Federal Signal Corporation

Fourth Quarter 2024 Earnings Conference Call

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PRESENTATION

Operator

Greetings, and welcome to Federal Signal Corporation's Fourth Quarter Earnings Conference Call.

At this time, all participants are on a listen-only mode. A question-and-answer session will follow the formal presentation.

If anyone should require operator assistance during the conference, please press star zero on your telephone keypad. As a reminder, this conference is being recorded.

I would now like to turn the conference over to your host, Felix Boeschen. Thank you. You may begin.

Felix Boeschen

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

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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 have also posted the slide presentation and the earnings release under the Investor tab on our website.

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

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

Ian will start today with more detail on our fourth quarter and full year financial results. Jennifer will then provide her perspective on our performance, discuss our recent acquisition of Hog Technologies, and go over our outlook for 2025 before we open the line for any questions.

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

Ian Hudson

Thank you, Felix.

Our financial results for the fourth quarter and full year of 2024 are provided in today's earnings release. Before I talk about the fourth quarter, let me highlight some of our full year consolidated results for 2024. Net sales for the year were approximately $1.86 billion, a record high for the company, and an increase of $139 million or 8% compared to last year. Operating income for the year was $281.4 million, an increase of $56.9 million or 25% from last year.

Adjusted EBITDA for the year was $350.6 million, up $64.6 million or 23% compared to last year. That translates to a margin of 18.8% this year, up 220 basis points from last year. GAAP diluted EPS for the year equated to $3.50 per share, up $0.94 per share or 37% from last year.

On an adjusted basis, we reported full-year earnings of $3.34 per share, up $0.76 per share or 29% from last year. Orders for the year were $1.85 billion, the second highest annual orders in the Company's history, contributing to a backlog of approximately $1 billion at the end of the year.

For the rest of my comments, I will focus mostly on comparisons of the fourth quarter of 2024 to the fourth quarter of 2023. Consolidated net sales for the quarter were $472 million, an increase of $24 million, or 5% compared to last year, despite a $7 million headwind from fewer chassis parts through sales. Consolidated operating income for the quarter was $70.1 million, up $7 million or 11% compared to last year.

Consolidated adjusted EBITDA for the quarter was $89.3 million, up $11.8 million or 15% compared to last year. That translates to a margin of 18.9%, an increase of 160 basis points from last year. GAAP diluted EPS for the quarter was $0.81 per share, up $0.06 per share or 8% from last year. On an adjusted basis, EPS for Q4 this year was $0.87 per share, an increase of $0.13 per share or 18% compared to last year. Orders in Q4 this year were $446 million compared to $465 million in Q4 last year.

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In terms of our fourth quarter group results, ESG sales were $396 million, an increase of $23 million or 6% compared to last year. ESG's Adjusted EBITDA for the quarter was $82.9 million, up $9.6 million or 13% compared to last year. That translates to an Adjusted EBITDA margin of 20.9% in Q4 this year, up 130 basis points from Q4 last year. ESG reported total orders of $365 million in Q4 this year, compared to $399 million last year.

SSG's fourth quarter sales were $76 million this year, up $1 million or 1%, compared to last year. SSG's Adjusted EBITDA for the quarter was $16.4 million, up $400,000 or 2% from last year. SSG's Adjusted EBITDA margin for the quarter was 21.6%, up 40 basis points from last year. SSG's orders for the quarter were $81 million, an increase of $15 million or 23% from last year, primarily due to strength in orders for public safety equipment and warning systems.

Corporate operating expenses in Q4 this year were $10.5 million, compared to $10 million last year.

Turning now to the consolidated statement of operations, where the increase in sales contributed to a $13.2 million improvement in gross profit. Consolidated gross margin for the quarter was 28.1%, up 150 basis points compared to last year. As a percentage of sales, our selling, engineering, general and administrative expenses for the quarter were up 30 basis points from Q4 last year.

