

Modine Manufacturing
Second Quarter Fiscal 2025 Earnings Conference Call
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Presenters

Kathy Powers, Vice President, Treasurer and Investor Relations
Neil Brinker, President and Chief Executive Officer
Mick Lucareli, Executive Vice President and Chief Financial Officer

Q&A Participants

Matt Summerville - D.A. Davidson
Noah Kay - Oppenheimer
Brian Drab - William Blair
Jeff Van Sinderen - B. Riley Securities
Will - CJS Securities

Operator

Good morning, ladies and gentlemen, and welcome to Modine's Second Quarter Fiscal 2025 Earnings Conference Call.

At this time all participants are in a listen-only mode. Later, we will conduct a question-and-answer session and instructions will follow at that time. If anyone should require operator assistance during the conference, please press “*”, then “0” on your telephone keypad.

I would now like to turn the conference over to your host, Ms. Kathy Powers, Vice President Treasurer and Investor Relations.

Kathy Powers

Hello and good morning. Welcome to our conference call to discuss Modine's second quarter fiscal 2025 results. I'm joined by Neil Brinker our President and Chief Executive Officer and Mick Lucareli, our Executive Vice President and Chief Financial Officer.

The slides that we we'll be using with today's presentation are available on the Investor Relations section of our website at modine.com. On Slide 3 of that deck is our notice regarding forward-looking statements. This call will contain forward-looking statements as outlined in our earnings release, as well as in our company's filings with the Securities and Exchange Commission.

With that, I'll turn the call over to Neil.

Neil Brinker

Thank you, Kathy, and good morning, everyone. As most of you know, we held an Investor Day last month at our corporate headquarters. I'd like to thank everyone who attended in person, participated in the live webcast, or watched the replay online.

This was a very important event for us, so before going over our quarterly results, I'd like to review some of the key messages.

Throughout the presentation, we highlighted five strategic pillars that we believe are key value drivers that form the foundation of our strategy to drive growth and margin expansion for years to come.

First, at our core, we create value through our deep expertise in thermal management technology, allowing us to provide highly engineered, mission-critical thermal solutions for our customers. In fact, we've been doing it for over 100 years.

Second, through 80/20, we have leveraged our product portfolio to segment and re-segment the business, focusing resources where we can drive the most value. 80/20 is an ongoing process, and as part of it, we announced that we will realign our six product groups in our next fiscal year to improve our product and market focus.

The third pillar relates to mega-trends and how they are fueling our growth. For example, we are currently focused on supporting trends like high-performance computing, as the rapid expansion of AI and machine learning fuels demand for data center capacity and more advanced cooling solutions.

Although these trends can change over time, we believe that the need-to-meet ever increasing regulations and reduce the impact of fossil fuels on our environment are currently driving multi-year growth cycles. This will provide a constant need for new and advanced thermal solutions.

Next, we have the benefit derived from our 80/20 discipline, which drives everything from our decentralized organization to our strategic resource allocation. By pushing decision-making down on the organization, we create a more focused product development cycle, stronger customer relationships, and an entrepreneurial spirit to fuel profitable growth.

We consider 80/20 to be a competitive advantage, helping us improve efficiency, drive strategy, and ultimately to evolve our business portfolio.

That brings us to the final pillar, evolving our portfolio to compound shareholder value. This process does not have a beginning or an end, but is a repeatable cycle to continually drive shareholder value and is expressed through our recently introduced vision statement, always evolving our portfolio products in pursuit of highly engineered, mission-critical thermal solutions.

In addition to sharing this new vision statement, we also introduced new three-year financial targets. We expect compound annual revenue growth of 10% to 13% for the three-year period off of fiscal '24 phase and expect adjusted EBITDA margins in the range of 16% to 18% ,by fiscal '27.

Overall, the feedback from the event has been overwhelmingly positive. We delivered on our commitments shared during our first Investor Day back in 2022, and we've now raised the bar even further. The team has accepted this challenge and have the plans in place to deliver, once again.

