

ABM Earnings Call Transcript

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Quarter: 4

Operator: Greetings. Welcome to ABM Industries Incorporated Fourth Quarter 2025 Earnings Conference Call. [Operator Instructions] Please note that this conference is being recorded. At this time, I'll now turn the conference over to Paul Goldberg, Senior Vice President, Investor Relations. Thank you, Paul. You may now begin.

Paul Goldberg: Good morning, everyone, and welcome to ABM's Fourth Quarter 2025 Earnings Call. My name is Paul Goldberg, and I'm the Senior Vice President of Investor Relations at ABM. With me today are Scott Salmirs, our President and Chief Executive Officer; and David Orr, our Executive Vice President and Chief Financial Officer. Please note that earlier this morning, we issued our press release announcing our fourth quarter 2025 financial results and outlook as well as a press release announcing our planned acquisition of WGNSTAR. A copy of those releases and an accompanying slide presentation can be found on our website, abm.com. After Scott and David's prepared remarks, we will host a Q&A session. Before we begin today, I would like to remind you that our call and presentation contain predictions, estimates and other forward-looking statements. Our use of the words estimate, expect and similar expressions are intended to identify these statements, and they represent our current judgment of what the future holds. While we believe them to be reasonable, these statements are inherently subject to risks and uncertainties that could cause our actual results to differ materially. These factors are described in the slide that accompanies our presentation as well as our filings with the SEC. During the course of this call, certain non-GAAP financial information will be presented. A reconciliation of historical non-GAAP numbers to GAAP financial measures is available at the end of the presentation and on the company's website under the Investor tab. And with that, I would now like to turn the call over to Scott.

Scott Salmirs: Good morning, everyone, and thank you for joining us to discuss ABM's fourth quarter and full year fiscal 2025 results as well as our 2026 outlook. I appreciate you taking the time, and I'll get right into our performance and the progress we're making as a company. We finished the year on a strong note, posting record quarterly revenue, supported by 4.8% organic growth. Encouragingly, if you exclude the impact of the prior year self-insurance adjustment, our adjusted EPS and adjusted EBITDA and adjusted EBITDA margin were all ahead of our expectations heading into the quarter. This performance reflects strong volume, favorable mix, disciplined cost management and the benefits from our restructuring actions. Across the portfolio, our teams executed exceptionally well. Technical Solutions delivered another standout quarter, completing a significant number of complex projects, particularly in microgrids and mission-critical infrastructure. We also saw strong revenue growth in Aviation and Manufacturing & Distribution, fueled by recent client wins and customer expansions. Meanwhile, in Business & Industry and Education, margins improved year-over-year, demonstrating the resiliency of these segments and our continued focus on operational efficiency. Our fourth quarter results capped an outstanding year for ABM, highlighted by record annual revenue of \$8.7 billion, an increase of 5% over last year. We also generated record new sales bookings of \$1.9 billion, a 12% increase over 2024. Those bookings are diversified across the business and provide confidence in our growth trajectory entering fiscal 2026. On top of the strong 2025 bookings, I'm pleased to announce 2026 is off to a great start for us with a major new contract in Aviation. Specifically, we won a significant passenger services contract at a leading global gateway airport set to ramp up in the first quarter of

calendar 2026. This win highlights our continued focus on the Aviation sector, the strength of our team and the value of technology-driven solutions. This is one of the largest single Aviation awards in ABM's history. I'll also note that our pipeline across the enterprise remains strong, and we are targeting another bookings record in 2026. 2025 was a year defined by progress in several strategic areas. We invested in AI capabilities that are already improving our internal processes, including enhanced RFP automation, more intelligent HR support tools and early exploration of Agentic AI to enhance client-facing operations. We also made substantial progress in our ERP implementation. As you know, the transition created working capital friction earlier in the year, but the team worked relentlessly to stabilize and scale the system, and we saw a meaningful improvement in cash performance in the back half of the year. Also exciting is today's announcement of our agreement to acquire WGNSTAR, a leading provider of managed technical workforce solutions and equipment support services for the semiconductor and high-technology manufacturing sectors. This is a highly strategic transaction for ABM that is expected to close in the first calendar quarter of 2026. It significantly expands our technical capability set in fabrication environments, adds a skilled workforce of more than 1,300 employees and strengthens our position in a sector that is experiencing multiyear growth from U.S. semiconductor onshoring. With only about 15% of the market currently outsourced, WGNSTAR gives us a meaningful foothold in a space with substantial runway. I also want to take a moment to highlight the continued efforts across ABM to improve margin and strengthen earnings power. The initial components of our restructuring program launched in Q4 are now largely complete. As mentioned last quarter, the annualized savings related to the initiatives already undertaken is \$35 million, with over 3/4 of the savings to be realized in fiscal 2026. These benefits, combined with disciplined cost management and improved labor efficiency played an important role in our performance in the fourth quarter. Turning now to the year ahead. We are confident in ABM's momentum heading into fiscal 2026. Demand across our key end markets remain healthy. With these tailwinds, we expect fiscal 2026 organic revenue growth of 3% to 4% and adjusted EPS to be in the range of \$3.85 to \$4.15 before any potential positive or negative impact from prior year self-insurance adjustments. With that, I'll turn it over to David to walk through the financial results in more detail.

