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Federal Signal Corporation

First Quarter 2024 Earnings Conference Call

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Walter Liptak, *Seaport Research Partners*

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PRESENTATION

Operator

Greetings, and welcome to the Federal Signal Corporation First Quarter Earnings Conference Call.

(Operator Instructions)

As a reminder, this conference is being recorded.

It is now my pleasure to introduce your host, Felix Boeschen, Vice President, Corporate Strategy and Investor Relations. Thank you, sir. You may begin.

Felix Boeschen

Good morning, and welcome to Federal Signal's first quarter 2024 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 first quarter financial results. Jennifer will then provide her perspective on our performance, provide an update on our multi-year strategic initiatives and our revised outlook for 2024. 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 first quarter financial results are provided in today's earnings release. In summary, we delivered strong financial results for the quarter, with double-digit year-over-year net sales and earnings growth, gross margin expansion, a 250-basis point improvement in EBITDA margin, and new records in orders and backlog.

Consolidated net sales for the quarter were $425 million, up $39 million or 10% compared to last year. Organic sales growth for the quarter was $28 million or 7%. Consolidated operating income for the quarter was $54.3 million, up $14.8 million or 37% compared to last year. Consolidated Adjusted EBITDA for the quarter was $70.6 million, up $16.1 million or 30% compared to last year. That translates to a margin of 16.6% in Q1 this year, up 250 basis points compared to last year.

GAAP EPS for the quarter was $0.84 per share, up $0.39 per share or 87% from last year. On an adjusted basis, EPS for the quarter was $0.64 per share, up $0.18 per share or 39% from last year.

Order intake for the quarter was outstanding, and we again reported record orders in the first quarter, surpassing the previous high, which was set in Q2 last year. In total, orders in Q1 this year were $503 million, an increase of $28 million or 6% compared to Q1 last year. Backlog at the end of the quarter was $1.1 billion, another all-time high for the Company and an increase of $132 million or 14% compared to Q1 last year.

In terms of our group results, ESG's net sales for the quarter were $354 million, up $35.0 million or 11% compared to last year, despite the effects of a third-party component supply issue that delayed the timing of approximately $13 million of unit shipments at our largest facility. ESG's operating income for the quarter was $51.7 million, up $14.1 million or 38% compared to last year. ESG's Adjusted EBITDA for the quarter was $66.5 million, up $15.3 million or 30% compared to last year. That translates to an Adjusted EBITDA margin for the quarter of 18.8%, an improvement of 270 basis points compared to last year. ESG reported total orders of $428 million in Q1 this year, an increase of $32 million or 8% compared to last year.

SSG's net sales for the quarter was $71 million this year, up $4 million or 6%. SSG's operating income for the quarter was $13.8 million, up $1.7 million or 14% compared to last year. SSG's Adjusted EBITDA for the quarter was $14.8 million, up $1.6 million or 12%. That translates to a margin of 20.9% towards the upper end of SSG's target range and up 110 basis points compared to last year. SSG's orders for the quarter were $75 million compared to $79 million in Q1 last year.

Corporate operating expenses for the quarter were $11.2 million compared to $10.2 million last year, with the increase primarily due to higher stock compensation and incentive based compensation expense, partially offset by a benefit from an insurance recovery of approximately $2 million.

Turning now to the consolidated income statement where the increase in sales contributed to a $20.2 million improvement in gross profit. Consolidated gross margin for the quarter was 27.3%, a 240 basis point increase over last year. As a percentage of sales, our selling, engineering, general and administrative expenses for the quarter were essentially unchanged from Q1 last year.

Other items affecting the quarterly results include a $200,000 increase in acquisition-related expenses, a $100,000 increase in other expense, and a $1.5 million reduction in interest expense.

During Q1 this year, we also recorded a $13 million discrete tax benefit after the Joint Committee on Taxation approved the Company's tax refund claim resulting from the execution of a multiyear tax planning strategy. We expect to receive the cash refund during the second quarter. Including this benefit and the recognition of $800,000 in excess tax benefits associated with stock compensation activity, we recognized an income tax benefit of $700,000 in the current year quarter compared to income tax expense of $7.3 million in the prior-year quarter.

