

# ULS Earnings Call Transcript

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**Quarter: 3**

Operator: Good day, and welcome to the UL Solutions Third Quarter 2025 Earnings Conference Call. [Operator Instructions] Please note, this event is being recorded. I would now like to turn the conference over to Yijing Brentano. Please go ahead.

Yijing Brentano: Thank you. Welcome, everyone, to our third quarter 2025 earnings call. Joining me today are Jenny Scanlon, our Chief Executive Officer; and Ryan Robinson, our Chief Financial Officer. During our discussion today, we will be referring to our earnings presentation, which is available on the Investor Relations section of our website at [ul.com](http://ul.com). Our earnings release is also available on the website. I would like to remind everyone that on today's call, we may discuss forward-looking statements within the meaning of the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. These forward-looking statements may include, among other things, statements about UL Solutions results of operations and estimates and prospects that involve substantial risks, uncertainties and other factors that could cause actual results to differ in a material way from those expressed or implied in the forward-looking statements. Please see the disclosure statement on Slide 2 of the earnings presentation as well as the disclaimers in our earnings release concerning forward-looking statements and the risk factors that are described in our annual report on Form 10-K for the year ended December 31, 2024. We assume no obligation to update any forward-looking statements to reflect events or circumstances after the date hereof, except as required by law. Today's presentation also includes references to non-GAAP financial measures. A reconciliation to the most comparable GAAP financial measures can be found in the appendix to the earnings presentation. With that, I would now like to turn the call over to Jenny.

Jennifer Scanlon: Good morning, everyone, and thanks for joining us. I'm excited to report another strong quarter of consistent growth across our business. All segments, major service categories and geographic markets delivered solid results. I want to start by acknowledging our outstanding team, whose deep expertise and unwavering commitment are the driving forces behind these results. Their dedication to our safety science mission and exceptional customer service continues to be our greatest competitive differentiator and the cornerstone of our industry-leading success. This broad-based performance demonstrates sustained customer demand and the resilience of our business model. It also highlights both our global reach and the strategic value of our focus on transformative industry trends. Our ongoing investments in energy transition, the electrification of everything and digital transformation are expected to continue to drive sustainable growth and position us well for the future. Given our strong year-to-date performance, particularly in the third quarter and our current visibility into our customers' ongoing product development pipelines, we are strengthening our full year 2025 guidance. I'll cover four key areas before turning the call over to Ryan. First, I'll talk about our third quarter performance highlights. Second, I'll cover notable achievements and activities since we last reported. Third, I'll talk about a restructuring initiative we are announcing today to streamline our operating model, reduce expenses and keep our focus on growth areas. And finally, I'll offer some perspectives on how our business continues to thrive. Ryan will dive into the numbers. But first, let me hit the high notes of our third quarter 2025 results. I'm particularly proud that we delivered strong quarterly consolidated revenues that were up 7.1% as compared to the third quarter last year and up 6.3% on an organic basis. Organically, we had balanced contributions from all 3 of our segments, with

