Federal Signal Corporation

Third Quarter Earnings Conference Call

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PRESENTATION

Operator

Good morning and welcome to the Federal Signal Corporation 2023 Third Quarter Earnings Conference Call.

(Operator Instructions)

Please note this event is being recorded.

I would now like to turn the conference over to Felix Bosen, Vice President, Corporate Strategy and Investor Relations. Please go ahead.

Felix Bosen

Good morning, and welcome to Federal Signal's third quarter 2023 conference call. I'm Felix Bosen, 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 news 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 signals 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 is going to begin today by providing some detail on our third quarter results before turning the call over to Jennifer to provide an update on our performance, current market conditions, updated margin targets, and our outlook for the remainder of the year. After our prepared comments, we will open the lines up for questions.

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

Ian Hudson

Thank you, Felix.

Our consolidated third quarter financial results are provided in today's earnings release. In summary, our third quarter results were outstanding and we reported new Company records for quarterly net sales and adjusted EPS, a 220-basis point year-over-year increase in EBITDA margin, and 18% increase in orders, and significant improvement in cash generation with cash conversion of 110%.

Consolidated net sales for the quarter were $446 million, a quarterly record and an increase of $100 million or 29% compared to last year. Organic revenue growth for the quarter was $80 million or 23%. Consolidated operating income for the quarter was $62.5 million, up $23 million or 58% compared to last year. Consolidated Adjusted EBITDA for the quarter was $78.5 million, up $25 million or 47% compared to last year. That translates to a margin of 17.6% in Q3 this year, up from 15.4% last year.

Net income for the quarter was $43.3 million, up to $11.5 million or 36% from last year. That equates to GAAP EPS for the quarter of $0.71 per share, up $0.19 per share, or 37% from last year. On an adjusted basis, EPS for the quarter was $0.71 per share, an improvement of $0.18 per share or 34% compared to last year. Order intake for the quarter was again strong with orders of $450 million representing an increase of $68 million or 18% compared to Q3 last year. Backlog at the end of the quarter was again slightly in excess of the $1 billion mark and an increase of $182 million or 22% compared to Q3 last year.

In terms of our group results, ESG's net sales for the quarter were $373 million, an increase of $88 million or 31% compared to last year. ESG's operating income for the quarter was $57.2 million, up $23.3 million or 69% compared to last year. ESG's Adjusted EBITDA for the quarter was $72 million, up $25.5 million or 55% compared to last year. That translates to an Adjusted EBITDA margin of 19.3% in Q3 this year, up 300 basis points from Q3 last year.

ESG reported total orders of $375 million in Q3 this year, an improvement of $53 million or 17% compared to last year. SSG's net sales for the quarter was $73 million this year, up $12 million or 19% compared to last year. SSG's operating income for the quarter was $13.7 million, up $3.2 million or 30% from last year.

SSG's Adjusted EBITDA for the quarter was $14.6 million, up $3.1 million or 27% from last year. The Adjusted EBITDA margin for SSG for the quarter was 19.9%, up 120 basis points from Q3 last year. Orders for the quarter were $75 million, up $15 million or 24% compared to last year. Corporate operating expenses for the quarter were $8.4 million compared to $4.9 million last year.

Turning now to the consolidated income statement where the increase in sales contributed to a $34.9 million improvement in gross profit. Consolidated gross margin for the quarter was 26.4% of 250 basis points compared to last year. As a percentage of sales, our selling, engineering, general and administrative expenses for the quarter were down 20 basis points from Q3 last year. Other items affecting the quarterly results include an $800,000 increase in amortization expense, a $300,000 increase in acquisition-related expenses, a $200,000 increase in other expense, and a $2.4 million increase in interest expense.

Tax expense for the quarter was $13.8 million compared to $4.9 million last year with the increase primarily due to higher pre-tax income levels and the recognition of fewer discrete tax benefits in the current year quarter compared to the prior year. Our effective tax rate for the quarter was 24.2% compared to 13.4% last year. At this time, we expect our full year effective tax rate to be approximately 24%, excluding any additional discreet items.

On an overall GAAP basis, we therefore earned $0.71 per share in Q3 this year compared with $0.52 per share in Q3 last year. To facilitate earnings comparisons, we typically adjust our GAAP earnings per share for unusual items recorded in the current or prior quarters.

