Federal Signal Corporation

Fourth Quarter 2023 Earnings Conference Call

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PRESENTATION

Operator

Greetings, and welcome to the Federal Signal Corporation Fourth Quarter Earnings Conference Call. (Operator Instructions)

As a reminder, this conference is being recorded.

I would now like to turn the conference over to your host, Felix Boeschen, Vice President, Corporate Strategy and Investor Relations for Federal Signal. Please go ahead.

Felix Boeschen

Good morning, and welcome to Federal Signal's Fourth Quarter 2023 Conference Call.

I'm Felix Boeschen, the Company's Vice President of Corporate Strategy and Investor Relations. Also with me on the call today is Jennifer Sherman, our President and Chief Executive Officer, and Ian Hudson, our Chief Financial Officer.

We will refer to some presentation slides today, as well as to the earnings release which we issued this morning. The slides can be followed online by going to our website, federalsignal.com, clicking on the Investor Call icon and signing into the webcast. We've also posted the slide presentation and the earnings release under the Investor tab on our website.

Before I turn the call over to Ian, I'd like to remind you that some of our comments made today may contain forward-looking statements that are subject to the Safe Harbor language found in today's news release and in Federal Signal's filings with the Securities and Exchange Commission. These documents are available on our website.

Our presentation also contains some measures that are not in accordance with U.S. generally accepted accounting principles. In our earnings release and filings, we reconcile these non-GAAP measures to GAAP measures. In addition, we will file our Form 10-K later today.

Ian will start today with more detail on our fourth quarter and full year financial results. Jennifer will then provide her perspective on our performance, an update on our multiyear strategic initiatives, and go over our outlook for 2024, before we open the line for any questions.

With that, I would now like to turn the call over to Ian.

Ian Hudson

Thank you, Felix.

Our financial results for the fourth quarter and full year of 2023 are provided in today's earnings release. Before I talk about the fourth quarter, let me highlight some of our full year consolidated results for 2023.

Net sales for the year were approximately $1.72 billion, a record high for the Company and an increase of $288 million, or 20% compared to the prior year. Organic sales growth for the year was $220 million, or 15%. Operating income for the year was $224.5 million, an increase of $63.7 million or 40% from the prior year.

Adjusted EBITDA for the year was $286 million, up $71 million or 33% compared to the prior year. That translates to an Adjusted EBITDA margin of 16.6% this year, up 160 basis points from last year.

GAAP earnings for the year equated to $2.56 per share, up $0.59 a share or 30% from the prior year. On an adjusted basis, we reported full year earnings of $2.58 per share, a year-over-year increase of $0.62 per share or 32%.

Orders for the year were $1.87 billion, another Company record, and an increase of $178 million or 11% from the prior year. With a strong momentum in customer demand, consolidated backlog at the end of the year was at an all-time high level of $1.03 billion, an increase of $146 million or 17% from last year.

For the rest of my comments, I will focus mostly on comparisons of the fourth quarter of 2023 to the fourth quarter of 2022. Consolidated net sales for the quarter were $448 million, an increase of $57 million or 15%. Organic sales growth for the quarter was $42 million or 11%. Consolidated operating income in Q4 this year was $63.1 million, up $16.5 million or 35% compared to Q4 last year. Consolidated Adjusted EBITDA for the quarter was $77.5 million, an increase of $16.4 million or 27%. That translates to a margin of 17.3%, an increase of 170 basis points from Q4 last year.

GAAP EPS for the quarter was $0.75 per share, up $0.18 per share or 32% from Q4 last year. On an adjusted basis, EPS for Q4 this year was $0.74 per share, a year-over-year increase of $0.17 per share or 30%.

Orders in Q4 this year were $465 million, up $21 million or 5%.

In terms of our fourth quarter group results, ESG sales were $373 million, an increase of $48 million or 15% compared to Q4 last year. ESG's Adjusted EBITDA for the quarter was $73.3 million, up $15.7 million or 27%. That translates to an Adjusted EBITDA margin of 19.6% in Q4 this year, up 190 basis points from Q4 last year.