Industrial up 7.3%, consumer up 5.3% and Software & Advisory up 6.5%. We achieved these results against a dynamic geopolitical and regulatory environment that continues to impact our customers' behavior. Profitability improved year-over-year with adjusted EBITDA growing 18.6% to \$217 million and adjusted EBITDA margin expanding by 270 basis points to the highest level since we became public in April of last year. Higher revenue and realized operating leverage were key drivers. We generated \$317 million of free cash flow through the first 9 months of 2025, and our balance sheet remains robust. Now let me highlight notable new offerings and key developments during the quarter. First, we continue driving growth through our ULTRUS software platform with significant releases addressing customers' key compliance and sustainability challenges. New capabilities include enhanced PFOS identification, expanded ESG disclosure management for international standards and AI-powered features. These strategic enhancements strengthen our competitive position and are expected to grow our software annual recurring revenue. In addition, we expanded our marketing claim verification services into the high-growth industrial software sector. Positioning us as the trusted authority for our customers' next-generation manufacturing technologies and the emerging industrial metaverse. Siemens became our first customer to receive UL verified marks for these services. We expect this strategic expansion into industrial software verification to strengthen our role in enabling digital transformation across manufacturing environments while opening new revenue opportunities in this rapidly growing market segment. As the American leader in fire safety science, we broke ground at our global Fire Science Center of Excellence in Northbrook, Illinois, representing one of our largest laboratory investments to date and reinforcing our leadership in fire safety science. This state-of-the-art facility on our 110-acre headquarters campus will integrate advanced testing capabilities with a dedicated R&D hub. The multi-building complex will test emerging products, including PFAS-free foam systems and energy efficient designs and will serve North American and global manufacturers. We are focused on what we believe to be the most attractive megatrends in the product tech industry to drive above-market growth while delivering superior margins that ultimately result in healthy cash generation. As part of our journey to fulfill those aims, we regularly evaluate our suite of offerings as well as our cost structure. We may be over 130 years old, but we remain agile and will continue to adapt as markets evolve. To that end, today, we are announcing a restructuring initiative that will reduce expenses through streamlining our operating model and focusing resources on our core growth areas while exiting certain nonstrategic service lines. Ryan will address the details, but this initiative is expected to generate meaningful annual run rate savings and margin expansion once fully implemented. Finally, let me remind you of the resilience of our business. First, we believe our market position is fundamentally strong. As a global leader in critical safety science, we partner with customers throughout their entire product journey. From additional initial R&D to manufacturing across every major market worldwide. Second, our revenue model helps create stability and predictability. We provide essential testing during new product development and deliver ongoing certification services throughout each product's market life cycle. Third and most importantly, demand has proven remarkably resilient. During this recent period of uncertainty, our services have remained in strong demand. This validates both the mission-critical nature of our services and our customers' commitment to bringing new products to market. Now I'll turn the call over to Ryan for a detailed review of our third quarter results.

Ryan Robinson: Thank you, Jenny, and hello, everyone. I also want to thank all of our team members for delivering another strong quarter and continuing our growth margin expansion and cash generation momentum. I'm pleased to share that both revenues and adjusted EBITDA for the quarter were all-time records for the company and it's encouraging to see the balanced revenue and profit growth across all of our segments. Now let me dive into the details of the quarter. Consolidated revenue of \$783 million was up 7.1% over the prior year quarter. On an organic basis, revenue grew 6.3%. Revenue also benefited from favorable FX movements, particularly the euro. Cost of revenue as a percentage of revenue for the quarter decreased 130 basis points to 49.7%, primarily due to improved employee cost efficiency. SG&A expense as a percentage of revenue decreased 80 basis points to 30.4%. And SG&A expenses increased 4.4% compared to the prior year period. On an organic basis, employee compensation increased \$6 million related to base salary increases and higher costs associated with performance-based incentives, including the company's long-term incentive awards. In addition,

