Modine Manufacturing
Q4 Fiscal 2026 Earnings Call
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Presenters
Kathy Powers, VP, Treasurer, and IR
Neil Brinker, President and CEO
Mick Lucareli, EVP and CFO

Q&A Participants
Matt Summerville - D.A. Davidson
Noah Kaye - Oppenheimer
Neal Burk - UBS
Chris Moore - CJS Securities
David Tarantino - KeyBanc Capital Markets
Brian Drab - William Blair
Jeff Van Sinderen - B. Riley Securities

Operator
Greetings and welcome to Modine's Fourth Quarter Fiscal 2026 Results Conference Call. At this time, all participants are on a listen only mode. A question-and-answer session will follow the formal presentation. If anyone should require operator assistance during the conference, please press star zero on your telephone keypad. As a reminder, this conference is being recorded. I would now like to turn the conference over to your host, Kathy Powers. Thank you. You may begin.

Kathy Powers
Hello and good morning. Welcome to our conference call to discuss Modine's fourth quarter fiscal 2026 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 will be using with today's presentation are available on the Investor Relations section of our website, modine.com. On slide three 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 will turn the call over to Neil.

Neil Brinker
Thank you, Kathy, and good morning, everyone. I'm pleased to report another strong quarter, capping off our fourth consecutive year of record-breaking revenue and adjusted EBITDA. This is a testament to the hard work and dedication of the entire team. Even more importantly, we've built strong business momentum and significantly advanced our strategic transformation, accelerating the evolution of our portfolio to become more focused on higher-margin and

higher-growth businesses. Earlier in the year, we announced three strategic acquisitions, AbsolutAire, L.B. White, and Climate by Design, which collectively added 119 million in incremental revenue this year. These acquisitions added key products to our portfolio and opened new end markets and channel partners for our HVAC businesses. In the second quarter, we announced an incremental 100 million investment to expand capacity for our data center products in the U.S. We are more than six months into this work, and I'm happy to report that we are firmly on schedule with this crucial initiative. When completed, our investment to expand our operations footprint in the U.S. will provide critical capacity close to our North American customers, allowing us to further advance our market positions in this hypergrowth market. In January, we announced that we will further accelerate our transformation by spinning off our Performance Technologies segment and combining it with Gentherm. This transaction will allow us to focus on our high-growth businesses while providing an ideal home for our Performance Technology team.

And finally, to close out this remarkable year, I'm proud to announce a landmark long-term capacity locking agreement with a key strategic data center customer. Under the terms of this LTA, we will guarantee capacity to supply more than 4 billion of data center cooling products during calendar years 2027 through 2029. This agreement highlights the confidence our customers have in Modine and validates our need for our current investment in capacity expansion. This has been a year of tremendous accomplishments. I'm so proud of our team's execution and commitment. While we celebrate these successes, we are even more energized by the significant opportunities that lie ahead.

Please turn to slide five. Climate Solutions delivered another outstanding record-breaking year. The segment reported a 43% increase in revenues for the full fiscal year including acquisitions. Organic sales grew 32% in fiscal 2026. Sales growth in this segment was also driven by data centers, which increased 73% to 1.1 billion. We ended the year with a strong fourth quarter performance in data centers with over 400 million in revenue. To put this in perspective, our chiller production in North America increased fivefold as compared to the prior year. This was despite production delays where we lost 20 shifts due to severe weather in the South. The team worked extremely hard to overcome the impact of this missed production and make sure we delivered on our customers' commitments, which included significant overtime hours.

In addition, we ended the year with our second consecutive quarter of record order intake. I recently toured several of our data center facilities, and I'm pleased to report that the expansion plans are progressing well. We've already shipped our first chillers from Jefferson City, Missouri, and we shipped air handling units and CDUs from our Franklin, Wisconsin plant in the fourth quarter. Overall, I'm very pleased and proud of this team's work. Their efforts have been instrumental to our revenue growth this quarter and will continue to allow us to grow to meet future demand. As we continue to execute on our capacity expansion, we are proactively managing our supply chain to ensure our growth trajectory. We are currently addressing challenges with a few key suppliers, which is affecting our production schedules and efficiency. We began to see a shortage of certain components late in the quarter, and we are implementing corrective actions. We have a dedicated team actively working on solutions including qualifying new vendors to ensure a stable supply of components. We're confident in our ability to manage through these short-term challenges, and while this will temporarily impact our Q1 production plans, we do not anticipate any impact on our full year outlook.