During the fourth quarter of this year, we recognized $300,000 of acquisition-related expenses, compared to a $1.6 million (inaudible) in Q4 last year. Other items affecting the quarterly results included a $1.2 million reduction in interest expense associated with lower average debt levels, and a $3.8 million pretax non-cash pension settlement charge recognized in connection with a voluntary lump sum pension offering to certain participants of our frozen U.S. benefit plan, which was completed during the quarter.

Income tax expense for the quarter was $12.9 million, an increase of $800,000 from last year, with the year-over-year change largely due to higher pretax income levels, partially offset by the recognition of $1.8 million more in discrete tax benefits in the current year, compared to the prior year quarter.

Our GAAP effective tax rate for full year 2024 was 18%. That rate included a benefit of approximately $16 million associated with a worthless stock deduction that is not expected to recur in 2025. For 2025, we currently expect a tax rate of approximately 26%, excluding any discrete tax benefits. On an overall GAAP basis, we therefore earned $0.81 per share in Q4 this year, compared with $0.75 per share in Q4 last year.

To facilitate earnings comparisons, we typically adjust our GAAP earnings per share for unusual items recorded in the current or prior year periods. In the current year quarter, we made adjustments to GAAP earnings per share to exclude acquisition-related expenses, pension settlement charges and purchase accounting expense effects. For the full year, we also excluded the $16 million tax benefit that I just noted. On this basis, our adjusted earnings in Q4 this year were $0.87 per share compared with $0.74 per share in Q4 last year.

Looking now at cash flow, where we generated $91 million of cash from operations during the quarter, bringing our full-year operating cash generation to $231 million. That represents an increase of $37 million or 19%, compared to last year. We ended the year with $133 million of net debt, and availability under our credit facility of $574 million. Our current net debt leverage ratio remains low even after accounting for our recently announced acquisition of Hog Technologies.

With our financial position remaining strong, we have significant flexibility to invest in organic growth initiatives, pursue additional strategic acquisitions like Hog, 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 a dividend of $0.12 per share, and we recently announced that we are increasing the

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dividend by 17% to $0.14 per share in the first quarter of 2025. We also funded $2.2 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.

Our record-setting fourth quarter performance represented a strong finish to a year in which we delivered the highest net sales and adjusted EPS in our history. Our fourth quarter results included records across consolidated net sales, adjusted EPS and Adjusted EBITDA margin, thanks to outstanding contributions from both of our groups.

Within our Environmental Solutions Group, we delivered 6% year-over-year net sales growth, and a 13% increase in Adjusted EBITDA, with higher production levels, contributions from acquisitions, and continued price realization, representing meaningful year-over-year contributors. ESG's Adjusted EBITDA margins expanded by 130 basis points year-over-year to approximately 21%, a new fourth quarter record, and toward the upper end of our current target range.

As we pointed out in prior calls, we remain focused on raising our build rates for our extended lead time products, namely our sewer cleaners and street sweepers. As such, combined fourth quarter production at our two largest facilities rose 5% year-over-year, primarily led by improved sewer cleaner production. From a capacity perspective, our access to labor remains good, supply chain fluidity has improved, and our large-scale capacity expansions that we completed between 2019 and 2022 position us well to profitably absorb incremental volumes into our existing footprint.

Shifting to aftermarkets, demand for our aftermarket products and services remained strong as revenues grew 2% year-over-year, driven by strong performance in parts revenue and rental income. In aggregate, aftermarket represented approximately 26% of ESG revenue in Q4 this year, compared to around 27% in Q4 last year.

Our other vehicle-based businesses also contributed positively to results. For example, our road marking businesses achieved 34% year-over-year net sales growth on the back of broad-based strength across our product lines, driven by healthy end market demand and continued market share expansion efforts. Similarly, our dump truck body businesses continued their momentum in the quarter, with net sales growth of 29% year-over-year. Our industry-leading lead times, expansive product offerings across various brands, reputation for high-quality products, and geographic expansion efforts at our Ox Bodies and Rugby businesses are all resonating positively with customers.