technology costs increased \$4 million on an organic basis, primarily associated with cloud computing service arrangements. Adjusted EBITDA for the quarter was \$217 million an improvement of 18.6% year-over-year. Adjusted EBITDA margin was 27.7% up 270 basis points from last year, with margin expansion across all 3 segments. Adjusted net income for the third quarter was \$119 million, up 14.4% from last year. Adjusted diluted earnings per share was \$0.56, up from \$0.49 per share in the third quarter of 2024. Now let me turn to our performance by segment, starting with Industrial. Revenues in Industrial rose 8.2% to \$343 million or 7.3% on an organic basis, primarily driven by growth in certification testing and ongoing certification services across most industries. We saw particular strength in demand for energy and automation. Ongoing certification services revenue increased due in part to price increases. Revenue also benefited by \$3 million versus the prior year from favorable changes in foreign exchange. Adjusted EBITDA for the Industrial segment increased 16.0% to \$123 million, while adjusted EBITDA margin improved 250 basis points to 35.9% as we continue to benefit from higher revenue and increased operating leverage. Now turning to the Consumer segment. Revenues in Consumer were \$340 million, up 5.9% on a total basis and 5.3% on an organic basis. We saw balanced growth across all industries. We saw particular strength in non-certification testing and other services in consumer technology, primarily driven by increased demand for electromagnetic compatibility testing for consumer electronics and in retail. Adjusted EBITDA for the quarter in Consumer was \$70 million, an increase of 12.9%. Adjusted EBITDA margin for the quarter was 20.6%, an increase of 130 basis points. Operating leverage as a result of organic growth was the main driver in the year-over-year improvement. In our Software and Advisory segment, revenues were \$100 million, an increase of 7.5% on a total basis and 6.5% on an organic basis. Advisory had a particularly strong quarter as a result of a high level of customer project completion with organic revenue growth of 8.8% in addition to 5.8% organic growth in software. Adjusted EBITDA for the quarter in Software and Advisory was \$24 million, which was up 60% compared to the third quarter of last year adjusted EBITDA margin for the quarter was 24%, an increase of 790 basis points due to higher revenues and greater staff utilization. Continuing our great cash generation trend we delivered \$456 million of cash from operating activities for the first 9 months. Capital expenditures for the first 9 months were \$139 million and I'm very proud of our global team for generating \$317 million in free cash flow year-to-date which is up 47% from the first 9 months of last year, primarily as a result of improved profitability in our core businesses. We paid \$26 million in the third quarter and \$78 million year-to-date in dividends. And as of September 30, we held \$255 million in cash and cash equivalents. Additionally, just last week, we replaced our credit agreement with a new credit facility. This updated facility provides us with enhanced financial flexibility, more favorable terms and supports our ongoing investment and growth initiatives. Our results have been strong as a public company. We're continuing to tailor our business to today's rapidly changing landscape. One of the pillars of our margin expansion strategy has been continuing to focus on internal cost improvement opportunities, and we are regularly evaluating our capabilities to ensure they align with our core markets. As Jenny mentioned, today, we are undertaking a restructuring initiative to streamline our operating model and to reduce expenses, including downsizing our current workforce by approximately 3.5%. The planned actions will include role eliminations and the exit of some nonstrategic service lines, representing approximately 1% of our total revenue in 2025. While exiting these services will create a modest headwind to our 2026 organic revenue growth, we believe this initiative positions us for stronger profitability and allows us to focus more acutely on our strategic priorities. We expect to record \$42 million to \$47 million in pretax restructuring charges primarily in Q4 2025. This initiative is expected to be substantially complete by the first quarter of 2027. And once complete, we expect to improve annual operating income by between \$25 million and \$30 million as a result of both the revenue and expense impacts from these actions. Now turning to our 2025 outlook. Given our solid performance through the first 9 months of 2025, current visibility into our end markets and confidence in our execution, we are pleased to strengthen our 2025 full year outlook. We now expect 2025 consolidated organic revenue growth to be in the range of 5.5% to 6.0% as compared to our full year 2024 results. Organic growth is based on constant currency, and it excludes acquisitions and divestitures. In the fourth quarter, we expect organic revenue growth to be modestly lower than our full year 2025 expectations as it represents the most challenging comparison to 2024. And as a reminder, the strength in the fourth quarter of 2024, we believe was due in part to some pull forward of

revenue, particularly in the Industrial segment's ongoing certification work in advance of expected tariffs. We now expect our adjusted EBITDA margin organic improvement to approximately 25% for the full year 2025. And up from our prior guidance of approximately 24%. Our outlook for capital expenditures in 2025 is now expected to be in the range of 6.5% to 7.0% of revenue down from 7.0% to 8% previously. This change is mostly due to timing with ongoing strong customer demand in all 3 segment, we continue to invest in capacity and capabilities to address their needs. Our expectation for our effective tax rate in 2025 is now in the range of 25% to 26% compared to our prior guidance of approximately 26%. Our Q3 and year-to-date performance demonstrates sustained business momentum with enhanced profitability and robust cash flow generation, which enables strategic capital allocation opportunities. We expect to continue delivering exceptional returns to our shareholders. And now let me turn the call back to Jenny for her closing remarks.