Our effective tax rate for Q1 this year was a benefit of 1.4%, including the $13 million tax benefit, and expense of approximately 24% without it. That compares to an effective tax rate of 21% in Q1 last year. At this time, we expect our effective tax rate for the remaining three quarters of 2024 to be between 25% and 26%, excluding any additional discrete tax benefits. On an overall GAAP basis, we therefore earned $0.84 per share in Q1 this year compared with $0.45 per share in Q1 last year.

To facilitate earnings comparisons, we typically adjust our GAAP earnings per share for unusual items recorded in the current or prior-year quarters. In the current year quarters, we made adjustments to GAAP earnings per share to exclude acquisition-related expenses and the $13 million tax benefit I previously mentioned. On this basis, our adjusted earnings for the quarter were $0.64 per share compared with $0.46 per share last year.

Looking now at cash flow, we generated $31 million of cash from operations during the quarter, an increase of $24 million from Q1 last year. We ended the quarter with $223 million of net debt and availability under our credit facility of $516 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 $7.3 million during the quarter, reflecting an increased dividend of $0.12 per share, and we recently announced a similar dividend for the second quarter.

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

Jennifer Sherman

Thank you, Ian.

Our first quarter results represent a strong start to the year, as our teams set first quarter performance records across many metrics, including net sales and adjusted EPS, while orders and backlog again rose to new all-time highs. The strength of the sales growth and margin expansion during Q1 reinforce the underlying themes and strategies we have previously discussed.

Within our Environmental Solutions Group, we were able to deliver 11% year-over-year net sales growth and a 30% increase in Adjusted EBITDA. Strong aftermarket demand; continued price realization; contributions from our recent acquisitions; and increases in production at several businesses were meaningful contributors to this year-over-year growth, which was achieved despite an isolated third-party component supply issue that we experienced in March at our Streator manufacturing facility. We have previously discussed our objective to increase production levels at this facility in an effort to reduce lead times, and on that note, we started this year strong, with unit production over the first two months of the year up 12% year-over-year. Upon encountering this issue in March, we shifted some of our production to prioritize customer deliveries at the expense of units destined for our own rental fleet, which resulted in fewer rental fleet additions in Q1 than we had originally anticipated.

As Ian noted, this component supply issue delayed the timing of approximately $13 million of sewer cleaner shipments in the quarter, as we were unable to ship several substantially completed units. In order to minimize the impact of this disruption, our teams have worked diligently with our supplier and have identified a solution that we began implementing in April. Importantly, given our mitigating actions, recovery plan, and good access to labor, we expect to ship all impacted units in the second quarter and do not believe this will materially alter our underlying building plans for the rest of the year.

More broadly across our businesses, we continue to see incremental underlying supply chain improvements, though, as we have recently experienced, episodic challenges remain at several of our ESG businesses. We believe that we are well-positioned to respond to supply chain challenges, and we continue to expect gradual build-rate increases throughout the year.

Our dump truck body businesses had a standout quarter, with sales up 7% on the back of improving chassis availability for the majority of our businesses and supply chain fluidity. The increased dump truck body production, coupled with our rigorous 80/20 processes at several key facilities, including our Ox Bodies plant in Fayette, Alabama, was a contributing factor in our year-over-year margin improvement within the ESG segment. Although supply of classified chassis remains a constraint for a minority share of our dump body businesses, we remain optimistic for further build-rate increases on a combination of pent-up replacement demand, underlying demand increases, and improving chassis flow across Class 8 units.

Our teams also continue to find innovative solutions to best serve our customers throughout this still fluid supply chain environment. One such example is the recent launch of our interchangeable body product, Switch-N-Go, on a Class 3 chassis. We introduced this lighter-weight product at the NTEA show in March, and have received positive customer feedback, as it further broadens chassis options for existing customers, while targeting additional end-markets.

Shifting to aftermarkets, activity remained strong across our offerings, as total aftermarket revenue increased 6% year-over-year, led by an 11% year-over-year increase in part sales and a 9% year-over-year increase in rental income, as demand for our equipment and utilization rates remain elevated.

The recent acquisitions of Ground Force and TowHaul also provided meaningful contributions to our year-over-year growth in part sales, with TowHaul parts representing approximately 60% of its total revenues in the quarter. Going forward, we continue to see potential for further aftermarket growth as the team optimizes recently-acquired businesses and new businesses are introduced to the platform via M&A. In aggregate, aftermarket represented 26% of ESG revenue in the first quarter of 2024. In addition to strong organic growth, our recent acquisitions also contributed, with Trackless, our most recent acquisition, continuing its strong start, adding approximately $11 million to our top line during the quarter.

