

TNC Earnings Call Transcript

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Operator: Good morning. My name is John, and I will be your conference operator today. At this time, I would like to welcome everyone to Tennant Company's Third Quarter 2025 Earnings Conference Call. This call is being recorded. [Operator Instructions] Thank you for participating in Tennant Company's Third Quarter 2025 Earnings Conference Call. Beginning today's meeting is Mr. Lorenzo Bassi, Vice President, Finance and Investor Relations for Tennant Company. Mr. Bassi, you may begin.

Lorenzo Bassi: Good morning, everyone, and welcome to Tennant Company's Third Quarter 2025 Earnings Conference Call. I'm Lorenzo Bassi, Vice President, Finance and Investor Relations. Joining me on the call today are Dave Huml, President and CEO; and Fay West, Senior Vice President and CFO. Today, we will review our third quarter performance for 2025. Dave will discuss our results and enterprise strategy, and Fay will cover our financials. After our prepared remarks, we will open the call to questions. Our earnings press release and slide presentation that accompany this conference call are available on our Investor Relations website. Before we begin, please be advised that our remarks this morning and our answers to questions may contain forward-looking statements regarding the company's expectations of future performance. Such statements are subject to risks and uncertainties and our actual results may differ materially from those contained in the statements. These risks and uncertainties are described in today's news release and the documents we filed with the Securities and Exchange Commission. We encourage you to review those documents, particularly our safe harbor statement, for a description of the risks and uncertainties that may affect our results. Additionally, on this conference call, we will discuss non-GAAP measures that include or exclude certain items. Our 2025 third quarter earnings release and presentation include the comparable GAAP measures and a reconciliation of these non-GAAP measures to our GAAP results. I will now turn the call over to Dave.

David Huml: Thank you, Lorenzo. Good morning, everyone, and thank you for joining our Q3 2025 earnings call. I'm pleased to share our third quarter results, strategic progress and outlook as we navigate an increasingly dynamic operating environment. Our Q3 results demonstrate both the resilience of our business model and our team's ability to execute in a challenging environment. We delivered net sales of \$303 million with an organic decline of 5.4%. It is important to note that we're comparing against a prior year quarter that benefited from a \$33 million backlog reduction, primarily in our North American Industrial business. Our order rates reflect steady underlying demand. We achieved 2% growth compared to Q3 2024, extending our track record of 6 consecutive quarters with order growth. Let me address the tariff situation head on because I know it is top of mind for all of us. We are clearly operating in a more complex trade environment with the continuing tariff volatility creating cost challenges and heightened uncertainty. This creates both direct cost pressures for us and indirect effects on customer purchasing behavior. Regarding our input costs, we're confident in our ability to address a significant portion of direct tariff impacts through targeted supply chain adjustments and pricing actions in 2025. What's new this quarter is the customer demand impact, where we're seeing some industrial customers in North America specifically citing tariff uncertainty as a reason for delaying planned purchases. We're staying close to these customers, understanding their concerns as they navigate the current economic environment, and we remain committed to serving them when they're ready to move forward. Despite these external pressures, I'm proud of what our team has accomplished this quarter. We expanded gross margin 30 basis points through disciplined pricing that more than offset higher freight and tariff costs. We delivered 120 basis points of adjusted EBITDA margin improvement, driven by both margin expansion and disciplined expense management, including the realization of structural actions we implemented earlier this year. We also returned \$28 million to shareholders through dividends and share repurchases, demonstrating our commitment to disciplined

