fast as it was growing on its own, then we're not interested because we can deploy our own energy organically to grow our businesses at that rate. The second is, it has to have a financial profile that improves or continues to accelerate the rebalancing of our portfolio. We're looking from businesses that have higher gross profit margins than we have in aggregate, have or have the potential to be higher in EBITDA and will generate shorter order to cash and higher cash conversion rates. The third is cultural fit. And we might even start with cultural fit being one, but often you don't get there until you're in diligence. But we've walked away from many transactions because the cultural fit is poor.

Francis Tucci
Analyst, Jefferies Financial Group Inc.
Q

Yeah.

Peter Kurt Johansson
Senior Vice President and Chief Financial & Strategy Officer, CECO Environmental Corp.
A

And so culture for us is very important. And certainly, we've built inside of what we believe is a very solid win right culture. And if the team that join CECO can't or won't consider themselves one part of a team, be collaborative, be accountable and want to win in the right way, then even if they have a nice financial profile and they solve a strategy issue for us, they're just not worth the time.

Francis Tucci
Analyst, Jefferies Financial Group Inc.
Q

Yeah. Interesting. As you look out for the next couple of years, what worries you?

Peter Kurt Johansson
Senior Vice President and Chief Financial & Strategy Officer, CECO Environmental Corp.

A

Two things that I'm concerned about that kind of somewhat beyond our control are the geopolitical landscape. And there's a lot of noise, a lot of hotspots in the world. So far, we've managed them well and we've managed through them well, excuse me, but we could see a big disruption. It could happen in East Asia, it could happen in the Middle East, it could happen in Eastern Europe. And those are largely beyond our control. They have, in fact, created some opportunities for us as reshoring has accelerated and certain industries have seen a rebirth, particularly in the defense and munitions industries, and where we have some technology and solutions, where we've had some opportunities to win.

But I think the other one that for many companies – I'm not the only CFO who'll give you this answer, is resources. In order for our business to continue to grow and grow profitably, we need to find very capable people in technical project management and business management roles, hiring stuff. Finding the right resources that have the right mindset is hard. We're actually more successful hiring outside the US than we are inside the US. COVID really messed up the US workforce. The expectations are off. Expectations on work style, work location, salary benefits all have become, I would say, irregular based on where we were pre-COVID. Outside of United States, particularly in our teams in Asia, the Middle East and India, we're not having the same challenges with mindset. Our challenge is, everyone wants the best people because obviously they're centers for growth. So, we're competing for talent.

Francis Tucci
Analyst, Jefferies Financial Group Inc.

Q

Yeah, that makes sense. But as you think about where you are today and you go back three or four years, the balance sheet is in great shape, the business system, the culture's solid, the portfolio's solid, so the internal side of the house feels pretty good, ex the ERP integration that you're going through.

Peter Kurt Johansson
Senior Vice President and Chief Financial & Strategy Officer, CECO Environmental Corp.

A

Yeah. The [ph] ERP integration (00:31:46).

Francis Tucci
Analyst, Jefferies Financial Group Inc.

Q

I was waiting for you to say something [ph] about that (00:31:48).

Peter Kurt Johansson
Senior Vice President and Chief Financial & Strategy Officer, CECO Environmental Corp.

A

ERP migration.

Francis Tucci
Analyst, Jefferies Financial Group Inc.

Q

Oh, sorry, migration. It's always a challenge.

Peter Kurt Johansson
Senior Vice President and Chief Financial & Strategy Officer, CECO Environmental Corp.

A

Yes, it is.

Francis Tucci
Analyst, Jefferies Financial Group Inc.

Q

That's interesting. So, as we think about 2025, 2026, 2027, on balance, more opportunities, couple of risks out there, but a pretty good map for you guys.

Peter Kurt Johansson
Senior Vice President and Chief Financial & Strategy Officer, CECO Environmental Corp.

A

We believe so. And there's one – we argue whether it's a mega cycle or a super cycle. But what's happening with power generation?

Francis Tucci
Analyst, Jefferies Financial Group Inc.

Q

Well, I would say power and water.

Peter Kurt Johansson
Senior Vice President and Chief Financial & Strategy Officer, CECO Environmental Corp.

A

Power and water, both, yes. You can't separate the two. Yeah.

Francis Tucci
Analyst, Jefferies Financial Group Inc.

Q

Yeah. I think, you've made the point, like the reuse part of the power cycle plays right into water and then how do you think about that? But the power cycle, and you're playing it – I purposely try to stay away from that because everyone asks you those questions, but the observation I'd give is, you are a very levered play in a very easy manner versus not paying a ridiculous multiple at the end of the data center to play that play.

Peter Kurt Johansson
Senior Vice President and Chief Financial & Strategy Officer, CECO Environmental Corp.

A

Yeah, that's right.

Francis Tucci
Analyst, Jefferies Financial Group Inc.

Q

[ph] Did I say it precisely enough (00:32:48)?

Peter Kurt Johansson
Senior Vice President and Chief Financial & Strategy Officer, CECO Environmental Corp.

A

Yes, you did. And our solution has been assist power suppliers to deliver energy to the data center, but our solutions are not in the data center.

Francis Tucci
Analyst, Jefferies Financial Group Inc.

Q

I just think it's really tough to figure out who's going to win, who's going to lose in that data. I've spent a lot of time thinking about that. Like, the orders are so strong right now, at some point they're going to come down and I'd rather be playing a lot of places versus...

Peter Kurt Johansson
Senior Vice President and Chief Financial & Strategy Officer, CECO Environmental Corp.
A

Well, I saw some report yesterday that suggests that the backlog for data center construction times out to 2032.

Francis Tucci
Analyst, Jefferies Financial Group Inc.
Q

Yeah. Okay. We'll see how many of those are canceled.

Peter Kurt Johansson
Senior Vice President and Chief Financial & Strategy Officer, CECO Environmental Corp.
A

Yeah, so, but you know – so we'll see how much of that sticks, right, hangs in there. But gas turbine orders are running out that far as well. Battery storage is at least three years' worth of backlog now is building. You see what's happening with solar. I mean, it's...

Francis Tucci
Analyst, Jefferies Financial Group Inc.
Q

A lot of tailwinds for a company your size.

Peter Kurt Johansson
Senior Vice President and Chief Financial & Strategy Officer, CECO Environmental Corp.
A

A lot of tailwinds, yeah. What's also interesting is India for us. India is experiencing their own energy super cycle in solar, gas and other non-coal-based energy. And with four national champions, the companies you would know, Tata, Reliance, Birla and Adani, and we're partnered with three of the four.

Francis Tucci
Analyst, Jefferies Financial Group Inc.

Excellent. Look, I think we're out of time because I can see the doors going in and out. It was a nice chat.

Peter Kurt Johansson
Senior Vice President and Chief Financial & Strategy Officer, CECO Environmental Corp.

Thank you, Francis.

Francis Tucci
Analyst, Jefferies Financial Group Inc.

Have a nice coffee.

Peter Kurt Johansson
Senior Vice President and Chief Financial & Strategy Officer, CECO Environmental Corp.

Absolutely. It's great seeing you.

Francis Tucci
Analyst, Jefferies Financial Group Inc.

Good to see you, guys. Thank you very much.