In the current year quarter, we made adjustments to GAAP earnings per share to exclude acquisition-related expenses. On this basis, our adjusted earnings for the quarter was $0.71 per share compared with $0.53 per share last year.

Looking now at cash flow, we generated $48 million of cash from operations during the quarter, an increase of $38 million from last year with the increase, primarily due to working capital improvements and higher net income. That brings our year-to-date operating cash generation to $91 million, an increase of 181% compared to the first nine months of last year.

With the improved cash flow, we pay down approximately $40 million of debt during Q3 ending the quarter with $325 million of net debt and availability under our credit facility of $425 million. Our current net debt leverage 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 $6.1 million during the quarter reflecting a dividend of $0.10 per share, and we recently announced a similar dividend for the fourth quarter. We also funded $4.3 million of share repurchases during the quarter.

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

Jennifer Sherman

Thank you, Ian.

I would like to begin by welcoming Felix to our team. We are proud to report another record-setting quarter of profitability and sales across the enterprise thanks to strong results in both operating groups. Within our environmental solutions group and improving supply chain supported higher production levels and with increased sales volumes, contributions from our recent acquisitions, robust aftermarket demand, and strong price realization, we're able to deliver a 31% year-over-year net sales increase and a 69% increase in operating income compared to last year.

As mentioned on our last call, supply chain fluidity remained a constraint during the third quarter as there continued to be pockets of component shortages and medium-duty chassis availability constraints that have particularly impacted our dump truck body business. However, we are encouraged by the ongoing production improvements across our business units with our two largest manufacturing facilities leading the charge with third quarter production at our Streeter and allergen facilities up a combined 19% year-over-year.

In fact, despite the supply chain fluidity, September marked Elgin's highest average daily build rate since February of 2020, a trend that has continued into October. We are pleased that the UAW was able to reach a tentative agreement with the Detroit automakers in recent days, and as such, we currently expect a nominal adverse impact on our businesses for the remainder of 2023.

For some perspective, our business units with UAW exposure to UAW source chassis include certain of our dump truck businesses, which use lighter-weight chassis, and our domestic public safety business within SSG. As a reminder, we had previously anticipated some temporary moderation and orders within our domestic public safety business during the fourth quarter with Ford scheduling a police vehicle model year changeover in Q4.

Bigger picture, we continue to believe that our large-scale capacity expansions completed in recent years, including our 40% capacity expansion at our Vactor, TRUVAC facility in street Illinois, position us exceptionally well to absorb incremental volumes as supply chains continue to improve.

In what is typically a seasonally strong quarter, our aftermarkets revenues were also up 19% over last year with particular strength in part sales and used equipment demand. Aftermarket revenue represented approximately 26% of ESG revenue in the quarter. In addition to strong organic growth, our recent acquisitions also contributed with Trackless, our most recent acquisition completed continuing its strong start. Acquisitions added approximately $20 million to our top line during the quarter.

Our safety and security systems group again delivered impressive results during the quarter with 19% top-line growth and an Adjusted EBITDA margin of 19.9% toward the upper end of our recently raised SSG margin target range and a 120 basis point improvement compared to last year.

As mentioned on our last call, we are beginning to see the benefits associated with our investments in SSG, including the addition of a third printed circuit board line, a multimillion-dollar investment to increase production volumes of public safety equipment, achieving cost savings and reduced reliance on offshore suppliers. The new production line became operational during the third quarter and we expect to see further benefits into next year.

Lastly, we are particularly pleased with our cash conversion in the quarter, having generated $48 million of cash from operations representing 110% of net income. On an annual basis, we continue to target 100% cash conversion levels, which when coupled with more normalized capital expenditures and the $30 million range going forward should result in substantial free cash flow generation.

Shifting now to current market conditions where demand for our product offerings remains exceptionally strong with our third quarter intake of $450 million reflecting ongoing strength across our end markets. As we've talked about previously, there are several macroeconomic tailwinds contributing to the strong demand we are currently experiencing and our sales team and dealer partners remain optimistic about future demand levels.

Within our government markets, we are continuing to see the benefits from the American Rescue Plan, which in 2021 earmarked $350 billion for state, local, and territorial governments for a variety of purposes, including the maintenance of essential infrastructure such as sewer systems and streets.