Jennifer Scanlon: Thanks, Ryan. I'd like to take a moment to talk about an exciting development. As we announced yesterday, UL Solutions is proud to be launching Landmark Artificial Intelligence safety certification testing. A major step forward in building public trust and enabling the responsible adoption of beneficial AI technologies. As AI rapidly transforms our daily lives, powering everything from smart devices to industrial systems, it also raises serious concerns about safety, ethics and misuse. The new certification testing we will offer is guided by UL-3115 and the newly published outline of investigation or OOI, as we call it, for artificial intelligence safety of AI-based products. As an OOI, UL-3115 serves as a set of safety criteria developed by UL solutions to assess emerging technologies that lack an established UL standard. Products that meet the requirements of an OOI through UL solutions testing and assessments may earn the UL mark indicating compliance with safety requirements. We have also been granted a patent for machine learning-based AI scoring. So let me close. Our third quarter results reinforce the fundamental resilience and growth potential of our business model. We delivered consistent growth across our business, all segments, major service categories and geographic markets and produced superior returns to shareholders. With that, we'll open the line for questions.

Operator: [Operator Instructions] The first question comes from Andy Wittmann from Baird.

Andrew J. Wittmann: Great. I have 2 this morning, if I might. I guess, obviously, good results here, very good results. I was kind of curious as to -- given the focus that some of your customers have in China and Greater China, the macro and the headlines are so volatile and the policy seems to switch every week. I was just wondering, Jenny, if you could just talk about the posture of your customers there. What is meaning for your business and what's your experience of all this has been? And what it might just mean here as we start looking into 2026.

Jennifer Scanlon: Yes, Andy, thanks for the question. And it is certainly even as recently as this last week that tariffs remain a topic that is front of mind for most manufacturers and most of our customers. What we see was earlier this year, we saw uncertainty and I would say, some slowdowns, and we saw that in particular with some new product launches in Q2. I think what we're seeing now is almost a sense of a new normal that customers are just expecting greater certainty in wherever things are landing and it's becoming a more typical response to tariffs with the supply chain diversification discussions and timing around onshoring and reshoring. And I think just continued emphasis that you've got to get back to business as usual in whatever the new normal is.

Andrew J. Wittmann: Got it. Okay. And then maybe, Ryan, one for you. The Software and Advisory business isn't historically a place that -- as you know, a lot of outperformance. It's obviously a small part of your business, but this quarter, it did. And so I thought I would ask here a little bit. And specifically, obviously, while both the top and the bottom line were good. You had a comment in your remarks talking about how there was a number of projects that were completed during the quarter. And I was wondering what the significance of that comment was. I was wondering if it had to do with projects that might have been done on a fixed price basis and therefore, done under percentage of completion accounting. Did that have like a kind of a benefit to the margin this quarter that was worth noting? Or was it purely just kind of every day, better utilization of your advisory staff and mix from having software growth?

Ryan Robinson: Thank you very much for the question, Andy. And we are very thankful to the Software and Advisory team for a strong quarter. As you know, that business has recurring software revenue that we recognize over a period of time, but also the advisory business is professional services that can

have lumpy project-based work. And what we saw in the third quarter was the completion of a lot of advisory-related projects and the recognition of a lot of revenue that led to high utilization of that staff. We use the words liberally particularly high level because in the -- we have not yet built a trend of multiple quarters, and it's quite possible in the fourth quarter and first -- in additional quarters, it could be lower than what we experienced in the third quarter. But we're very pleased with the performance in the third quarter.

Operator: The next question comes from Andrew Nicholas from William Blair.

Andrew Nicholas: First one was just to kind of follow up on the first question, just in terms of tariffs and the impact of tariffs to date. I think last quarter, you described a little bit more muted volumes in April and May and then somewhat of a snap back in June. Just kind of curious if third quarter results and maybe even what you've seen so far in October is consistent with those June levels or if there has been continued chopiness intra-quarter consistent with the second quarter.

Jennifer Scanlon: Thanks, Andrew. And you know we're not going to comment on October, but Q3 we saw -- it was a strong quarter, and we saw a much more typical cadence. So it was relatively steady across all 3 months of the quarter. And we continue to -- as I said earlier, I think are reverting to a more normal response to tariffs and with customers just having greater certainty in the decisions that they're making around their R&D; pipelines, their supply chain diversification and any moves they make around reshoring, onshoring, moving to other countries. We continue and we've said this in other quarters to see shifts in where our ongoing certification services are field sites. And there is pretty significant off a low base but significant growth in Vietnam, Thailand and India. And you see some of the more traditional countries have negative growth rates on a number of manufacturing sites that we visit countries such as Germany, Japan and Taiwan have a slight contraction. So that's how we're seeing this play out. Ryan, do you want to add anything to that?