Shifting to our Safety and Security Systems Group, the team delivered another solid quarter, with 1% top line growth, a 3% increase in Adjusted EBITDA, and a 40 basis point improvement in Adjusted EBITDA margins. This improvement was primarily driven by a combination of price realization and efficiency gains. As I will address in more detail, we were particularly pleased with SSG's order intake in the quarter and believe this team has strong momentum heading into 2025.

Lastly, we had another strong quarter of cash conversion, with $91 million of cash generated from operations. For the full year, our cash conversion was 107%, ahead of our annual target of 100%.

Shifting now to current market conditions, demand for our products and aftermarket offerings remained strong with our fourth quarter order intake of $446 million, representing the second highest fourth quarter

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on record. Lower chassis pass-through orders and the impact of the Standard acquisition represented a combined $8 million year-over-year headwind to reported orders in the quarter.

In comparison to the record order intake in the prior year quarter, orders were down 4%, primarily due to lower orders from long lead time items products such as street sweepers and sewer cleaners, where backlog stretch well into 2026. In fact, excluding street sweepers and sewer cleaners, our total fourth quarter orders increased by approximately 13% year-over-year, with notable demand for dump truck bodies, road marking and line removal products, public safety equipment and our aftermarket offerings. In an effort to reduce current street sweeper and sewer cleaner lead times, our teams remain laser-focused on building more trucks, while maintaining a healthy order intake.

We have recently announced the acquisition of Hog Technologies for an initial purchase price of $78 million, an additional $14.5 million for its primary manufacturing facility in Stuart, Florida. Hog Technologies is a leading manufacturer of truck-mounted road marking, line removal and water blasting equipment, with exposure to infrastructure, airport and municipal end markets, both in the U.S. and internationally. Hog has established itself as a leading innovator in the road marking space, primarily due to its deep product expertise, technology leadership, and strong customer service.

We are particularly excited about this acquisition, as Hog provides a natural extension of our road marking and water blasting businesses with a highly complementary product portfolio that significantly increases our reach into historically underpenetrated airports and international markets, which represented approximately 40% of Hog's equipment sales in 2024. Strategically, the road marking and line removal space represents a noncyclical essential service that we believe has secular tailwinds from the adoption of various autonomous-based vehicle solutions that rely on accurately and routinely strike roads, irrespective of road construction activity.

In addition to shared product development expertise and a broadening of product offerings geared to best serve our customers, we also see opportunities to further grow our water blasting business, Jetstream, which has long provided equipment to Hog. Moreover, similar to our other recent vehicle-based acquisitions, such as Trackless, Ground Force or TowHaul, we see several multiyear synergy opportunities, spanning channel alignment and cross-selling opportunities for other Federal Signal products, procurement savings, supply chain optimization, and further expansion of Hog's aftermarket parts and service business, which represents roughly 35% of Hog's net sales today.

Lastly, while Hog's current EBITDA margins are slightly below ESG's margin target range of 17% to 22%, we anticipate Hog will operate within our margin target range by 2026 as initial synergies take hold as we execute on synergy opportunities. For the partial year of ownership in 2025, we anticipate Hog to contribute between $50 million and $55 million in net sales. I expect the acquisition to be accretive to cash flow and EPS, inclusive of a preliminary estimate of intangible asset amortization expense.

Before I provide more detail on our outlook for 2025, I want to spend a moment explaining our multiyear diversification strategy that we initially put into place in 2016 with the intent of muting earnings volatility through cycles. At a high level, roughly half our sales are tied to some sort of public funding mechanism, while the other half is sold to various industrial customers, which includes minor utility, and oil and gas exposure.

On a more granular level, our publicly funded exposure can be dissected into several important categories, with local water taxes representing the single largest individual funding mechanism, primarily supporting purchases of our sewer cleaner products. While local U.S. water taxes represents the single largest funding mechanism, in aggregate, that funding mechanism supports less than 15% of total net sales. Other forms of publicly funded mechanisms include U.S. municipal budgets, local and state police budgets, Canadian local and provincial budgets, European federal state and local budgets, and U.S.