Shifting to our Safety and Security Systems Group, the team delivered another quarter of strong results, with 6% top line growth and an Adjusted EBITDA margin of 20.9%, at the top end of our SSG margin target range. Sales of public safety equipment and warning systems led the charge, with revenues up 12% and 15%, respectively.

Our teams are seeing continued efficiency benefits resulting from recent investments, increased operating leverage on rising volumes, and strong price realization, all of which contributed to a 110 basis point margin improvement year-over-year.

Lastly, we are pleased with our cash generation in the quarter, as cash from operations rose by more than $20 million year-over-year. Recall, the first quarter typically represents our lowest cash flow quarter due to seasonal working capital build and rental fleet investments. On an annual basis, we continue to target 100% cash conversion (inaudible).

Shifting now to current market conditions, demand for our product offerings remained strong, with our first quarter order intake representing a new quarterly record. The composition of orders remains balanced between publicly funded and industrial end markets, though demand for our dump truck bodies stood out, with orders of up approximately $22 million or 38% in the quarter. We believe this to be driven by a combination of pent-up replacement demand, as chassis supply shortages have weighed on demand last year; execution on strategic initiatives across different end markets; and high current equipment utilization levels.

As mentioned on our last call, we are seeing early examples of our equipment being used in projects resulting from the $550 billion bipartisan infrastructure bill. Although not material at this point, some of the pieces of equipment currently in use at early infrastructure funded projects include street sweepers, safety gate equipment, and warning systems. While we are encouraged to see these early examples, we still believe we remain in early innings of what should prove to be a multiyear demand uplift for our suite of products and aftermarket services pursuant to the infrastructure bill.

We also continue to see strong demand for our publicly funded side of the business, as our diversification and market share efforts are yielding positive results. To provide some context around this, public funded refers to a wide range of funding mechanisms for our products, including water taxes for our flagship sewer cleaners; general U.S. municipal funds; certain U.S. federal funds; Canadian provincial budgets; Canadian federal funds; and several international budgets, especially for our European SSG business, (inaudible).

Lastly, although SSG Q1 orders were down slightly compared to record orders in the prior-year period, we were pleased with the $75 million orders reported this quarter. Recall that in Q1 last year, we booked an $11 million fleet order for public safety equipment from a customer in Mexico that we did not expect to repeat. Our teams continue to focus on increasing production levels to build more trucks, as we aim to reduce current backlog and lead times, while continuing to maintain a healthy order intake. We continue to believe that we have ample physical capacity and good access to labor to allow for scaling of current production levels.

I now want to take a few minutes to provide an update on a couple of our key multiyear internal growth initiatives, many of which mark the foundation on which we recently raised our margin targets.

Starting with aftermarket, growth of our rental and used equipment strategy continues to resonate well in the marketplace. Given the addition of rental and used offerings, we are targeting new cohorts of customers for many of our flagship products, including our sewer cleaners, safe digging trucks, street sweepers, and water blasting solutions. Jetstream, our water blasting business, is a great example of the success of our aftermarket strategy in recent years, as sales of parts, service, and rentals have grown at a high single-digit CAGR since 2016, which has increased Jetstream's aftermarket mix by 400 basis points over that timeframe. This change in revenue composition was a strategic action the team undertook to best serve our customers' needs, while at the same time expanding applications for the use of our equipment.

We see similar optimization efforts across our other products. In fact, over the last six months, a cross-functional team has undergone a review of our commercial strategy for our TRUVAC safe digging products and our Guzzler industrial vacuum loaders. As part of this process, we have identified opportunities for growth in certain territories we believe to be currently underserved that warrant incremental investments in the form of TRUVAC and Guzzler rental additions and other related service assets, addressing a need in certain territories that we have recently assumed.