In the third quarter, public revenue orders were up 8% compared to last year, primarily driven by robust demand for sewer cleaners, street sweepers, and our suite of SSG products. Within our safety and security systems group, our European public safety business Vama also continues to execute on its pipeline and the team booked a sizable municipal upfoot order in Spain during the quarter.

Strength in our commercial industrial end markets was even more pronounced in the quarter with orders rising 25% year-over-year, primarily on the back of increased demand for safe digging equipment and dump truck bodies. The strength was broad-based across our commercial businesses, but orders for safe digging equipment led the charge as orders rose to substantial 33% compared to last year.

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 a 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.

More broadly, we believe the $550 billion bipartisan infrastructure bill to be a substantial multi-year demand opportunity for many of our Federal Signal products, and we are encouraged to see more than $60 billion in award funding and a further $60 billion of announced funding spanning more than 30,000 total projects.

With this unprecedented demand lead times for certain products remains extended and consequently we may see some lumpiness and ESG order trends as we move forward, which may impact comparability from quarter-to-quarter.

All in all, we remain focused 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. Our teams also remain laser-focused on new product development, including electrification initiatives across our family of vehicles.

While electrification across our end markets remains in its infancy and we largely expect adoption to be gradual, we are pleased to announce several EV orders in the quarter within our street sweeping business, including orders for both our fully electric broom bear sweepers and our hybrid pelican sweepers, all of which are earmarked for delivery next year. We also remain excited about several other ongoing electrification projects in the pipeline.

Above all, we believe our broader growth strategy is working despite rising macro and geopolitical uncertainty in the world. Our strategic initiatives include aftermarket growth, new product development, and diligent 80/20 processes are all visible in our recent results and should continue to drive incremental benefits going forward as we see increased production output.

In addition to organic growth, we also see an array of external levers, including an active M&A pipeline and opportunities to drive future efficiency gains from recently completed acquisitions. In fact, we believe the recent acquisitions of Ground Force in 2021 and TowHaul in 2022 to be an excellent example of our ongoing M&A growth strategy.

Recall, both acquisitions marked our entrance into the mineral and metal extraction support equipment market, which we believe stands to benefit from several multi-year tailwinds, including electrification of vehicles and other global green initiatives. Not only do we believe Ground Force and TowHaul will serve as important platforms of growth in this arena for Federal Signal, but we also believe we are on track to recognize over $3 million of synergies on approximately $75 million of annual revenue this year already.

Similar to our other acquisitions, synergies span across both revenues and costs with major opportunities across distribution, parts optimization, which represents about 30% of Ground Force and TowHaul sales and material cost reduction initiatives.

In short, we are pleased with the SWIFT (phon) integration progress at both Ground Force and TowHaul as an example of our disciplined M&A strategy, and we remain encouraged by an active M&A pipeline.

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 ranges on an annual basis given the inherent seasonality in some of our businesses through any business cycle. These margin target ranges from the guidepost, which we have operated our businesses. We have also aligned our compensation practices with these goals.

I am proud to say that our teams have operated annually within or above these ranges without exception since 2017, including through the pandemic. As we look to the future, we are committed to continuing to improve and build on the successful strategies we have in place. We remain committed to operational excellence, driving organic growth and value-added M&A.

There are a number of building blocks that we've been working on that give us confidence that we'll be able to continue to drive shareholder value as we take the next step in our continuous journey of improvement. Specifically, the codification of our Federal Signal operating system, which includes our 80/20 programs and lean initiatives, the significant investments in our facilities in recent years to add capacity, facilitate optimization, the success of our new product development initiatives, the growth of our aftermarket business, the opportunity to improve margins from a reversion to the norm in the mix of chassis supply and the continuous improvement in our M&A integrated program.

Earlier this year, we raised the EBITDA margin targets for our safety and security systems group to a range of 17% to 21% from the previous range of 15% to 18%. Today, building on the success that our teams have driven, we are raising our EBITDA margin targets for our environmental solutions group to a new range of 17% to 22% from the previous range of 15% to 18%. Our teams are laser-focused and energized on these new EBITDA margin ranges as we enter the next phase of our growth.