SSG's fourth quarter sales were $75 million this year, up $9 million or 14%. SSG's Adjusted EBITDA for the quarter was $16 million, up $2.8 million or 21% from Q4 last year. SSG's Adjusted EBITDA margin for the quarter was 21.2%, above the high end of its target range, and up 130 basis points from Q4 last year.

Corporate operating expenses in Q4 this year were $10 million compared to $10.2 million in Q4 last year.

Turning now to the consolidated statement of operations, where the increase in sales contributed to a $22.8 million improvement in gross profit. Consolidated gross margin for the quarter was 26.6%, up 190 basis points compared to Q4 last year. As a percentage of sales, our selling, engineering, general and administrative expenses for the quarter were up 30 basis points from Q4 last year.

During the fourth quarter of this year, we recognized a $1.6 million benefit from acquisition-related activities, compared to $500,000 of expense in Q4 last year, with the majority of the year-over-year change driven by a change in the fair value of contingent consideration associated with acquisitions. Other items affecting the quarterly results include a $500,000 increase in amortization expense, a $100,000 in other expense, and a $100,000 reduction in interest expense.

Income tax expense for the quarter was $12.1 million, an increase of $4.7 million from Q4 last year, with the year-over-year change largely due to higher pre-tax income levels, and a $700,000 reduction in discrete tax benefits recognized in the current year quarter in comparison to the prior year quarter. Including discrete tax benefits, our effective tax rate for the full year 2023 was 22.5%. For 2024, we currently expect a tax rate of between 25% and 26%, excluding any discrete tax benefits.

On an overall GAAP basis, we therefore earned $0.75 per share in Q4 this year, compared with $0.57 per share in Q4 last year.

To facilitate earnings comparisons, we typically adjust our GAAP earnings per share for unusual items recorded in the current or prior year quarters. In the current year quarter, we made adjustments to GAAP earnings per share to exclude acquisition-related benefits and purchase accounting expense effects. On this basis, our adjusted earnings in Q4 this year were $0.74 per share, compared with $0.57 per share in Q4 last year.

Looking now at cash flow, where we generated $103 million of cash from operations during the quarter, an increase of $64 million or 162% from Q4 last year, with the increase primarily due to working capital improvements and higher net income. For the full year, our operating cash generation totaled $194 million, an increase of $123 million or 171% compared to last year.

With the improved cash flow, we paid down approximately $70 million of debt during the quarter, ending the year with $238 million of net debt, and availability under our credit facility of $493 million. Our current net debt leverage ratio remains low. With our financial position remaining strong, we have significant flexibility to invest in organic growth initiatives, pursue strategic acquisitions, and return cash to stockholders through dividends and opportunistic share repurchases.

On that note, we paid dividends of $6.1 million during the quarter, reflecting a dividend of $0.10 per share, and we recently announced that we are increasing the dividend by 20% to $0.12 per share in the first quarter of 2024. We also funded $1.2 million of share repurchases during the quarter.

That concludes my comments, and I would like to turn the call over to Jennifer.

Jennifer Sherman

Thank you, Ian.

Overall, our fourth quarter results represent an exceptional finish to a record year. Outstanding execution by both groups contributed to the strong Q4 results, which included record net sales and adjusted EPS, and an all-time high backlog. We are also pleased to report that Adjusted EBITDA margins expanded 170 basis points to 17.3% in the quarter and were slightly above the midpoint of our recently raised target margin range of 14% to 20%.

Looking ahead, we remain optimistic about further margin expansion opportunities into 2024 and beyond, driven by a combination of internal efficiency initiatives currently underway, our continued focus on organic growth, planned production increases and value-added M&A.

Within our Environmental Solutions Group, an improving supply chain supported higher production levels. With increased sales volumes, contributions from our recent acquisitions, robust aftermarket demand and strong price realization, we were able to deliver a 15% year-over-year net sales increase and a 27% increase in Adjusted EBITDA compared to last year. Despite continued intermittent supply chain issues, we are encouraged by ongoing production improvements across our business units, with fourth quarter production at our two largest ESG facilities up a combined 11% year-over-year, and up 6% compared to Q3.