From a market demand standpoint, we're in a great competitive position. The outlook remains incredibly strong, and we see no signs of slowdown. The hyperscalers are continuing their significant investments with a heavy concentration in North America. We are deepening our partnership with strategic customers, codeveloping innovative products to meet their current and future cooling needs. One of the products I'm most excited about is our groundbreaking 3-megawatt chiller, which delivers a 50% increase in cooling capacity with only a 9% increase in footprint. As chip densities increases, data centers will require more cooling capacity within the same footprint. Our 3-megawatt chillers modular design will be the solution for handling higher heat loads within the same space. We believe this will be a game changer. Innovating alongside our customers for what are dynamic cooling requirements over multiyear periods is giving us greater visibility into future demand, allowing us to invest in our key growth initiatives and products with greater conviction.

Now turning to the rest of our Climate Solutions segment. Our HTS business delivered a great quarter with revenues up 19%. This was largely driven by higher coil sales to data center and heat pump customers. In HVAC Technologies, revenues increased 51% from the prior year, driven by recent acquisitions. Our HVAC business on the East Coast and in the South also lost significant production time due to severe weather. Looking forward, we have a great deal to be excited about across this segment. The commercial HVAC portion of the Scott Springfield business is poised for a strong recovery from a down year. This business was negatively impacted by tariffs this past year but is expected to rebound in fiscal '27. We are also seeing continued momentum in our coils business, not only with data center customers but also in commercial HVAC markets. Similarly, our heating businesses are also expected to have a good year, led by agricultural heating and markets served by L.B. White. In summary, I'm very pleased with the performance of the Climate Solutions segment, and I'm confident in our strategy as we head into the fiscal year '27.

Please turn to page six. The Performance Technologies segment is making excellent progress on preparing for the planned spin-off and merger with Gentherm. There are numerous work streams preparing for the separation including standing up IT systems to ensure that we can deliver a stand-alone operating business to Gentherm at close. We have completed several major milestones and have others ahead of us including Gentherm's S-4 submission to the SEC and its subsequent shareholder approval as well as a receipt of our IRS determination letter on the tax treatment of the Reverse Morris Trust transaction. Overall, this process remains on track, and we are still expecting to close this transaction before the end of the calendar year, presuming that all these necessary approvals are received.

The team is excited about the road ahead. We have worked diligently to improve our business with higher adjusted EBITDA margins on flat to down revenues. Margins were lower this quarter as anticipated, primarily due to higher material costs including the impact of tariffs. We expect this to improve in fiscal '27 as we pass through and recover these costs. While our vehicle markets have been challenging, we are seeing bright spots and opportunities for growth. The stationary power market continues to be strong, and we expect this to return to growth in fiscal '27. We are also encouraged by the emerging growth in our automotive and construction equipment businesses. Regarding the latest 232 aluminum tariffs, we are proactively working to mitigate their impact on our business. We have a proven track record of managing these situations and are in the process of working through this current round. We have factored a range of expected costs in our guidance, which Mick will discuss in more detail.

Before I hand it over to Mick, I'd like to remind you of our upcoming changes to our segment reporting structures. The Performance Technologies segment under the leadership of Jeremy Patten will continue to be reported as a segment until the expected spin-off and merger with Gentherm closes later this year. Our Climate Solutions segment has been split into two segments beginning in fiscal 2027. Data Centers led by Art Laszlo and Commercial HVAC currently led by Eric McGinnis. Eric has announced that he will be retiring in June, and his successor will be named at a later date. I'd like to sincerely thank Eric for his leadership and invaluable contributions to Modine over the past five years. We wish Eric a long, happy, and well-deserved retirement. With that, I'll turn the call over to Mick.