We will also benefit over the next several years from the public funds available to purchase our equipment from the American Rescue Plan Act and the infrastructure bill. As a result of increasing the margin targets for ESG, we are also increasing our consolidated EBITDA margin targets to a new range of 14% to 20% from the previous range of 12% to 16%.

Turning now to our outlook for the rest of the year demand for our products and our aftermarket offerings remains high. We continually to successfully execute against our strategic initiatives and with our third quarter performance, our current backlog, and improving supply chain conditions, we are raising our full year adjusted EPS outlook to a new range of $2.44 to $2.52 from the previous range of $2.30 to $2.46.

We are also increasing the low end of our full year net sales outlook range by $30 million, establishing a new range of $1.68 billion to $1.72 billion.

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

Operator

(Operator Instructions).

The first question comes from Steve Barger with KeyBank Capital Markets. Please go ahead.

Jennifer Sherman

Good morning, Steve.

Jacob Moore

Hi, good morning. This is actually Jacob Moore on for Steve today.

Jennifer Sherman

Hi Jacob.

Jacob Moore

Thanks for taking my questions. First, just backlog and order numbers seem to be rolling over and normalizing some of the other larger machinery names out there, yet your pipeline just continues to grow. So, my question is really how far can this go? I think it's safe to assume that there will be cyclicality over the long term, but what appears to be a pretty successful strategy seems to be growing Federal Signal into a structurally larger Company. When your orders and backlog do eventually start to “normalize,” what do you think that new baseline looks like?

Ian Hudson

Yes, I think Jacob, one of the things that we mentioned in our prepared remarks is the lead times currently, and we have a big focus right now on trying to reduce those lead times. That's a function really of increasing output and as supply chain has improved, we've seen that in improving supply chain has helped us to increase production to get more units out and that's been achieved during the third quarter.

I think we talked about the production levels at our two largest facilities within ESG we're up 20% year-over-year, so we want to reduce those lead times and backlog while maintaining that healthy order intake. Really, the order intake that we saw during the quarter we were really pleased with. It was up 18% year-over-year at that $450 million level.

I think that's what we are looking at right now with one eye to the future with the potential for the infrastructure bill that we talked about. We want to be in a position to deliver the units to our customers at a faster rate than the lead times currently, and so that's really the big focus of ours is to reduce some of those lead times with the potential that we see over the next several years from the infrastructure.

Jennifer Sherman

I guess I'd add there, as we see the chassis situation normalize for our TBI businesses, we think there's pent-up demand, and so we think that we'll benefit from that also in the upcoming years. We've really positioned ourselves to be able to deliver quickly and efficiently with some of the 80/20 improvement initiatives we've done in particular in those businesses.

Jacob Moore

Understood. That's helpful. Jennifer, I'm glad you brought up the chassis because that was my second question. If we could look past this availability issue that I'm sure you're pretty tired of talking about, what changes do you have planned to ensure that this pretty significant governor to growth doesn't throttle production in the future?

Jennifer Sherman

Yes, a couple things. One is, as we've talked about this in the past, we're chassis agnostic, so we'll build on anybody's chassis. We think it's important to remember the nature of what we do. If you look the value-add component of what we contribute is significant, so we're not talking about for our Elgin factor and road stripe business, we're not talking about tens of thousands of chassis. It's a finite number. We have seen pretty dramatic improvement in the Class 8 chassis availability and we expect that to continue.

With respect to the dump truck business, we have diversified our chassis base quite a bit since we've owned TBEI. We've had some new product development initiatives, been focused on new class—new chassis. Finally, we've made effort on building on that new product development point to diversify, continue to diversify our chassis base on other chassis as we move forward.

A good example would be at our Elgin business. We've introduced a new product line and it's on an (inaudible) chassis, which is new for us. So, it's something that's top of mind for us. We've done a pretty good job of maneuvering through the last couple years. We expect to see it improve going forward.

Then finally I would say our dealers and customers have played an important role in all this in terms of they've also been able to procure chassis. So, as we move forward it's a multi-pronged solution but I think we're in a pretty good place.

Jacob Moore

Understood. Thank you very much.

Ian Hudson

Thanks, Jacob.

Operator

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

Jennifer Sherman

Good morning, Chris.