We are particularly pleased about the sequential improvement in production compared to Q3 and continue to believe that our large scale capacity expansions completed in recent years, including our 40% capacity expansion at our Vactor TRUVAC guzzler facility in Streator, Illinois position us well to absorb incremental volumes as supply chains continue to improve.

Our aftermarkets team had another standout quarter, with revenues up 24% over last year with notable strength in used equipment and part sales. Recall, our acquisition of Joe Johnson Equipment in 2016 marked the onset of a targeted strategy to expand our aftermarket business, and we believe we are starting to reap some of the multiyear benefits associated with that strategic decision.

The addition of our rental and used equipment offerings have allowed our teams to target entirely new cohorts of customers for our flagship sewer cleaners, safe digging and street sweeper offerings. The opportunity of purchasing our used equipment at a lower price is an important additional procurement option for industrial contractors in this higher interest rate environment, exemplified by the $12 million year-over-year increase in used equipment sales in Q4.

At the same time, we expanded our parts and service network and deepening our relationship with existing customers throughout the lifecycle of our equipment. In aggregate, aftermarket represented 27% of ESG revenue in Q4, compared to 25% last year.

In addition to strong organic growth, our recent acquisitions also contributed, with Trackless, our most recent acquisition, continuing its strong start. Acquisitions added approximately $15 million to our top line during the quarter.

Our Safety and Security Systems Group again delivered impressive results during the quarter, with 14% top line growth and an Adjusted EBITDA margin of 21.2%, slightly above the high end of our new SSG margin target range, and a 130 basis point improvement compared to last year.

Top line strength was broad-based across our SSG businesses throughout 2023, with sales of public safety equipment, industrial signaling equipment and warning systems each up organically by more than 15% this year. As we have indicated previously, we still expect the addition of a third printed circuit board line to yield further benefits into this year through a combination of cost savings, reduced reliance on offshore suppliers, and increased production volumes of public safety equipment.

Lastly, we are particularly pleased with our cash conversion in the quarter, having generated $103 million of cash from operations, up 162% from last year. On an annual basis, we continue to target 100% cash conversion levels, which, when coupled with a more normalized capital expenditures in the $35 million to $40 million range per year, should result in substantial free cash flow generation in 2024 and beyond.

Shifting now to current market conditions, demand for our products remains rock solid, with fourth quarter order intake of $465 million, representing a 5% increase compared to last year. We believe our targeted end market diversification efforts are yielding order strength across both our publicly funded and industrial end markets. Specifically in the fourth quarter, public revenue orders were up mid-single digits over last year, led by a year-over-year increase in domestic street sweeper orders. Industrial orders were up low-single digits year-over-year, primarily led by an increase in orders for dump truck bodies and road marking equipment orders, somewhat offset by lower safe digging truck orders.

Looking ahead, we see several internal and external tailwinds continuing to positively impact demand for our products and services. On the internal front, we remain energized by the market reception of our new product development initiatives, such as our MicroPulse lighting product within our SSG segment, our recently introduced Elgin RegenX street sweeper, and our growing aftermarket offerings.

I'm also pleased to announce that Dr. Scott Rohrbaugh has rejoined the Company as our Chief Technology Officer in January. At Federal Signal, Scott previously drove the process that resulted in an acceleration of our safe digging product offerings. Scott also brings additional expertise in new product development for electric and autonomous solutions.

Externally, we expect to continue to see benefits from the American Rescue Plan Act in our publicly funded markets, which in 2021, earmarked $350 billion for state, local and territorial governments for a variety of purposes, including the maintenance of essential infrastructure such as sewer systems and streets. Similarly, we believe the $550 billion bipartisan Infrastructure Bill to be a substantial opportunity for many of our Federal Signal products and aftermarket offerings as projects begin to come online in the upcoming years.

