



## **AAON, Inc. 2025 Investor Day | June 10, 2025**

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All right. Good morning, everyone. My name is Joe MONDELLO, director of Investor Relations. For those who don't know, thank you for all for coming. I know this takes a lot of time out of your day, so we appreciate it. Those on the webcast, we also appreciate your participation. So the last time we did one of these was 2023.

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A lot of people asked, well, when when's the next time you think you'll do one of these things? And at the time I remember saying that I think 12 months the story doesn't change a whole lot. In three years, it's probably going to be two months. And I think that's exactly where we are. Two years was the right time in my my thought process.

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And here we are a lot has changed with the story. So I think this is going to be a useful worth of your time today. Before we get started, I just want to remind you of every one of the forward looking statement and disclaimer that we have. You're all aware we're not required to update any forward looking statements said today.

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Joining me today, the team, Matt Topolsky, CEO, Rebecca Thompson, CFO and Treasurer Steven Wakefield's, our general manager of the Asian Business Unit. Matt Schaub, General Manager of our Basics Business Unit. And we also have here today who will be participating in the Q&A, Andrew Edmondson, our Vice president of Sales and Marketing. Our agenda today, it's going to be about it's actually going to be about a two and a half hour presentation, give or take.

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We'll have a 15 minute break in the middle. We'll finish with a Q&A 30 to 40 minutes or so. So hopefully we'll get all your questions answered. And I think that's about it. Before I hand it off to Matt, we want to start and kick it off with a brief video for you all that mindset and innovation, that mindset of innovation that has been there since the earliest days when Norm found of the business and it still thrives in our organization today, we think differently.

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We look further out, we look for ways to disrupt the industry and to really set the bar higher than anyone else is thinking that drive to push boundaries and to lead the industry where it's heading is something that will never change. We've continued to develop solutions, introduce new product innovation and keep well ahead of our competition. Our goal within is to redefine what the future of HCC looks like and as an organization is solving problems.

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We're not just following industry mandates. We pushed performance limits so that our technology works every time in every climate, in every market, for every customer. It's about change, it's about teachers. It's about that fidelity. We don't stop when we reach acceptable. We don't stop when the industry thinks these guys didn't have stage, you simply push and push and push until we reach exceptional and exceptional is just the beginning.

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Maybe. There we go. So good morning. My name is Matt Sapolsky, chief executive officer of Aon. For those of you that don't know me, I joined down about three and a half years ago as part of the Basics acquisition company I co-founded. And really, you know, it's been a it's been an awesome journey to be part of this organization through some tremendous growth, some tremendous transformation, and really from from the perspective of where we're going.

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You know, we've just got some fantastic technology, fantastic team, and it really an exciting future that we're we're happy to share with you all today and really happy to also answer plenty of questions afterwards on kind of where the direction of the organization is going. And I always like to start off with really kind of who we are as an organization and what we think about the VC space.

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As my kids tell me, it's a pretty boring industry, but I like to remind them that, you know, we are we're not just an HPC company, we're not a robot, a product manufacturer. We truly are a solutions provider. And that's a mindset that this entire organization embodies. We're not out there trying to pitch products and really put those into someone's application.

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We're trying to solve a problem. We're trying to take a consultative approach and we're really trying to create value inside the marketplace. And that that mindset is really founded on this just core belief and it really driving and pushing boundaries and innovating technology inside the space space. When I when I look at, you know, the the mindset of who we are and we are a disruptor, that is the the mindset of kind of how our team wakes up, how the engineering organization really looks to to kind of redefine what the industry is doing.

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And what's really fun is it's that mindset, it's that sort of entrepreneurial spirit that's embodied inside this organization. But it's really fun to sit here and say, you know, we're a billion plus dollar organization, and the entire team, the engineering talent, like they're always sitting there kind of a startup mindset of how do we redefine, how do we disrupt, how do we change the way things are doing.

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And that mindset, coupled with an amazing best in class manufacturing footprint, is really what's allowing this organization to outperform, to acquire market share and really create a differentiated position in the marketplace. And so it's a really fun organization to be a part of. It's really fun to be sitting here and really looking at this as, you know, not just being an HPC manufacturer, but truly solving problems, truly providing value to our customers.

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And so as an organization, for those that are newer to the story. So the organization is founded back in 1988. And really it was it was founded in a mindset of bridging a gap between a at the time catalog products. So kind of the no frills, no feature product set and the custom products. And it was really trying to blend or kind of provide that middle ground solution where you could provide a semi-custom solution, really provide a tremendous amount of value, but they would have a very cost competitive price point and that was that was really the original foundation of Norman's vision when he founded on it.

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That's really been sort of the value mindset, the driving solutions mindset that's really embodied in the organization today. It's amazing to think of, you know, where this organization over over the last 30, 37 years as it evolves, you know, 1988, 160,000 square feet of manufacturing space still today, 4 million square feet of manufacturing footprint across five locations. And that is backed by some of the greatest test engineers, some of the greatest product engineers that the industry has.

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And we have the most capable testing capabilities in the HPC space that really supports the mindset of our engineers that are pushing boundaries and driving solutions. As an organization, we really operate under two brands and this is sort of a a minus ship, a main mindset shift that's kind of been happening over the last couple of years, which is, you know, transitioning the way we think about this business and to truly to differentiated brands, the Orion brand, the basics brand and the organization.

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You know, fundamentally an innovation and solutions mindset is consistent across the brands, but each brand has its own kind of unique way of delivering that value proposition. So the Orion brand really in that semi-custom mindset where the basics brand is really kind of more in a custom mindset, serving the data center industry, clean rooms and kind of the industrial commercial.

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And we're in the air space primarily rooftop unit split systems in the K-12, educational health care, retail markets, but both founded on a common mindset of really delivering innovation to the space as an organization, you know, we talk about and then to ensure this a little bit today as an organization, we report in segments and those segments are really defined by geographic boundaries.

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But as we look into the future and really the conversation today, we're transitioning the mindset from those segments and really focusing the conversation around the two brand strategies that exist. And so as we continue moving through through time and moving kind of through it this year, we're continuing to put more and more systems in place to be able to really provide a better lens into this organization around that brand strategy, because that really is that the way we're executing, we're leveraging that manufacturing footprint and we're no longer looking at this business really around the mindset of geographic limits and geographic boundaries from a reporting perspective.

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As an organization, you know, \$1.2 billion in revenue last year, but really supported by an immense amount of interest and demand for our products and solutions, which is really kind of driving that billion dollar backlog that exists at the end of the first quarter, really from an operations perspective, really strong operations continuing to drive improvements in our operations and really driving investments in efficiency, which is helping really provide that mindset that the kind of growth in the margin profile.

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But something I always focus on, it's a little bit unique when you look at the CapEx and the R&D that we reinvest in the company. This really is an organization that is driving organic growth and driving investments in kind of the value proposition that we provide. And so a very healthy kind of reinvestment of our profits to really drive that organic growth, to drive that product differentiation and really fuel the innovation that exists within Avon.

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So today the really the conversation is going to be founded around re five strategic pillars that are really driving value from an investment perspective. And these are the pillars that kind of, you know, we're operating on from an organizational perspective that really drive the decision making that we do kind of going forward. And I always start with this pillar number one, which is really the mindset of winning with that superior innovation.

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Number two is really driving results in really trying to empower our leaders to really, you know, drive value delivery from our kind of custom solutions and semi-custom solutions in the marketplace. Pillars three and four really around, you know, driving growth through some secular trends, whether the data center solutions kind of off the basics brand or a lot of the the heat pump decarbonization and national account strategies inside of the Avon brand.

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And then the final pillar is really the drive to be a best in class operator and really get to do it in a very profitable and really solid manner. So we'll dive into these these five pillars kind of in more detail. But this really is the overarching theme of the conversation of really where that value within the kind of organization is going to derive from.

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So innovation. And we can sit here and and I can you're going to hear this conversation time and time again. You're going to hear from me. You're going to hear from Steve and you're going to hear it from Matt and you're going to hear, you know, almost beating a dead drum kind of on this conversation because innovation is the lifeblood of who we are as an organization.

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Innovation is something that truly sets and apart both the Iron brand and the basics brand, and is the mindset of pushing boundaries is the mindset of answering questions that the industry didn't even know to ask it. And if you look at the sort of focus that we have within our innovation, within our engineering team, you know, we have some of the most capable, talented engineers that are looking into the future.

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They're looking past regulations, they're looking past, you know, kind of chasing industry trends in the background, and they're defining those industry trends. And the amazing part and you'll hear this discussed more, especially in Steven section is is supported by the most capable technical lab in the industry. And so the ability for us to really drive new product concepts, to drive new solutions kind of into the industry and actually validate and support those is something that's allowed us to really drive market share acquisition over the last ten years.

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It's going to continue being a major driver for us because we're able to stay ahead of those regulations, to stay ahead of those trends and really redefine what the industry is chasing. But that second pillar and really this is something that we introduced at the end of last year and really kind of an organizational structure kind of going forward.

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It's really the reorganization of this business. It's really that re, you know, rethinking the way we segment the organization, rethinking the way we manage this business and really is trying to decouple the mindset of geographic locations, defining how we manage the business and really looking forward to say what is the value proposition that's delivered by both of our brands?

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What is the what is the introduction to product strategy? What is the way that we're providing value to our customers and to the industry as a whole? And then looking at that and saying that manufacturing

footprint, that's 4 million square feet of capacity, that supports the brands, that supports the brand strategy. And so the mindset is really kind of looking at that and saying we've got this great tool in manufacturing, but let's focus the way we lead the business, let's focus the way we think about the innovation around the brand, around the product, and run the value proposition that we deliver to our customers.

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And so that really was the re-organisation and kind of the two business units that you'll hear Matt and Steven both talk about. And their job is really to to define what the next generation product looks like, to look at the product management mindset, to look at the innovation mindset and the engineering, and really have a hyper focus on customer care and customer delivery to really provide a best in class customer experience, both from a technology perspective and from a delivery perspective, and then leverage that capacity, leverage that manufacturing footprint from a best in class manufacturing fleet to support both brands.

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And so we'll talk later in this presentation about what that means. It means we no longer look at, you know, Tulsa as being just an Asian piece of the organization. We don't look at Long View as just being a part of the non coil products or a kind of brand. Historically, we look at it and say, given the opportunity, given the drivers that we have as a business, how do we leverage that manufacturing footprint to really deliver value for our customers?

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And then obviously with scale comes some efficiencies in the way we manage the back office. And so really kind of providing a consolidation and providing a much more streamlined back office fueled by some technology investments to really allow us to manage this business more proactively. So when we think about the business, you know, we've got our two primary brands, Avon and Basics, but I mentioned this earlier.

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I'm going to reiterate it again here. I mean, the common overlap here in part of the reason why when Avon approached the conversation, the basics three and a half or four years ago now in the conversation, part of the reason why we made the decision to sell was that overlap. It was the fact that while we're two two different businesses with two different kind of product types and really touching different parts of the market, that mindset of innovation, that mindset of providing a premium value, premium experience like that is core and core to the culture of both organizations and that was one of the big drivers when we made the decision to actually sell basics

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to John was because of that commonality of culture and mindset and how we actually drive value in the marketplace now where the two brands are different. Number one, big, big difference obviously, is the markets that they're really focused on. And really the Avon brand is is really focused on the non-res commercial HPC market driving value with package rooftops and split systems in a semi-custom fashion,

whereas the basic brand is really, you know, it's built around a I'll say, a high value customer data centers, mission critical applications, clean rooms in delivering value through a more customized approach, a kind of a clean sheet approach to really be able to to kind of solve very challenging problems

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with products that don't exist in the industry or configurations and really right size solutions to drive tremendous value to the marketplace. Now, today, you know, this is this is looking at the previous 12 months of kind of where that revenue breakdown is. So roughly a quarter of the revenue today is coming from the basics brands. And then 75% of that three quarters of that is coming from the Asian brand.

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But as we look forward, you'll hear this kind of repeated throughout the day and conversation. Well, both brands have tremendous growth opportunities. The basics brand certainly has a huge driver in really delivering value to the data center space and delivering a lot of value and growth kind of that data center on demand. So as we look into the future that, you know, one quarter, three quarters split is really, you know, 3 to 5 years out going to look more like an even playing field between two of these brands.

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And that really is segment of the story. And the kind of way to think about this organization going forward is to equal two equal brands, kind of driving down to the marketplace. So talking about that third pillar and match up and to dive into a lot more detail around the basic brand, the basics value proposition, but that third pillar kind of in that growth strategy, value delivery strategy is around that basics brand, and it's really around capitalizing on secular trends inside the data center space.

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And we kind of step back and say to ourselves, you know, what is the value proposition, the value drivers of the basics brand? It really comes from that kind of that far last item there. It's really that's solutions based approach. It's that mindset that we are truly solving problems. And so when we go into a customer's office to discuss a project, we're not walking in with a catalog of products that we're attempting to get applied into an overall project.

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We're walking into a customer's office with a blank sheet of paper, listening to them, understanding what their drivers are, what their needs are, and then really taking that in, providing a solution that checks all the boxes, you know, that'll give an example of a of a case study of a project that basics really want and provide a tremendous value with.

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And it was exactly that mindset or basically listening driving value and answering questions that nobody else could actually provide solutions to. And that's all supported by the engineering teams. It's all solved by that that manufacturing footprint. It's also, you know, going to collaborative be solved by a tremendously talented team that can create solutions, validate those solutions, and then manufacture them at scale efficiently.

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And as we look at the past, you know, 40% growth in a market growing 10%, it's been a story about market share acquisition. It will continue to be a story about market share acquisition inside that basic brand, inside the space. And again, that'll dive into more detail on the actual products. But, you know, historically, the Basics brand has been built on airside solutions.

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It's historically been, you know, driving growth in the data center space from a cloud computing perspective. And I always like to just pause in this conversation because everybody is excited about A.I., you know, the drivers around the data center stories all driven, all focused on is least the excitement in the marketplace. But I always pause and say, cloud computing growth hasn't gone away.

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Data center operators continue to invest in build cloud computing data centers. You know, a couple about a year ago, you know, in Jassy from Amazon made a comment and less than 20% of services that can be in the cloud today are actually in the cloud. So there's a huge runway of basically investment that's happening around cloud. And we're layering on top of that the A.I. conversation.

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And so as we think about the basics brand going forward is both the airside solution serving cloud and AI, plus a layered approach with liquid cooling to support AI on top of that. So tremendous growth drivers around product strategy. But innovation and really allowing your products in, leveraging that customer mindset to really provide those solutions going forward. Now, I think we can all agree data centers are growing, but also, you know, like to to really kind of put a pin in the fact that the basics brand, the drug, the demand for the product, the demand for the innovation has provided the basics kind of realm and basics.

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Brand of the business is gaining tremendous drive in an acquisition of kind of new customers inside the data center space. And this backlog is kind of the the example of how that demand is materializing. When we look at the first quarter, you know, when you look at this continued increase in our backlog, that's also happening while capacity is coming online, it's it's happening while the revenue conversion is accelerating as well.

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And so, you know, we're sitting here with a tremendous amount of direct demand with tremendous capacity coming online, really kind of showcasing the value proposition and really how it's resonating within the data center space, allowing this to be a great growth driver for the organization going forward. So, you know, one thing I also want to touch on is when we talk about the brand strategy going forward, and this is something that's, you know, an evolution within the the basics brand.