David Orr: Before we get into the results, I want to take a moment to clarify how to think about prior year self-insurance adjustments. As a reminder, following discussions with the SEC, we updated the definition of all our non-GAAP financial measures. Under the revised definition, we no longer exclude the positive or negative impact of prior year self-insurance adjustments from our non-GAAP results. These represent net changes to our reserves for general liability, workers' compensation, automobile and health insurance claims that relate to incidents that occurred in prior years. Because these are impossible to forecast with precision, our forward-looking outlook does not include any potential impact from these adjustments. Prior year self-insurance adjustments had a significant impact on our Q4 results. For example, in the fourth quarter, the adjustment created a \$0.26 headwind to adjusted EPS. So while our reported adjusted EPS was \$0.88, to understand the underlying performance, you would need to add back that \$0.26. Let's start on Slide 7. Revenue grew 5.4% year-over-year to \$2.3 billion, a new quarterly record, driven by 4.8% organic growth. Strongest contributions came from Technical Solutions, Manufacturing & Distribution and Aviation. Turning to Slide 8. Net income from the quarter increased to \$34.8 million or \$0.56 per diluted share compared to a loss of \$11.7 million last year. The year-over-year improvement reflects the absence of the RavenVolt contingent consideration adjustment. These benefits were partially offset by a \$15.8 million negative impact from prior year self-insurance adjustments and \$9.5 million in restructuring costs. Adjusted net income was \$54.7 million or \$0.88 per diluted share. Adjusted EBITDA was \$124.2 million and adjusted EBITDA margin was 5.6%. Taking into account the self-insurance adjustments (which had a \$22.2 million pretax negative impact on EBITDA), provides a clearer view of core performance. Now let's turn to segment performance. B&I; revenue was up 2% to over \$1 billion, driven by higher work orders and U.K. strength. Operating profit was \$80.6 million with a margin of 7.7%. Aviation revenue grew 7% to \$296.7 million. Operating profit was \$16.8 million with a margin of 5.7%. M&D; generated \$417.4 million in revenue, up 8% year-over-year. Operating profit was \$35.8 million with a margin of 8.6%. Education revenue rose 2% to \$233.7 million. Operating profit increased 44% to \$18.8 million, with margins expanding to 8%. Technical Solutions revenue increased 16% to \$298.7 million, with 11% organic

growth driven by microgrids. Operating profit rose 32% to \$37.1 million, and margin was 12.4%. Now turning to Slide 11. We ended the year with total indebtedness of \$1.6 billion. Our total debt to pro forma adjusted EBITDA ratio was 2.7x. Available liquidity stood at \$681.6 million. Fourth quarter free cash flow was \$112.7 million, a significant improvement over last year due to ERP conversion progress and tight working capital management. During the fourth quarter, we repurchased 1.6 million shares for a total cost of \$73 million. For the full fiscal year, we repurchased 2.6 million shares, reducing our outstanding share count by 4%. Turning to our fiscal 2026 outlook on Slide 12. We expect full year organic revenue growth of 3% to 4%. The WGNSTAR acquisition will contribute roughly 1 additional point of revenue growth. We are introducing a new metric: segment operating margin, and we expect it to be between 7.8% and 8% for fiscal 2026. Interest expense is forecast to be \$95 million to \$105 million. We expect free cash flow of about \$250 million in 2026 (before certain transformation/integration costs). We expect full year adjusted EPS in the range of \$3.85 to \$4.15. Moving to the adjusted EPS bridge on Slide 13. We start by adding back the full year 2025 prior year self-insurance adjustment of \$0.27 to get to core adjusted EPS. Layering in performance gains and planned investments, we expect to grow our core EPS by more than 10%. With that, I'll hand it back to Scott.

Scott Salmirs: Fiscal 2025 was a year of real accomplishment. We delivered record revenue and new sales bookings even while working through a significant ERP upgrade. Looking ahead, 2026 looks promising with large new clients ramping and the WGNSTAR acquisition contributing. We will continue to evolve ABM into a higher growth organization by pushing further up the value stream and expanding technical capabilities. Happy holidays to everyone. With that, we'll open up the line for questions.

Operator: [Operator Instructions] Our first question is from the line of Josh Chan with UBS.

Joshua Chan: I'm going to ask about the margin trajectory. You introduced a segment operating margin metric. What are the drivers between what seems like a relatively flat margin outlook for '26 despite restructuring savings?

David Orr: Yes, we introduced that metric to reflect the operating health and remove the noise from prior year self-insurance adjustments. We have some benefit from the restructuring built into those margins, but we also have some mix rolling into those numbers that we're working through, some from the pricing decisions we discussed on the Q3 call. It mirrors how we manage the business internally.