Now, shifting back to the quarter, I'd like to review the segment results. Please turn to Slide 5. Our Climate Solution segment had another outstanding quarter, driven primarily by growth in our data center business. Revenues more than doubled as compared to the prior year, with about half of the increase driven organically and the balance from the Scott Springfield acquisition. This business continues to exceed our expectations.

In addition, we officially announced the launch of our 1 megawatt cooling distribution unit, or CDU, which is a critical component for liquid and hybrid cooling systems for high density applications. Demonstrating the benefits of 80/20 and product development decision making, our CDU was developed with voice of customer at the forefront and is designed to, seamlessly, integrate with Modine systems and controls to improve energy efficiency in the data centers.

Interest in this product has escalated with inquiries now coming from both colocation and hyperscaler customers. We still anticipate our first shipments of this product in the fourth fiscal quarter of the year.

As mentioned during our Investor Day Presentation, growth with hyperscaler customers continue to accelerate. In addition to our two current hyperscaler customers, we are now building a relationship with the third and expect to get our first order, this quarter. We are also observing the evolving needs of these customers. Currently, we design and manufacture custom air handlers for our hyperscaler customers. And this will continue to be a significant component of our business.

However, these customers have been increasingly interested in our high-performance chillers, especially now that we have production in both the U.S. and the UK. In fact, we have received our first purchase order for chillers from a hyperscaler customer this past quarter, with expected shipment in our fourth fiscal quarter. This is an exciting expansion of our product offering to strategic hyperscaler customers and another exciting growth prospect for our data center business.

Last quarter, I mentioned that we are expanding capacity for our data center products, and I'm pleased to report that our UK expansion has been completed ahead of schedule with the first

units off the production line, last week. We are also up and running at our expansion in Calgary, supporting the growth of data center products from SSM.

I'm also excited to announce our next capacity expansion for data center products will be in India at a new facility in Chennai to support our customers in Asia and the Middle East. This new facility is near our existing manufacturing location and can be leveraged in the future for growth in both segments. This will bring the number of data center manufacturing locations to 10 and provide us with a capacity for continued growth around the globe. I'm very excited about this opportunity as we continue to, organically, invest in the data center market.

Please turn to Slide 6. The performance technology segment also had a strong quarter with earnings and margin growth, despite a drop in top-line revenue driven by the decline in our vehicular markets. However, we're still seeing solid growth in the GenSet module business. This is being bolstered by our global footprint, high quality and on time delivery. In fact, our capacity expansion in India for data centers will also allow for future growth in GenSet production in that region.

Sales in our Advanced Solution group also posted positive sales growth in the quarter. Last week, we announced our partnership with Gillig a leading manufacturer of transit buses, specializing in low and zero emission solutions for public transportation. This long standing supply relationship includes collaboration on their hybrid vehicles, which use our EVantage battery thermal management system and inverter cooling modules.

We also introduced our smart electric component portfolio, which is receiving positive feedback from the market. Our funnel of customer engagements and our advanced solutions group continues to be strong, including a number of opportunities in Europe.

All in all, we are experiencing some short-term volume challenges in certain markets and are implementing countermeasures to reduce costs. But we are also seeing long-term opportunities with positive implications for our product mix in this segment.

Overall, a good quarter and our 80/20 culture and approach continues to help us mitigate legacy business wind downs and some economic sensitivity and a few product categories.

I'll turn the call over to Mick, who will provide some further updates on what we expect for the balance of the year.

Mick Lucareli

Thanks, Neil, and good morning, everyone. Please turn to Slide 7, to review the segment results.

Climate Solutions continues to deliver outstanding results posting a 47% improvement in adjusted EBITDA and a margin above 21%. Data center sales grew 102%, or \$80 million, driven

by strong demand from North American hyperscale and colocation customers, along with the sales from the acquired Scott Springfield business. Modine's data center business continues to exceed our projections and we're, once again, raising the revenue forecast for this product group.