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So we talked earlier that the Basics brand was launched with this mindset of a true customer solution, clean sheet. And then we talk about how E.ON as an organization was founded to bridge the gap between catalog products and customer solutions. And so a couple of years ago as a team, we were sitting back saying, you know, this kind of moment, wait a minute, why don't we take a take a page from the Playbook and why E.ON was founded in the first place, and why don't we expand the reach of the actual applicability of basic products and basic solutions going forward?

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And so that mindset was basically to say, let's expand our portfolio within basics beyond just the customer product and actually take that page from the playbook of E.ON in launch a semi-custom configurable solution. And the reason we do that, the reason that mindset is there is when you look at where the customer solutions really resonate, they resonate with those large hyperscale data center customers.

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They resonate with these very large developers that really understand the value proposition of that true customer solution. But there's a lot of other players inside the data center space that maybe don't have the same level of focus on driving kind of complete, unique, bespoke solutions. So we launched a software driven, configurable product the exact same way that we launched, along with the same manufacturing footprint to support it.

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We're opening ourselves, providing access to more of the industry in the data center space and providing more ability for us to provide that valuable data center space. And so we look at this product strategy and its evolution as an organization where we hold both custom solutions and Semi-Custom solutions in balance as a huge driver to really diversify our customer base and drive more growth inside the space.

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So really just to reiterate, I mean, when we look at the overall basis organization, I mean that we're sitting here as a value driven products and value driven solutions provider that's really resonating within our customer base in a dynamically growing market. We've got product portfolio evolution from air sight to liquid cooling applications, plus additional product introductions around that semi-custom strategy.

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All that are going to provide a tremendous driver of growth for the basic brand going forward and really helping support that good growth not just today, but well into the future. So touch on that fourth pillar. And again, I would have this conversation where, you know, we have a lot of talks during investor conferences and, you know, we were in in Chicago last week and I think 80% of the questions, 80% of the comments and conversations were around data centers.

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And really, you know, I think to reset the stage in the conversation, because, you know, when we think about the two brands we think about and we think about basics, you know, along the the sort of fundamentals, the drivers of growth, the story around the Aon brand is a shining star. The only problem is when we're looking at basics, we're looking at the data center demand.

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Right now you're staring at the sun. And so you people start to really forget what that story looks like around the Aon brand and it becomes a secondary conversation. But in an easy space in the non residential commercial space, the Aon brand is and will continue to be the differentiated products inside the marketplace. Huge value Semi-Custom strategy that provides tremendous value to the industry in a very cost competitive level.

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And it's really supported by some great secular trends around decarbonization, around heat pump. A lot of the innovation we have in heat pumps around a lot of the technology innovations. We have kind of across the board regulatory environments helping compress price premium, all these things are driving tremendous growth where Aegon is in the best position has ever been.

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And so we're sitting here and, you know, we're a little bit of the conversation gets lost just because of the excitement in the industry right now around the datacenter space. But the Aon brand is in the best position has ever been. And we think about those three drivers, those three secular trends. You know, first and foremost, the desire and drive to reduce carbon emissions and electrify heating sources, coupled with the innovation that Aegon has, is driving a tremendous value proposition inside the marketplace is going to be a huge growth driver from a product mix perspective.

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Beyond that regulations, whether it's efficiency standards, whether it's refrigerant continue to really drive the sort of ability for Aon to be ahead of the market and really provide opportunities for us to really capitalize on great growth drivers. Plus, it's forcing a lot of our competition closer to where Aegon has always been in terms of high efficiency standards and better performing products.

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And all of that is combining itself to basically really resonate with the economics conversation. The price premium gap is closing, it's allowing the TCO conversation, total cost of ownership conversation to

become more and more attractive, and those will all be part of that growth driver within the next three years of mid-single digit growth. Now is what a pause when we say mid single, because AON historically has a high single digit growth company and we as an we as a as a sector right now in non-res kind of HPC sector, it's a down year.

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And so when we say mid-single digit growth, we're not saying the long term proposition of high single digits is going away. We're just saying the 2025 calendar year has a lot of industry kind of headwinds that are going to push volumes down, but kind of on a go forward basis, that high single digit growth that you've seen of along with that noise from the industry out of the way is going to continue to accelerate and get back to where it's always been.

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So talking real quick on heat pumps, talking about the national account kind of combination, you know, by themselves, the heat pump innovation that Aon has is a growth driver by itself. You know, we think about the ability for us to to reduce carbon emissions and provide fantastic technology is a driver of growth and you look at what AON is doing and heat pumps, you look at the industry as a whole that you know, has baseline heat pump products that go to, you know, 37, 40 degrees Fahrenheit.

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Angel has heat pump technology that can operate all the way down to -20 degrees Fahrenheit. We have a portfolio, a three tiered product inside the heat pump space that can really provide electrified heating across the vast majority of the U.S. No other commercial HPC manufacturer has a portfolio that can achieve the level of performance across the country today on gas.

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So that by itself is a great driver of growth. Now you take that same conversation and you marry it with our national account strategy and all of a sudden you've really just provided a solution to a problem that the industry's been asking for an answer to. You look at the ability for us to go to a national account customer and have a conversation where we say we have the most capable people, but it's three tiers.

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We have a version that can be operating in a very cost effective manner in the lower states. But we also have an ultra high performance version that can provide your electrified heating in the northern states, and we can select the right product in that portfolio. And the rates here in that portfolio to answer the most economical way to kind of build those products going forward.

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And that is a huge differentiator. Nobody else has the ability to to provide that level of performance. And so we talk about, you know, what that means. We talk about our pipeline, our visibility, but we have that in. Steven, I'll talk more on this later on. But national accounts historically have not been a huge piece of the lan story.

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And we're sitting here with multiple hundreds of millions of dollars of pipeline and opportunity in national accounts. That's incremental conversation. And when we talk about where does that materialize, these are longer plays, right? These are these aren't the normal, you know, bid, blend and plan plan and spec type project where whereas a relatively quick converts conversion from a bid to an overall order, there's a little bit more of a timeline there because you're really providing solutions to really provide answers across the country.

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So it's a little bit longer sales cycle. So I am saying that is but doesn't all materialize. A few hundred million dollars in pipeline doesn't materialize in 2025, it'll start materializing in 25, but it's a 26 and beyond story when you really see these large projects, is multi-year development projects really start to be a huge driver of top line growth from a sales perspective, we've talked a lot about the refrigerant transition.

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I don't want to belabor this. You've heard me talk about this over and over again. I just want to start off by saying, obviously this is an industry first refrigerant transition in that we had building code implications and we had a regulatory requirement from EPA that caused a tremendous amount of noise in the industry. We've message that for over a year and a half that it was going to disrupt 2024.

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It did. Obviously, Q4, Q1 results really driven by by some challenges on sort of the transition timing in the industry. E.ON as a semi-custom manufacturer was more susceptible, some of that to some of that air pocket compared to manufacturers that are building catalog products to distribution. But I want to say and really reiterate, that was a temporary conversation we talked about.

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We look at Q1 backlog, we look at Q1 orders growth, we look at kind of how orders continue to materialize in it. Showcasing the value proposition of iron is exactly is it stronger than it's ever been and the overall disruption from the from the refrigerant transition is behind us. There's there's some hangover on some supply chain across the industry, some little challenges here in there, air pockets here, there.

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But by and large, this the the big impacts of that refrigerant transition are behind us. The sales book, the cadence and the competitiveness of the product has never been better. And really looking forward, you know, we're happy to to be beyond this conversation and be able to focus on the future without this transition being a driver or sort of an impaired impairment to the overall and conversation.

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And so touching on that final to touch on kind of what that means kind of in a growth driver in the ion side, you mentioned the economics perspective, the the conversation around on in price premium has always been or historically been five plus years ago around this premium product that was 15 to 20% more expensive through regulation, through a lot of requirements.

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And over the past couple of years, the efficiency standard requirements that came into the industry in 2023, plus a lot of other drivers caused that price premium gap to close now and still still sells a higher quality product and still delivers value, you know, better value proposition, better efficiency, better maintainability of our product compared to our competition. But through some of that regulatory change, a lot of cost had to go into our competitors products to be able to meet those efficiency standards.

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So that helped close that gap. Well, as we look at where we're at, where we're sitting today, that gap has continued to close a little bit. There's been a lot of noise over the last 12 to 18 months around the the price dynamics around this new refrigerant equipment. And at one point there was conversation around 15 to 20% more, more cost going into our 454 B equipment, rather the for ten A now the 15 to 20% materialized.

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Now. And as time progressed, you know, the messaging in the industry went from 15 to 20 down to 8 to 10. Is there more cost in our competitors equipment? Yes, but that gap is closed, maybe a percentage. It hasn't closed. You know, we're not sitting at price parity. We're not sitting at some neutral position with our competition. That gap closed a little bit, but every little bit, that gap close closes.

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The value proposition of the story of Alen becomes that much easier to sell to our competition. It allows us to acquire that much more market share. And why I want to bring that up is as that price premium gap closes, it's not that we're sitting here, you know, getting more market share at the expense of overall margin performance.

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We're doing it with the ability to also execute in the most efficient state, the most efficient way possible, and getting rid of the noise of Q4. Q1 from the refrigerant transition, the actual input cost dynamics plus that volume will provide not only more volume at a lower price premium, but it'll do it at increasing financial performance. We'll be seeing better margins deliver kind of in that environment.

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So it really is a unique situation where we're not giving up margin to get volume. We're able to maintain and actually accelerate some of that. And so I started off by saying this on the intro, but really just to

reiterate, I mean, as an as a brand, as an organization, the Allen brand is in the best position that's ever been.

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The fundamentals are the strongest they've ever been in the history of this organization. And with with that kind of noise around the the refrigerant transition behind us, when we look forward beyond is kind of a year that's a down year from a macro economic standpoint. When we look forward, you know, the brand is in the best position to continue capitalizing on market share acquisition and really in a position to really continue showcasing the great value that Avon provides.

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So it's actually on that final pillar. It's really around, you know, being a best in class operator, really looking at who we are as an organization. And obviously there's some year to year noise in there. This little thing called COVID happened at one point in there. But when we look at the organization kind of from from 18 to 2024, you know, we've had great growth in our gross profit margins in the past.

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And really look, in really set pricing strategy within a desire to really deliver margins between 28 and 30%. And a couple of years ago, we were very vocal that we really reframe the way we look at margins. We want to make sure that when we're pricing our equipment, we are pricing our equipment to properly reflect the value proposition that's provided to the marketplace.

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And so we thought about the way we priced our equipment, and you'll see that we actually were increasing our pricing, increasing our margins while also having some of our price premium kind of sit a little bit smaller than it used to be. But we're doing that with improving margins because of the cost that we're putting into the product.

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And really the pricing strategy coupled with the investments we made to be a best in class manufacturer. If you look at the efficiency metrics that we stare at on a daily, weekly basis, the efficiency in the organization in terms of productivity in our production lines and really throughput and efficiencies in manufacturing are at some of the best levels they've ever been.

00:34:02:13 - 00:34:23:28

And so that pricing strategy, plus those investments in the operational strategy has allowed us to continue really moving that that margin to sort of a new level within our expectations and really our expectations going forward. We're also looking at seeing from a manufacturing standpoint, how do we make sure we really support those two brands, how do we support the growth drivers of both brands?

00:34:24:00 - 00:34:43:08

And really it's leveraging and making strategic investments to to get the manufacturing footprint capable of servicing the needs of and going forward in the future. It's not, as I talked about with and it's not a basics or a long story. It's a basics and a on story. And these investments in capacity are being made to support both brands.

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They're being they're being made to say, you know, while Memphis is a conversation that a lot of people attribute to data centers, it certainly is a huge driver of the investment we made. But it also supports the growth inside the Avon brand as well. It's a tool to be able to leverage and provide to support the national account strategy that we're focusing on.

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It's really looking at this and saying we're going to make the investments ahead of where that demand is driving us so that we have the capacity to really deliver on the solutions, but do it in a very financially responsible way. So we think about that footprint and we think about what it looks like, you know, when when Joe was putting this slide together, I laughed and I said, it'll never actually look like that.

00:35:21:25 - 00:35:43:03

But this is a mindset of the way we think about that manufacturing footprint. It's saying, Hey, when we think about it today, what could that look like? So we say, Hey, based on a lens today, yeah, Memphis could be mostly data centers, but guess what? If we see the traction that we know we're going to see around national accounts strategy, we might actually move some production from Tulsa to Memphis.

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So that conversation that these sliders, you know, it becomes a conversation about how do we actually support the growth drivers on both brands. And one of the unique things about Avon and basics brands, the back of house manufacturing equipment that really drives the product and drives a lot of the value we put into our product is the same with both brands the sheet metal fabrication, the electrical panel shops, the the coating systems, the coil manufacturing, all of those systems that support manufacturing are identical between Avon and basic brands.

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And so that means that as we make the investments in really streamlining our manufacture and process and really, you know, tuning the system up to be able to transfer technology between one brand to one site to another becomes a huge 4 million square foot tool for us to use and leverage to really capitalize on that growth. And so when we think about, you know, capacity, we're adding just one little data point.

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When we look at the, you know, the last couple of years, kind of a unique thing when we look at the square footage that we've added between Longview, Texas, and our Memphis investment, roughly 1 million square feet of incremental capacity has been added inside the overall Aon organization. When we look at that from a data center perspective, that's equivalent to our top three peers combined.

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And so obviously we're making investments to get a lot of square footage in there, but we're doing it in a way where we're fiscally responsible. The building itself is relatively cheap in the grand scheme of things, and for us to be able to have that footprint, to be able to leverage the investments in back of house that we're making to support manufacturing, in leveraging the leadership talent at that site is very intentional.

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And we look at the building and buying a bigger building, being a very intentional piece of our strategy because it's easy for us to then grow into that than try to have a bunch of smaller, disparate locations across the country to us building and getting this large square footage provide just a very good platform to really grow into, to put investments into in equipment, in fabrication systems and other things, but do it in a way where we have the leadership concentration already there versus having to really look at that limited resource.

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We look at people as being our biggest bit of sort of, you know, value drivers inside the organization, the manufacturing pieces, the live facilities. They're critically important to what we do, but the people are the most important part of what we have in this organization in leveraging top tier leadership talent is one of the biggest parts of our strategy and part of why we actually made some of these bigger investments in bigger square footage facilities to really provide us the leverage off of that talent.

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So just to reiterate and really, you know, you'll hear these these drumbeats kind of hit throughout this entire conversation. But just reiterating, you know, number one, first and foremost, we are an innovative company. We are driven by innovation, driven by disrupting the industry. We look at those semi-custom and custom solutions as being huge value drivers that are really, you know, unique to the organization and unique to the story about how we deliver value to our customers.

00:38:39:27 - 00:39:00:03

These secular trends, decarbonization, data centers, those are what's going to drive that great robust growth. And we're going to do it in a very profitable manner with improving efficiencies and strategic investments to support that demand. As Joe mentioned, you know our last last Investor Day was a couple of years ago and Tulsa certainly appreciate a lot more people made the trek to New York than to Tulsa.