Joshua Chan: Could you talk about the strategic attraction of the WGNSTAR deal? And from a financial perspective, why the switch from dilutive in '26 to accretive in '27?

Scott Salmirs: The strategic imperative is compelling. We already have over \$300 million in the semiconductor space. Think of a bull's eye: ABM core has operated in the outer ring of the facility (cleaning, technical service), but we've never been able to get inside the fabrication facility (the inner ring). That's what WGNSTAR brings. They have over 30 clients in the semiconductor space.

David Orr: Regarding dilution, we expect some in the first year largely due to factoring in amortization and interest. But based on the growth trajectory, we expect a real path to accretion in year 2. On a forward-looking basis, we see a multiple between 12 and 13x.

Operator: Our next question is from Jasper Bibb with Truist Securities.

Jasper Bibb: Last quarter you talked about pricing concessions in challenged U.S. office markets. Have you seen more of that in B&I; or has it slowed?

Scott Salmirs: It has stabilized. We had some pricing discussions in Q4, but they weren't as dramatic as Q3. We see total normalization now. Regarding M&D;, those pricing discussions were about capturing market in semiconductor. We knew WGNSTAR was coming, so some of those discussions were in anticipation of this deal.

Jasper Bibb: Could you provide detail on the remaining ERP road map for '26 and how that factors into free cash flow?

David Orr: Nearly 90% of transactions are now on the new system. The remaining groups are much less complex. Cash flow-wise, we ended the year strong. Our DSOs were down 11% from their peak in Q2. For 2026, our \$250 million normalized cash flow target includes \$30 million for buses for an airport contract we won. We feel strong about that number.

Operator: Our next question is from Andy Wittmann with Baird.

Andrew J. Wittmann: David, on the free cash flow bridge, can you call out the unusual one-time items?

David Orr: Starting at \$250 million, we'll have about \$20 million in transformation, \$10 million in integration/acquisition, and \$5 million in restructuring costs. The last piece is an anticipated \$30 million payout for the RavenVolt contingent consideration. That gets you to a free cash flow number of around \$185 million.

Andrew J. Wittmann: What was the segment operating profit in fiscal 2025?

David Orr: It was 7.9%, which is roughly in the middle of our 7.8% to 8% range for fiscal '26.

Operator: Our next question is from Tim Mulrooney with William Blair.

Timothy Mulrooney: What is the assumption for B&I; in your 3% to 4% organic growth guide? You didn't call it out as a driver.

Scott Salmirs: We feel like the commercial real estate crisis is behind us. Work-from-home versus work-in-office has stabilized. We think B&I; is back to steady state, growing at a GDP rate. That is what is baked into our guidance.

Timothy Mulrooney: Can you unpack that \$0.26 impact from prior year self-insurance adjustments? Is there a longer tail here?

David Orr: This is a \$500 million pool (workers' comp, general liability, auto). A 4% adjustment on a pool for 100,000 employees is within industry standards. We had a similar adjustment last year. The key is that after discussions with the SEC, we are now reporting this differently (above the line). It's a reporting change, nothing more.

Scott Salmirs: We have a very strong safety culture. Keeping the adjustment within 4% given rising healthcare costs is something we are proud of.

Operator: Our final question is from Faiza Alwy with Deutsche Bank.

Faiza Alwy: Why is such a small portion of the semiconductor sector outsourced right now? And how should we think about future M&A;?

Scott Salmirs: It's because the work is highly technical. Bridging that gap requires a high bar of trust. WGNSTAR has 20-plus year relationships because they are so good at it. We see tremendous potential to introduce this capability to our existing semiconductor and pharma clients. Regarding M&A;, there aren't many big competitors; it's mostly small ones. We could have roll-up potential or expand organically.

Faiza Alwy: Can you give more detail on the WGNSTAR margins and '26 assumptions?

David Orr: EBITDA margins are in the mid-teens. For '26, we assumed roughly \$13 million of amortization and \$12 million of interest (prorated for about 3/4 of the year). We anticipate double-digit growth rates continuing into '27.

Operator: One late question from Marc Riddick with Sidoti & Company.

Marc Riddick: What does the leverage look like post-transaction and what is your comfort range?

Scott Salmirs: This gets us to about 3x leverage, which is the range we want to be in. We'll be very balanced about acquisitions for the rest of the year. It has to be a compelling strategic imperative.

Marc Riddick: Any seasonality for the WGNSTAR acquisition?

Scott Salmirs: No, they operate indoors in the fabs. Geography is good—they operate in 9 basic regions where semiconductor facilities are located.

Operator: At this time, I'll hand the call back to Scott for closing remarks.

Scott Salmirs: We are thrilled at ABM to deliver these results. The team came through, and we are energized about 2026. Happy holidays and we'll see you in Q1.

Operator: Thank you. This concludes today's teleconference. You may now disconnect.