capital allocation and value creation. Our regional performance reflects both challenges and opportunities. In the Americas, orders grew 1% in the quarter compared to the prior year. Adjusting for the prior year backlog benefit, net sales would have grown 9% versus Q3 2024, a solid performance in this environment. EMEA shows encouraging momentum from our strategic initiatives with new product launches gaining traction and go-to-market optimization delivering results in key geographies. Orders increased 8% year-over-year in the region with accelerating momentum heading into the fourth quarter. APAC remains challenging, particularly in China, where competitive pressures continue on both price and volume. However, Australia and India continue performing well, delivering sales growth in the quarter. Our enterprise strategy continues advancing on multiple fronts. We launched our latest new product innovation, the T360 mid-sized walk-behind scrubber, which delivers solid performance at an economical price point, perfect for budget-conscious customers and first-time users. We are growing our AMR robotics business year-to-date with sales increased 9% and unit volumes increased 25%, driven by our new X4 and X6 ROVR products and key strategic customer wins around the world. We've had a major new product launch in each quarter in 2025, demonstrating our strengthened innovation pipeline. Our pricing initiatives delivered 280 basis points of growth through strong realization of beginning of year actions plus additional tariff-related increase. Our go-to-market initiatives are progressing well with particular strength in expanding industrial sales coverage and acquiring new strategic accounts, especially in EMEA. One of our key enterprise initiatives is our ERP modernization project. I'm particularly proud to announce the successful go-live in APAC, the first of 3 major regional milestones in our global digital transformation. While any transformation of this scale presents complexities, our teams prioritized customer needs, mitigated disruptions and stabilized operations according to plan. This new digital infrastructure will enable faster decision-making, deliver better customer experiences, enhance cybersecurity and position us to deploy AI capabilities moving forward. We remain appropriately cautious as our teams continue stabilizing the Americas' Q4 deployment and prepare for the EMEA go-live in Q1 2026. I'm confident in both our approach and our team's execution capability. Looking ahead, we're seeing mixed market dynamics that require both strategic focus and tactical agility. Industrial sectors show some demand softening in tariff-sensitive industries, but demand remains robust in core commercial end markets, including retail, health care and education. Our aftermarket demand, both service and consumables, remains strong. We're addressing tariff exposure through pricing actions and supply chain adjustments and expect to mitigate most of the impact within the year. Our targeted initiatives, supplier negotiations, dual sourcing and logistics optimization, position us well to navigate these challenges. Our year-over-year order growth confirms underlying business health. We remain focused on operational efficiency and prudent capital allocation while carefully monitoring customer buying behavior, the tariff landscape and macroeconomic trends. Based on our year-to-date Q3 performance and current outlook, we remain well positioned to achieve our overall net sales, EBITDA and EPS targets. Accounting for the outsized impact of the euro exchange rate on our EMEA results, we now anticipate that organic growth at the enterprise level will be slightly below our initial guidance range of negative 1% to negative 4%. In closing, I'm confident in our strategy, proud of our team's execution and optimistic about our ability to navigate this environment while continuing to deliver value for all stakeholders. Now I'll turn the call over to Fay for a deeper explanation of the financials.

Fay West: Thank you, Dave, and good morning, everyone. In the third quarter of 2025, Tennant delivered GAAP net income of \$14.9 million compared to \$20.8 million in the prior year period. Net income for the quarter was impacted by lower net sales, primarily driven by volume declines across all geographies, particularly in North America, where we are comparing against a prior year that benefited from a significant backlog reduction. Also impacting net income performance were increased costs associated with our ERP project, legal contingency costs and restructuring charges. These non-GAAP charges totaled \$13.3 million during the quarter. Beyond operating income, interest expense in the third quarter was comparable to the prior year period. Income tax expense in the third quarter was \$2.2 million lower compared to the third quarter of 2024, primarily due to lower operating income. Our effective tax rate was 23.2% in the third quarter of 2025 compared to 24.4% in the prior year. The decrease in rate was primarily due to the recognition of discrete tax benefits from additional research credits recognized in the third quarter of 2025. We anticipate that our full year effective tax rate will be