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I think we're probably three or four times more people here than we had in Tulsa. But at that 2023 Investor Day, you know, we talked about the conversation being a ten, ten plus percent growth story. And in that same period from 22 to 24, you know, we delivered 16% growth kind of in that time frame.

And we had set that bar where, you know, we reset the conversation where margins used to be 28 to 30%, sort of the target within on.

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And we kind of reset that conversation to say, hey, in 2022 or 23, 2023, Investor Day, you know, that 30% that used to be the ceiling is now the floor of our expectations and margin, and we delivered 33% during that 2024 calendar year. As we look forward and kind of look at that next three year target. So looking at growth coming off of that 2024 calendar year, you know, top, top line organic growth in that 12 and a half percent range.

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Now that's made up of mid-single digit growth in Aon and about 40% growth in the basics brand. But I do want to just pause once again to say that mid-single digit growth in the Aon brand and that three year period, it has one year in there with that relatively soft market. So while the current year has some some headwinds against it, when we look to next year and beyond, we're back to that high single digit growth expectation.

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And so it's a point in time that's kind of skewing that number a little bit. But when we think about margins, we're in our 20 2023 Investor Day. We had reset that floor to be that that 30% range. We're kind of moving that needle again. So you'll see we reset the expectations from from our last Investor Day two years ago in boosted our about 250 basis points more in our kind of top line growth story and kind of expectations and also 200 basis points in our overall margin profile that we're looking at kind of going forward.

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So we really do look at this, you know, being a tremendous growth conversation from an industrials perspective driven by two great brands and really some great differentiation from a manufacturing standpoint. That's going to be a great kind of overall growth story in the industrial space and the space going forward. So with that, we're going to lead in. And before Steven comes up, have a little video here on the Avon Business Unit.

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And then from that, Steven, come up, but look forward to more conversation about your products. What are you guys creating here? But we create solutions. We want a customer to all smartly get a solution to their problem. That's not an out of the box cookie cutter thing that fit a manufacturing facility. The vast majority of commercial rooftops are just distributed products where they just build a whole bunch of them down on production line and you kind of get what you get.

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We try to tailor our product to every customers. The that's really where we shine is the fact that we are semi-custom at a price point that's a lot closer to the high volume, no frills product. We just continue to

strive and develop these products to push them further and further to meet the goals of our customers and our clients.

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Our philosophy in manufacturing and really doing business starts with being flexible. So when you're vertically integrated, it gives you more tools to be flexible with or helps us a lot in terms of speed to market. Like in the case of COILS, we're definitely able to really get through on the design of the coil, especially we do heat pumps in the world of controls, you know, what can we achieve to do things unique that a lot of the industry aren't doing?

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It was always just ingrained within the engineering and product teams to always think about what's next, what more can we do? You know, when we started, most air conditioners were just made in this mass production environment where they didn't have any options and we listened. Let's come up with something that the customer might not even know that they need.

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That is a direct attack from the problems that our customers are dealing with. I started out in the early days. What really is the very most important technical thing that I'm most proud of is the group of people that we've assembled and the way that they interact with each other and their actual motivation. I started in 1996 and I've got a few colleagues who I've kind of worked with my entire time.

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You know, even the younger people that we bring in, they do things outside of Aon. And I think it really develops a team environment where we can really work together to solve whatever problems we have. Collaboration's kind of at the heart of what we do, what we really see within all of our organization is that Iran has a really unique culture where we sort of gang tackle problems and projects where everybody seems to have that eagerness to roll up their sleeves and get involved and help out with the solution.

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Our main focus is really what does the industry need today, what they need tomorrow? Where do we see things going when you're focused on that and we're able to come up with things that really change the industry versus just trying to keep up with the competition, it's not something you're really that interested in and something there was a new minimum efficiency standard that went into place in 2023 that caused most of our competitors to redesign their products.

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We didn't have to do that. So we have products now that are most of our competitors are going to have for probably several years. I mean, we've already got the RET force that is probably the best in the nation, best in the North American market. So we're going to continue to work on tools that can help them to integrate our products into their projects.

00:44:25:11 - 00:45:06:27

They're investing in a different way of doing things that has continued to be proven sound over and over and over again. What you're investing is you're investing in a phenomenon and. Good morning. I was just sitting here thinking I could have told my mom I could have been a movie star. So my name's Steven Wakefield on the gym, the Iron Business Unit, and I've been with the company since the 1990s.

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More than half of my life. And for me, I decided, take a moment, make it crystal clear to everybody in the room that art is not a job for me. It has been a part of my life. These are our people that are my family. We bled, sweat and cried together to build this company. And I just want you to all know that before I even start technical presentations, I can do that.

00:45:35:23 - 00:45:56:10

Motivate you to go to war, to build air conditioners. That's my thing. So I just wanted to start with that. I've had the pleasure of getting to work for all three CEOs now in the company's history. And I can tell you to go from kind of a Wild West in the 1990s to being able to attract a CEO like Matt Topolsky.

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That's strong evidence, really strong evidence for people that are in your shoes looking at investing in our company. Key takeaways Make this very succinct. To start with, innovation is our thing. Everything that we do, we're thinking outside of the box. We're thinking, how can we do something that breaks barriers and we're okay with learning from a mistake and pushing and pushing forward.

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We're not afraid to change how the industry does things. We're going to push we're solutions based best in class operator, and we've got this magical thing happening right now where our price premium is narrowing. The trends that are happening in the world are playing into our hands. And then on top of that, we've got a history of very capable leaders that were very much salesmen in their former lives before coming to Amazon and therefore knew how to and build the very best sales organization in our industry.

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And I witnessed them do this and it was not easy. And they demanded supreme excellence and a business partner type of mentality with our company. So we have that in spades today. So please take with you today from my part of the presentation, at least these key takeaways, a quick brand overview that our brand has about \$1,000,000,000 in revenue, 80% of that is rooftop units.

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That's our bread and butter. It's complemented with air handlers and condensing units and parts. And 88% as of right now on brand is built in the Tulsa facility and then the other 12 is in Longview. So these

are our get our gap. Bridgers These are the products that we build that are not custom and not cookie cutter. And if you look at these and you look at them through an engineers eyes like I do, you see that this is a tremendous amount of diversity for a catalog set of products.

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Any one of these products on here has dozens and dozens and hundreds and maybe even thousands of different versions and options that can allow a very capable salesperson to apply a particular version of their product to a customer's particular. What makes a brand special? Well, this is what I like talking about. We were born with a fearless, innovative DNA, and I mean that the man that started this company, he didn't know how to spell fear.

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He scared all of us because he didn't know what it meant at times. But he taught us how to absolutely push the limits. And that a lot of times customers don't even really know what they need. Back in the 1990s, it was a thing just to put piano hinges on air conditioner doors. So here we are 25, 30 years later, and we have created expectations by the things that we did even that long ago that have affected what a customer expects and an air conditioning unit.

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We have a very personal cherished culture at Aon that inspires great things to happen and we demand that. We expect that every person interacts with another person and we pay attention to how that's done. If it's not done in a way that advances our company and makes great people like the people in this front row want to be a part of our team and we're going to correct that.

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And then we have dynamic products. They're they're very flexible, very dynamic. And on top of that, they're also industry leading when it comes to performance. That's a combination that's really hard to do both. It's easy to do one or the other. It's very difficult to do both. Why we can't be replicated. This is probably my best slide. So everybody pay real close attention to this one.

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This is the one I got to sell. This is why they picked me to talk about this, because you might be thinking, how can we replicate? Why can't another company just replicate what you do? Why can't they just do that? Well, the reason why is because our entire foundation of how we think, how we draw apart, how we put a bin on a piece of sheet metal, how we moved parts through our factory was completely undone in the very, very early days of the company because we had an epiphany of a way of doing things that has still not been replicated 30 years later.

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And we built we undid and rebuilt everything because we were a small company so we could do it. We could here again, that fearless DNA we could redo, set up everything that we do based on this method.

And if you can imagine that method, like sparking a fire and becoming something that was like, Whoa, this actually works better than we thought.

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And I was building relationships with vendors that started creating special machines just for us based on our needs. And then we built everything on top of that. I see Jerry back there. Hi, Jerry. Good to see you. But so our entire way of doing things, the engineers mindset when they look at their computer, our fabricators mindset, when they touch a button on a machine, it is all built on this method that we came up with all those years ago.

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So to replicate that, they could hire half the team talking about a competitor and they could say, Go replicate Ian and what that team would come back and say is, okay, let's stop doing everything we do. Let's undo it all and start over. Nobody's going to do that. It's going to be an unbelievable undertaking because it affects so many things.

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Think overhaul of everything you do and learning as you go. All the mistakes that I learned when we were much smaller company and we could afford to do so. Here's a basic table of us versus them. When it comes to production, our competitors are going to be mass produced. They're going to be standard processors. We're going to have soft tools that are automated so we can say, we don't like that one little thing.

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We're going to adjust it a little bit. We can do it that fast, whereas a competitor, it's an arduous process that they got to go through to change any particular little thing. We can drop the whole thing and change it. I can recall a time in 2005 where we released a product and we just flat out didn't like it.

00:52:23:26 - 00:52:45:00

We did the entire thing start to finish in 60 days. And I can tell you just one engineer redid the whole thing. I know the person very well. 60 days redid the whole entire product. This is our method price. Our competitors are going to be budget friendly. Affordable price is going to be a premium price because of the higher quality.

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Now, here we are in this very fortuitous environment where that price premium is shrinking durability. A novice can go put their hands on an Asian unit versus a competitor and they can tell real quick that they know it's going to last a whole lot longer. It is built considerably different than a typical high volume competitor product customization. Competitors aren't going to do that.

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It's going to be very limited. An Asian product is very customizable right out of the catalog. And on top of that, we have an application engineering team that can help you do something special to our already semi-custom product, and we do that every day maintenance here. Again, this is one of the special sources that was part of the early days and we decided we were going to design products around being maintainable.

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Now the theme, the concept, the common opinion in the fashion industry in the 1990s is nobody is going to pay for that and the service techs can deal with it well, our team decided, no, we're going to serve the service tax and that word's going to get back to the people making decisions to buy the product. So our products are designed from the get go for ease of maintenance.

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Now we talk about innovation, we talk about innovation, we talk about innovation. For a long time, we figured out a way to do that with maybe limited tools. Well, that changed when the NRC, which is a 134,000 square foot innovation supercharger, when that was commissioned. So now we have more capacity to test than the big famous third party testers in our industry.

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We have the ability to go really fast now because it's in our DNA to go fast. We have a method of doing it and now we have a way to prove it very quickly that we're in control of this decreases risks. This laboratory is world class. There's nothing in the industry like it. It has formidable specs. It's the largest reverberant sound chamber in the entire world.

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And it's also a third party accredited by certified by third parties like Aramco and ISO. Now, on top of that, you're going to hear a lot of theme today about us equipping our world class sales channel. And, you know, in the early days of the captive company, we really depended on talented salespeople and gave them a particular niche way of selling our products.

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But in today, modern day and we are investing tremendous amounts of energy and dollars and giving that sales team tools to dominate with, not to win with, we want them to dominate with. So we have now commissioned the Gary D Fields Exploration Center. And what this is, is it's a absolutely beautiful showroom that has a on products and competitors products sitting in the showroom with no propaganda.

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There's no propaganda necessary. You can walk in there as a novice and you can tell very quickly what differentiates an and a product from a competitor. Product. I talked about the sales channel in the early days of the company when we didn't have a lot of leverage. We we struggled to have just a few good outlets for our products today under the leadership of Norm and Gary Fields.

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And now that we have a sales channel partnership, if you will, these these are the very most premium companies on the sale side of the business. Independent sales reps that look at non like business partner. I called several of the owners of our our rep channel a few months ago because of an issue we were having and I expected them to be upset with me and it was a very temporary thing.

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But instead what I got back, the feedback I got back from every one of them was, Are your business partners? We're in this with? It'll be just fine in a nutshell. So we have this extraordinarily equipped, extraordinarily capable business partner mindset, sales channel and full action. So here we are today with the most equipped, most capable sales channel we've ever had.

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We have parts and service strategy that is relatively new. We have this customer exploration center. We have mobile experience, which is \$1,000,000 semi-truck that can go anywhere and basically representing our products. We have a world class new training academy under construction right now. We have invested in director led customer experience focused leadership that is completely focused on improving our customer experience from start to finish.

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And then on top of that, and you can take it from me, the old school person in the room that we have a newfound supercharge marketing effort that is unlike anything I've ever seen in my career. All this is happening at the same time. Market opportunity. This is real simple. There's tons of more market for us to get 6% total market share right now.

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Lots, lots of room here to grow for the company. Now, let's talk about this kind of I look at this as kind of like a fortuitous situation. All of a sudden, the secular market trends that are happening are pushing the HPC industry towards what has been doing for 30 years. It's like, well, that's kind of a gift because we already know how to do it.

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We're already very experienced doing this. When it comes to decarbonization. We've all heard about I've heard this word a lot. Well, Allen is emphatically leading the HB industry when it comes to heat pump technology. There's no comparison. Nobody Can do what we can do. Energy efficiency. We've been doing that since the 1980s. We know how to create a product that will perform very efficiently, not just by a couple of numbers that are reliable, like when you buy a new pickup truck and it says this is what your gas mileage is going to be.

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We all know that that's limited and what that really means. Our engineers are both brilliant and practical. A combination that I can tell you is not normal and they know how to make a product that has a complete total excuse me, total cost of ownership focus. Now, on top of all this, the government has been regulating to push products towards the end of that.

00:59:20:13 - 00:59:50:21

Sorry. So a lot of fraud. The government has been pushing products towards doing things that we were already doing. So I've now experienced both refrigerant transitions. The last one being in 2010. We were two years ahead of that and it was totally smooth. The last one that just happened, like Matt had mentioned before, was not simple because of defective building codes.

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Good time to get something got in your throat. So this particular time you've got a mildly flammable refrigerant, which of course got everybody worked up. And building codes are different in every state and so on, is ready to go right out of the gate early 2024. You can order products from us that are 454 be this new refrigerant.

01:00:12:08 - 01:00:30:27

But the industry was spooked a little bit, the customers spooked. And what happened is, is that it was late adopted, which of course is like throwing a monkey wrench in our our system. You know, they drive us out and then they overwhelm us. Well, you can't turn the Titanic in a minute. This is what Matt emphatically said.

01:00:31:00 - 01:00:59:13

This is going to be temporary. It's temporary. And we're great at dealing with things like this, but it's still painful in the meantime. So we've been doing this long time, folks. Competitors are now having to learn how to do it. And what's resulting is, is a narrowing price premium and more of a spotlight on what we do. Great, because they're a long way away from being able to give a presentation like this.

01:00:59:16 - 01:01:25:21

And then on top of all that, the cherry on top is while our competitors, we're working on catching up to what the government is now regulating, and now they're probably trying to catch up when it comes to decarbonization movement. But we decided, well, let's get more efficient while they're doing that. So under Gary Fields, we compiled a team of people that completely attacked our operational efficiency.

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I mean, attacked it. And you can see the proof is in the pudding and tremendous improvements in our gross margin in a short period of time. I mean, this slide, what more can I say? I've been with the company so long, I can tell you that it's always thought outside of the box and had innovation at the forefront.