HVAC&R sales increased 14% or \$13 million, including revenue from Scott Springfield, along with higher sales of refrigeration coolers. Heat transfer product sales were down 13%, or \$16 million, with lower sales to European heat pump and commercial and residential HVAC customers.

However, we were able to finalize some commercial settlements this quarter to help offset the lower volumes versus what was originally agreed to with certain customers. The team had been working towards the settlements, and we originally expected to see most of the benefit beginning in our Q3.

Overall, we're pleased with the Climate Solutions strong earnings conversion, which resulted in a 300 basis point adjusted EBITDA margin improvement to 21.5%.

As discussed at the Investor Day, our 80/20 discipline continues to be at the heart of the segment's quarterly margin improvements, and the team will continue to focus on accelerating organic growth with organic sales improving 7% this quarter, after adjusting for \$53 million of revenue from the Scott Springfield acquisition. As we look at the last half of the year, we expect the positive momentum for revenue and earnings to continue for Climate Solutions.

Please turn to Slide 8. Performance Technologies continues to evolve the portfolio and improve profitability, including a 5% increase in adjusted EBITDA and a 230 basis point improvement in the margin. The earnings growth and strong margin improvement were due to a lot of hard 80/20 work, including labor, material, and overhead improvements.

In addition to the operational improvements, we were able to secure sales tax credits in Brazil, which had a positive impact on revenue and adjusted EBITDA in the quarter.

As anticipated, Performance Technologies revenue was down in the quarter. This was driven by the prior year automotive divestitures, along with lower sales to automotive, commercial vehicle, and off-highway customers.

Excluding the negative \$22 million impact of divestitures, organic sales decreased 5%. Advanced Solutions sales were higher by 18%, or \$6 million, driven by increased sales of EV systems to specialty vehicle and bus customers.

Liquid cooled application sales decreased 22%, or \$27, million due to the prior year divestiture, along with lower end market demand across auto, commercial vehicle, and off-highway markets.

Lastly, air-cooled application sales were lower by 10%, or \$18 million, also driven by the divestitures and lower market demand from agriculture and construction equipment and commercial vehicle customers. However, as we've highlighted as a strategic focus, sales to GenSet customers increased in the quarter by 29%.

In addition to the planned portfolio rationalization, this segment is quickly addressing the broader market softness, which is well publicized across the agriculture, construction, and commercial vehicle markets. Despite temporary volume headwinds, we're pleased with the level of earnings conversion, further validating the benefit of our 80/20 discipline. After a historically and seasonally soft fiscal Q3, we anticipate a step-up in Q4.

Now let's review total company results. Please turn to Slide 9. Second quarter sales increased 6%, driven by the Scott Springfield acquisition and organic growth and Climate Solutions. Climate Solutions growth was partially offset by \$22 million of divestitures and market related volume declines in performance technologies.

Our gross margin improved 340 basis points to 25.2%, driven primarily by an improved business mix, including the benefit of the Scott Springfield acquisition and numerous 80/20 initiatives.

As noted during my comments in the segments, the quarter also benefited from a few items, including the commercial settlements and Climate Solutions and a sales tax credit recovery in Brazil. We estimate that the net impact of these items, along with a few others, was approximately \$5 million. These items were previously included in our full year outlook, but we anticipated that they would land in the second half of the fiscal year. That said, we are pleased to secure the benefits, earlier than expected.

As noted last quarter, year-over-year SG&A includes SG&A of the acquired Scott Springfield business and incremental amortization expense related to the acquired intangible assets.

In addition, we recorded higher salary and incentive compensation expenses, in line with our improved performance.

Adjusted EBITDA was strong again this quarter with an increase of 23%, or \$19 million. The adjusted EBITDA margin was 15.2%, representing a 210 basis point improvement from the prior year.

Each quarter, I provide a margin trend update and this now represents the 11th consecutive quarter of year-over-year margin improvement. Adjusted earnings per share was \$0.97, 9% higher than the prior year. We're very pleased with another exceptional quarter resulting in great adjusted EBITDA growth as momentum in some key end markets allowed us to overcome challenges in others. The management team continues to implement 80/20 and remains laser focused on the things we can control.