Although we don't believe the Infrastructure Bill will have a meaningful impact on our profits in 2024, we are beginning to see examples of the use of our products in early infrastructure projects. These projects include the Atlanta Hartsfield International Airport expansion, as well as a lead replacement project in upstate New York, and include the use of our street sweeping and safe digging product offerings.

In short, even despite our consistent production increases throughout 2023, lead times for certain products remain extended given the strength in new order trends. As such, we remain focused on increasing production levels to build more trucks as we aim to reduce current backlog and lead times while continuing to maintain a healthy order intake.

Turning to 2024, I am passionate about further improving and building on the successful strategies we have put in place since 2016. We remain committed to our strategic building blocks of operational excellence, organic growth, and value-added M&A, all of which represent the foundation on which we raised our through-cycle EBITDA margin targets on our last earnings call.

After codifying our Federal Signal operating system in 2023, which includes our 80/20 programs and lean initiatives, we are planning a phased rollout across our businesses in 2024. The goal of this continuous improvement initiative is to drive incremental efficiency gains, cost savings and process simplification across the organization. We believe this renewed initiative will provide multiyear benefits to shareholders and customers in the form of reduced lead times and cost savings.

Secondly, our team remains laser-focused on executing on our organic growth and new product development pipeline, which includes several electrification projects across the family of Federal Signal vehicles. Orders for our electric sweepers reached a new high point in Q4, and we expect to deliver all of our 2023 electric sweeper orders this year.

We are also excited about a host of other electrification projects across the Company and will exhibit several of our dump truck body products mounted on electric chassis at the upcoming NTEA Work Truck Show in Indianapolis.

In recent weeks, I had the opportunity to attend two other major trade shows, both of which confirmed our view of strong underlying demand for Federal Signal products. At the WWETT Show in Indianapolis, we showcased a range of vacuum truck products, including our sewer cleaners, guzzler industrial vacuum trucks and safe-digging equipment. Our long-term outlook on the hydro excavation market remains unchanged. We continue to believe that safe digging remains a critical organic growth driver for Federal Signal, as adoption and use cases proliferate across North America.

At the ATSSA Trade Show in San Diego, the combined MRL and Blasters booth generated substantial customer interest for our road marking and waterblasting solutions.

In addition to organic growth, we see an array of external levers, including an active M&A pipeline, and opportunities to drive future efficiency gains from already completed acquisitions, including TowHaul, Blasters and Trackless. Across all of our recently completed acquisitions, we strive to optimize distribution, aftermarket parts capture and operational cost reduction initiatives as we fully integrate these businesses into the broader Federal Signal organization.

Our latest acquisition, Trackless, is off to a fantastic start in year one. To size some of the progress made since the acquisition closed, we are proud to announce that Trackless has grown sales by over 30% in 2023 compared to 2022, having only been under Federal Signal's ownership since April of 2023. Importantly, the integration of Trackless products across our direct sales channel was critical in unlocking that sales growth, with sales of Trackless products through our channel more than doubling compared to last year.

The deep integration between our existing municipal distribution network and Trackless is expected to allow Trackless products to reach entirely new customer cohorts and geographies. Into '24, we plan to further integrate Trackless into our aftermarket platform by scaling rental opportunities, an initiative we believe should yield incremental earnings growth in coming years.

While we believe Trackless remains in the early stages of a multiyear growth opportunity, we thought it proved an excellent example of the value we are able to extract after completing acquisitions and integrating businesses into our Federal Signal family. For most acquisitions, key synergies typically span both revenue and cost, with major opportunities across distribution, aftermarket optimization and material cost reduction initiatives.

Lastly, as our teams continue to navigate an improving but still smooth supply chain backdrop, we believe we have ample capacity to further scale our output after having completed major facility expansions in recent years.

Turning now to our outlook. Conditions in our end markets remain healthy, and with ongoing execution against our strategic initiatives and opportunities to drive improved efficiency, we are confident that we will have another record year in 2024. For the full year, we are expecting net sales of between $1.85 billion and $1.9 billion, double-digit improvement in pre-tax earnings, and EBITDA margin performance in the upper half of our new target range.