01:01:45:04 - 01:02:04:22

And I can tell you as a former design engineer that would sit at a computer and look at a design, my mindset was, it's okay if I get this wrong, if I'm thinking in such a way that I'm going to break barriers and do something different that nobody else has done before, Our culture motivated me to do that.

01:02:04:22 - 01:02:29:26

It did not motivate me to be scared about making a mistake. It motivated me to do something that would change the industry. And from our first day, 1988, having configurable Semi-Custom products to 2025 released in the most advanced heat pump in the industry that no one else can do. We have a history of innovation and we've proved it.

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The alpha class heat pumps, you're going to you've probably heard a lot about this In 2023, we broke barriers, released air source heat pumps that can operate to zero degrees Fahrenheit 2025. We, I think, shocked everybody. When Matt released this at our national sales meeting, we opted again, said not only do we have a line of heat pumps that can operate at zero degrees, but now we can operate at -20 degrees Fahrenheit.

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This is an extraordinary thing that we believe is going to gain US market share a great way that that could happen. Matt already alluded to this is that the very early days of the company, we had a few national accounts and and we were smaller, but that has not been the focus of our company since probably 2000 or so.

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So here we are today with secular trends pushing large customers towards products we exclusively have. And what's happening is, is that we're getting this huge pipeline of potential national account customers that is is quite extraordinary. And how it's looking right now. Let's talk about current day and going forward. This refrigerant change has just been extraordinarily challenging. I believe in my heart.

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Allen is the best in the industry in dealing with outside world chaos and change. And I can tell you that the industry and the market both were not really prepared to deal with mildly flammable refrigerant. But let me emphasize that we weathered this storm. We did it with gusto on the inside and did not panic in any way, shape or form.

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But it certainly affected us in the short term. But it's temporary. It is absolutely a temporary thing. This will not last. There's proof of that. You can see that our backlog has already started to recover from the challenges of the spook of the refrigerant change. So here to finish, I want to reiterate what we started with innovation is how we think.

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It's not a word that's on a wall inside the the walls and the buildings. This is a a way of thinking that everybody has ingrained in them as an employee, we are here to provide solutions to our customers, and we intend to be a best in class operator. And we prove that. And we also prove that we don't accept where we're at.

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We want more. We want to continue to improve. This narrowing price premium situation is absolutely real, and it's kind of remarkable. And then because of our innovation, because of our narrowing price premium, because we can do things that others can't do, here we are sitting on a pipeline of opportunity with national accounts. That's unprecedented in the history of our company.

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All right. Now I get to tell you that you get to take a 15 minute break and then we will reconvene

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all right? We're going to get going and everyone can take their seats.

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Prior to Matt Schaub, our general manager of basics, coming up and presenting the basics be you. We're going to start with a video of basics leading and basics. As a solutions provider, we work with clients every day to optimize their thermal management solutions, the equipment that they're putting into their facilities. All of our solutions have varying degrees of custom engineering that are involved.

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Some of them can rely on some of our existing products and designs, and others are really starting at a blank slate. We have a highly skilled team here that that's pretty much ready to tackle anything the customer throws at us. So we really pride ourselves on starting from the ground out, developing something brand new and taking over a solution that nobody's ever done before at the scale the market is growing.

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Being able to produce equipment at volume is really critical to meet these tight deadlines in the rapidly growing market. As we look at the market, it's exponential growth. As we all know, the data center boom is happening and it's a it's a great opportunity for basics. And on the growth really spans facilities, people, tools and processes. Bringing on methods of transferring product from one facility other takes us never having the space to, you know, support.

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The growing demand is it is certainly critical to make sure that we can deliver a premier customer experience and to be able to support the growth here into the long term basics from its roots has been an industry disruptor. A customer solution is able to optimize those customers specific requirements. We come up with custom solutions, innovative solutions to challenges that our customers are facing today that they didn't face last year.

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And that's really where we pride ourselves in why we become that supplier of choice, a front to back coverage of that customer, ensuring that all their needs are met all the way through, and then from developing that solution. That is just what is needed to, to ensuring that the quality of the product ensure we are responsive, ensuring that we're we're delivering on time and that we have the necessary support for any needs issues should they come up in the field as we build out our roadmaps and work on prioritization of different things for the basics.

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So you we're also very conscious and understanding that we've got to build this out appropriately. Our ability to to rapidly produce a custom solution and do a full, full testing on it as well, that has really proven ourselves and proven our abilities. And not only do we have the market to chase the exponential growth, I think we have the talent where we're investing in the capital basics does it right, We do it different.

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And at the end of the day, customers look to us because all of the other choices in the industry. In short, think my own. All right. Good to be with you this morning. Matt Schaub and I have the privilege of leading our Basics business unit. I'm new to basics. Having just started in this role in January, I'm not new in industry.

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I spent the first 25 years of my career in product management strategy, M&A and business unit leadership. At another prominent OEM in the space. And I saw an opportunity with a really to be at the forefront of innovation in the market and and also to join a company. And as Steven alluded, I perceived this was a top notch culture.

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It has not disappointed succeeded expectations in every way. And so I just couldn't be more thrilled to lead basics into this next season of growth. What I hope to convey here in the next few minutes is just a bit about who basics is what makes us special. And then really, you know, how that distinct value proposition translates into economic for the company and our shareholders.

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You'll see a few things. First, as you've heard, time and again, we're a fully custom solutions provider, so we're tailoring our offerings to the exact requirements of our customers. We thrive on tackling

challenges that that others steer clear of. We're hyper focused on our customers. And so we really believe that we deliver a premier customer experience in industry.

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Is that combination of solutions selling capabilities and our focus on the client. That's allowed us to aggressively capture market share in industry and in particular in the fast and growing data center market, which will be a focus in the conversation here this morning. We'll be sustaining that robust growth in the mid to long term. And one of the reasons we can do that is because of the additional manufacturing capacity that we're bringing online really across our entire fleet of factories.

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But we'll zero in with emphasis on the recent investment made in Memphis, Tennessee. The history starts in 2014 with the founding of Basics by Matthew Belsky and Dave Benson. It was founded as a fully custom solutions provider in the HPC space. And while most of our business here in the last few years has been concentrated in data centers, our experience really traverses the full gamut of applications from commercial and industrial applications to clean room systems to other mission critical environments.

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We finished 2024 with 225 million and top line sales. You'll see the vast majority of that executed out of our Redmond, Oregon facility and our backlog as of Q1 here was north of \$600 million. So that's up 123% versus the same period last year. So that's certainly a real thrill for us. I'm going to talk about our strategic plan and we'll really talk in kind of in three lenses.

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We'll talk about our our platform, which is distinct in industry. It's also very complementary to and we'll talk about our capacity and manufacturing will come up a lot in this conversation, not just the Memphis facility, the new space we're bringing on, but also productivity and operational improvements in our existing plants that allow us to maximize throughput and meet the demand from our customers.

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And then finally, we'll just touch on our offerings. Of course, we lead with customized solutions, but we also have a growing number of configurable products that are helping us to win and capture more share. So what makes us special, and I recognize the basic business unit may not be as familiar to this audience as is the Asian segment.

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So let me just touch off on a few fundamentals. So we'll just think of this as our basics 1 to 1 course. And and so it all starts with customized solutions, which literally when we engage with a client, we start with a blank sheet of paper and a customer problem statement. That's how the conversation begins. From there, we iterate around potential concepts to address that need.

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You know, we're solving for potential solutions in equipment and applications to try to address the concerns. And there could be any number of variables that the customers about. Generally we're providing a fully customized solution that solves for the lowest total cost of ownership for that particular client. We employ the highest quality manufacturing. And of course, one of the cool things for basics is that since the acquisition by air and we've got all the benefit of Aon's advanced manufacturing automation paired with the legacy of basic custom craftsmanship in this space.

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And so it's a really, really neat marriage. And then finally we'll talk a lot about customer experience. You've heard it from Matt, you heard it re-emphasized by Steven. But Basics is equally committed to delivering the premier customer experience, the industry that spans pre-sale and post-sale. So we're equally committed to that aftermarket experience walking with the client through the lifecycle of that project.

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You don't get to be an industry leader in solution selling if you don't have a lead engineering capability. And so Basics has some of the most creative, innovative and experienced engineers driving both our solutions development with clients as well as our product development initiatives as well. And in addition to the people our customers love that we've got a dedicated R&D space that facilitates concept ideation as well as prototyping and validation of those designs with customer witness testing.

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But really what sets us apart is the fast paced and entrepreneurial culture and that that hails from our founders. It's embodied by every single employee in the team. Everyone understands our mission. We want to move quickly. We want to respond aggressively to the toughest challenges in the industry. And it really sets us apart. I mentioned already we we go to market primarily through customized solutions.

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And, you know, very frankly, our customers seek us out because they discover that an off the shelf product just misses the mark in some way. It either falls short in the area of performance, perhaps it's efficiency in the in the data center space. Power utilization is is a key conversation. Right? And so if an off the shelf product fails to satisfy the power requirements in a facility, it can blow up the job.

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And and so we step in and we solve that problem with a customized offering generally for that client. We're solving for the lowest total cost of ownership. But we can optimize and customize around any and all of the variables that are of importance to the client and generally for the facility, we're providing a product that looks superior and is built to last for many years to come.

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The hallmark of basic manufacturing starts with superior fan technology as well as exceptional quality. And in our cabinet design, I would put our products up against any manufacturer with regard to overall workmanship, quality, fit and finish and durability. And so that's certainly our pedigree. We also, with the acquisition by John, have obtained a higher degree of vertical integration content, and so that includes our thin two coils that we produced down in Longview, Texas, as well as controls that are produced in Kansas City.

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So an increasing number of basic designs are having the opportunity to incorporate some of that content. As as you'll you'll hear Rebecca talk about controlling our supply chain is a really important aspect of our go to market strategy. Think it gives us resilience in the market, allows us to serve our customers with consistency. I talked about the automated manufacturing.

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No one does automation like. And with regard to sheet metal and a number of our our basic designs have benefited from the capabilities that have come on board with the acquisition by John. From a customer perspective, again, we're hyper focused on customers and we have a unique sales and delivery model that really creates stickiness not just with our reps but with the end clients as well, and then the relatively small data center market.

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And that might sound like an oxymoron. The number folks that are actually shaping the market and driving the industry forward. It's a small cast of characters. We know very many of them, and many of those have migrated from company to company. They're advocating for basics. The word is spreading. And so demand for basic equipment, our capabilities and our solutions is content continuing to expand and garner repeat business for our team.

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And that's a real exciting thing for us. We go to market through the an independent National sales network, and so in addition to sales support, these reps are also supporting our customers with installation and service, which again in the data center industry essential for winning in that segment. And the last thing I'll just mention is another aspect that sets us apart is our dedicated project management.

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So From day one, when we engage with a client, we assign a project manager to walk beside them and to really narrate and manage every aspect of that engagement with the client. So from purchase order through project build shipment installation, start up commissioning that entire experience, we've got project that are walking in and here with the customer to really curate and deliver a fantastic experience.

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And I regularly get accolades from, from clients with regard to the capabilities of our project managers. Here's a case study that that many of you will have heard about. This really showcases how our innovation and solutions selling allowed us to win with a prominent Hyperscalers in the datacenter space. And it goes back to 2023 when we were first engaged to respond to an RFP for a custom liquid cooling solution for new data center design.

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And in the ensuing three or four months, we engaged with the customer and technical discussion and a lot of problem solving, a lot of roll up the sleeves, you know, meetings where we were trying to address first to understand their needs, then to address those problems with a potential equipment solution. This happened to be a liquid air application and the result was Basis was selected as the exclusive partner for this project, and it precipitated us winning \$175 million.

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That was a record order for us. And as a note, that project is now being built in in our Longview, Texas facility. So so that's where we're producing that. And of course, that a thrill for the whole team. But but actually the cool part of the story is what happened when we began to perform, right? Because at that point it was all just design work.

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But as we began to perform, that's where we began to follow through on the customer experience, deliver on our commitments. And it was that performance that actually allowed us to win some pull through work. And several of those are of significant size. So the add on work has been growing our backlog and allowing us to to continue to serve that customer.

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Let's turn our attention to the market. And specifically we're focusing on the data center market where north of 80% of our sales are concentrate added. So no surprise, the data center industry is large, it's growing at every single turn. It continues to surprise us with regard to its pace of change and just opportunities that are presented. And really, it doesn't matter what metrics you pay attention to.

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In this case, we're utilizing U.S. Census Bureau data. And so if you look in 2020 for the put in place, construction has the North American data center market around \$35 billion in total size. Now, our internal estimates would put about 20% of that or roughly 5 to 7 billion for total cooling and infrastructure. Right. Total cooling equipment and infrastructure.

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Now that includes scope that goes beyond what basics provides, but we estimate about 40% of that figure is thermal management equipment. That's specifically addressable by basics. And so if you just follow that math, we would estimate that we have roughly 7% of two and a half to \$3 Billion

addressable market. And much of that share we've picked up in the last 12 to 14 months, basics is uniquely positioned to capitalize on a really important trend that's taking place in the industry today.

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And it's a shift away from air cooling applications to more efficient liquid cooling applications. Matt touched on this earlier. When I say a shift away from that's based on pure mix, but the actual total number of air cooling installations is still growing and that's just based on the sheer demand in industry, based on the data center installations. But today, if you look at the mix of thermal management equipment, it's about 85% air cooling.

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It's the technology that's been utilized for years to condition cloud compute data centers. Even even for a power hungry air data center, they still need air cooling. You're not going to have a facility that's a 100% liquid cooling application. They still need air cooling for their racks and other ancillary electronic equipment. And so the case for continued investment in air cooling remains strong.

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Now, some of these data centers have matured in recent years. Some of these products have become a bit more commoditized. And so one of the responses that Day6 is leading with is beginning to standardize some of these products for the masses to allow us to attract and win some of this business at more sensitive price points. Another major trend for the market is just the overall growth in the installed base, and that's both in terms of the number of projects as well as their size.

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If you look at the total installed capacity from 2023 to 2024, we saw a doubling from 2 to 4 gigawatts of installed capacity. The experts are projecting another doubling here in the next few years where annualized put in place construction is going to be in the range of 8 to 12 gigawatts of installed capacity, which is a staggering figure.

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But, you know, the macro construction pipelines, you know, supports the trend. Even if you're discounted by 50%, which we're inclined to do. You know, when we think about our our our projections and scenario planning, it's still huge opportunity for basics. And of course, as the market continues to roll forward and grow, so does the basics backlog. I believe we saw this this picture earlier.

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We finished Q1 with with north of \$600 million in backlog. And the other really important statistic just to bear in mind is that in addition to this backlog, we've got well over, \$1,000,000,000 in qualified high potential opportunities in our funnel. Those are projects that we're actively cultivating with clients. Many of them Hyperscalers has a good number of colocation customers as well.

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And so that's the funnel is as robust and it's hot as it's ever been. Of course, the demand in industry exceeds what Basix can provide. I suspect it exceeds what all of us can provide put together, and it puts us in a position where we can be selective we can and must be selective in the jobs that we want to take.