within our guided range of 23% to 27%. Excluding ERP implementation costs and other non-GAAP costs, adjusted net income in the third quarter of 2025 was \$27.3 million compared to \$26.6 million in the prior year period, a 2.6% year-over-year increase. The adjusted net income growth was primarily driven by gross margin expansion and operating leverage on S&A; despite lower quarterly volumes. Adjusted EPS for the third quarter of 2025 increased 5% compared to the prior year period to \$1.46 per diluted share. The increase was driven equally by operational improvements and the accretive effect of our share repurchase program. Looking a little more closely at our quarterly results, for the third quarter of 2025, consolidated net sales were \$303.3 million, down 4% from the \$315.8 million in the same quarter last year. Foreign exchange had a positive 1.4% impact, primarily reflecting euro strength against the dollar. Excluding this benefit, net sales declined 5.4% on a constant currency basis. This decline was largely driven by an 8.2% reduction in sales volumes across all geographies, which more than offset a 2.8% benefit from strategic pricing actions and additional tariff-related pricing adjustments. As a reminder, we group our net sales into the following categories: equipment, parts and consumables and service and other. In the third quarter, overall equipment net sales decreased 8.7%. Service sales increased 5.9%, and parts and consumables grew by 2.5% compared to the prior year period. Shifting to regional performance. In the Americas, organic sales were down 7% compared to the same period last year. The decline was primarily driven by lower sales of industrial equipment as we lapped a significant backlog contribution in the third quarter of 2024. These headwinds were partially offset by continued price realization during the quarter. Outside the Americas, organic sales in EMEA were down 0.4%, primarily reflecting lower volumes across most of the region. These declines were partially offset by stronger volumes in the U.K. and Southern Europe, along with continued benefits from price realization. Organic sales in APAC decreased 6.4%, primarily driven by lower commercial equipment volumes in China and reduced industrial equipment volumes in South Korea. Gross margin was 42.7% in the third quarter, a 30-basis point increase compared to the prior year quarter. The margin rate increase was driven by strong price realization, partially offset by lower productivity due to volume decreases. S&A; expense totaled \$96.6 million in the third quarter of 2025, a \$3.9 million increase compared to the third quarter of 2024. The increase was driven by continued ERP spend, legal contingency costs and restructuring costs. This quarter, we have recorded an additional legal contingency expense in the amount of \$5.3 million related to the intellectual property dispute that we disclosed in our 2024 year-end results. This amount is comprised of a \$2.9 million enhancement of damages and \$2.4 million in additional prejudgment interest. We continue to disagree with the verdict and are actively preparing for the appeals process while also continuing to explore all of our other alternatives. As a reminder, this ruling does not impact our ability to sell any of our products and is not expected to affect our long-term financial performance. Excluding non-GAAP costs, adjusted S&A; expense in the quarter totaled \$83.3 million, a \$5.4 million decrease compared to the third quarter of 2024. Adjusted S&A; expense as a percent of net sales decreased to 27.5% compared to 28.1% in the prior year period, driven by lower variable compensation and reduced payroll costs following last year's restructuring actions. Adjusted EBITDA for the third quarter of 2025 was \$49.8 million compared to \$47.9 million in the third quarter of 2024. Adjusted EBITDA margin for the third quarter of 2025 increased by 120 basis points compared to the third quarter of 2024, representing 16.4% of net sales. Turning now to capital deployment. Net cash provided by operating activities was \$28.7 million during the third quarter, a \$2 million decrease compared to the prior year period. Operating cash flow during the quarter was impacted by investments in our ERP project as well as working capital investments. We generated free cash flow of \$22.3 million in the third quarter, including ERP spend of \$14 million. Excluding these non-operational items, we converted 183.3% of net income into free cash flow during the quarter. On a year-to-date basis, we converted 121.2% of net income into free cash flow, which positions us to achieve our 2025 goal of 100% conversion. The company continues to deploy cash flow toward operational capital needs and to return capital to shareholders in line with its capital allocation priorities. We invested \$6.4 million in capital expenditures during the third quarter, tracking to our full year guidance. Additionally, we returned \$28.1 million to shareholders through share repurchases and dividends in the quarter. On a year-to-date basis, we returned \$72.7 million to shareholders comprised of \$56.3 million of share repurchases and \$16.4 million of dividends. Last week, we announced a 5.1% increase to our annual dividend, raising it to \$0.31 per share. This marks the 54th consecutive year that