We also currently expect to report adjusted EPS of between $2.85 and $3.05 per share for the year, which would represent a year-over-year increase of between 10% and 18%, and the highest EPS level in the Company's history.

Our outlook does not include an anticipated tax benefit of approximately $14 million that we expect to realize in Q1, and also assumes continued improvement in production output and a robust aftermarket activity in Q2 through Q4.

Lastly, although seasonal effects typically result in Q1 earnings being lower than subsequent quarters, given less aftermarket revenue capture and more production slots earmarked for our internal rental fleet, we are expecting Q1 to represent between 19% and 20% of our full year earnings.

In closing, I want to express my profound thanks to all of our employees, suppliers, and stakeholders for a tremendous 2023. With an active M&A pipeline, ongoing investment in new product development, available capacity, good access to skilled labor and anticipated multiyear tailwinds from infrastructure legislation, our businesses are well-positioned for long-term sustainable growth.

With that, we are ready to open the line for questions. Operator?

Operator

Thank you. (Operator Instructions) Our first question comes from the line of Steve Barker with KeyBanc Capital Markets. Please proceed with your question.

Jennifer Sherman

Good morning, Steve.

Jacob Moore

Hi, good morning. This is Jacob Moore on for Steve Barker. Thanks for taking the questions.

Jennifer Sherman

Absolutely.

Jacob Moore

First one, backlog was up again for this twelfth straight quarter and is still looking very strong. My question is, how much of that backlog is set for delivery in '24, how much additional un-booked capacity do you think you have in '24, and what kind of chassis availability headwinds are you baking into your assumptions, if any?

Jennifer Sherman

Yes, it really depends on the business. As I talked about in my prepared remarks, some of our lead times are longer than we would like, and we have initiatives in place, our Build More Trucks initiative, to reduce those lead times. We are making progress in some areas, notably safe digging, which we talked about repeatedly, an important growth area for the Company.

With respect to chassis availability, we are in pretty good shape for Class 8 chassis, which support the vast majority of our businesses. We do have some pockets of areas, for example the Class 7 chassis for our street sweeper business. We're continuing to monitor that. With respect to Class 5 chassis, for a very small percentage of our dump truck business, they're flat year-over-year. As we move forward, we are hopeful that the second half of the year, we will see more of those Class 5 and Class 7 chassis. But overall, we're in pretty good shape.

Then, I would conclude with the capacity expansions that we've invested in, particularly at Vactor and some of our dump truck businesses. We're very well positioned with improving supply chain conditions to be able to leverage those investments.

Jacob Moore

Understood, that's helpful. Thank you. My second question is, how much of your 2023 growth would you attribute to price versus volume, and what expectations are embedded in your roughly 10% growth guidance for '24?

Ian Hudson

Yes, as we think about the guide for '24, I think we're implying 7% to 10% growth. Pretty much all of that is organic. I would say price is about 2.5%, 3% of that. In '23, it was between 3% and 4%, was the price impact on the top line.

Jacob Moore

Got it. Thank you very much.

Ian Hudson

Thanks, Jacob.

Jennifer Sherman

Thank you.

Operator

Thank you. Our next question comes from the line of Chris Moore with CJS Securities. Please proceed with your question.

Christopher Moore

Good morning, guys. Congrats on…

Jennifer Sherman

Good morning, Chris.

Christopher Moore

…two great years. All right. We've asked this multiple ways, but clearly, Jennifer, you said that you still don't expect much in the way of—in '24, from some of the infrastructure bills. But I'm trying to look at it from a three to five-year perspective. Is it reasonable to think that these bills could add a couple of points to annual revenue growth over that timeframe? Just curious kind of how you guys look at that.

Jennifer Sherman

Yes, absolutely. You are correct that we're not expecting a lot in '24. I think transportation secretary Buttigieg had a pretty good quote about it. He said, "One way to think about it is, the first year was about passing the money in '22. The second year was about the programs launching in '23, and '24 is about the money moving so we can get the dirt flying."