Now moving to the cash flow metrics, please turn to Slide 10. We generated \$44 million of free cash flow in the second quarter, which was an improvement from the first quarter. Please note that the quarterly cash flow included nearly \$6 million of cash restructuring payments. This puts our year-to-date free cash flow at \$58 million, which is on track with our full-year outlook.

Net debt of \$327 million was \$45 million lower than the prior fiscal year and \$36 million lower than last quarter. This resulted in a leverage ratio of 0.9. Consistent with the previous quarter, the balance sheet remains strong and we anticipate another year of good free cash flow.

Now let's turn to Slide 11, for our fiscal '25 outlook. With half the year behind us, we announced in the press release that we're holding our fiscal '25 outlook. While the Q2 earnings were somewhat higher than we anticipated, the quarter included an estimated \$5 million in net benefits, as I reviewed in the quarterly results.

We had previously anticipated these benefits would settle in the second half of the year, with the majority of the benefit coming in our Q3.

From a revenue standpoint, we'll continue to update, each quarter, the revenue outlook for Modine's product groups. The net impact of product group revenue adjustments is relatively neutral for the total company in this quarter.

In the Climate Solutions segment, we're making a large increase to the data center outlook, along with an increase to HVAC&R, while lowering our outlook for heat transfer products. We now expect data center sales to grow 100% to 110% percent, a significant increase, driven by their strong performance in the first half of the year and a growing order book.

For Performance Technologies, we've adjusted for customer trends and ongoing weakness in the global commercial vehicle, off-highway, and auto markets. With regards to earnings, we expect fiscal '25 adjusted EBITDA to be in the range of \$375 million to \$395 million. Consistent with our previous guidance, we expect Q3 will be sequentially lower than Q2, based on normal seasonal trends, along with some ongoing weakness in our vehicular markets. We then expect a sequential ramp in Q4, consistent with previous years and driven by specific markets and product launches.

In addition, our view of cash flow remains consistent, as we anticipate another year of good cash flow. Based on the current outlook, we anticipate that free cash flow this year will be in line or above the prior fiscal year.

Last, we expect adjusted EPS to remain in the range of \$3.55 to \$3.95. Our income tax expense is trending a bit higher, and we expect the effective tax rate to be in the range of 26% to 28%.

Other assumptions for interest expense, taxes, and amortization depreciation expense are summarized in the appendix attached to this presentation.

To wrap up, we're pleased with the results from the second quarter and the first half of the year. Thanks again to those who attended or viewed the webcast of our Investor Day event. I encourage anyone who may have missed it to view the replay available on our Investor Relations website.

With that, Neil and I'll take your questions.

Operator

Thank you. If you have a question at this time, please press "*", then "1" key on your telephone keypad. A confirmation tone will indicate your line is in the question queue. You may press "*", then "2" if you would like to remove your questions from the queue. For participants using speaker equipment, it may be necessary to pick up your handset, before pressing the star keys.

The first question comes from the line of Matt Summerville with D.A. Davidson. Please go ahead.

Matt Summerville

Neil, in your prepared remarks, you had mentioned that in your hyperscale data center business, you now are seeing opportunities to sell your high performance chiller product into what sounds like, potentially, all three of your current hyperscale customers.

On a per megawatt basis, how much can that, potentially, increase your content? And I'm trying to understand ultimately, Neil, what the wallet opportunity here looks like if you add-on these chillers in addition to the air handlers you currently manufacture. And then I have a follow-up.

Neil Brinker

Yeah, Matt, great question. The market pricing for a chiller to the capacity of about 1.5 megawatt is right around \$0.5 million USD.