Ryan Robinson: Just that our business model is global. And as you know, we grow capabilities where our customers need our services. So we're adapting. We've added capacity in some of the markets that Jenny mentioned, in total, we're producing pretty good results.

Andrew Nicholas: Great. Super helpful. And then -- for my second question, I wanted to ask a little bit more on the restructuring plan that you announced this morning and specifically on the exiting of nonstrategic business lines. Could you just kind of flush that out a little bit what you are deprioritizing? And to the extent that, that frees up capital, I know there's some margin improvement expected. But to the extent that, that frees up capital for incremental investment elsewhere, I would love to hear where you expect that to be diverted.

Jennifer Scanlon: Yes. Thanks, Andrew. And philosophically, we on a continuous basis are always assessing where are we leading in our businesses. And part of our leading performance is we like to say the privilege of focus -- and we do have a philosophy of wanting to lead in any business that we're in. And so we have an annual long-range planning process, and we're constantly looking at how do all of the individual pieces fit in. And so this is no different than what we do on an ongoing basis. It's just packaging it a lot together here. But where we're focused is on the highest quality growth that we can get and we're focused on minimizing distractions from underperforming businesses that we don't see a path to leadership in. So that's how we would characterize this. And to that degree, it frees up time, attention and resources to focus on the areas that we believe have the greatest value creating capabilities for our business.

Operator: We now have a question from the line of George Tong from Goldman Sachs.

Jinru Wu: This is Anna Wu on for George Tong. I have 2 this morning. So first one for industrial businesses, have you observed different growth dynamics across the regions for the U.S., Europe or Asia? And are there any geographies growing meaningfully faster than others? And how does that trend compare to what you were seeing in the Consumer segment?

Jennifer Scanlon: Thanks, Anna. I'll start and then let Ryan weigh in a little bit. We've had growth in every region in Industrial. And certainly, the United States Greater China and more broadly across ASEAN and even Korea have exhibited some real strength, especially in areas that I would say are fueling the data center growth. So Industrial, energy storage systems, high-voltage wire and cable and all -- and then the built environment, the fire suppression systems and other pieces that are needed to, again, protect those data centers. So it is strength across our operating units globally.

Ryan Robinson: Yes. The only thing I would add is that we had moderately more contribution from the U.S. in the last quarter than last year at this time. But growth across the board and not a material difference, just like moderately more in the U.S.

Jinru Wu: Got it. That's super helpful. Additionally, you launched a battery testing laboratory in Germany earlier last quarter. and also the Michigan battery testing lab opened the second half last year. So can you please talk more about the utilization rate of those battery testing labs? And how -- and how are you thinking about the growth momentum in the battery testing services. Specifically, are there any implications from the recent expirations of the federal EV tax credit?

Jennifer Scanlon: Yes. Energy storage system batteries continue to be an important and evolving market. When we invested both in Auburn Hills, Michigan and in Batterieingenieure the company in Germany that we acquired last year and then added capital to this year. We always felt that there would be a balance between EVs and industrial energy storage systems. And I think our initial hypothesis is that might be more heavily weighted to EVs and over time, the energy storage systems for the industrial environment would increase. I think we're seeing that shift occur faster than we expected really on the heels of both changes in the approach to EVs as well as the rapid ascent of the need for energy and power and data centers. So we don't publish utilization of individual labs, but we are pleased with both of those investments.

Operator: The next question comes from the line of Shlomo Rosenbaum from Stifel.

Shlomo Rosenbaum: Jenny and Ryan, I just want to dig in a little bit more into the restructuring program. Is there something that's going to be happening structurally like from a process perspective, that's going to give you more margin leverage in the future? I understand there's like a risk that taking out specific areas. But is there anything that's going to be implemented that just structurally means that the margins are going to improve beyond that amount that you're taking out as the revenue grows. And then just as part of that question, there was a comment in there that the savings of \$20 to \$30 sounded like a combination of both cost savings and then also some revenue. I know usually hear revenue as a component of restructuring program. So I was wondering if you can kind of parse that out for us a little bit more? And then I have a follow-up.