As we move forward, we think there's opportunities for almost all of our products, and we expect that to continue over a five-year period. In terms of quantification of it, I think we—I started with the Buttigieg quote because we got to really understand what those projects are. But again, we saw some early examples that we talked about in the prepared remarks, specifically around street sweepers and safe digging. We're pretty energized about this five-year plus tailwind.

Christopher Moore

Got it, that's very helpful. You had talked in your prepared remarks about planned production increases, and I just wanted to maybe understand where we were focused on there.

Jennifer Sherman

Sure. If we look at the backlog for certain products and we look at those associated lead times, we're very focused on reducing those lead times. We've made some progress with respect to some of our safe digging products. We're focused on reducing lead times for other product lines at our facility in Streator, and for our street sweepers in Elgin, Illinois.

Those are the two primary areas, and the teams have goals in 2024. The Federal Signal operating system that we talked about is going to be an important part of that initiative. We're continuing to see sequential improvement, which is encouraging.

Christopher Moore

Got it, that's helpful. I think after Q3, you talked about lead times for sewer cleaners and street sweepers being in the eight to nine-month range versus the typical four to five. Are they a little bit improved off of Q3, or still in that range, or?

Jennifer Sherman

It depends on which product line you're talking about in terms of the lead times. Certain street sweeper product lines are extended. I always talk about, this is a high-class problem to have, because our orders continue to remain strong while our production rates are increasing, and our aftermarket business continues to remain strong, which is an important driver of use of those particular products.

Christopher Moore

Got it. I appreciate it, guys. I'll leave it there. Thank you very much.

Jennifer Sherman

Thank you very much, Chris.

Operator

Thank you. Our next question comes from the line of Walt Liptak with Seaport Research. Please proceed with your question.

Jennifer Sherman

Good morning, Walt.

Walter Liptak

Hey, good morning, guys. Good morning. Congratulations on the great end to the year. My first question is to Ian. Just thinking about the way that you're looking at the guidance for 2024, and you made a comment that you're going to be at the upper end of the EBITDA range. The question is, what determines where you are within that range? Is it the amount of revenue mix shift (phon) and leverage, or is it some of these productivity programs or capacity coming online? What helps you either plus or minus in the range?

Ian Hudson

Yes. Firstly, Walt, I think just to correct what we said in the prepared comments is that we expect to be in the upper half of the new target range, not necessarily at the upper end of that range. Just wanted to clarify that.

Walter Liptak

Okay, that's important.

Ian Hudson

Yes, yes. But in terms of what helps us get that margin improvement, I think we think about the expansion at the Vactor facility and being able to actually tap into that expansion, in the sense of increasing the build production rates at that facility. That had some pretty attractive drop-through. As we think about ramping up production in that facility, that should have some margin benefits there.

The other thing that would be a consideration is just the continued growth in our aftermarket business. We've seen some nice growth there again this year. I think we were up north of 20% year-over-year in terms of our aftermarket business, that should be margin-accretive.

I think the other things would be some of the acquisitions we've completed in recent years, some of the value-added M&A we've done. That can have some margin benefits. Then finally, Jennifer touched on it, would be the Federal Signal operating system and just our ability to execute and to drive some efficiencies in our production processes. Those would be the main drivers from a margin standpoint.

Walter Liptak

Okay, great. Okay, thanks for that. In the prepared comments, you called out warning systems as having a good quarter. If memory serves, warning systems might have been lagging for some time. I know that it's not that big of a part of the business, but if it's ticking up, does that tell you something about some of the larger municipal projects?

Jennifer Sherman

Yes, what I spoke about is that the warning systems was up year-over-year, and we have seen—that's an area where we have seen the benefits from the FEMA fund. Again, we live in a very uncertain world, and the need for redundant warnings is critical. We've seen applications of that equipment, the use cases, continue to proliferate. I'd be remiss if I didn't add there that one of the encouraging things that occurred in '23, and as we move into 2024, we just have broad-based strength across all of our SSG brands.