Tennant has increased the dividend payout. Tennant's liquidity remains strong with a balance of \$99.4 million in cash and cash equivalents at the end of the third quarter and approximately \$409 million of unused borrowing capacity on the company's revolving credit facility. The company continues to effectively manage debt and maintain a strong balance sheet. Our net leverage was 0.69x adjusted EBITDA, providing the company with continued flexibility and capability to fund growth through M&A; and create value for our stakeholders. Moving to 2025 guidance. As Dave mentioned, we are pleased to report third quarter results that demonstrate the resilience of our business model even as we navigate an increasingly complex and uncertain market environment. Net sales of \$303 million reflected expected headwinds from lapping last year's significant backlog reduction, resulting in a 5.4% organic decline. We generated 2% year-over-year order growth, expanded gross margins by 30 basis points despite tariff-driven inflationary pressures and managed S&A; expenses to grow adjusted EBITDA margin to 16.4%, a 120-basis point increase. Looking ahead, we anticipate sustained macroeconomic volatility and ongoing tariff-related pressures. Based on current tariffs, we project a slight increase in the overall full year 2025 tariff impact compared to our estimate at the close of the second quarter. However, through a combination of strategic supply chain initiatives, targeted procurement efforts and pricing actions, we expect to largely offset tariff-driven inflation in 2025. Turning to our net sales outlook. While we did observe some deceleration in demand during the third quarter, most notably within our Industrial Sales segment in the Americas, we are nevertheless positioned to deliver full year net sales within our previously guided range of \$1.21 billion to \$1.25 billion through strong fourth quarter performance. This performance is underpinned by several key drivers: continued expansion in strategic account sales, the successful performance of new products like the Z50 Citadel outdoor sweeper and X6 ROVR, a return to historical seasonal patterns and sustained momentum across various geographic markets. It is important to note that while we expect to meet our overall net sales target, we now project organic growth to be marginally below our negative 1% to negative 4% guidance, reflecting a more significant contribution from favorable foreign currency movements. Our focus on diligent cost management will continue across both gross margin and S&A; throughout the fourth quarter. This concerted effort, coupled with solid net sales, positions us to achieve adjusted EBITDA within our previously stated guidance range of \$196 million to \$209 million with an expectation of landing near the lower end of that range. While the fourth quarter will deliver both sequential and year-over-year margin improvement, the margin headwinds realized in the first half of 2025 will create a structural headwind to achieving meaningful full year margin expansion. With that, I will turn the call back to Dave.

David Huml: Thank you, Fay. In closing, I want to emphasize that while we're navigating a challenging macroeconomic environment with significant tariff volatility, our team has demonstrated focus, execution and discipline. We've delivered solid order momentum, meaningful gross margin expansion and strong adjusted EBITDA growth, all while making strategic investments in our digital transformation. The successful APAC ERP go-live represents a critical milestone in our enterprise evolution, positioning us to enhance customer experiences, drive operational efficiency and unlock AI capabilities across our organization. We've targeted investments and rigorous execution across a robust set of growth initiatives, including new product innovation, go-to-market expansion and strategic pricing. We have clear line of sight to mitigating tariff impacts through targeted supply chain adjustments and pricing actions in 2025, and we're confident in our ability to manage near-term uncertainties while capitalizing on the opportunities ahead. I'm really proud of our team's commitment and focus on value creation for all stakeholders, and I'm optimistic about our path forward. With that, we'll open the call to questions. Operator, please go ahead.

Operator: [Operator Instructions] Your first question comes from the line of Steve Ferazani with Sidoti.

Steve Ferazani: I appreciate all the detail on the call. Dave, the one number that sort of concerned me a little bit was the order growth. I think you covered that a little bit. But through the 3 quarters this year, your year-over-year order growth was slower each quarter. Is your expectation that turns around? Or is the tariff uncertainty likely to continue to pressure the order book?