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federal funds. U.S. federal funds primarily support our military dump truck businesses, with ESG and certain federally funded warning system sales within SSG.

In total, we believe our direct U.S. federal exposure to be less than $10 million per year of total net sales. Further, given the essential nature of our products, and associated high utilization levels through business cycles, the build-out of our aftermarket ecosystem, which today represents 26% of ESG's net sales compared to less than 10% prior to 2016, has been an important strategic pillar in our efforts to mute cyclicality. We expect to see further aftermarket growth in 2025.

In short, we are not reliant on any one specific funding mechanism, customer cohort or product category, and continue to strategically pursue inorganic growth initiatives that accelerate our strategy of manufacturing essential, high-quality specialty vehicles and safety equipment that moves material, cleans infrastructure, and keeps our communities safe.

With that said, in the fourth quarter, industrial orders rose double digits year-over-year, while publicly funded orders declined double digits year-over-year. On the industrial side, orders for road marking equipment, dump truck bodies and trailers, industrial vacuum trucks, and water blasting equipment all rose meaningfully. We are particularly excited about the continued execution of our geographic expansion initiatives within our dump truck body and trailer businesses, which saw Q4 orders rise by a combined 27% year-over-year. As we head into 2025, we see further opportunity to capitalize on healthy end market demand.

On the publicly funded side, orders for our domestic public safety equipment increased double digits, with orders for police products leading the charge. Our domestic public safety group continues to execute on market share initiatives, and has successfully decreased lead times to pre-COVID levels, which has fueled a reacceleration in orders.

Within the ESG segment, we continue to find new ways to expand our competitive advantage and harness the power of our growing specialty vehicle platform as we aim to unlock future growth opportunities in excess of end market growth rates through operational excellence and best-in-class customer service. Specifically, we see incremental opportunities to align sales channels across our platform of businesses.

We are also further accelerating the rollout of our Federal Signal operational system, driving increased aftermarket penetration across our vehicle-based businesses, and planning to reaccelerate new product launches as supply chains have stabilized across our ESG and SSG segments. As a result, we continue to see room for further margin expansion across both segments, and expect EBITDA margins to improve year-over-year in 2025. Moreover, as outlined in our last earnings call, we see opportunities to proactively address areas of untapped share opportunity within our exclusive dealer channel.

As a reminder, our exclusive dealer channel primarily serves certain municipal product lines, including sewer cleaners, street sweepers and municipal maintenance tractors, and accounts for approximately 30% of total net sales. As part of that strategic alignment process, we are transitioning our relationship with a long-standing dealer partner, with primary coverage across several Midwestern states to other qualified parties. Specifically, we are in the process of reassigning these territories, and we've received extremely strong indications of interest from 10 outside qualified third-party entities, including a mix of current Federal Signal dealers and others, who currently represent other OEMs.

The level of interest in assuming the rights in these territories is a testament to the strength of our brands and the growth opportunities that lie ahead. We expect to announce the recipients of these territories by the end of the first quarter. Although this transition had a minor adverse impact on the comparability of our Q4 orders and may further impact comparisons in Q1, we anticipate long-term benefits in the form of

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market share expansion across both new equipment sales and aftermarket revenue capture in those territories.

We are also closely monitoring the ongoing potential for tariffs on internationally sourced products. As a reminder, our supply chain is predominantly U.S.-centric, with only $30 million of direct purchases sourced from Mexico, Canada and China. Nonetheless, we are exploring several mitigation strategies internally, including alternative domestic sourcing opportunities where available, and/or price increases.

Lastly, our M&A pipeline remains very active across both our ESG and SSG groups.

Turning now to our outlook, our current backlog provides excellent visibility well into the first half of 2026. With the ongoing execution against our strategic initiatives, we are confident that we will have another record year in 2025. For the full year, we are anticipating net sales of between $2.02 billion and $2.1 billion, double-digit improvement in pretax earnings, and EBITDA margin performance in the upper half of our target range. We are also currently expecting to report adjusted EPS of between $3.60 and $3.90 per share for the year, which as a midpoint would represent another year of double-digit growth and the highest adjusted EPS level in Company's history.