Matt Summerville

Got it. And then this capital project you're looking at in India, can you talk a little bit about the CapEx associated, the timing, the product, specifically, you're looking to manufacture there outside in addition to what you're doing in data centers, I think you mentioned something about GenSet. So a little bit more color on that. But importantly, was this part of your longer-term view that you expressed a quarter or two ago when you talked about growing a \$500 million data center business to \$1 billion in three years or less, or was this already in that sort of thought process? Thank you.

Neil Brinker

Yeah, good question, Matt. It was not. This is incremental. We're following our customers for their suggestions. So we're looking at doing CRACs, fan walls, CDUs out of this location in India. And we feel good about it. I mean, we've already got presence there through our vehicular market. We've got opportunity there with GenSets, as well. So, this just makes a lot of sense to

kind of move this up in our strategic plan and accelerate it, and it will add incremental capacity beyond our previous statements.

Matt Summerville

Got it. I'll get back-in queue. Thanks.

Operator

Thank you. Next question comes from the line of Noah Kay with Oppenheimer. Please go-ahead.

Noah Kay

Yeah, thanks. Can we start with Scott Springfield? Another step-up in contribution revenue this quarter. You obviously set up for expanded production up in Canada. Just talk a little bit about what you've been seeing from the business to drive stronger contribution and how you think about that trending through the balance of the year versus maybe when you acquired it?

Neil Brinker

So, we're really pleased with that acquisition. That team has been very successful and welcome to the overall Modine team. They're doing an amazing job. We knew that if we could add additional capacity that we would get more volume because of the quality and the premium product we'd produce. We knew we would get more share within some of our customers, if we could get delivery out at a faster rate, hence, the investment in CapEx in the second facility, and we're seeing that flow through now.

We're also seeing the opportunity for cross-selling as we bring in the Airedale brand, then bringing the Scott Springfield brand over to the traditional Airedale customers. So the cross-selling opportunities are starting to build up in our pipeline. And our funnel and then just the pure volume because of the product, the quality of that product, we're seeing that pick up with our customers' uptake. So it's exceeded our expectations to this point.

Noah Kay

Okay. And then just on the outlook. I appreciate you going through some of the moving pieces and some of the pull forward that you mentioned, Mick, around the benefits from 3Q to 2Q. But just at a high level, how do we think about kind of margin trajectory over the balance of the year, and how is that informed by mix?

It does seem like forgetting more growth in data center Climate Solutions, and maybe a little bit more weakness on PT side that might be mix positive for the overall business. I would just love your thoughts on that.

Mick Lucareli

Yeah, Noah, you kind of hit on the major points there, as we look at the second half of the year. We do see with the Q3 a little bit lower margin there in Q3 and then talking total company with

a rebound again in Q4 with volume and other things with Q4 being more in line with the first half of the year.

Then under kind of the water line there, we're expecting Q3 to be another solid quarter for Climate Solutions. The order book on the data center is strong. We expect Q3 to be another good data center quarter for Climate Solutions. Heating season is always a see how this time of the year goes, but all of that is that we're feeling good about our Q3 on the climate side. The PT then is really where we've got the temporary challenges and the dip. One is the seasonal pattern with holidays and production days is always lower, as you guys know.

And then this year, on top of it, is that softness across ag, construction, CV and auto, and we're just seeing customers as extend production shutdown. So we'll see the bigger impact on the margin will be on the PT side. So--but yes, solid on the climate side. So, that's how we see it kind of flowing through into Q3 and Q4.

Noah Kay

Yeah. And just one follow-up before I turn it over. I mean, at this point, how much visibility into the back half for PT with some of those macro drivers? Do you feel you really have--are we at the point where your sort of production planning for the back half is pretty baked? Do you think you can move around a little bit in the next couple of months?

Mick Lucareli

Yeah, for the most part, the Q4 will start to firm up here based on customer EDI order rates. We've tried to get under them in a few cases where there's always situations where they're not pulling at the same volume they are sending to our plans from an order rate.

But that said, we also have a number of opportunities and improvements in Q4 that are more tied to product launches and volumes, especially around the GenSet side and with our EV system. So we've got some launches and volume improvements we see there, and then we've tried to get under the kind of the market run rate here with this latest quarter.