David Huml: I think the order book is partially due to the prior year comp. Obviously, we're comping a more difficult second half. I think I'd answer the question this way. We've had strong order momentum. Our orders are up 6% year-to-date. And although it's been declining by quarter, I think that's largely

driven by the comp. Maybe I will shift focus to Q4 and just talk about what has to be true to deliver on the quarter because I think that really gets at the heart of the orders question. So thinking about Q4 from an order perspective and from a sales perspective, we need about \$318 million in sales to deliver on Q4 midpoint guidance. And if you adjust Q4 of 2024 for the backlog reduction benefit, we did \$328 million in Q4 of '24, less \$17 million in backlog reduction benefit. So without backlog in 2024, the baseline is — I'll call it \$311 million. So in Q4, we need to grow orders and sales by \$8 million or about 2.5%. So when I think about the order momentum year-to-date of 6%, putting up 2% in Q3 — and Q3 also reflects a return to normal seasonality. Q3 is usually a light quarter for us. And then the need to drive a 2.5% increase in Q4, we think it's within reach. And actually, we have a fair amount of confidence we can deliver on that kind of order growth. So I think it's important to dimensionalize the decreasing year-over-year order trend in terms of year-over-year comp, return to normal seasonality and kind of what needs to be true to deliver on Q4.

Steve Ferazani: And what are you hearing from customers now? Obviously, I'm not going to ask you about next year, but a lot of the analyst focus here is going to be on how this drives what next year starts looking at and what's your feeling based on what you're hearing from customers right now?

David Huml: Yes. So restricting -- you're right, I'm not going to guide on 2026. But I can tell you what we're hearing from customers, and we'll have to see how the quarter shapes up as we finish out hearing what the customer is telling us. I think it's important to acknowledge that we are operating in a much higher level of uncertainty than we would normally be at this point in the year or in any year. And so I think that what we're hearing from customers, largely the order rates are solid, customers across -- I can break out some regional comments for you, but we did comment on the one point of softness, which is our North America Industrial demand. So let me make a few comments on North America Industrial, and then I'll broaden the comments to talk about the enterprise at a more regional basis. Thinking about the North America Industrial business, our orders in North America Industrial are actually up double digits year-to-date, but they're not up to what we expected them to be for the year. And so this new dynamic we experienced in North America Industrial really started in July and August. And some customers in some vertical markets, primarily focused on manufacturing and warehousing vertical markets, there's this theme of deferring and delaying planned purchases, freezing automation budgets, et cetera, sort of taking a pause on planned purchases, which is slowing the conversion of our opportunity funnel. When you dig underneath it and really ask customers what's underneath the pause or the delay, they do cite the tariff uncertainty as a reason for the pause. And I believe it's because the tariff impact is just now starting to bleed through people's P&Ls.; You had an inventory lag from when tariffs were enacted and inventory in the pipeline that delayed the impact on customers' P&L; as well as the customers who capitalize their variance. Q3 was really the first time customers started to feel the tariff impact in their results. At the same time, we're all trying to project how we finish the year so we can provide good solid forecast and guidance. And we're also planning for 2026. So I think it's logical that customers as they've had to absorb all of the inflation from tariffs, they're sort of taking a pause, looking at their CapEx spend and forecasting the year and preparing for 2026, much like we are, and I know many of our peers are doing the same. When you think about Q4, we assume stabilization in the North American Industrial demand, which means we factored in some of this softening, but no further deterioration from an order demand perspective in that segment of the business in Q4. Looking across the rest of the business outside of just North American Industrial, there's actually considerable points of strength as you look across the rest of North America, look at our commercial business, look at our service business, look at parts and consumables. We're getting price to stick. Our new products are selling well, inclusive of AMR. We've demonstrated that we're capable of taking action to offset the tariff impact. The new demand like – or the new dynamic, like I said, is this impact of tariffs on one segment of our North American Industrial business in Q3. And we are watching closely to understand that dynamic as it matures here in the quarter and then if there's any contagion into other vertical markets.

Steve Ferazani: I appreciate that. That's helpful. And seeing the benefits of the cost outs in 3Q, which you had talked about earlier in the year, I mean you had EPS year-over-year growth despite you still had a chunk of backlog to lap and margins improved on lower revenue. Is there more to go on the cost outs?