Given that seasonal effects typically result in Q1 earnings being lower than subsequent quarters due to less aftermarket revenue capture, we are currently expecting Q1 to represent between 19% and 20% of our full-year earnings, roughly in line with last year. The combination of continued healthy demand for our new equipment, parts and aftermarket services and excellent visibility with a strong backlog gives us confidence in our ability to deliver another year of record results in 2025. Lastly, we expect capital expenditures to be between $40 million and $50 million for the year.

In closing, I want to express my profound thanks to our employees, suppliers, dealer partners, and stakeholders for a tremendous 2024. With an active M&A pipeline, ongoing investment in new product development, large backlog available capacity, and execution against our strategic initiatives, we are well positioned for long-term sustainable growth.

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

Operator

Thank you. At this time, we'll be conducting our question-and-answer session. If you'd like to ask a question, please press star one on your telephone keypad. A confirmation tone will indicate your line is in the question queue. You may press star two if you'd like to remove your question from the queue. For participants using speaker equipment, it may be necessary to pick up your handset before pressing the star keys. One moment, please, while we poll for questions.

Our first question comes from Walt Liptak with Seaport Global Securities. Please proceed with your question.

Jennifer Sherman

Good morning, Walt.

Walter Liptak

Hi. Thanks. Hey, good morning, guys. Great year. Loved all the records for 2024.

Jennifer Sherman

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Thank you, Walt.

Walter Liptak

I wanted to ask a question that you addressed in your open topics about just municipal spending. In big cities, I think their budgets are changing as a result of the administration change. You addressed a number of these things, and I know that safety and security are always top of the list for spending for big cities, but I wonder if you could talk a little bit about just the health of the big cities, and your exposure to big cities versus smaller local governments?

Jennifer Sherman

Yes. As we look back in history, I think what's important to understand is kind of, first of all, the essential nature of the equipment that we produce. I would also point to the water taxes, which have been rising over the last 10-plus years that funds sewer cleaners. Then the overall, we touched in my prepared remarks about the strength in SSG's U.S. lease orders, which were up 32% year-over-year.

The other thing I would talk about is, as a company, when we talk about kind of the diversification of revenue streams, as we've talked about before, particularly in our police business, we've undergone the development of a good, better, best product strategy. Our reliance on major cities today for that business is much less than it's been historically. Overall, we believe that, given the diversification efforts, the strength we're seeing in police, the water funding mechanisms, the strength we're seeing in dump truck orders, that we're very well positioned for 2025.

Walter Liptak

Okay. That sounds great. I wonder if you could also talk a little bit more about the pricing strategies for this year and around tariffs. Some of the material prices are moving up. Do you have the flexibility of raising prices as the year goes on, if tariffs start to create more inflation?

Jennifer Sherman

Yes. I think a couple of things are critical. We've locked in, for ESG businesses, our raw material input for the vast majority of the year, and we feel like we're well protected there. With respect to tariffs, again, I would remind you that our direct spend outside of the U.S. is $30 million, so it's a relatively small portion. If we were to receive tariffs on chassis, those are typically passed through. We would pass those expenses on.

We're typically, through inflationary times, if you look at past practice, we performed well. Because of the essential nature of our equipments, we're able to pass on those costs as necessary to the end customer. What I would add, as I mentioned in my prepared remarks, that we're exploring several mitigation strategies now in terms of looking at alternative suppliers that are domestically based.

Operator

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

Jennifer Sherman

Good morning, Steve.

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Christian Zyla

Good morning, guys. This is actually Christian Zyla, on for Steve Barger. Thank you for taking the questions.

Jennifer Sherman

Yes, absolutely. Good morning.

Christian Zyla

First question, could you quantify or just give us a sense of how much rental fleet growth was in the quarter? How should we think about that for 2025, given the standard acquisition and the one with Hog?