Ryan Robinson: Thank you very much for the question, Shlomo. We wanted to clarify that we're focusing in strategic service lines for our customers. And so as a consequence, we'll be exiting some revenue lines that are roughly 1% of our current revenue. So to get to a forecasted range of operating income improvement, we lose that revenue, and we need to take out more than that amount of expenses. Those service lines are less profitable than the total and our restructuring initiative extends to other areas of the company, other support areas unrelated to those service lines. So it's both a choice to focus on an exit from some service lines, but also a broader expense reduction initiative. The large majority of the expenses are people-related costs and that will occur through Q1 of 2027. The impact in 2026 will be moderate as the revenue comes down, and it's offset by expenses coming down and 2027 is when we'll see the lion's share of that \$25 million to \$30 million improvement range that I mentioned at an operating income level.

Shlomo Rosenbaum: Okay. And then is it -- I guess, just -- just a follow-up on there. So there is there like process improvements that are going on? I understand it sounded like there was some of that, but I just wanted to confirm that. And then just also, the capital intensity guidance is going down a little bit for the year. And it sounds like your view of the outlook of investments are the same. I think you mentioned something about timing going on, but I wanted to know if you can just give us a little level of detail of what's going on over there, like in terms of thinking about the capital intensity going forward, is everything the same and it's just timing? Or is there anything like you're focusing on that is less capital intensive in terms of driving the growth?

Jennifer Scanlon: Yes. Shlomo, let me follow up on your process improvement question, and then I'll let Ryan talk about capital intensity. I'm a huge believer in ongoing business process improvement. And we have invested in various technologies and intend to continue to do so to help our employees have better tools and techniques to improve their ability to service customers. So indeed, that type of process improvement on the backs of technology investment is helpful.

Ryan Robinson: And in regard to CapEx, we continue to be excited about the portfolio of growth

investments. In recent months, we've announced several exciting investments, including our Global Fire Science Center of Excellence here in Northbrook as well as an Advanced Automotive Electromagnetic Compatibility Laboratory in Japan. There was some investment that we had planned for 2025 that will just shift into 2026. We'll provide more overall guidance with our year-end reporting but the portfolio of growth initiatives remain strong.

Operator: We now have a question from the line of Stephanie Moore from Jefferies.

Stephanie Benjamin Moore: I wanted to touch on the pricing contribution for the third quarter. You called out some pricing contribution. So I was hoping maybe, Ryan, you could elaborate on the contribution from pricing versus maybe just volume growth in general? And how we should think about just pricing in general, just given maybe the competitive environment or anything else you'd like to call out for this year as well as you think about your normal pricing practices going forward?

Ryan Robinson: Yes. So first off, certification testing had strong growth, 8.7% and non-certification testing was up 6.8%. So strong growth from both of those. Those are the service lines that comprise 59% of our revenue that are most measurable by price and volume there, the delivery of discrete projects for our customers and the -- we can count the unit volume of the completed projects. So overall, those grew 7.7%, and there was relatively similar contribution from both price and margin -- the price and volume, both very similar. We did comment that ongoing certification services particularly benefited from pricing. So that would be in addition to the testing-related activities that I spoke.

Stephanie Benjamin Moore: Got it. And I guess on that last part, is this just -- I'm just in the normal course of pricing given where we are in the year? Or was this a more maybe active approach to take some incremental pricing?

Ryan Robinson: Yes. For the testing-related services, we're continuously pricing hundreds of thousands of projects. So it is an ongoing value-based pricing evaluation ongoing certification services are more done on an annual basis, and we benefit from that throughout the year.

Stephanie Benjamin Moore: Got it. And then just wanted to follow up on the restructuring program. A couple of questions here. As you think about the revenue impact for 2026, I think you called out the percent from discontinuing from businesses you're effectively walking away from. Do you believe that despite that headwind that you should still continue to grow in line with the algorithm that you have laid out in terms of your kind of long-term or medium-term top line growth algorithm?

Ryan Robinson: Yes. I would say the things that drive our growth are unchanged. This will be an organic headwind for one year as we compare against businesses that we previously were in we're still going to be at 99-plus percent of the same businesses. So the growth rate of those -- our overall growth rate is not materially changing, but it does allow us to focus businesses that are underperforming pick up a disproportionate amount of management time. So it allows focus to serve our customers in our core businesses.