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We want to work with the customers that we want to work with. We want to take the jobs that are ultimately going to deliver value for the company and our shareholders. We want to grow responsibly. It's not just about growth for growth sake. We want to deliver top line growth, but we're also paying attention to margins and, improving our bottom line results as well.

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We're in a great position to continue to aggressively grow market share. And of course, that's made possible by our comprehensive lineup of thermal management products and solutions. And so from our air handling units to our heat rejection chillers to our most recent product, our cooling distribution unit, or CDU, that's one of our latest liquid cooling solutions that we've taken to market really across the board.

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We're in a position to serve our data center clients with with just about any product or solution they might need inside this space. And when we add it all up, you know, we see the addressable market opportunity for Basix to be on the order of 1 to 1.5 billion for installed gigawatt of future capacity. Now as I mentioned, air cooling has been the prominent application.

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It's been the main driver for basic success here over the last three years and air cooling continues to be really, really important. The industry going forward, it's an important part of our business. And again, you know, even those liquid cooling applications that are serving air Dennis enters are not going to be sufficient to cool that data center. In total, you're still going to need air cooling to support that that data center.

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The big opportunity for Basix, though, is in serving customers with liquid cooling. And this is driven by these air DNA centers that have ten x the capacity of your typical cloud compute data center and basically have stamped out a leadership position as evidenced that case study very early on in aligning with an early adopter. One of these hyperscalers we've proven our capabilities and now we're having the opportunity to deliver on that.

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Why the shift, though? Well, you know, liquid cooling is by nature far more efficient than air cooling. Add at conditioning these chips that are generating tons of heat. And it really could look one of two

ways. It could be a liquid air application, as was the example in the case study, or it could be a liquid to liquid application as supported by the CDU here that you see on the screen.

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Now, there was a lot of talk last quarter after Deep Sea, which is a Chinese company, They broke their news as to their cost air training models. And of course, there were a lot of questions swirling. I don't doubt that that, you know, many of you were paying attention and asking some of those same questions. And in the in a matter of days and next couple of weeks after that announcement, we saw, you know, a lot of value in the marketplace just evaporate as there was concern around where was the industry going and how might this news impact us.

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And we asked some of the same questions, would these U.S. hyperscalers pull back on their capital, spend what going to happen to the basics backlog? And of course, since that time, you know, we've become convinced this is a great thing for the industry. We think it's a good thing. We believe low cost air attracts more players into this space that are going to continue to innovate and disrupt and drive the market forward.

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It reduces the barriers to entry. And so from from our perspective, we welcome this. We see it driving more data center construction as well as increased demand for basic equipment and solutions. There's another trend that's taking place right now, which is the shift from air training models to, air reasoning models. So these are the models that are actually drawing inferences.

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They're they're actually getting at the heart of application and use cases for consumers and businesses. We've barely begun to scratch the surface here with regard to what that total demand profile is going to look like here in the coming years, because we can barely imagine what the what the application and use cases will become. And so, again, we see the number of data centers that will be supporting application and inference dwarfing the number of data centers that were put in place to support air training.

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Basics has the lineup of thermal management equipment to be able to support those customers and continue to capture market share as that as that growth moves forward? And of course, with the rise of AI and this continued growth, we've been investing aggressively in manufacturing capacity and make sure that we can perform and at scale. And so I just want to talk about our manufacturing strategy.

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If we look at our mix of production, looking at 2020, for the vast majority of what we produced was built in our Redmond, Oregon facility. That was the original, you know, basic founding location. We had

Longview, Texas supporting in 2020. Longview is taking on a larger portion of our mix from an overall production perspective. And Memphis is coming online.

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Memphis, as you'll see along that top shaded color, I can't tell you what that color is, but that that top row Memphis becomes the dominant producer. We expect of basic branded product here in the next few years. Overall, we are doubling our basics production capacity, so we're doubling it here in the next few years and Memphis becomes that really important player in the mix.

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The other thing that I think, Matt, you may have touched on this, we're also retooling our processes and our staff to make sure that we have the flexibility to leverage the fleet and build basic branded products and NEA on factory. Why is that important? It gives us flexibility. It gives us optionality with how we serve customers, whether it's on a regional basis or to simply adjust as we have demand and we think that really gives us a competitive advantage advantage if we drill down on these three sites.

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Redmond is full. Make no mistake about it we are at capacity. And so our strategy and Redmond, which is roughly 240,000 square feet of available production capacity, our strategy there is maintain top line, continue to enhance margins, focus on throughput productivity and drive improvements in our bottom line position. So that's essentially the play in Redmond right now in Longview, Texas.

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We've just come off a major expansion there. And so we put 250,000 square feet in place dedicated to basics production, capable of supporting about 500 million in annualized revenue. We're only utilizing about 70% of that capacity right now. And so, of course, in the next two or three years, our plan is to continue to push, expand that, sell that capacity, optimize those lines for for performance.

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Memphis, of course, is the new story. We acquired this facility back in December of 2024, and we're already in the in the process of trying to build that out, 490,000 square feet of dedicated manufacturing space to data centers today. And so we fully expect this is going to have the potential to outperform the other to put together based on how we're setting it up.

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And we've just barely begun to utilize the space. We'll be ramping that here over the next 3 to 5 years. Now, how does this manufacturing strategy support, you know, economic benefit for the company? You know, it's no secret we've been investing a lot in, manufacturing expansion. We're now beginning to reallocate demand to these new facilities that have space available to support our strategy.

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But there's a cost associated with moving products around. There's a cost associated with starting up new production lines. And our margins and Blade have reflected this this pressure throughout 2025 Longview again growing, and it's in its manufacturing capacity, taking on more of the mix from a basics production perspective. They'll be they'll be optimizing margin performance. Redman Again, continuing to improve coming off of a challenging 2024, as we had a lot of CapEx investment there.

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We saw a marked improvement in throughput from Q4 of last year to Q1 2025 and Redmond. And so our manufacturing buildout and our progress in each of these facilities is tracking to our expectations. But the key here to pay attention to will be 2026, where volumes are hitting their stride. We're achieving productivity in Memphis. That's when we believe we'll be getting back to our 30 plus percent margin targets.

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I've touched on Memphis now a couple of times. I can't hide my enthusiasm for this facility and just the overall program of standing this up. It's obviously central to our our basic growth strategy, and it's just going to be a fantastic asset for and I'm convinced it's going to be one of our flagship facilities. You know, not only is it centrally located in the U.S., it's in a vibrant labor market.

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We're just thrilled with the talent we've been able to place there. We've got several directors that we've placed that are top notch in their field that have a long track record for performance. So we're really excited about the team we're building. The facility itself has great bones, is going to facilitate our manufacturing and of course we have a blank canvas to work with in optimizing it for data production.

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And so that's thrilling as well. It's an a pro state business. We've got a fantastic chamber there that's been very supportive. We've got new manufacturing and technology partners that are in to the market because they're excited about all that's happening in the Memphis area. So we're thrilled about our choice to be in Memphis. We're to achieve meaningful production by the end of this year.

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That's our goal. But we actually began producing in February, which was far sooner than we imagined, and that was really just in response to the extreme demand we had in our Redmond facility. And so we had to shift, move some product down to Memphis to be able to capitalize on the space that we and of course, it actually serves as a great runway and ramp up for training of the staff that we're hiring there.

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Also want you to note, of course, the facility is 787,000 square feet. I mentioned that roughly 500 is committed to basics. That means we've got approximately 300,000 that's reserved for flex able future use, and that could be additional data center business, It could be additional solutions and products

under the basic business or as Matt mentioned, it could be that we utilize that space for national accounts and other Asian opportunities.

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And so we're looking at this with kind of a an arms open approach to say, you know, where are we? Where are we going to steer this business going forward? We've got optionality. And of course, we're really pleased that we we purchased a facility that gives us some flexibility for, future growth. Now to understand our growth trajectory, I do want to step back and just to look a bit at the clients that we serve.

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So the data center market broadly segments in the three classes of customer, we've talked about the HYPERSCALERS already, you know these guys by name. These are the Googles and the Microsofts. They they dominate the headlines of their massive investments, right. As well as the massive power that's required to run their facilities. And of course, they love us because we solve problems for them that no one else does.

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We approach those problems with a solutions mindset. We're delivering delivering custom solutions to address the specific challenges that they have. The co-location customers are the ones that are essentially leasing their spaces to to others, other data center users. What's important to them is versatility and flexibility in the infrastructure, and so they look to basics to support them with the unique challenges that come around that flexibility.

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Finally, you have enterprise customers, which essentially are small hyperscalers their data centers are owned and operated by a single facility, their own use. I mentioned Hyperscalers and I want to focus on them here because today a disproportionate amount of our business is actually concentrated around a few large hyperscalers And again, they love us for what capabilities we can bring to bear in solving their problems.

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We love them because they bring us a lot of volume. And so make no mistake, it's been a real win win relationship for us. And in addition, partnering with the HYPERSCALERS has actually put Basix at the very tip of the spear where we're partnered with early adopters, where we get to learn and iterate through technology, which we can then leverage with some of our other customer conversations.

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So it's been a fantastic partnership. But as we look forward, we are intentionally expanding and diversifying our customer base to bring on new and oftentimes smaller customers such as those in the color space or even enterprise enterprise clients. That's made possible because we've got additional

manufacturing footprint to work with. We'll also talk about some of the configurable products that are actually going to serve some of those clients at more attractive price points.

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And of course, the one big advantage, a theme that's ringing through all of our presentations is the strength of our on national sales network, and that's the channel that's going to avail us of some of those new relationship ups. I've talked a lot about data centers. I do want to remind you that the Basics foundation, our hallmark is really in customer solutions of all kinds, regardless of industry and and our experience traverses multiple end markets.

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Yes, 83%, I believe 83% of our business is in data centers in 2024. We still have an important segment of our business that's focused on clean room. We did 13% of our sales in clean room systems in 2024. And so here we're serving pharmaceutical and medical. We're we're serving the semiconductor and chip fab markets. And of course, that business has been by the shiny object of the growing data center business.

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But we remain committed to staying diversified and continuing to diversify both the of offerings as well as the end markets that we're serving. And one of the opportunities is in commercial, where we've only got about 4% of our business today. We've got engineering teams that are actively working at solving for new configurable products that would allow us to increase our exposure and serve that market in a stronger way.

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And while Basix is all about custom solutions, that's not going to change. We do see product ization as a path toward achieving greater scale and achieving that diversification that I talked about. And so there's really two ways that this is taking shape inside the company. One, we are beginning to cost, reduce and standardize some of the data center offerings.

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Right? Again, we're a customer solutions provider, but we've seen the opportunity to standardize some of those offerings, which we think puts us in a position to serve a more price discriminate customer, such as perhaps some of the small guys. And you'll see examples on the page here of our air side, our vein cooling wall as as well as the liquid cooling solution.

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Our CDU. The second opportunity, though, is with the semi-custom configurable air handler that Matt alluded to earlier. And so here's a case where pursuing this project puts in it puts us in a position to grow our our presence in the commercial space, which would put us in a position to penetrate more health care, higher education, say government end markets, which would be analogous to some of the end markets that we're serving on the air inside.

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And here again, we're taking a page from the Ion Playbook. We're leveraging Parametric 3D automated manufacturing to deliver a feature rich and very configurable mass customized product. We put that in the hands of the most capable sales channel in the world, and now all of a sudden some really special things can happen that allows us to achieve scale without necessarily needing to task all of our custom solutions engineering, which is a very high touch support model.

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So I trust I've been able to convey a bit about what makes basic special who we are and really how that distinct value proposition is helping us win in the market and aggressively capture share. Just to summarize, again, we're a fully customer solutions provider and we deliver the Premier customer experience in the industry. And it's it's really that one two punch, the combination of those two things that's allowing us to aggressively grow our market share specifically in the data space.

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We're in a great position to sustain that winning track record and to continue to grow, continue to gain share. And a big piece of that is the manufacturing that we're executing right now, which includes significant improvement in all of our facilities with the expansion and doubling of our footprint that supports basics. All of that's going to contribute toward us sustaining that 40% plus kegger here into the next few years.

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At this point, we're going to queue up another video before I invite Thompson, our CFO and Treasurer, to the stage. Welcome to our overhead cranes extending out over the railroad tracks, proceeding south, looking to be so short lived, sitting on 30.4 acres prior to the commencement of work. Since the leveraged buyout in 1988, Aon Inc. has invested millions of dollars to upgrade its manufacturing capabilities.

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We'll take you inside the cavernous 180,000 square foot plant in Tulsa, Oklahoma, where Aon designs and assembles its rooftop heating and air conditioning units. But it was the Wild West, to say the least. Our founder was an extremely manager, created a mindset that we're going to invest everything we've got into this special product idea that worked in spades.

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The history of Orion is just simply innovation. We always stay ahead of everyone else on the development curve as they continue to grow. Norm wanted to be vertically integrated, so we acquired Coils plus the Longview, Texas, and then they've been our coil manufacturer ever since. When you look at Eog's history, we like to own our supply chain for all the unit production.

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So in 2003 we wanted to improve the efficiency of the cabinets. We decided, hey, this would make a great differentiation for a want to be able to have these two inch double all foam panels, the best cabinet in the industry, and just continue to innovation that we've always been on. And then 2015, they brought your fields onto the board of directors.

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And then in 2016 he was named president of. And you can see from our results as we continue to grow and grow that from leader to leader, we did not slow down. But then you look when we bought what Master Controls in 2018, that was really game changing for the organization to be able build our own controls. Well, at this point in time we have the fundamentals pretty well in place, but we're going to have to be the state of the art in efficiencies, whether it's the machinery we use or the manner in which we do these things.

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Efficiency will be the name of our efforts for the next couple of years. The more things we can test and try and have in our tool belt, something that maybe is not advantageous today may become advantageous tomorrow. Prior to having the internet, I see we spend a lot of time doing just stuff on computer and not a lot of test capability to really prove off that everything work.

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Now with Internet and see here, we're able to really push the spectrum testing different products and different concepts. They do kind of build the tool belt as we're able to do that. From the engineering perspective, if you go and you look at our history and our numbers, after Gary got here, he expanded the overall concept of what Aon was.

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And by doing that, it brought extreme attention to our company. When we acquired basics that really opened doors to diversifying our products. So basics had already established relationships with data center customers. It allows us to leverage scale. It allows us to broaden our portfolio, have a larger customer base, but yet still leverage some of the key engineering components that we have that they are.

01:45:13:06 - 01:45:31:25

It was exciting to be a part of Avon whenever we cost \$5 billion. That growth has caused us to expand our team just to take on the added workload of the increased units that we're putting out the door. That starts happening. We realized quickly that that's still not enough. So we do a nationwide search. Where else can we expand to?

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Boy becomes crystal clear quick that Memphis, Tennessee is the place to go. So now we're also Longview, Redmond and Memphis, Tennessee. And here we are, the Tulsa company that is known around the world for its leading edge technology, is also the company that makes roof top equipment to

keep the climate inside malls and superstores just right along exploring new ideas, meeting the challenges and mastering technology for the new millennium.

01:46:08:23 - 01:46:31:11

A team of people that built something so great can meet a march of all speed and immediately know that he's the right leader. What he brings to the table is business acumen and sophistication. He doesn't have to come in to lay on and come up with a way of doing things, build a culture. But he simply is tasked with is how can we empower all of these great things that we have on a higher scale?