Ian Hudson

Yes. Aside from obviously the acquisition of Standard, they had a rental fleet that came with the acquisition. Aside from that, there wasn't too much of an incremental investment in the fleet. Much of that was earlier in the year. I think part of the strategy is that we typically would add equipment to the fleet so that it's in the fleet ready for peak season, which typically is in the summer months.

As we look into 2025, we start the year with a certain amount that is earmarked for us to add to the fleet. That is something that, on a monthly basis, myself, Jennifer, and the whole team monitor additions to the fleet, really tracking utilization by product line, by geography so we can pivot if we need to. That's one of the advantages of being the manufacturer of the equipment that goes into the fleet. That's the strategy.

There is obviously a certain amount that is earmarked to go into the fleet. I would say it's about the same level as it was in 2024. That also assumes that we have a strong used equipment sales that we've seen throughout the last couple of years as well, so that's kind of the majority of the business.

The other point, you asked about Hog, that really has no rental business. Hog is a manufacturer equipment that is sold almost directly to end customers. It also has an attractive aftermarket business, but that aftermarket piece isn't rental, it's primarily parts.

Christian Zyla

Got it. Thank you. If I could just follow up on that, I guess the quarter-over-quarter margin step down on equal, more or less, revenues. Is that just mix-driven? Was that like a seasonal step down? Can you just give a little more insight into kind of that 110 basis point step down or so?

Ian Hudson

Yes. It's predominantly mix. When you think about the aftermarket business, there's a lot of work that takes place in the summer months, when the weather is good. We typically see that step down a little bit, and although the top line was the same, there were some mix effects there. I think the other thing to note in Q4 is just the impact of some holidays or vacations, I should say, just with the holidays in—when the calendar fell, there was a lot of holidays midweek, and so there was probably a higher amount of absenteeism than we might have expected in Q4.

Christian Zyla

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Got it. Thank you. Then second question, have you made headway on lead times for your most popular products? I guess what are the lead times across the board, and what is your target? Thank you again.

Jennifer Sherman

We've made headway with respect to sewer cleaners, while maintaining, if you look back to 2024, healthy demand. The progress, we've made headway with respect to our three-wheel Pelican Street Sweeper. With respect to our four-wheel line, we did not make the progress that we had hoped in Q4. As we've talked about in previous calls, we engaged a third party. We are in the process of making some fundamental changes to that business in terms of increasing production long term. With respect to lead times, sewer cleaners were into the first half of '26, and street sweepers were into the second half of '26. So that does give us kind of excellent visibility through those time periods.

Christian Zyla

Thank you again.

Operator

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

Jennifer Sherman

Good morning, Ross.

Sam Karlov

Good morning, Jennifer. This is Sam Karlov, on for Ross. Thanks for taking my questions.

Jennifer Sherman

Hi, Sam.

Sam Karlov

With extended lead times significantly impacting orders for sewer cleaners and street sweepers, are you at all worried about share loss and the potential for distributors to switch to other equipment suppliers?

Jennifer Sherman

Yes. I think it's something that we watch very carefully, and one that we have many tools in our toolbox to address, particularly through our aftermarket platform. A couple of things that we're able to do, one is we can offer rentals, we can offer used equipment. We also can offer the opportunity to move people up in the queue when we need to.

I would remind you that this is a municipal product that's gone through some type of public bid process, so typically you're replacing existing pieces of equipment. It is not an impulse buy, and there are expectations that will be longer lead times. That being said, again, we are razor-focused on improving lead times, reducing lead times, and increasing production rates. We made some nice progress at Vactor. Still more work to be done at Elgin.

Sam Karlov

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Got it. That's helpful. Then is there anything to call out regarding your CapEx guidance of $40 million to $50 million? If I recall correctly, this is above the normal run rate of $30 million to $40 million that you've spoken to in the past?

Ian Hudson

Yes, Sam. This is Ian. There's an investment that we're looking to make into our—it's really the mineral extraction business. The combination that is of Ground Force and TowHaul, just from a manufacturing standpoint, based on kind of the demand that they've seen, they're looking to add some capacity there. That would be something that would be baked into that guide, so it's probably a little—that guide does include the impact of that investment that we're going to make.