Chris Moore

Good morning. Congratulations.

Jennifer Sherman

It is a good morning.

Chris Moore

That's right. Maybe just real quick, the great growth in Q3, roughly, how did that break down between price and volume? Then I'm just trying to understand, obviously, growth's been terrific last couple years. What a more normalized mix would be between volume and price moving forward?

Ian Hudson

Yes, so Chris, so for the quarter, if you look at the top line growth, $100 million, so that's a 29% year-over-year increase. The organic component of that was about $80 million or about 23%. Then that would break down between—volume was about 16% of the organic growth and then price was about 4%, and then chassis was about 3%, so those are the three major components of that organic growth.

Going forward, the price is probably in the typically in the 2% to 3% range. Then obviously the volumes with the backlogs that we have, we'd expect that to be certainly higher as we go into ‘24 as we look to increase that production as I just talked about. We would expect that the volume as we look to ‘24, the volume will be probably the biggest part of that—of organic growth.

Chris Moore

Got it. Very helpful. Maybe you talked a little bit on the EV side, so Ford is postponing like something like $12 billion in EV factory building, including a planned battery factory in Kentucky. The reasons given we're just unwillingness of customers to pay extra for the electric vehicles. Just wondering if that has any carry-over impact into the EVs that you believe ultimately are going to be a meaningful component of revenue. Any sense to this point in time if customers are willing to pay much more for electric sweeper? I know it's still earl. Just wondering any thoughts there?

Jennifer Sherman

Sure. As kind of referenced in my prepared remarks, our assumption that adoption is going to be slow. We think it's critical that we have products available. We're committed to helping particularly our governmental customers meet the ESG goals that they've established and our products can be part of that solution.

With respect to chassis availability, we have very deliberately strategy of working with a number of different EV chassis manufacturers. We've got initiatives across our suite of products with multiple different providers, and we believe that that gives us the opportunity to test different solutions and gives us flexibility as we move forward.

With respect to customer's willingness to pay for electric vehicles, our feedback has been there is great interest. We've done a lot of demos and many of our customers are looking for additional government assistance in terms of funding of those vehicles.

Chris Moore

Got it. That's very helpful. I will leave it there. I really appreciate it.

Jennifer Sherman

Thanks, Chris.

Ian Hudson

Thanks, Chris.

Operator

The next question comes from Mike Shilsky with D.A Davidson. Please go ahead.

Mike Shilsky

Good morning.

Jennifer Sherman

Good morning, Mike.

Mike Shilsky

Wanted to just (inaudible) on that comment about EV's they just made? In two months in California on January 1, no two Axle truck can be sold, that's not easy because there are some very strong restrictions about selling axle vehicles anymore in California. I'm curious if you have the contacts at your dealerships with the OEMs in California to start providing EVs from that point forward, or are you a little bit worried about any disruption in deliveries within that state starting in the first quarter or maybe the first couple quarters of 2024 as that market adjusts to the new the new regulation reality over there?

Jennifer Sherman

Yes, so this has been something that's been top of mind for both us and our dealers in California. We have a cross-functional team that's led by our Chief Operating Officer Mark Weber. We've met with the various chassis OEMs, so we've got EV products available to offer in California. It's not a coincidence that the orders that I referenced earlier in the call, some of those are from California. So, we think we're very well positioned to respond to this and continue to plan on working with those chassis OEMs to present a compliant product.

Mike Shilsky

Okay, fair enough. Thank you for that. I want to also follow up on the margin targets. They look great for ESG. Is what's in your backlog now, is that a positive mix kind of get you coming out of the gate at a higher—at the higher half of that range right out of the gate here in 2024? Do you feel like you've got a lot of 80/20 or other things to implement to get yourself to the higher end of the range at a very early stage here?

Ian Hudson

Yes, I think Mike, first of all, these are multi-year targets similar when we introduced them in 2017. I think we've been operating—as we talked about on the call, we've been operating above the 14%, which is the midpoint of the prior range consistently for over five years now, including during the pandemic.

If you look at this year so far, our EBITDA margin is year-to-date at 16.4%, and that's despite a seasonally softer Q1 as we typically see. We had a strong Q3, it was a record level from a margin standpoint, but Q3 is typically strong from an EBITDA margin standpoint with the strength of aftermarkets. But with all of that said in Q3, we weren't by any means firing on all cylinders. There was still some supply chain disruption at our largest facilities.