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The company will still continue to grow at a very healthy pace, and since such a good position that we can still take market share in a down market because our price premium has really lowered and we just have a better product compared to our competition we want to be the best value to our customers. And so as we see the market change and should always maintain that there will always be a push on the engineering side, keep the R&D side moving and innovating and creating new products with the products that we're working on as well as the market, we're able to capture not only do we have the market to chase the exponential growth, I

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think we have the talent we're investing in the capital as well as the secret plan is to capitalize on that. The growth and advocacy for A&E within the next 5 to 10 years is representative of what we've already done. I think since we've already proven that we've done it once, why can't we do it again? I think the future is almost scary.

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Bright. You know, I've been through a lot of changes and a lot of things in my career because I was part of a really a startup company. And it's early days. There's not a lot of selfish ambition at all and there's a lot of collaboration and teamwork, and you quit that and you empower that. What can happen? All right.

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Good morning. This is working. Okay. All right So I'm Rebecca Thompson. I'm Aon's Chief Financial Officer and Treasurer. I've been with the company since 2012. I came in as our Chief Accounting officer, then transitioned into my role as CFO in 2021, and I do want to take a moment just to note not just how far we've come as a company, but also how far our financial organization has come.

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So one of the most notable things that this group will have seen is the hiring of Joe MONDELLO. And really just to increase shareholder engagement we've had in past several years, Joe has really taken our investor relations to that next level. So we're doing these events like today, Investor Day, we're doing investor perceptions studies, and we're participating in conferences throughout the year.

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Another thing that we've never done is closing on the basics acquisition. This was the largest acquisition in the company's history and it really gave us a chance to create a playbook for future M&A opportunities. And if you've listened to any of our earnings calls in the past several years, you will have heard Gary talk about starting up an RFP in 18.

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Now, while this primarily serves us internally, it has also improve the quality of our earnings calls and the clarity of the information we're able to put out to the public. The last thing I want to touch on is our Treasury. When I became Treasurer in 2017, Alan had a \$30 million line of credit that we never used and we were just building this war of cash.

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Well, we fast forward to today. We just closed on a new \$500 million syndicated loan agreement. You know, that's really setting us up for our future growth that we've been talking about this whole day. So that's all to say that we're not just growing and investing in our products, but we're growing and investing throughout the whole organization.

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And, you know, with our new organization structure moving into the two business units and the creation of shared services, we're going to be able to drive those best practices throughout the whole company, which will create value for us as organizations that also for our shareholders. So our key takeaways for today, as we already discussed, the airline and Basics brand will drive us to a new three year kegger of 12 and a half percent.

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We have a new margin target of 32 to 35% by the end of 2027. You'll see the leveraging of SGA down to 13% of sales. And while our capital allocation strategy will remain consistent, you will see lower CapEx dollars after 2025 upon completion of our expansion projects. When you look at this slide, you can see that we consistently deliver results when we completed the sale or the purchase of the basics company in 2021 from 21 to 2024.

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Our revenues increased 125%. And during this time frame we have been able to maintain healthy gross margins in some of the most challenging times of the company. When you look at 2020, we won during COVID, we were an essential business and we were able to deliver products with a superior indoor air quality during the pandemic when all of our competition was shut down.

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Now, we did struggle with inflation and supply chain disruption in 22 and 23 or 21 and 22. But as you can see, we rebounded nicely in 2023 with record gross margins. All of this to say that we provide a

healthy return on our shareholders, shareholders investments. So we want to reaffirm our outlook that we gave at our first quarter earnings call for 2025.

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Sales will grow in the mid to high teens. GROSS margin is expected to be consistent with 2024. As you know, you'll see leverage slightly 25 to 50 basis points and CapEx is still expected to be elevated with an estimated 220 million. I do want to take a quick moment to provide an update on Q2. We've talked a lot about these investments and technology.

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And one of those investments is a new ERP. Now, our strategy for going live with our ERP is to go live side by side. So on April 1st, we went live with our Longview, Texas location. Now, we were intentional in picking Longview Texas because it represents a good cross-section of the company in that it produces the Avon brand, the basics brand and coils.

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Now, while the solution is technically sound, it has caused some disruptions and slow production at that facility. As a result, we do anticipate our Q2 will be softer than what we guided to. So when we're affirming our three year targets, Steven talked about, our opportunities in the rooftop market are boundless. The brand is well positioned to take market share with our alpha class heat pumps that can lead the industry in energy efficiency and decarbonization as well.

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Their position for national accounts. These opportunities will grow the Orion brand in the mid single digits. The opportunities in the basics brand in the data center market will grow the basics brand approximately 40%. Together, these will result in our new kegger target of 12 and a half percent plus. Now, when you look at our new margin target and the puts and takes to get there, we've been doing expansion projects for the past couple of years at all our locations.

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As these projects become complete. It will be less disruptive to our production facilities and you'll see increased growth, increased revenues to leverage those fixed cost and drive margin expansion. Additionally, we'll continue to right size our headcounts and with our new WE organization structural to have a global shared manufacturing service, we can drive best practices and efficiencies across all locations.

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Now, while we can't control everything and we anticipate there could be some headwinds like inflation and supply chain disruptions and volatility in government rules and regulations. We have policies place to quickly identify and address these so that we can preserve our target margins. Lastly, as I just talked about, we are wrapping up some of our large technology projects that have weighted heavily on SGA in 24 and 25.

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As these projects are completed, we can expect to see the leveraging of a down to 13% of sales by the end of 2027. So a couple of things I like to point out about this slide. The first thing is that all these numbers are organic growth. The second thing that we have a history of setting ourselves up for future growth.

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So when you look at 2021, we are focused on creating solutions to deal with hyper inflation and pressure on our gross margin while also negotiating and completing the acquisition of basics and making strategic changes in leadership. All of these things set us up for double digit growth in 22 and 23. Now, again, when you look at 2024, we've had an intentional focus on reorganizing the company, completing the integration of basics and expanding our facilities to accommodate future growth.

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You can see here in the past five years we've been able to take market share. A lot of this is what I refer earlier with the beginning of COVID and being able to operate and deliver product while the rest of our competition was shut down. And then as Steve Address talked about, our price premium in recent years has narrowed accelerating those share gains.

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And then as Matt touched on the basic strong Kiger is a result of its solution based approach leading to deeper customer relationships and better outcomes over the past five years. The rooftop business has increased. Our AON share of the rooftop business has increased from 5% to 7%. We are well positioned to continue to take market share given the high efficiency standards and increasing focus on superior air quality.

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Additionally, our shrinking price premium makes our product more competitive and more mainstream. When you look at the basics brand, a lot of that growth comes from the acquisition with Aon. So prior to the acquisition basics had relationships with many customers, including hyperscalers, but because of their size, they could only get orders in the 5 to \$10 million range after the acquisition with the air name behind the basics brand.

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They became a much less risky option for those customers and as a result are now able to get opportunities in the 30 to \$200 million range as we discussed. The rooftop market is expected to be slightly down to flattish in the coming years, and this is primarily driven by current macroeconomic factors such as higher interest rate and slower construction starts.

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But we still believe that we can take market share during this down market. The Aon brand will gain this share through its national accounts and our alpha class product that is well positioned to take advantage of the growing interest in highly efficient units with zero carbon emissions. We also look to our premium price, our product to the market.

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So we've talked about this historical price premium of 20%. And as in the past several years, our competition has put in much larger price increases for inflation, for compliance with the DOE standards and 2023 for the new refrigerant change and 2025 and all the their price increases were much larger than ours with a smaller price of premium. We're being able to accelerate our share gains and maintain our new target gross profit.

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And then, as Matt has already discussed for the basics, brand cloud computing will continue to drive data centers on the air cooling side, while ADT centers will drive even more growth for liquid cooling solutions.

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We ended the first quarter with a record backlog of over \$1,000,000,000, and this is split pretty much about 400 with the Aon brand and 600 million with the basic brand. Now that represents a 45% and 123% year over year increase for the agent base expand respectively. When you look at the AON backlog, we traditionally like to see a quarter's worth of sales.

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Now, at the end of the first quarter that was slightly extended due to supply chain disruptions with the refrigerant change, but we anticipate that brand will be able to ramp up in the back half of the year, bringing down our lead times and bringing down that backlog to a more normalized level. Now, the basic backlog is slightly different from the backlog and that customers are looking to secure future production given the datacenter demand.

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That business can also be lumpy in nature. We anticipate as that business grows and as that backlog grows, we'll be able to smooth some of that business out and also have the flexibility to schedule production across our entire fleet of locations.

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So when you look at our margin expansion opportunities, all of our expansion projects in Redmond, Longview and Memphis will provide increased sales that will leverage our fixed costs and provide margin expansion. The reorganization of the company to drive manufacturing best practices across all locations will create improve productivity and efficiencies. You'll also see a shift in our product mix to more basics, product and national accounts, and those high volume orders will drive higher revenues and better overhead absorption.

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All things all of these things together will lead to our new margin targets of 32 to 35%. So let's talk about our capital allocation strategies. We always like to reinvest back into the company with CapEx. We like to increase our shareholder value through dividends and stock repurchases. And while we've traditionally not been an acquisitive company, we are always on the lookout for an opportunity that has a strategic fit and purpose.

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Our top priority has been and still is, investing dollars back into the company through CapEx. When you at the timeline that we have here of our continuous investment in the company, it starts in 2020 with the build out of a new building for Longview, Texas, that added 220,000 square feet. When you fast forward to 2024, we doubled that building, adding another 250,000 square feet.

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Also, in 2024, you had additions in Redmond for a new weld shop and additional office space. And then at the end, 2024, with this large \$200 million data center order, it created the need for additional capacity. And that's when we sought out our plant, Memphis, Tennessee, which closed in December of 24 for \$64 million. Now, in 25, we're wrapping up our expansion projects, Redmond and in Longview, and really looking to get that Memphis plant up and going.

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Going forward, we expect that these will normalize and we'll have a lower level of spending and CapEx. So over the years, we've clearly demonstrated that our investments and growth have certainly paid off. When you look at our our OIC, you know, it has increased every year until we took a dip in 21 with the acquisition of basics. But you can see it recover in 22 and 23 as we get the return on that acquisition until, again, we make a significant investment in 2024 for the plant in Memphis.

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We evaluate all our capital projects and look for an internal rate of return of 20%. We have a long term strategy for capital and we're not looking for short term. We continually evaluate the capital needs of the business and look to balance our uses of cash. So we do not like to provide a specified dividend payout ratio. Instead, we rather look to provide consistent regular increases in our dividend.

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We also look to do share repurchases when we have excess funds on hand and when we believe our stock to be undervalued, providing good return on your investment. Under our current authorization for share buybacks, we have \$70 million remaining.

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We do plan to take a different approach to M&A. We are formalizing our M&A strategy to help us assess market, identify potential targets and develop those relationships that could lead to opportunities in the future. We don't want growth just for growth sake. We want to be intentional with our acquisitions and find opportunities that will complement our current product portfolio and help us do what we do best.

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Lastly, we love vertical integration. So I know like like one of the things Gary always says is, you know, we don't assemble units, we manufacture them. So any opportunity that we have to purchase or improve our vertical integration will always be a consideration. So one of the ways Allen has also always won is through our strong balance sheet, being conservative and, low levered has put us well in times of financial stress and allow us to take on opportunities when our competitors could not.

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Now we have taken on borrowings in recent years, but you can still see that is very conservative and we're lowly levered at less than one times, if at all. As we grow, we will have additional capital needs and we will have this increased CapEx that we discussed that will cause temporary borrowings to increase but still be very conservative.

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We prioritize the paying down of debt above dividend increases and share repurchases. We also continue to evaluate our business leads for current for future liquidity and the future growth of the company. So in summary, our new three year cargo target is 12 and a half percent plus we set a new margin of 32 to 35%. We'll proactively manage the business to see leveraging of a down to 13% of sales by the end of 2027.

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And you'll see a more normalized CapEx spend starting in 2026 as we completed our expansion and investment projects. With that, I'll now turn it over to Mr. Topolsky to wrap things up and looking at all the ways to reiterate driving investments from the number one piece and again, just hammering home it is that innovation is that drive on product differentiation that is core to who we are.

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That is core to why we grow is core to why we differentiate ourselves in a market that materializes itself in that premium product offering and really a value driven sale in the organization. When we look about the growth opportunities in front of us again and really looking at this from a brand perspective, you know, what is making up that 12 and a half percent kind of growth target for that plus percent growth target, when we think about that and bifurcate that, that mid-single digit growth?

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You know, one thing I want to touch on that doesn't really build into it the assumption that our tier of surcharge goes forward. And again, I say that just because there's a lot of uncertainty from a political policy standpoint. So our 6% surcharge is essentially assumed at some point to come back off.

It's not assumed to be kind of in perpetuity given volatility we've seen and sort of also some of the stabilization in some of the pricing dynamics.

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So that's that's not baked in to that from the sort of mid-single digit growth mindset in the Aon brand. That mid-single digit growth is really looking at it from a standpoint of of a relatively stable flat year within in 2025 and then going getting back to that high single digit growth rate from a market share acquisition standpoint. To put it in perspective and just thinking about the on conversation for a minute, you know, this is a challenging market from an overall general commercial non-res perspective as a data point, commercial rooftop sales volumes as an industry, we're down 24% in the first quarter with and picking up share against that.

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And so the share dynamic that occurred that the disruption that occurred in 2024 on the refrigerant transition is behind us. And when we look at where AON stands in a 2025 conversation, it's in a position where we have an attractive price point, a differentiated product and will outperform and get back to a market share acquisition story kind of in that 2025 calendar year.

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And then beyond that, getting back to that normalized high single digit growth rate perspective. And When you look at that and you kind of look for certainty in that, I really do think the bookings cadence and the backlog that you see at the end of Q1 and the bookings cadence that we see going into Q2 continues to reaffirm that positioning and that kind of growth and stability within the airline side of the business.

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As we look to the the basic side of the business, you know, really driving 40 plus percent growth rate inside that fully organic growth rate over the next three years, that's driven by that product differentiation and the strategic investments that we're making inside the overall capacity inside of the space. And so that 40% growth rate inside of the data center segment is well beyond the growth rate, the data center segment.

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So once again, reaffirming the conversation that that differentiated product value proposition that product provides is really fueling that 40% growth over the next few years. Let me think about then how does that materialize itself into to that sort of margin profile? You know, really, again, 32 to 35%, well above the historic kind of mindset of John, well above what we said from a 23 target.

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But keep in mind, as we grow, there's pressures on margin on that basic segment. So as that basic segment continues to grow, there's just some pressures along the sort of, I'll say, margin pressures ahead of the capacity coming online as you ramp production. And so what you'll see throughout that

three year period is continued improvement inside the basic segment margin, but really a very strong and stable and performance in that mid thirties range with that basic segment kind of growing and impacting the business as well as growing and kind of as margin performance.

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But as when you look at this from a holistic standpoint, where this sort of conversation around margin is coming from, it's it's a very strong and stable AON margin is a growing and strengthening margin within the basic segment on a dynamically growing business kind of over that three year period. But really, when we look at that, you know, from an industrials perspective, from a peer group perspective, you know, really looking at this from a strong growth perspective, strong growth story inside the HTC Space, driven by the two best brands in the marketplace within the Iron and Basics brand.