As a result, over the remainder of the year, we currently expect to incur incremental TRUVAC and Guzzler fleet investments beyond what we had originally contemplated in our previous 2024 guidance. By allocating more of our production to our internal fleet, we expect these investments to represent a revenue drag of up to $20 million compared to our original revenue outlook, and also pose a headwind to current year EBITDA. These factors have been embedded into our latest outlook for the year. Importantly, we expect these TRUVAC and Guzzler aftermarket investments to be accretive to our longer-term outlooks as units become operational, generate rental and parts income, and subsequently translate into used equipment sales, with many rental customers purchasing the equipment following the initial rental period.

In addition to providing attractive returns, our aftermarket model helps us to access new customer cohorts. Recall, we continue to believe that rising adoption of safe digging excavation methods in the United States remains an important tailwind for our business in the coming years. This, coupled with the proliferation of use cases for hydro excavation and rising demand from the bipartisan infrastructure bill, leaves us and our dealer partners optimistic regarding future demand.

In short, we see our aftermarket business as a growing ecosystem, spanning parts, service, rental, and used equipment offerings that is particularly powerful for newly acquired companies coming onto the platform. In fact, just last week, I had the opportunity to attend our team's open house at our new JJE facility located in the Denver area where we showcased a dozen different Federal Signal brands out of one shared location to over 150 customers in attendance. It is the shared aftermarket footprint that allows us to best serve our customers at scale.

Our M&A pipeline also remains active. We are diligently working on optimizing our recently-acquired businesses, while surgically evaluating new opportunities that meet our criteria.

Lastly, our new product development remains at the core of the Federal Signal identity. We remain focused on several electrification projects across our family of vehicles, and we are pleased with the early momentum of our electric street sweeper orders.

We are also introducing several new products within our SSG businesses, including a universal mass warning siren control, and we expect to begin accepting orders for the Class 3 Switch-N-Go product next month.

Turning to our outlook for the rest of the year, demand for our products and our aftermarket offerings remain strong, with both our orders and backlog this quarter again setting new Company records. With our first quarter performance, our record backlog, and continued execution against our strategic and operational initiatives, we are raising our full year adjusted EPS outlook to a new range of $2.95 to $3.15 from the prior range of $2.85 to $3.05.

As noted, this outlook contemplates higher than originally anticipated investments in our rental fleet from Q2 to Q4, given our prioritization of slots to external customers in the first quarter and our aftermarket growth strategy. The guidance also reflects our view of continued gradual build increases and healthy demand for our parts and service offerings.

At this time, we are also reaffirming our full year net sales outlook between $1.85 billion and $1.9 billion. We also continue to expect double-digit improvement and pre-tax earnings and EBITDA margin performance in the upper half of our target range. Lastly, we are maintaining our CapEx outlook of $35 million to $45 million for the year.

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

Operator

Thank you. (Operator Instructions)

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

Steve Barger

Hi. Good morning.

Jennifer Sherman

Good morning.

Steve Barger

Yes. Hi. It is a good morning.

Jennifer Sherman

It is.

Steve Barger

I want to first start with the dealer channel. Obviously a huge focus. You spent the whole slide on internal growth and growth initiatives. What percentage of the dealers have a market share where realistically it'll be hard to grow share versus what percentage have lower share in their region and you'd consider substantial opportunity for share?

Jennifer Sherman

Yes, so beginning into 2023 last year and moving into this year, we've undertaken initiative, working closely with our dealer partners to better understand market share. In fact, Felix, in his strategy role, is leading that effort, and we have several very strong dealer partners. I think all of them would agree this initiative has been helpful, and there's a lot of opportunity, we believe, to grow market share, particularly with some of our organic growth initiatives as we move forward.

Steve Barger

Okay. What percentage of the channel is optimized for rental and aftermarket, meaning all the infrastructure's in place to drive meaningful revenue as you push those initiatives out?

Jennifer Sherman

We always think there's opportunities to improve. We have several strong dealer partners. With the ecosystem that we've talked about in terms of new equipment rental and then used equipment sales, we think that opens up the door for new customers as we move forward. We continue to always identify opportunities to improve as we move forward.

Steve Barger

Okay, and I'll just I'll ask one more about the channel. I think the target for aftermarket to include rental is around 30% or a little less, and I know it's hard to build rental with your new equipment backlog where it is, and you mentioned that for this quarter. The question is can you compare margin or return on capital for aftermarket and rental versus selling equipment on a third-party basis. How favorable, or is it in line or much more favorable? Just trying to gauge the benefit, because it seems like a big opportunity.