Sam Karlov

Got it. Then one last one for me, you mentioned you saw I think 34% growth in the road marking business in the quarter. Had Hog seen similar levels of growth before you acquired them?

Jennifer Sherman

Yes.

Ian Hudson

Sam, Hog also had a bit more of a different type of exposure in terms of airport exposure and international exposures. But, by the same token, they have also seen strong growth in 2024.

Jennifer Sherman

If you look at that road marking platform of businesses now, Hog, MRL and Blasters, they're very well positioned for a strong 2025.

Sam Karlov

Got it. Thanks.

Operator

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

Christopher Moore

Hey, good morning, guys.

Felix Boeschen

Good morning.

Christopher Moore

Yes. Maybe at the midpoint of the guide, it looks like, I'm looking at the script, maybe 7.5% organic growth. Just trying to get a sense in terms of price versus volume in there.

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Ian Hudson

Yes. I think, Chris, what we've guided is similar to our experience the last couple of years. I think if you look at the organic growth that we had in 2024, price was about 2.5% of the overall organic growth that we had in '24. I think we'd expect something similar in terms of the guide for 2025. All of that is in line with our long-term framework where we target that low double-digit top line growth.

Christopher Moore

Got it. I appreciate that. Jennifer, you talked about transitioning some territories on the distribution side. I want to make sure I understand, these relationships are normally very long term, and is the potential for more conflicts with distributors, is that greater than it was a few years back? Any meaningful thoughts there?

Jennifer Sherman

The first thing I want to emphasize is that we've had a very strong interest from existing dealers that we have long-term histories with, and the territory will be divided up among a number of primarily outside third-party entities. We'll start there. It's really more about strategic alignment and ensuring that we optimize and drive the market share expansion opportunities that we have.

We started our dealer development programs eight years ago, and we hold our dealers to very high standards. These are coveted territories, and we will continue to do so going forward, because we think it's absolutely critical. It's a valued opportunity, given its demonstrated by the interest that we've had in these particular territories. We're going to continue to expect outstanding performance by those dealer partners, and I'm confident that we'll get there.

Christopher Moore

Got it. Appreciate that. Maybe just a last one, cash flow operations was very strong '24 after a good '23. Just any thoughts in terms of how you're looking at it for '25?

Ian Hudson

I think similar to our long-term targets, Chris, 100% cash conversion on a net income basis. We were actually a little higher than that for the full year of '24. I think we were 107% in '24. But nothing fundamentally has changed there. It's relatively consistent with our expectations, or it will be consistent with our long-term target of 100% cash conversion.

Christopher Moore

Got it. I appreciate it, guys. I will leave it there.

Jennifer Sherman

Thank you.

Ian Hudson

Thanks, Chris.

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Operator

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

Jennifer Sherman

Good morning, Mike.

Michael Shlisky

Good morning, and thanks for taking my questions. I want to follow up on some of your comments that you just made on the transition in the Midwest for your distribution. I guess, maybe it's a two-part question. First, is there any organic growth headwinds for 2025, first of all, at all? Then secondly, if and when you find the new people to take over the territory, is there any ramp-up or learning curve either they have to build new footprints, or is there a training for service and technicians and inventory acquisition? Just getting a feel for how this changeover might take place and the length of the potential disruption in those handful of states.

Jennifer Sherman

Yes. A couple of comments. One, just to ground the conversation, again, we're talking about a small portion of that 30% of Federal Signal that goes through exclusive distribution. As I mentioned in my prepared remarks, we've had 10 parties that are passionately interested in this territory, the majority of them being existing dealers that currently sell our products that would geographically expand into these areas. Several of them already have bricks and mortar in these particular territories for either other Federal Signal products or other products that they represent, so we believe that they will hit the ground running.

We talked about this transition was about a $13 million order headwind in Q4. We expect that there could be a minor issue in Q1. We are in the middle of interviewing and vetting the proposals that have been submitted to us. We are highly confident that we will transition these territories by the end of Q1. We believe, longer term, that this will provide growth opportunities for Federal Signal as we move forward.