Fay West: Yes. So we did see kind of 30 basis points improvement on margin over the prior year. That

was really kind of price, both from regular pricing and tariff-related pricing. That offset the impact of kind of tariff input costs as well as other inflation and also the lower productivity from decreased volume. We do expect to see sequential improvement versus Q3 and Q4. So we expect to see sequential improvement as well as margin improvement versus prior year fourth quarter. What I will say, though, is on a full year basis, we had originally anticipated seeing about a 30-basis point improvement. We've talked about that in the past. And if you recall, in the first half of the year, mix was a very large component of gross margin performance, specifically the impact of sales to strategic customers and to -- for commercial equipment sales. At the end of Q2, we expected that we would see margin improvement in the second half of 2024 based on market signals at that time and our assumption that we would see an increase in industrial sales in the second half. As Dave just talked about, this is where we're seeing some softness. So we will not see that improvement in gross margin that we anticipated due to mix shift on a full year basis. And so -- and additionally, we continue to work very diligently to solve for inflation and for the evolving tariff implications and believe that there will be some impact to gross margin on a full year basis. So in Q4, we'll see kind of margin improvement. But on a full year basis, we will not quite get to that 30-basis point improvement that we anticipated at the beginning of the year.

Steve Ferazani: Got it. That makes a lot of sense. If I could squeeze one last one in here. When I look at that capital deployment slide, what stood out to me was you took on \$25 million in debt to repurchase \$23 million in shares. You did more than just offset dilution, which is more typical. Are you open to getting more aggressive on the repurchase program given the strong balance sheet and where the stock is right now?

Fay West: Yes. So we -- I think in the prepared remarks, we talked about how we've deployed capital this year, and we have more than offset dilution. We continue to be active in Q4, and we'll likely purchase roughly 4.5% of outstanding shares through the end of the year on a full year basis. So roughly 840,000 shares is where we think we'll end up on a full year basis. And so -- and that's our position right now, and we could -- we have flexibility if we need to adjust.

Operator: Your next question comes from the line of Tom Hayes with ROTH Capital.

Thomas Hayes: Maybe just one follow-up to Steve's question. I just want to make sure I had it right. As far as the comparison in 4Q for the backlog drawdown from last year, it's a \$17 million bogey?

Fay West: Correct.

Thomas Hayes: Okay. All right. And then maybe on the ERP, congratulations on getting the first region under your belt. I was just wondering, could you just remind us what the time line looks like for the balance of the business?

David Huml: Yes, I'd be happy to. So we referenced in the script that we went live in APAC in Q3. We're about -- we're over 60 days in now. Really solid early returns. North America goes -- already went, and we're in the midst of managing through it in Q4. And EMEA is in Q1 that we are working hard to prepare for the go-live.

Thomas Hayes: Okay. Appreciate that. And then, Dave, we didn't have a chance to discuss previously, but I just wanted to circle back on the rollout of the Z50 Citadel unit. Maybe just some additional color on the end markets and initial customer reactions. I think it's a pretty revolutionary product.

David Huml: I appreciate the question. Yes, we're really excited about the Z50. This marks a return into a new space for us in outdoor sweeping applications. It's about a \$400 million TAM that we can now unlock because we own product to go address these customers. It's a natural extension of our sales and service reach around the world because we know these customers. In some cases, they buy other products within our portfolio. And we're really well suited for these kind of heavy use applications where customers rely on service to deliver uptime. We partnered and have a product designed specifically for us to take to market. We're really pleased with the early returns and the positive feedback from customers. As you can imagine, these are \$0.25 million apiece machines. And so it has -- typically, it has a relatively long sales cycle. I've been rather impressed by how quickly we've converted some orders here in the year. We expected it to be more like, call it, 6-, 9-, 12-month sales process. We converted some quickly customers. So it makes me -- it gives me confidence that this is an attractive segment where we're going to have a differentiated offering to deliver. It's been a solid contributor to our new product sales in 2025, and we've got big plans for it in 2026.

Thomas Hayes: Do you see -- I mean I'm assuming that you see it as a global opportunity. But I'm just wondering, did you roll it out globally? Or are you running it out in specific markets to start?