Operator: The next question comes from the line of Andrew Steiner from JPMorgan.

Andrew Steiner: Ryan, I was really asking just to make sure that I understood the implied fourth quarter organic revenue growth right in your full year guide. I get a little bit under 4% organic revenue growth. I definitely heard you note the tough year-over-year comp and the explanation for the strength in fourth quarter of '24. I was just wondering if there's any other call outs affecting fourth quarter of '25 that didn't affect third quarter '25. And for example, are the exiting of the service lines through the restructuring affecting fourth quarter revenues?

Ryan Robinson: Thank you for the question. So after strong Q3 performance, we have a similar outlook about Q4 is when we reported last quarter, and we're very pleased that put us in a position to raise our full year guidance. Q3 and Q4 have historically had similar revenue quarters in a given year, and our guidance assumes that, that trend will continue. When you look at the varying growth rates across quarters, the biggest factor is a tough comp in Q4, reminding that we had 9.5% total organic growth in Q4 last year, which included 1.9% organic growth in Industrial. Also, when you talk about sequentially, I just mentioned in Software and Advisory. Advisory had a particularly strong revenue growth quarter that may moderate in Q4, and that would affect the overall growth rate somewhat. But overall, we're pleased with the momentum we built through the third quarter and our ability to raise guidance.

Andrew Steiner: And then -- the last part about exiting the service lines, does that affect the fourth quarter?

Ryan Robinson: I would say just the timing of that, that's more likely to be impactful in 2026 and not expected to have a material effect in Q4. The biggest single effect in Q4, as you pointed out, is comps to last year, particularly in ongoing certification services that grew substantially, we believe, ahead of tariff anticipation.

Operator: We now have a question from the line of Josh Chan from UBS.

Joshua Chan: Jenny, you mentioned data center a while back, I guess. Could you triangulate for us areas in your business that touch data centers? And maybe how big in total an exposure of that might be for you?

Jennifer Scanlon: Yes. We haven't quantified the total exposure, but let me just give you an example of the types of effect that this has on our business. Some of our largest global and strategic account customers came to us and they asked us to host a Data Center Power Summit, which we hosted at our headquarters in September. And the safety challenges around this is that there's this rapid evolution of the energy that's needed in data centers, and then there's the power infrastructure that has to support that. And that energy is needed because of the AI, just amount of compute that's going on as well as the density of GPUs and the thermal environment that, that creates. And so there's things around shifting to direct current, DC as a systems architecture. There's changes in cooling that's required. And typically, you think about air cooled or water cooled back in my former days, now you've got in-rack cooling and on-chip cooling and immersion cooling. And that's just one example of the complexities and types of innovation that our customers are pursuing in the data center environment in this rapidly changing world. So we're right there with them. We're continuing to focus on this growth area and opportunity. And I think there's just a lot of innovation to be had around the this completely different world of different types of data centers that are required.

Joshua Chan: Thank you for the color there. Yes, that's really helpful. And then on the broader expense reduction initiative, it certainly seems like this is a more concentrated way to kind of reduce cost. So I'm just wondering what's the historical source of those kind of excess costs, if you will? And is there anything changing that's enabling you to now take out those costs, whereas historically they were needed?

Ryan Robinson: Josh, thank you for the question. We'll provide more detail about the program that we're announcing that we'll undertake in Q4 with the completion of the quarter on an ongoing basis. We do anticipate the majority of the restructuring expenses and therefore, the cost reductions will be in our testing inspection certification businesses, both consumer and in industrial but we'll provide some more detail on what we're doing and how we're achieving that as we progress through the program.

Joshua Chan: Congrats on a great quarter.

Ryan Robinson: Thank you.

Operator: The next question comes from the line of Arthur Truslove from Citi.