Michael Shlisky

Great. Thanks for that color, Jen. I appreciate it. I wanted to turn to Hog quickly as well. Does that business resemble the dump body business in a way in that it's very regional. I guess I'm kind of curious whether the Florida location is a big part of the synergy here, given that Mark Rite is in Montana.

Jennifer Sherman

No, it's not a regional business in terms of the equipment manufacturing. This particular business, 20% of the equipment sales are international; 20% of Hog's equipment sales are to domestic airport customers. We talked about the strong 35% is parts. If you look at our platform of road marking equipment businesses, it really fills in some critical holes both in terms of technology and end market customer exposure.

We're really pleased about this particular acquisition. We've been working on this acquisition on and off for 10-plus years. We believe that this will provide longer-term a meaningful part of the growth of that road marking platform group of businesses.

Michael Shlisky

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Got it. Thanks for that. Maybe one last one for me, I just want to get a little bit more granular thoughts on the margins for each of the segments for 2025. I was wondering, obviously there's one bigger segment than the other from a dollar perspective, but does one segment have any more potential from a margin perspective for expansion in 2025 than the other, or do they both seem pretty well positioned, in your opinion?

Ian Hudson

I think, Mike, they both have potential to increase margins. I think if you think about the guide, I think we overall, across the Company, we're expecting year-over-year improvement in EBITDA margin. I think there's potential in both of the segments to improve margins.

Michael Shlisky

All right, I'll leave it there. Thank you so much.

Operator

As a reminder, if you'd like to ask a question, please press star one on your telephone keypad. One moment, please, as we poll for questions.

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

Jennifer Sherman

Good morning, Greg.

Gregory Burns

Good morning. Just another following up on the dealer development programs. I think you've also taken over direct or moved your direct operations maybe into certain territories. When you look at your dealer footprint, are you expecting to do other similar transition deals like you mentioned today in the Midwest, or maybe moving your direct sales force, taking over territories?

Jennifer Sherman

Again, we're talking about the 30% of our business that goes through this exclusive dealer network. With respect to the situation that I discussed on the call, the vast majority of those territories will be going to third parties, and the vast majority of that will be entities that are very familiar with our product categories.

Gregory Burns

Okay. When you look at what you're hoping to accomplish there, is it really about accelerating sales of those core, like sewer cleaners, street sweepers, or are you looking to sell more of your product line through that channel to the municipalities, like maybe dump truck bodies or other things? Is that part of the goal here of this transition?

Jennifer Sherman

Yes. Overall, the transition really is focused on increasing market share and increasing aftermarket sales as we move forward, as there are also opportunities as we acquire new product lines. A great example

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would be Trackless. We have the Elgin factor and, in many situations, we're combining the Trackless opportunity with that because of the shared end customer between, for example, Elgin and Trackless is typically streets and sanitation department. We're committed to helping those third-party dealers grow sales of our products.

Gregory Burns

Okay. Then in terms of the lead times on the sewer cleaners and street sweepers, what is the biggest bottleneck? Because you obviously have the capacity, but what are the major bottlenecks to really ramping up production?

Jennifer Sherman

With respect to sewer cleaners, the rate of increase was higher than that at our Elgin team. Our Elgin team worked diligently. As we talked about, we launched our Federal Signal operational model there with the assistance of a third party. We're in the process of making some fundamental changes to that business with the goal of increasing production on a sustainable basis long term. Candidly, Elgin is taking longer than we thought, given some of those fundamental changes that we're making in terms of both how we set the lines up, in terms of how we bring materials to the line. I feel encouraged by the steps that we're taking, but more work needs to be done, at Elgin in particular.

Gregory Burns

Okay, thank you.

Operator

We have reached the end of the question-and-answer session. I'd now like to turn the call back over to Jennifer Sherman for closing comments.

Jennifer Sherman

In closing, 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 will talk to you next quarter.

Operator

This concludes today's conference. You may disconnect your lines at this time. We thank you for your participation.

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