David Huml: Yes, we did a staged rollout, but we are globally deployed with that product. And what that means is we're trained and capable of selling it as well as servicing it with aftermarket parts and consumables. And it is a global opportunity. When you think about these heavy industry applications, they're very similar everywhere around the world. So we think we've got some really great opportunities to take this product into new and existing customers and serve those heavy sweeping applications.

Thomas Hayes: Okay. Maybe just lastly, kind of circling back, again, one that you talked about a little bit, I just want to make sure I got it down right. As far as the North American Industrial segment that you saw the weakness, it was primarily in manufacturing and distribution-based customers?

David Huml: Yes, manufacturing and warehousing customers.

Operator: [Operator Instructions] The next question comes from the line of Iva Prcela from Northcoast Research.

Iva Prcela: I am asking questions on behalf of Aaron Reed today. And you guys earlier highlighted strong year-to-date growth in both the units and net sales within the AMR business. So could you maybe just share some more detail on where you're seeing the most traction and maybe what factors are driving that growth?

David Huml: Yes, I'll be happy to. We're really pleased with our results in AMR to date. Just to reiterate the data points we supplied. Year-to-date, our sales are up 9% and our units are up 25%. Obviously, there's some mix shift in there as we've launched new products. Really, the demand is being driven by a couple of underlying factors. One is the introduction of our X4 and X6 ROVR, which are really purpose-built ground-up machines with fantastic performance. We're leveraging our brain exclusivity agreement to improve our selling efficiency, our deployment capability and also our road map alignment and new products. It's important to note that we are bringing more new products to market faster than we have in the past in this AMR space. We're also leveraging the new Generation 3 autonomy package, which just delivers better performance on the ground for the customer. Specifically answering your question where we're winning and what's driving the growth. We're winning with large strategic accounts in both the direct selling channels -- we sell them on a direct basis -- primarily in mature markets, North America, EMEA and Australia. These are customers that really value superior cleaning performance. They have multisite networks, so a large number of stores that they need to be cleaned regularly on a consistent basis. These are customers that value our unique deployment support and training to be sure their teams will use the investment in automation. And our aftermarket service is critically important to these customers so that we can deliver the uptime and they can get the return on their investment. And so I think we've got a great portfolio. We continue to add to that portfolio, not only in new products, but also in new business models with our Clean 360 offering that offers customers a bundled solution. One monthly price that includes equipment, service and their autonomy subscription. So I think a lot of innovation in this space. We're really pleased with the results to date. But there's a tremendous value unlock here. There's a tremendous growth opportunity for us in the market as we disrupt mechanized cleaning. And so we're committed to driving that growth and that disruption here as we enter Q4 and into 2026 and beyond.

Iva Prcela: Perfect. That was super helpful. And then obviously, tariffs have been a headwind. But I was just curious, is there any maybe silver lining in that they might be slowing cheaper Chinese imports or maybe easing competitive pressure in certain categories at all?

David Huml: Yes, great question. We're on the lookout for it. I wouldn't say we've seen any material shifts from competition in terms of sort of their price competitiveness in the market. I do think there was some lead lag with people buying ahead of tariffs and forward stocking inventory in anticipation of prolonged tariffs. So we'll see as kind of the year shakes out here in 2026. But we can't bank on that. We've got to be out growing our business and selling our customers and reaching new customers with our value prop rather than sort of bank on having a competitive advantage because of tariffs. If there were to be an advantage, I think it would show itself over the longer term. And from a tariff impact perspective, I think we're still kind of early days.

Operator: If there are no further questions at this time, I would like to turn the call back over to the

management team for closing remarks.

David Huml: Thanks, John. If you'd like to learn more about Tennant, we will be participating in the following conferences: Baird's 2025 Global Industrial Conference in Chicago on November 13, the 14th Annual ROTH Technology Conference in New York City on November 19, Oppenheimer's Winter Industrial Virtual Summit on December 11. Thank you for your continued interest in our company. This concludes our earnings call. Hope you have a great day.

Operator: Ladies and gentlemen, that concludes today's conference call. You may now disconnect your lines. We thank you for your participation. Have a good day.