Arthur Truslove: Starting with Bryan. First, I had 3 questions, if I may. The first question is on the sort of underlying software business. You obviously talked about how the sort of project businesses have gone pretty well in Q3. At full year, you had a view that the software business might strengthen. Are you able to just talk to that? Second question, are you able to just give us some reassurance on the growth outlook? So I guess if one was to sort of be negative, if you like, clearly, the mathematically, the Q4 guide would appear to be 3% to 5%. Your CapEx guide is down and obviously, you're doing a restructuring. So can you just provide reassurance that your expectations for the underlying growth of the business have not changed? And then I guess, finally, just in terms of the cost savings, you've obviously -- my sense is, and please correct me if I'm wrong, that you are essentially abandoning a couple of business lines and that what you're saying is that your organic growth will be lower next year because you're not doing those businesses anymore and that the organic growth in the rest of the business will be pretty much as it was this year. Is that the right way to think about what you're saying? Or have I misunderstood something?

Jennifer Scanlon: Yes. Arthur, let me start with the software. Our Software & Advisory business was up 6.4% organically, and software was up nicely. And the great thing about software being up is that there's operating leverage that you get from that, and it certainly both the throughput in Advisory and the growth in Software expanded the Software and Advisory margins by 790 basis points. And I think if

you look at our software growth rate in the third quarter, you'll see that it continues to grow at an expanding rate versus year-to-date. So we're pleased and there's more to do. We're excited that our ULTRUS releases have been welcomed by the marketplace. We had new releases around sustainability and PFAS and some purchased goods and services and some focus on what will be needed in sustainability reporting as demand around fulfilling CSR-D needs bounces back. And then we were really pleased that Verdantix an independent research and advisory firm labeled us as a leader in their inaugural green quadrant for product compliance software. So overall, I think the underlying momentum in our software business continues. I'm going to ask Ryan to provide some reassurance on the growth outlook, but I do want to highlight that those 3 pieces, the Q4 guide the CapEx timing and the restructuring are not related. They are 3 independent variables that happen to all come together on this call.

Ryan Robinson: Yes. I agree. I think that's well described. And then the impact of the expense reduction, I think that's -- you described it appropriately. We are just discontinuing some service lines and we will focus on the remainder of the business. It's roughly 1%. So it does not materially change our overall growth rates for other things.

Arthur Truslove: So basically, Ryan, what you're saying is that if you thought -- I'm making this up, but if you thought you were going to grow 6% organically next year, it would now be 5% because you're basically abandoning 1% of the business. Is that kind of right?

Ryan Robinson: That's directionally correct.

Operator: We now have a question from the line of Jason Haas from Wells Fargo.

Jun-Yi Xie: This is Jun Yi on for Jason Haas. Just wanted to jump back on the Software & Advisory segment. Advisory has been a drag on that segment for a couple of quarters and it kind of flipped this quarter, you saw a lot of good momentum there. I know you guys noted that the advisory part of that is very lumpy. But do you have any sense why you saw such a big upswing, what was fundamentally driving that?

Jennifer Scanlon: Yes. Interestingly, the upswing in this was in our renewables advisory business. And I'll remind you, that business focuses on supporting financial decisions for banks and other financial services in financing renewables projects. So there was an uptick in that, and our team has been working really hard to fulfill that demand. We do continue to see some headwinds in advisory, in particular, the commercial real estate effect on our Healthy Buildings advisory continues to be a headwind and that's an area that we expect as commercial real estate continues to evolve to continue to hopefully bounce back in the future.

Jun-Yi Xie: Got it. That's really good color. And then you guys have talked a lot on this call about your organic investments, but I'm more curious on the opportunity on the inorganic side. with the exit of some of these nonstrategic service lines, is there more appetite to conduct more M&A; related to your more core growth areas? And also, I noticed there was no M&A; done in the quarter. Is there any reason why? Has the market not been very appealing?

Jennifer Scanlon: We'd like to say that we're disciplined and we're active in M&A;, and a lot of it has to do with timing and quality of opportunities. So we will continue. If there is a conversation to be had about an acquisition in the product tick space, an opportunity out there. We like to be involved in those conversations. And timing is somewhat capricious sometimes, and we will continue to pursue appropriate opportunities for inorganic growth.

Operator: [Operator Instructions] This concludes our question-and-answer session. I would like to turn the conference back over to Jenny Scanlon for any closing remarks.

Jennifer Scanlon: Thank you, everyone, for joining us today. We appreciate your questions and your support, and we look forward to updating you on our progress next quarter.

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