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And really, you know, from a standpoint of this three year story and beyond, getting back into that great strong growth, that great financial performance, operational excellence and really outperforming the marketplace going forward. So with that, we're going to spend a couple of minutes and just get some chair set up here for Q&A. So just give us a couple of minutes to get the room set up and then we will get the group up here to answer your questions.

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So really, all of it is me the most. Well, we might right before we get started here, I just want to mention specifically to the webcast purchased. Spence, There is opportunity for you to ask a question and I'll be managing that. So if anybody on the webcast has a question, certainly put that through and we'll try to get that in and we'll just get things going.

02:12:33:22 - 02:13:03:07

Whoever wants to start, let's start over here with Tim and we can go with Ryan next. Hey, Tim Wise with Baird, thanks for all the information today. Just maybe two questions on the data center growth. I mean, if you take 40% plus out a couple of years, it gets you to like 600, \$650 million business. I mean, that's effectively your backlog as of Q1.

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So maybe just talk about what you see, you know, in that kind of our year because I guess mathematically it does imply some slowing in the data center growth in 26 and 27. And I just want to kind of confirm if you're trying to say that or not. Yeah. I guess the way to think about it is the the 25 calendar year obviously has a large uptick that you're going to see kind of the materialization, that backlog kind of a data center space.

02:13:31:07 - 02:13:56:22

I mean, it's representing, you know, about 18 months kind of in a backlog perspective. And so you're going to see a huge impact in 2025 with the sort of materialization of the of the long view capacity coming online. You certainly won't see that again. I mean, if you get down to like the math, I mean,

roughly looking at that, that one order, it more or less tells you that you're doubling year over year from 24 to 25.

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Part of the reason why that can happen with bringing capacity online and seeing that come that quick is because Long View was a facility that had a lot of infrastructure in place. So just to kind of use that as baseline when you think about Memphis yeah you drop in 787,000 square feet but it's not a plan that's been operating.

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It doesn't have a lot of that system in place. So its ramp to revenue is different than that. And so to your point yet implies that, hey, we're going to see a big uptick in 25. It's going to slow, but it's still going to be in, you know, 20 plus percent kind of growth rates going forward off of that new base.

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And when you look into the sort of that carrying out, you know, it still kind gets back to the same conversation of in that, you know, 3 to 4 year period, getting the data center sort of segment, the basic segment around \$1,000,000,000 in revenue. It still does kind of drive same conversation. We're not changing that outlook. It's just sort of the way this capacity is going to come online to support that.

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It's not a it's not going to be quite as well. You know, flip the switch that you see it along the capacity coming online. Okay. And then I guess just on on national accounts with within the Asian business, you know, hundreds of millions of dollars of pipeline is is pretty significant. It's a lot bigger than I would have thought.

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What does pipeline mean to you in terms of like what it is definitionally? And how would you kind of judge success in converting that pipeline to revenue? It is this high level look I'll touch on Pipeline first. Wants to even kind of dive into some of this as well. And Andrew as well, Pipeline to us is basically defined as value of active conversations.

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And so as people in which you're engaged in the conversation with now, we certainly don't expect to see all that materialize. You know, we look at that and say there's a certain amount, but that's sort of like scale of conversations that you're having. And so, you know, in a traditional commercial HCC market, non-national accounts, you know, a 30% success rate is considered a relatively good success rate in converting an order pipeline to order.

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We think national accounts obviously have a bigger impact there, but that's sort of at least how we frame the pipeline conversation. And and I guess that manager I guess you can you can dive in first on success and what success looks like. Yeah, sure. So I mean that's the current what we have visibility to like Matt described in terms of customers that we're speaking with at our reps are recording and communicating our value proposition to.

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Certainly the win rates in that area are much higher than the typical plan on spec. We're not one bidder of four or five. Rather, we're having a detailed conversation around total cost of ownership, carbon goals, to what degree they want to achieve carbon reduction and balance their total cost of ownership. So those are very rich. Deep conversations were already in close alignment with helping them make that value proposition decision.

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So therefore the win rates are much higher at the same. Coming out of our national sales meeting, which was referred to earlier today, we had a lot of conversation with our reps about the opportunity to grow in the national accounts and out of that has gained a lot of momentum with additional national accounts being pursued. So while that's the current visibility we have and have listed accounts and opportunity size, that's continuing to grow as well.

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I'll touch on the kind of operational side of that question and that is whatever percentage comes in and the way that's turned, the way I look at this very much from an operational perspective is when you have a national account, you have considerably less diversity. And so happens is, is that the management of that allows us to offset our very diverse product line that we have.

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And you can take a a plant like Memphis or an area and the plant in Tulsa and you can do something very consistent. It will allow you to buffer, take, manage and set quickly to execute that product, if that makes sense. Okay, guys, you may have to turn on my network. Okay. Hey, remarkably, Blair, thanks for all the details.

02:18:14:03 - 02:18:33:22

Really helpful. I want to start on gross margins, which I think is probably the main issue today. So you talk about the assumptions that you're making at the low end for the 32% and then also the 35%. And Matt, you mentioned basics is going to have some pressures as the factories are ramping. I think that might be what the street has missed here.

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So specifically, what are you assuming for basics in the outlook for gross margins? You know, it's a great question. I think the you know, I always start off by saying and as Stephen talked about in his

presentation, the inside of this business, you know, it finished last year at 35%. It's got a great strength kind of inside that that operational strategy.

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It said pressures on volumes. But give it to that noise for a second. And that organization the the process, the pricing strategy, all that is going to drive that that mid-thirties margin inside the Asian segment. And so today over the last 12 months, you know, that represents 75% of the revenue base which represented 25. But over that same kind of window, the basics segment is more in the, you know, high twenties, low thirties level.

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And so as we think about, you know, that is reflective of some of the manufacturing investments and frankly, manufacturing efficiencies that that existed basics. And so when we rewind and say let's let's think about a growth cycle, the growth cycle is going to put pressures because if I say going to turn a manufacturing light on to do that means I have brought in personnel well ahead of that line producing revenue that is going to put pressures on the margin.

02:19:47:02 - 02:20:13:22

I'm going to have investments in DNA that is going to show up in hit hit the books before it's at 100% utilization. And so those things create pressures on the margin that you're seeing inside of the basic segment. And so as you think about that, that three year period where business is ramping at 40% relative to a mid to high single digit conversation over year kind of in the Asian world, that is going to put pressures on to consolidate in margin.

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When we think about it like this in a future state perspective, you know, how did Ian get to 35% margin? He got there by having stability. Ian You know, in Tulsa, we weren't putting on 200, 300, 700,000 square feet of capacity. They got to 35% margin to Stevens Point by having the time available to drive efficiency programs inside there to really make those materialize.

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And when you look at the basic side, yeah, we're learning from all that. We're taking a lot of that that logic around the the efficiency programs that we're building into these investments and these new facilities. But during the ramp, there's just fundamental pressures that exist from a financial statement perspective that really burden a little bit of that basic side.

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And as it grows, it becomes more relevant. That's where that I'll say the lower end of 32 kind of gets to now as we look forward, there's no reason basic is can't get to a a margin profile that is that is looking similar to and there's no reason that all the things we've learned inside the Aon organization over the last 37 years can't materialize in margin improvement.

02:21:16:20 - 02:21:43:22

But you just have to get past that dynamic growth cycle to be able to truly sit there and capitalize on that. Okay, great answer. Thank you. My second question you mentioned to Q is a little softer. Could you be a little more specific and did those orders just push them into the second half? No. So, so to to dive into what I think most people in this room, if not everyone in this room, knows, we've made investments in in technology, one of those being an ERP implementation.

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And so we were very calculated on how we launched our new ERP. They were very calculated to go one site at a time. And so we went live in Long View with a very intentional method because Longview is actually the most complicated site, because Longview has both a non business unit and basic business unit product plus plus the vertical integration with auto manufacturing.

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So we went live the first day of Q two in Longview with the new ERP system in Longview. Only that did you know fundamentally the solution is correct, but I think we can all acknowledge anytime you roll out a large systematic change in technology, there is a learning curve and that learning curve is going to slow productivity. And so it put a little bit of pressure kind inside the Longview segment.

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But I will say in the counter to that, it reaffirmed the strategy that we took which said, let's only go live at one site. Let's minimize the blast radius, minimize the impact of that kind of go live strategy, which it certainly did, but it did impact some of the productivity in Q2 and put some pressures on that Longview kind of throughput primarily in the non branded products.

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And so there's a little bit of pressure that's in there. And so that's just why we're saying there's a little bit of I'll say a little bit of headwind kind of inside the Q two conversation. And frankly, you know, we want to make sure we get that out here today and just have that conversation. It's not a drastic like massive, massive impact.

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It's just has a has a fundamental impact inside the Longview kind of operation. Okay. But you reiterated the year over year can be on a percentage basis. Yeah, it's just pushed and we're being very, very strategic, very intentional in how we roll out any other or any other sites to ensure that the lessons learned, the process, everything is kind of built to minimize impact going forward.

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So yeah, we look at this from a yearly perspective and say, yes, some of that softness that we're seeing, some of the delays, if you will, and the reduction of productivity in Longview is just going to extend kind

of the overall delivery schedule on the product. But fundamentally on the overall year, we don't have a change in kind of rolling or over here.

02:23:42:13 - 02:23:47:17

Brant.

02:23:47:20 - 02:24:07:25

Great. Thanks. Brant Thielman with Davidson. Just wanted to come back to basics appreciated the slide where you ultimately want to hit a broader swath of customers into the future. My question was over the next three years and within that 40% sort of growth rate you described, how much of that is still on the few kind of key large hires that you have.

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And if you get number hyper number four, number five, is it incremental to that growth rate that you want? Yeah. So I would say at least 30 to 40% of that is still going to be focused on hyperscalers. You know, we're intentional about trying to expand our customer base. And going back to Stephen's comment about national accounts, these hyperscalers allow us to deliver a consistent product, build time.

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And time and time again, we're intentionally expanding customers because we think it risks our business. But the variation in design, the changeover from model to model to serve these expanded customers does look different when you're operating inside a factory. But we see the benefit of continuing to serve those hyperscalers That's where a lot of the demand remains. But whereas today we're 50 to 60% of our business concentrated with Hyperscalers, we would see that pulling back to perhaps 30 to 40%.

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In Second question, Matt, for you just, you know, really sort of officially taking this over. Did talk about possibility of acquisitions. How does that look like under you relative to the prior two CEOs? How mature is the pipeline? Any flavor for the size of businesses you might be looking at? Yeah. So it really I want to start off on the conversation around M&A to to reset one thing, which is you're not going to see a major acquisition in the next 12 months, probably not even 24.

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I mean, just that we're going to build out the the I'll say the the process and some of the tools inside to to really more proactively be looking at opportunities and. The reason I say that is if you look at that organic growth opportunity, you look at kind of what we have going on as an organization, it would be frankly irresponsible to make a big acquisition right now.

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It would dilute the ability for us to execute on the organic strategy. It would dilute the ability for our leadership team to be able to really manage the growth and drive best practice in this new operating model. So the next 18 months, it is 100% focused on executing and really refining our operating engine that exists inside this organization and then building the toolset to be strategic and be able to start proactively looking at opportunities.

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Now the one comment recommended is something falls in our lap around especially a vertical integration conversation. That is something that we would always be looking at because we do truly look at the vertical integration play being something that does differentiate our. And so whether it's coils, whether it's controls, whether it's fans, these are things that drive kind of a unique differentiator inside of our products, in our manufacturing strategy.

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So we're always eyes open to those type of opportunities. They're just smaller in scale relative to kind of a bolt on. But but really when we think going forward, you know, and then sort of the midterm kind of conversation, that's when we're going to be proactive and looking at what what is in the marketplace from an M&A perspective and in the lens we look at M&A around kind of in that sort of the growth driver, you know, again, in kind of conversation is really around the similar mindset and culture.

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I think, you know, you think about getting gates that you had to go through and the sort of product style the product strategy has got to align with kind of how we go to market the the sort of ability to leverage our very strong independent sales channel. Like those two things, those are the initial gates. And then it comes down to, you know, what do we look at?

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We don't look at growth for growth sake. We don't look at trying to buy market share. That's not sort of the mindset we're looking at. What can we add that's got a similar flair in product strategy. So is there a tendency, tangential products that we don't have in our portfolio that we can leverage Our sales channel is a market that we're not heavily engaged in that can be a great growth driver, diversifying kind of the overall exposure inside the marketplace.

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Those are the big conversations and the way we think about M&A from an organic kind of growth perspective. But again, that's going to be a, you know, a couple of years out until you should expect to see that kind of materialize. Thank. Yeah. Thanks. Thanks. Julia Romero, Sidoti and Company, thanks so much for all the color today. My first question is on CapEx.

02:28:09:20 - 02:28:34:20

It sounds like Memphis won't come close to capacity anytime soon. And you talked about that on dedicated space. I guess that implies CapEx steps down in 2027. Are going to be machines, equipment

marketing and other CapEx initiatives that would drive CapEx as a percentage of sales to kind of remain at a double digit percentage run rate. Yeah. I'll touch on the Memphis for a second and kind of follow on that.

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But when we think about to your comment, like we can't flip switch and bring a 787,000 square feet, we could do it. We could do it very irresponsibly and you would see a heck of a lot more margin conversation around that. And so when we about how that looks over the next couple of years, you know, we'll will be aggressive 100%.

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We're going to be aggressive to bring on Memphis. We already are, as Matt alluded to. And actually assembling product there back in February. But you think about the the machinery and what truly makes a manufacturing facility, a manufacturing facility that takes time to come in. And so we're progressively putting in more machinery throughout this year. But some of the lead times, I mean, we we talk about, you know, strategy on increasing our vertical capacity, increasing our manufacturing capacity.

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That's a longer play. That's not a six month to get all that equipment. That's an 18 month conversation. So you're going to see we're in that 25 and 26 calendar year. You're going to see elevated CapEx kind of around the build out of Memphis. A lot of that is able to still support that additional 280 some odd thousand square feet.

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Again, you know, we have commonality in manufacturing process which lets us leverage that. So there might be some incremental kind of a creative investments that happen in 27 and beyond. But from an overall scale perspective, when we think about the existing fleet, there's definitely a basically a reduction in overall CapEx kind of in 2017. Yeah. Well, I would just say, you know, we talk about growth versus maintenance CapEx, right?

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So 24 and 25. Most of our CapEx has been for growth. And going forward, we're looking more at a maintenance mode until say like we have we need additional capacity in the other building. So your view really looking for that to come down as a percentage of sales starting in 2016? Great. Thanks so much. And my second question is around clean room products.

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So those products are more complex, larger, longer product duration. Just talk a bit about how do you price those clean room products? Talk a little bit about the margin differential between clean room and data center. And then whatever makes sense to expand clean room manufacturing beyond Redmond, you know, would that make sense in a place like Memphis? Yeah, I'll touch on it.

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And then that you can definitely dive in. You know, one of the things we think about pricing strategy perspective, you know, again, some of the discipline that we talk about that we're adding in, you know, we talk about we're fast, we're agile, but we're backing that up with some some kind of process improvements and sophistication in the organization and some of is around pricing is around product management is around understanding the value proposition.