Ian Hudson

Yes, Steve. I think when we look at kind of the optimal lifecycle of a piece of our equipment, when you consider the part—you put a piece of equipment into the rental fleet, you rent it for a period of two to three years, you get the parts and service revenue over that time period, and then you sell it as a used piece of equipment, and our equipment tends to retain its resale value pretty well. When we look at that whole return versus a new equipment sale it's more attractive to put it through that kind of aftermarket ecosystem, as we refer to it, so yes, and that's what we were trying to explain with the investments we're making in the fleet. From a return standpoint, while it may be a headwind to EBITDA in '24, the longer-term returns are more attractive than new equipment sale, and so from a return standpoint, that's really one of the drivers for the investment.

Jennifer Sherman

And what's exciting for us is it opens up, both for us and for our dealer partners, new customers, particularly with that used equipment, because it's at a different price point.

Steve Barger

No, understood. Yes, yes. It seems like there's a lot of opportunity through a lot of different facets of the dealer channel, but with that, I'll get back in line. Thanks.

Ian Hudson

Thanks, Steve.

Jennifer Sherman

Thank you.

Operator

Our next question comes from Chris Moore with CJS Securities. Please proceed with your question.

Christopher Moore

Hey. Good morning, guys.

Jennifer Sherman

Good morning, Chris.

Christopher Moore

Good morning. Maybe we'll just stay with the rental fleet for a second, so obviously you talked about the third-party component supply. To help offset some of that, you took some rental fleet production from Q1 that normally impacts Q1. Is that fair to say that that piece of it could have a little bit of impact on Q2?

Jennifer Sherman

Right now, yes, we did shift some of the rental delivery from Q1 to Q2. In addition, as we talked about, as a result of this cross-functional tax task force, we will be investing up to $20 million of equipment in safe digging equipment and our Guzzler equipment. We baked all that into the improved guidance that we gave this morning, so we think we're in pretty good shape.

Christopher Moore

Got you. That's helpful. You talked about this a little bit, so I think roughly 80% of your products are touched at some point by the infrastructure spending, and just want to go a little deeper maybe into the timing. It sounds like early on street sweeper, some safety equipment would be more of the focus, and as things evolve over the next few years, the balance of that 80%, or how should I look at that timing?

Jennifer Sherman

Yes, so we believe we've seen some limited examples thus far, particularly with respect to street sweeping, safety equipment, dump trucks, and then our warning systems, so again, we think we're in very early innings. Sometimes it's hard to understand, particularly with dump trucks, because they have multi uses where they're going, but we saw dump truck orders were up $22 million or 38%, so that was encouraging. We continue to monitor the White House website, and we believe that the cadence of projects is beginning and that will provide multiyear tailwinds for the Company as we move forward.

Christopher Moore

Got it. Maybe just one last one for me.

Jennifer Sherman

Sure.

Christopher Moore

The new product development; obviously, EV, very important. It looks like the biggest hurdle to any significant move by customers to electrification is the cost; not cost coming necessarily from Federal Signal. Just trying to kind of understand what you're seeing there and what your thoughts might be over the medium term?

Jennifer Sherman

Yes, so EV continues to be an important tenet of our NPD program. We introduced and showcased several EV dump trucks at the NTA show. We're encouraged by the—although still small, the increasing pace of orders for our electric street sweeper product, but price does seem to be the biggest single objection, and particularly, it's around the cost of the chassis that we don't manufacture, but we are fully committed to continuing our EV development efforts, and we expect as we move forward, that sales will continue to increase.

Christopher Moore

Got it. No, that makes sense. I will jump back in line. Appreciate it, guys.

Operator

Our next question comes from Mike Shlisky with D.A. Davidson. Please proceed with your question.

Ian Hudson

Good morning.

Michael Shlisky

Good morning, and thanks for taking my question. I just want to get some more detail from you on your plans in rentals. It's still a relatively small part of the business. It's been a large proportion of other parts in the infrastructure world. They're using a lot of (inaudible), whether it's bucket trucks and certain kind of dump trucks, certain kinds of safety equipment for construction sites, etc. I guess I'm kind of curious more long term, how large of a percentage of the business do you think rental can or ought to be. Kind of how far could this kind of go here?