We think there is room to grow and we feel that now was the right time to increase the targets, realizing that conditions are still not optimal, so yes. We think 80/20 is going to be a piece, we think there's going to be meaningful impacts from increased operating leverage as we increase production with the capacity expansions. We think there's some additional contributions from the recently acquired businesses which can add some accretion to the margins, and also, we think about the growth of the aftermarket business. So, those are the primary factors that we think gave us the confidence to raise those margin targets.

Jennifer Sherman

Yes, the one thing I would add to is more normalized buying patterns with respect to—or chassis supply as we talked about earlier on the call. Then I would also add as I mentioned earlier, we believe that as chassis become more available, there's pent-up demand in our dump truck businesses.

Mike Shilsky

Okay. Okay. I appreciate the discussion. I'll pass it along. Thank you.

Ian Hudson

Thanks.

Jennifer Sherman

Thank you.

Operator

The next question comes from Greg Burns with Sidoti and Company. Please go ahead.

Greg Burns

Good morning.

Ian Hudson

Morning Greg.

Jennifer Sherman

Good morning, Greg.

Greg Burns

You mentioned in the improvement in unit production rates at some of your facilities. How far below like full production capacity are you? Like how much more room is there to improve those rates of production at Streeter and maybe some of these other facilities

Jennifer Sherman

Quite a bit. As we've talked about before, we did a 40% capacity expansion at Streeter. We bought the building. At Elgin, we're doing a number of productivity improvement initiatives, a number of 80/20 initiatives at our Elgin facility. We're very focused on what we call BMT build more trucks and we believe that given the backlogs we have, there's a lot of opportunity to improve going forward and it's one of the foundation pieces that we relied upon in terms of our decision to increase the EBITDA margin targets.

Greg Burns

Okay. Then in terms of the strong order growth that you're seeing around safe digging, is that just a function of the market becoming more aware of those types of solutions? Or, is there any specific demand driver driving the order patterns this quarter?

Jennifer Sherman

It's a number of things. One is I think the number of use cases continues to increase and that's encouraging. We continue to focus on product demos. Our dealers have done a really nice job of educating the market about that. Again, we look at, it's not a coincidence that our largest install base is in Ontario, Canada, where it's mandated in some applications.

In the U.S., 19 states plus OSHA have recognized it as the best practice. But we believe that we're still in very early adoption phase in the U.S. and we think a combination of regulation, increased use cases, insurance, and some of the government funding that's going to be available over the next several years that this will be—we'll continue to see some really nice growth for our hydro excavation product line.

Greg Burns

All right, great. Thank you.

Operator

The next question comes from Dave Storms with Stonegate Capital Markets. Please go ahead.

Jennifer Sherman

Good morning, Dave.

John Jane

Good morning. This is John Jane stepping in for Dave.

Jennifer Sherman

Good morning.

John Jane

You touched on the 80/20 initiatives earlier in the call. It's good to hear about the cost savings. Can you talk about which those are structural, which ones are more temporary discretionary?

Jennifer Sherman

Yes, I think one of the critical initiatives we have in 2023 at Federal Signal Corporation is we've hired a dedicated resource. We have a cross-functional team, and we're codifying the Federal Signal operating model, which includes our 80/20 initiative, our series of constraints, and our lean initiative. We're really excited about this next phase in our continuous improvement journey and it is one of the factors as we looked at raising those margin targets that we're going to look at on an annual basis through the cycle. It was an important catalyst we think for future efficiency going forward.

John Jane

Got it. All right. Thank you. Very helpful. I'll step out.

Ian Hudson

Thanks, John.

Operator

This concludes our question-and-answer session. I would like to turn the conference back over to Jennifer Sherman for any closing remarks.

Jennifer Sherman

Thank you. In closing, as we enter this Thanksgiving season, I want to spend a moment to thank our dedicated employees, loyal customers, and dealers and distributors. Collectively, we remain committed to continuing to improve shareholder value. Thank you for joining us today, and we'll talk to you soon.

Operator

The conference has now concluded. Thank you for attending today's presentation. You may now disconnect.