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And so when we look at clean room environments as an example, it is a a market with fewer players with higher kind of value. That's that's kind of driven into it and pricing reflects higher margin. So so we do historically price clean room products to reflect that sort of unique nature of the product. When we think about growth strategy going forward, I think he made a great comment that they're bigger products or bigger projects, and that is a fundamental constraint.

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You know, we think about that 13% of revenue in the basic business unit that you saw in 24. That's reflective of that comment that they are bigger and fundamentally they're slower moving products to build. And so as we balance market dynamics, we just fundamentally didn't have the space to to really support that. And we thought if you looked at it and said in blinders on for a second, hey, the margin that we would sort of bid in the project on a clean room may look higher it would actually end up netting If we tried to reprioritize some of the revenue, Basically it would have netted lower margins as a as an overall segment because we

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wouldn't be able to push the volume through. It just move slower. And so when we think about blending that, there's an opportunity for sure to leverage the right space that's built for purpose around clean room products. And Memphis is a conversation that we've certainly had. I mean, we and I wouldn't even just say Memphis. I'd say we rewind all the way back and say we've got 4 million square feet across multiple sites.

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Where is the right spot? And that's part of the evaluation. But we do see clean room, you know, continuing to be a meaningful conversation inside of our business. And then we're going to tell you, you know, we made investments in Redmond actually on a separate satellite building to support some of the clean room environmental controls in kind of its own space, you know, really driving value proposition.

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But going forward, yeah, we're going to keep looking at that and a business perspective saying where is the right spot to build this stuff and really make sure that we do kind of maintain diversification of the overall brand strategy. Yeah, I think the only thing I would add, and this is something that Andrew and I have to solve for here, but you know, as we continue to build relationships with the Avon Rep channel

and understand where they have gaps and opportunity for selling clean room solutions, we that's part of how we want to try to win with with our reps as well as is understanding how basics can bring more capabilities to bear to help

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them grow their firms. And so it's balancing manufacturing. Of course, we didn't touch on engineering, but we've got, you know, limited engineering bandwidth. And you see our priorities where we're at, where we're allocating focus today, which includes also prioritizing new stuff like customer handlers and capability so clean rooms important to us. We want to keep diversified. We've committed to a dedicated manufacturing space, which I think is the right play for now.

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And then we're going to have to assess the demand from our rep side and how we can best complement and build that into our growth plans. Great. Thanks so much.

02:34:03:24 - 02:34:37:00

We do have a question on the webcast. Does the target of mid-single digit percentage organic within and segment include any potential market share gains within national accounts? Yeah, I would say it includes market share gain fundamentally. So built into that is market share gain. But again, I just, you know, rewind and we look at the current year, the soft macroeconomic environment, you know, volumes down 24% in in a quarter is pretty substantial in the commercial HPC rooftop market.

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I mean, that is that is a big downturn that is going to be a little bit of an anchor on kind of the year's growth rate we're guiding to to a flat. It's going to overall performance, which is telling you we're seeing market share acquisition in this year. And that backdrop as we think going forward. Yeah, definitely. The national account is a piece of that.

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The national accounts, you know, a couple hundred million dollars in pipeline. Again We don't assume we get all of that, but we certainly see there being potential to get a couple of good wins in there that will will provide some some opportunity. And certainly if we get some bigger wins in there, there's upside to the conversation for sure.

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And just a quick follow up related to national accounts, would this be an incremental revenue stream or cannibalistic your existing business at all? it is 100% incremental. I mean, we when you look at what Avon is doing today, we don't have we have some national accounts. But I mean, if you look at the scale of national accounts, they're very small.

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You know, they're they're, you know, QuikTrip type type locations like, you know, fast, fast serve locations, things that. And so some of these large wholesale locations, some of these large distribution warehouse owners, these these large retail owners, that is incremental. These are customers that we don't play with today. And so it is an add kind of incremental perspective.

02:35:56:05 - 02:36:19:17

Hi, excuse me. Adam Cecil with Gravity Partners. Matt, Rebecca, Joe, thanks for a very helpful day. Two quick ones for me. I was somewhat surprised to hear you say that industry volumes would be flattish over the next few years. What are some of the headwinds that are there? Yeah, I would just again go back to the current calendar year.

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I mean, if we look at this calendar year, 25 and we look at the the ABI, which is a 12, 12 month kind of leading indicator, we look at construction starts and how that's actually materializing and in materials and the material kind of growth. They are both showing a slowing market, not a growing market in the current calendar year.

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If you take that plus a lagging indicator in the the HRA rooftop data being down 24% in the first quarter. And that tells you that the current calendar year is the depressing starting but depressing. It's the the anchor that is slowing down that growth rate. And so being down, you know, if you look at that data or that data suggests that this current calendar year is going to be down in volumes, you know, high single digits, just mathematically is what that data would tell you in the commercial non-res report market.

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So that is where we say that that's our starting point. And then we the rebound off of that. But just that on a 24 year starting base relative relative year is just the math that's going to drive and that that sort of conversation. Good. And then Matt, somewhat in jest, but somewhat not. I see on your LinkedIn page that you are a commercial helicopter pilot.

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Anything we should be worried about there at number one or number five? Very much any more. This does job keeps you busy. Yeah, it's actually funny. It's a it's a passion project of of years of desire. My original life goal, kind of totally diving in. I was going to be a Coast Guard rescue pilot was academy bound and unfortunately, back in the day, Lasik was still considered experimental.

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And so my lack of 2020 vision was was kind of a deterrent. So that was a little passion film, kind of just trying to balance the original life goals in the world. But I don't fly too much, unfortunately or fortunately right here, and I probably should think about my job. Yeah, we do have another question on the webcast.

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If no one else has one. Can you can you expand on the emerging products ization of your basics offering? What does that exactly mean and how big of an opportunity can this be? And is this primarily data center related or outside of the data center? No matter what, you kind of handle all this because. Yes. Yes. So specific for data centers, we really have two projects afoot.

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One is there are a handful of our air cooling solutions that we are standardizing. What I, I say for the masses and and the way we'll go to market with these is through pre-engineered configurable offerings that pre-designed. They're supported with selection software, collateral and tools that are our independent sales channel can use to self perform the design selection and pricing submittal process.

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So so we're able to get to scale in that way because there's very little of that workflow going to have to travel through our our Solution engineering department, right? So we can continue to be focused on delivering high value contributions with our hyperscale ers or other colo customers that are looking to us for customized solutions. Meanwhile, we're able to get leverage in our our fleet of factories by, growing product sales through our national sales reps.

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Not all of our customers are going to respond to that type of an offering, but we like the diversification, some optionality that gives us. And so it's a heavier engineering investment upfront because we have to pre design and think through all of the configuration flexibility and features. But then it's a relatively lower support model thereafter once it gets in the hands of our reps.

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So that's the that's the first piece that's kind of data center oriented. Second piece which takes us outside of the data centers. It's really a complement to the work we would do in the data centers. That's the semi-custom air handling offering, which we believe could support data centers, but actually moves us and opens up further penetration in the commercial space.

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Same concept pre-engineered using 3D parametric design, all of the automation and manufacturing capabilities that we can we can muster and we through that offering, we put that in the hands of our reps with a flexible offering that is going to appeal to the consulting engineers, the contractor ers that are serving more of that commercial space. And we think that that gives us more diversification and markets and product capabilities.

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So those are really the two major projects that we have that are kind of in that product ization category. And the question in the room, we do have another webcast question for the Ian, the Ian business. You

got share in 2024. How have orders trended through the early part of this year? Specifically, how is that continued into to?

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Q Do you expect to regain the share that you lost in 2024? Yeah, I mean the simple answer is yes. But when we think about the order trend, we look at the end of December, you know, \$100 million came in in a five day period in the end of December. And then you look at the continued uptick in orders and backlog, really, I inside of Q1, which continued to show a strengthening order cadence kind of coming off of that disruption kind of on that refrigerant transition.

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And so, you know, we look at that and really shows good strength and kind of the value proposition, the order cadence, the you know, what I'll say is the orders continue to stay in a good position, kind in Q2. There's obviously, again, there's some some dynamics in the macro market that certainly it's not an explosive growth conversation, but it's stability is what I would say in Q2.

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And we have one last webcast question. You spoke of how it's very difficult for your peers to mimic your business model. Can you please explain that again and provide a few factors of why that is, especially given your company Company competitors are so much larger and have more capital? I feel like there's no one better to take this passion of answering this, even if I feel like they heard me say this is my slide and want me to do it again.

02:42:53:20 - 02:43:26:21

Let me try to use a metaphor that makes this clear. Imagine you're building a 20,000 square foot super house and the foundation that you pull under that you you realize that there's a better way to do the foundation when you've finished framing the whole house. So what you would have to do to mimic Aon is you would have to remove all the framing, take the whole thing down, all that cost all that time, all the red tape convincing that you got to do that, you'd have to go back, break the foundation up, rebuild it with this new method, and then reframe it.

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So imagine the bigger the house is, the more difficult it is to undo and redo. And because when Ian came up with this method, it was not anything anyone else was doing. The machinery required the the manufacturers of search never thought of doing it that way. We kind of developed it with them when we were small and able to implement it in such a way that it didn't show up that much to the outside world.

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It was just kind of blood, sweat and tears. And when I say kind of blood, sweat and tears, I mean blood, sweat and tears to develop the system internally. We had a check and balance system that a design engineer would come up with something and then it would go through this filter. And that filter push

back. And it's funny because one of those filters is now a very good friend of mine because we've worked together for so long.

02:44:17:18 - 02:44:39:04

But back then he wasn't nice to me and he would come back and he would say, You can't do this, can't do this, can't do. So you had a very difficult dynamic between human beings to manage. You had a whole lot of undoing to build a kind of method or foundation to your entire design process, that process and assembly process for the finished product.

02:44:39:06 - 02:45:09:03

So why is it hard to replicate? Well, because you got to undo everything you do, break up your foundation, learn how to build the foundation, this other kind of secret way we do it, and then start all the way over again. Question number it. Kevin's with Ranger Investments, your ERP rollout in Longview on April 1st. I'm expecting you guys are going to roll it out to the rest of your facilities at some point.

02:45:09:03 - 02:45:44:26

Do you guys have an update on that timing? We don't. I mean, from our perspective, it is being a very driven by ensure there's 100% stability in the impacts are all resolved in one site before you go to the next one. And so while it's easy to get excited and start thinking what each one of those steps looks like, you know, the internal discipline that we have is we don't make those moves until not only have we gotten the facility that went live operating, now it, but also all of those lessons learned built into the solution at the next site, including the training and sort of, you know, try to make each one a less

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impactful and and really maintaining that discipline is something that Rebecca and I have very often with with some of our team because the the ERP you really get down to it is going to enable a lot of great things within. And there's a lot of excitement around this ERP because it's going to provide us visibility that we've never had into this business.

02:46:04:08 - 02:46:26:16

I mean, if you right down to it, forward looking, the ability to do a lot of things from a financial visibility and understanding perspective, they just don't exist in sort of some of that legacy ERP we have. So there's a lot of excitement in getting it on and getting it online, but really making sure that we don't make those decisions to make those moves until the previous site is fully stable, as it should.

02:46:26:18 - 02:46:54:02

And everything has been trained down from a lessons learned perspective. We have another question on the webcast are four basics Are there any holes in the portfolio that customers would like you to fill? What is your exposure to direct to ship versus immersive cooling, and how do you see those technologies growing? Are you against it from a price and margin standpoint?

02:46:54:05 - 02:47:17:11

You want to what was the last what was the last question? Are you agnostic from a price and margin standpoint? Agnostic. You got that first point. Yeah. So me let me start with the first part was around liquid cooling. I want to say, does your sales channel, do your customers feel like the portfolio is well around it or do you is there any products to fill?

02:47:17:14 - 02:47:44:11

Yeah. So I would say as we're working with our channel, you know, they have other partners, you know on their line card besides basics. And of course we're fighting for more wallet share every single quarter. And generally we've we've largely filled all of the holes that are most important to them. And and remember, we approach we approach solving problems with the customer solutions.

02:47:44:11 - 02:48:15:00

So it's not so much that we've got a menu or a catalog of offerings that they choose from and they identify we've got two or three gaps. They bring us challenges. We put pen to paper and we solve those problems. And that's how so many of our offerings today have proliferated over the years. And so generally where we're plugging those holes as the opportunities come forward with regard to liquid cooling, the majority of what we're involved in supporting today is direct chip, liquid cooling.

02:48:15:03 - 02:48:39:06

And that seems to be where most of our customers are orienting either current designs or the designs that we're partnering with them to engineer for their facilities. And I would say if the question is around, are we agnostic to price and margin, meaning, you know, might we entertain products or solutions that would challenge us or stretch our margin expectations?

02:48:39:08 - 02:49:08:06

You know, we take a look at those on a case by case basis, but ultimately saw our goal to be delivering blended margins of 30% plus. And all of that includes both our data center solutions plus the configurable products, plus the clean room offerings that we continued to manage. So we look at it on a blended basis. Yeah, just to add one piece there to is, you know, is there stuff that our our customers say, Hey, I love that you made this.

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Of course there is. But we're also very pragmatic in ensuring that, you know, we're not chasing, number one, growth for growth sake and we're not kind of throwing good money after things that really are kind of not the right opportunity. And so one example of that conversation, we've had many a customer come to us and say, Man, I'd love if you mass produced an air cooled chiller.

02:49:30:15 - 02:49:45:17

Yeah, a great example the great thing, if you look at it and you look at our peers and JCI and Trane, I mean a lot of their growth in data centers is on air cooled chillers. And so there's there's a lot of

commentary saying we love you went after that. But when we step back and say, where is the market going right?

02:49:45:17 - 02:50:07:12

Run where the ball is going to be thrown, not where it's sitting today. That's a conversation that we really get into with them because as you move into liquid cooling, the thermal management strategies look different and the conversation around chillers looks different because when we move to liquid, we're actually changing the way we we actually design thermal management solutions.

02:50:07:15 - 02:50:31:14

We're moving the fluid temperatures higher is really a kind of a backbone that and in doing that, you start saying to yourself, there's a point in time where an air cooled chiller isn't the right answer. And we sit here and say, How much money do you want to throw trying to build out capacity around your cooled chillers. In an evolving market where we don't see the long term play providing the same growth story, that's that's the wrong investment.

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And so when we have those conversations where they say, hey, there's a whole we love, if you build this, you know, we're going to be very open. And where we see the opportunity and we're going to make the smart investments in strategies to to answer where the market's going, because, yes, could we can we make a chiller? By all means, we can make chillers, but we don't see the the return deployed in building out chiller production capacity being a long term growth conversation for the for the overall basics brand.

02:50:58:19 - 02:51:25:10

And so we're focusing the energy of our of our capital, of our talented team on the opportunities that we see really where the market's evolving to, not where it's at. And we don't have any other questions. There's nothing on the webcast. So going once, going twice. All right. Well, I'll just want to say thank you for attending. We appreciate everything.

02:51:25:10 - 02:51:42:22

And if you have any other follow up questions, need to get a hold of us. My information is on the website. If you don't already have a So thank you and safe to phone. Okay. Thanks everyone.