Jennifer Sherman

Yes. I think the thing that's important is to think about the ecosystem, and when we rent a truck, the times can vary, but it's usually between 18 months and two years, and in many situations, the entity that's renting a truck buys the truck, so it's that used equipment that is an important part of the ecosystem, in addition to parts and service. Furthermore, we have several strong rental partners and we continue to support their efforts in the field. We began in the rental business in 2016, and if you look at our investment into our fleet, you can see that it hasn't meaningfully changed over time given the growth of the Company, and we continue to believe that the largest part of our aftermarkets business is parts, which is continuing to grow, and that's, again, kind of going back to that ecosystem that we talk about. It is we rent, we sell it as used equipment, and there's also that parts and service business that's continued to grow that's a critical part of that ecosystem.

Michael Shlisky

So, just to kind of recap, then the added assets you're putting in now is pretty much it. You don't have a much broader plan to make rental the lion's share or a really large percent of your overall revenue?

Ian Hudson

Yes, Mike, the investment we talked about was just the specific investment we're making in certain territories that we recently assumed, so, it's more—we look at the investments and the additions to our fleet. We look at it product by product. We look at it by geography, so we're very selective in how and when we add, and so that's really the driver for this most recent investment that we're making.

Michael Shlisky

Got it, and then, secondly, I wanted to ask about Class 8 chassis supply. At this point, is Class 8 in any way a gating factor for your production, or do you feel that your (inaudible) supply at this point? There does appear to be increases in some OEM Class 8 vocational chassis, not all of them. I'm curious as to how you're feeling right now about the rest of the year here.

Jennifer Sherman

We feel really good. Class 8 chassis supply is not an issue for us.

Michael Shlisky

Outstanding. I'll pass along at this point. Thanks so much.

Operator

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

Walter Liptak

Hi. Thank you. Good morning. Good quarter, guys. I wanted to ask about the backlog. You had the strong orders this quarter and the backlog now at like $1.1 billion, which is a great thing, but at what point—is there a point at which the backlog is too big and becomes a bad thing?

Jennifer Sherman

I think as we've talked about, we're very focused on building more trucks, which translates into increased throughput at our various businesses. We have focused on reducing our lead times and we're making some progress. Before we had the third-party supply chain issue in March, production at our Streator facility was up 12% for the first two periods of the year, so we're—and with the implementation of the Federal Signal operating system and our 80:20 efforts, we continue to expect increased throughput through the year. While maintaining strong orders, we expect those lead times to come down.

Walter Liptak

Okay, great. How should we think about the backlog at the end of the year if you're successful in—do we stay around this $1 billion level through the year, or do you think it comes down?

Ian Hudson

Yes, I think we want to all see—as Jennifer mentioned, Walt, we want to reduce those lead times by increasing production and shipping more, but also, at the same time, maintaining that healthy order intake, so rather than kind of focus on a backlog number, I think our objectives and our goals for the year are really increasing build rates per day, increasing production; things of that nature, but we want to maintain that healthy order intake level, so that's really the focus.

Walter Liptak

Okay. That sounds great, and then the orders, I wanted to ask about the orders for the dump truck business and just some questions around that. How big is the dump truck revenue on an annual basis, and what were the trends in the last couple of years, because I'm recalling that there were some supply chain issues on chassis, and maybe not the order levels or whatever in the last couple of years, and you talked about pent-up demand, so I wonder if you can help quantify how big is the revenue for that business and what was the growth rate for the last couple of years?

Ian Hudson

Yes, so the dump trucks represent about 17% of our total revenues, which, I think we mentioned on the call that the orders in that business were up $22 million or 38% year-over-year, so what we've seen there—and is really nice growth with the improvement in some of the chassis flows. We do believe that that is a business where there is some pent-up demand, because, to your point, on the recent trends, that business has been impacted by the tightness in the flow of chassis in recent years, so we do believe there is pent-up demand, and what we saw in Q1 gives us encouragement that with the improvement in chassis, there is going to be that pent-up demand, and what we've also seen is some of our businesses have been able to kind of expand geographically, which is really encouraging, because as we think about—I think we had a question earlier about the infrastructure bill and the potential there. We think dump trucks is one area—probably on the earlier end of the funding for that would be dump trucks, so we're encouraged with what we saw in Q1 and think there's probably more to come.