Noah Kay

Very helpful. Thank you.

Operator

Thank you. Next question comes from the line of Brian Drab with William Blair. Please go-ahead.

Brian Drab

Good morning. Thanks for taking my questions. I just wanted to first ask you to elaborate on the Advanced Solutions business. There's somewhat of a downward revision for the balance of the year. And if you could just talk about some of those dynamics that would be great.

Mick Lucareli

Yeah, great. Hey, it's Mick. I'll take a first swing if Neil wants to say anything you can. So, we did lower the revenue outlook a little bit for ATS and Advanced Solutions. That, as a reminder, last year, about \$125 million in revenue, and that mix is continuing to evolve as we're launching our battery thermal management or EV system.

So about three quarters of that portfolio, as of last fiscal year, was still heavy auto EV components and some legacy specialty CV vehicle, commercial vehicle, hybrid type. We really-- the most--what we took down mostly was on the auto EV side on the component side. And we're still expecting our battery thermal management and the EV systems to grow quite rapidly this year in excess of 30%. So really, what got pulled down was the component area, and that isn't the strategic focus for the company. So, does that answer your question?

Brian Drab

Yeah, that's helpful. And you're saying on the battery thermal management side, that's the commercial side?

Mick Lucareli

Yeah, that's the part we're growing, and it'll continue to grow and it'll continue to become a bigger shift of the overall portfolio.

Brian Drab

Okay. Thank you. And then in the heat pump market, is there anything that's giving you any better visibility into when that recovers?

Neil Brinker

It's a good question. Brian, thanks for that. This is Neil. It's really driven by regulations, right? And that's basically what we monitor and we pulse. And if you look at the amount of permits that are applied for relative to incentives that is driven by regulation and then we still see that as several quarters out from now as they push that compliant today.

Brian Drab

Okay, great. Yeah, I'm trying to follow those regulations, but I assume you have better info and having more detailed conversations than I can have. So thank you for that. I'll follow-up more, later.

Neil Brinker

No problem.

Operator

Thank you. Next question comes from the line of Jeff Van Sinderen with B. Riley Securities. Please go-ahead.

Jeff Van Sinderen

Good morning, everyone. So just wanted to follow up a little bit more on the hyperscalers. Given the new production facilities you're targeting for those, it seems like dedicated for hyperscaler work or more geared toward hyperscaler work. Are you, at this point, capacity constrained on any particular products in the data center area?

And then since you are considering or considering bringing on a new hyperscaler, it sounds like, maybe you could just touch on how production capacity will build and with the new facilities? And then when might the first order ship with the new hyperscaler you expect to get an order from in Q3? And then, I guess, what is the potential to bring on incremental hyperscalers after that? Sorry, a lot in that question.

Neil Brinker

Yeah. No, it's okay, Jeff. Good question. We're comfortable with where we've expanded, and we can certainly by adding additional lines within the brick-and-mortar that we've invested in. We can meet the demand that's been given.

And yes, you're right. We are now--we've officially signed a master sales agreement as of last night with the third, and we expect to see some orders here in the coming quarters and we have the capacity to do it. So that was part of the process, the vetting process that we have with that third--or now our new third hyperscaler. And we are, to your point, in conversations with the others. So there are others that we're continuing to have conversations with, and we're going through the same vetting process as with the previous three.

Jeff Van Sinderen

Okay, great. And then just as we circle back to the PT business for a moment, latest thoughts on further rationalization there or maybe divestiture initiatives, either/or on those two?

Mick Lucareli

I think the best way to answer that, Jeff, is as we laid out at the IR Day. Right now, the team is heavily focused on that we laid out about a \$300 million area of our business that we are going to deemphasize over the next few years. And we had targeted about \$100 million a year, not knowing exactly when each event might take place and bigger pieces, or little.

But right now, that's the sole focus on that piece, that's the non-strategic, while then, as we've talked about many times, doubling down to capture the share of growth in power generation and EV systems.