Walter Liptak

Okay, great. Okay. Kind of along those lines, in SSG, you're putting in the third production line. Can you tell us if this is because of market growth, or is it market share gains? I know you were going after some international markets for some of the police lights and others.

Jennifer Sherman

Yes. The good news is that it's in, the teams have done a really nice job in terms of the installation as a major project. It's a combination of to support organic growth initiatives. We're also bringing back—we previously, our supply chain was in Asia. We're onshoring some of that work. It supports, also, approach that we have in terms of being the total supplier for certain pieces of equipment. It was a hole in our product portfolio that we sourced from a third party, and now, as the teams move strategically to supply more and more of that equipment, this fills one of those product holes. Overall, a very successful initiative.

Walter Liptak

Okay, great. Then last one for me is, you talked about the phased rollout of the operational excellence program that you talked about last year.

Jennifer Sherman

Yes.

Walter Liptak

What inning are we in? Obviously, SSG has done a great job with the lights, but are there other businesses that you could tell us that you're going to be working on, or are working on? In M&A, it sounds like Trackless is doing great. Do they get operational excellence first, or do you let them grow?

Jennifer Sherman

Yes, great question. As we talked about last year, we added resources to our 80/20 and lean initiative program. We had a number of wins last year, with our Ox Body Group in particular, is a great example, in Alabama. As we roll out this particular system, our focus, for example Elgin, the teams who are out there already started in 2024, and that's an area, because we're very focused on reducing lead times for that particular product line, and obviously increasing throughput. But Mark Weber and the teams have identified a number of different opportunities.

Typically, with acquisitions, we wait until year two for that type of work. But put it this way, there's more demand right now for the resources, which is fantastic, and we're looking at how do we increase demand in order to respond to what we think is a meaningful opportunity going forward.

Walter Liptak

Okay, great. All right, thank you.

Jennifer Sherman

Thank you.

Operator

Thank you. (Operator Instructions) Our next question comes from the line of Dave Storms with Stonegate Capital Markets. Please proceed with your question.

David Storms

Good morning.

Jennifer Sherman

Good morning.

Ian Hudson

Good morning, Dave.

David Storms

It looks like there was a slight diverging in sequential order patterns for ESG and SSG, with SSG just seeing orders down slightly since last quarter. Is that just a blip from orders being apparently lumpy, or is there more to that story that we should be thinking about?

Ian Hudson

Yes, there's some lumpiness in terms of large fleet orders, and I think we've talked about a large fleet order that we got in the first half of the year for the SSG business. We also, I think on the last call, made reference to Ford, who was having a model year changeover for some of its fleet vehicles. That had some impact. It probably was less of an impact than we originally anticipated in Q4, but that could have had some impact, and that's primarily timing. People wouldn't place the orders in Q4, but then they'll place them in Q1. I wouldn't necessarily say, within SSG, there's anything that we weren't expecting. Probably the opposite, that the orders probably came in, certainly higher than we had expected with that model year changeover.

David Storms

Understood, very helpful. Then, just a quick one on your cash deployment priorities; I know you touched on it, but it seems like you did everything in 2023, from buybacks, dividend raises, CapEx and M&A. If you had to prioritize them for 2024, what would that look like?

Jennifer Sherman

Sure. Number one, invest in organic growth initiatives; number two, M&A; number three, competitive dividend yield; number four, opportunistic share buybacks.

David Storms

That's very helpful. Thank you for taking my questions.

Jennifer Sherman

Thank you.

Ian Hudson

Thank you.

Operator

Thank you. Ladies and gentlemen, this concludes our question-and-answer session, and I'll turn the floor back to Ms. Sherman for any final comments.

Jennifer Sherman

Thank you. We would like to express our sincere thanks to our stockholders, employees, distributors, dealers, and customers for their continued support. Thank you for joining us today and we'll talk to you soon.

Operator

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