Jennifer Sherman

Yes, just add there, kind of reiterating what Ian said, we've got a really good team. They're very focused on geographic expansion and market share growth and they're having some early successes, so with the improved chassis supply, really good quarter by our dump truck businesses, and more to come.

Walter Liptak

Okay, great. Okay. Thanks for the color.

Operator

Our next question comes from Greg Burns with Sidoti & Co. Please proceed with your question.

Gregory Burns

Good morning. Given the substantial backlog and the extended lead times, can you just talk a little bit more maybe about the calculus of the thought behind diverting production maybe towards the rental fleet? I understand the longer-term opportunity, but how does that decision factor in with this idea that we want to get lead times down? Also, at the same time, maybe you could do both hand-in-hand, and also, the investments that you're looking to make into the rental fleet, could those even be higher were it not for the lead times, needing to manage those? What's the dynamic there? Thank you.

Ian Hudson

Yes. I think the investment. Greg, we're talking about is specifically—we're only talking about TRUVAC and Guzzler, and so for those product lines, the lead times are probably in an area that would be what we would call normal, so we're not in the same situation with sewer cleaners and sweepers where those lead times are probably more extended than we'd like, so the investment really is not—it's focused on the product lines where lead times are normal, so that's one area. The other reason that there is that need to add more units to the fleet is just given the strength of used equipment sales that we've seen and that creates that need to replenish. We talked about in Q1 shifting some of the production there to prioritize customers, so there is that shift that we had. We had planned to add units to the fleet in Q1. Some of that has now shifted to Q2, so kind of for the full year, that piece is somewhat neutral to our prior guide. The incremental investment we're talking about is primarily on the Guzzler's and TRUVAC side, and again, that's the area where lead times are more normal.

Jennifer Sherman

And, I guess I'd add there is that carefully monitor our rental fleet utilization and used equipment sales parts and service, and as we assume these additional territories specifically for safe digging and for Guzzler, we see opportunities there and we want to be prepared to respond to that, because we continue to believe that used equipment, in particular, along with parts, service, will be an important growth area for the Company.

Gregory Burns

Okay, great. Thank you very much.

Operator

Our next question comes from Dave Storms with Stonegate Capital Markets. Please proceed with your question.

Preston Graham

Good morning, Preston Graham sitting in for Dave today. You mentioned in your prepared remarks that your M&A pipeline continues to be strong. I guess, any additional color you can share on what you're seeing in the M&A environment and what type of tuck-ins could make sense for the business going forward?

Jennifer Sherman

Yes. I think we're in a pretty good place right now. We're working on a number of different opportunities. Again, in many cases, these are opportunities that we have sourced and we've developed relationships over a longer period of time, so pipeline is full and more to come, and I guess I'll reiterate that M&A will continue to be a meaningful part of our growth story as we move forward. I mentioned in my prepared remarks, I was out in Denver last week at our open house. It was really exciting to see what happens when you bring all of these Federal Signal brands together under one umbrella, so good example of some of our organic growth initiatives and then some of our M&A working together

Preston Graham

Got it. Very helpful. Thank you, and then one follow-up. Last quarter, you touched on some lumpiness in sort of the fleet orders, some of the large fleet orders. Obviously, it's hard to predict, but I guess, could you talk a little bit more about what you're seeing from your fleet customers from a demand perspective?

Jennifer Sherman

Yes, so one of the things we were encouraged was demand across the board was very strong, and we're particularly encouraged by, as we talked about, kind of the dump truck. The SSG orders were strong, and despite the fact that the year-over-year comparable is tough, because they had a one-time $11 million order to Mexico in Q1 of ‘23, and again, it's pretty balanced between the publicly funded and the industrial side, which we believe is encouraging and an important sign of the health of our business.

Preston Graham

Thank you. That's helpful. Okay. I'll jump back in the queue.

Operator

There are no further questions at this time. I would now like to turn the floor back over to Jennifer Sherman for closing comments.

Jennifer Sherman

In closing, I would like to reiterate that we are confident in the long-term prospects for our businesses and our markets. We remain focused at executing against our strategic framework. We would like to express our thanks to our stockholders, employees, distributors, dealers, and customers for their continued support. Thank you for joining us today and we'll talk to you soon.

Operator

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