Jeff Van Sinderen

Okay, fair enough. Thanks for taking my questions. I'll take the rest offline.

Operator

Thank you. A reminder to all our participants that you may press “*” and “1” to ask a question. Next question comes from the line of Chris Moore with CJS Securities. Please go-ahead.

Will

Hi. This is Will on for Chris. When you've talked about data center and Modine's positioning and expected growth, one of the consistent themes has always been you were focused on providing a relatively small subset of the market, exceptional products and service.

So, when you think about the \$1 billion revenue target in data center, how do you think about the expansion of your customer base? Can you get there just from the existing customer base? Do you need to double it? Any thoughts you have on attracting new customers would be helpful. Thank you.

Mick Lucareli

Yeah, well, that's right. We play in that niche space, and we're moving away from low single-digit market share into low double-digit teens market share. So, we're still in that space. And with the capacity we have in place today, that's with the existing funnel of the existing incurrent customers that we have. Incremental customers would be incremental. So, what we forecast is based on what we know.

Will

Super helpful. Thank you. And then recognizing that the value space auto business is not a long-term focus. You've sold some businesses here. You guys raised prices aggressively, especially in the ICE space auto business as part of the overall transformation, two-plus years ago. In many instances, auto customers were willing to pay the price increases, at least temporarily.

Now as the auto companies have had more time to analyze switching costs and competitors have had time to react to your price increases, how would you characterize the current state of the remaining Auto ICE business? Thank you.

Neil Brinker

Yeah, that's a good question, Will. I think I can agree with your statement, generally. But every supplier has unique conversations and discussions relative to value that they add and the price that they pay. So we've had those conversations. And when we had those conversations, certainly, we don't look at that in terms of short term. If we're going to have conversations commercially, we look at that into typically two to five year programs.

Will

That's great. Thank you.

Operator

Thank you. Next question comes from the line of Matt Summerville with D.A. Davidson. Please go ahead.

Matt Summerville

Yeah, thanks. Just a couple of follow-ups. Just given my understanding of 80/20 and the fact that you want to move on one way or another from \$300 million in revenue, does this sort of PT downturn you're seeing enable you to accelerate that in any way? How should we be thinking about that?

Neil Brinker

Yeah, that's a good question, Matt. Certainly, when we see headwinds within the market, we definitely lean on our other businesses where we see we can outperform to offset that through 80/20 initiatives and growth initiatives. But at the same time, we also look real hard at the business of their product line strategies.

So, when you're looking at the product line strategies and your volumes are down, you can really start to see the icebergs, if you will, when the water level is lower. So absolutely, remember, PT was about a year behind in terms of 80/20 initiatives because we deliberately launched them a year later than Climate Solutions.

So they're in the throes of it, and they're going to continue to look at their product line portfolio and make decisions on where they want to take it based on--long term, based on the new water mark, which is the volume that they're seeing, today. So to answer your question directly, it's a yes.

Matt Summerville

Got it. And then maybe just two quick follow-ups on the data center side of the business. You're obviously launched the CDU; you expect to have some volume this year. What's maybe your early big picture thought on what liquid can look like in fiscal '26?

And can you remind us, in the roll forward you shared last month at your Analyst Day of fiscal '27, did you include much in there for liquid or much in there from this third hyperscale customer, which is seemingly beginning to procure equipment from you guys perhaps sooner than you maybe would have suspected? Thank you.

Neil Brinker

Yeah, nothing material, Matt, in terms of liquid or from a third hyperscaler.

Matt Summerville

Got it. Thanks, Neil.

Operator

Thank you. As there are no further questions at this time, I would now like to turn the floor over to Kathy Powers for closing comments.

Kathy Powers

Thank you to everyone for joining us, this morning. The replay of this call will be available on our Investor Relations website in about two hours. Hope everybody has a great day and thank you all for your interest in Modine.

Operator

Thank you. This concludes today's teleconference. You may disconnect your lines at this time. Thank you for your participation.