Mick Lucareli
Thanks, Neil, and good morning, everyone. Please turn to slide seven to begin reviewing the Q4 segment results. Climate Solutions delivered a strong quarter with sales up 87% over the prior year. The main driver was data centers, which grew 246 million or 158%. HVAC Technologies sales increased 33 million or 51%, driven by our recent acquisitions, partially offset by slightly lower sales of heating and indoor air quality products. Heat Transfer Solutions sales grew 19% or 26 million, primarily driven by coils with higher sales to commercial HVAC and data center customers. I'm pleased to report that Climate Solutions fourth quarter adjusted EBITDA grew 63%, driven by strong data center earnings growth from the prior year. As anticipated, the Climate Solutions adjusted EBITDA margin was down versus the prior year but improved sequentially from the prior quarter, and all three product groups generated strong year-over-year earnings growth including a near doubling in our data center business. One headwind during the quarter was severe weather and storms across the United States. As Neil stated, we lost 20 production shifts in data centers and another 35 shifts in other parts of the business due to weather-related shutdowns. The team largely made up this work but with additional costs for overtime that negatively impacted gross margin. As we discussed last quarter, HVAC Technologies is currently experiencing a negative mix impact along with higher costs while we are integrating several acquisitions. These factors are temporary, and we expect that the margins will continue to improve. We also saw a nice sequential margin improvement in Heat Transfer Solutions contributing to the rapid earnings growth.

With regards to the Data Center Group, I'm happy to say that we saw another sequential margin gain in Q4. While the margin improved, there were some negative margin impacts during the lost production days tied to the weather and a shortage of some critical parts. As Neil discussed, we expect the team will address the shortage of a few critical components during our first quarter, and I'll provide some additional information in our guidance section. Despite some planned and unplanned challenges in growing revenue by more than 85%, our Climate Solutions segment delivered over 60% earnings growth. As Neil noted, starting in fiscal '27, this segment will be split into two, data centers and commercial HVAC. I'll discuss our outlook in more detail at the end, but we anticipate another year of earnings growth driven by strong top line growth and further margin improvement.

Please turn to slide eight. Performance Technologies revenue remained relatively flat from the prior year with lower sales offset by FX, which positively impacted sales by 12 million. Heavy-duty equipment sales were down 5%, primarily driven by lower genset revenue. On-highway sales were up 4% with higher sales to automotive and commercial vehicle customers. As expected, the EBITDA margin was down versus the prior year, primarily due to lower sales volume along with higher material and tariff costs. Given the difficult market conditions and higher material costs, adjusted EBITDA declined 15% from the prior year. As we've done in the past, we'll recover tariffs through surcharges and mitigate increasing metals prices with pricing mechanisms in our customer contracts. As a reminder, there is typically a three- to six-month lag before these price adjustments take effect. SG&A expenses were 5 million lower versus the prior year as the segment continues to benefit from cost savings initiatives implemented earlier in the year. The team has been quite diligent in managing all controllable costs this year with the full fiscal year EBITDA margin improving 30 basis points to 13.8%. This was a nice improvement given the lower revenue and various cost headwinds. We expect margins to further improve during fiscal '27 as we adjust commodity-related pricing, recover tariffs, and maintain our 80/20 focus and discipline.

Now let's review the total company results. Please turn to slide nine. Fourth quarter sales increased 47%, driven by revenue growth in Climate Solutions. Gross profit increased 29%, driven primarily by higher data center sales volume along with contributions from the acquisitions in Climate Solutions. The lower gross margin was due to the combination of factors that I covered with Climate Solutions and Performance Technologies. SG&A expenses increased but at a much lower rate than overall revenue growth. We increased SG&A spending in Climate Solutions, partially offset that with Performance Technologies cost savings initiatives. As a result, SG&A as a percentage of sales fell by 190 basis points to 10.7%. I'd also like to note that the reported SG&A included $12.5 million of disposition costs related to the pending spin-off of Performance Technologies. These have been added back to arrive at adjusted EBITDA and are referenced in the reconciliation schedule.

From an earnings standpoint, I'm pleased to report a 40% improvement in adjusted EBITDA. And while I reviewed the temporary items that have impacted this year's margin, the adjusted EBITDA margin continues to improve with a 40 basis point increase from the third quarter while growing revenue at an exponential rate. Adjusted earnings per share increased 53% to $1.71. To summarize our consolidated results, Q4 represented another strong quarter of revenue and earnings growth. We're pleased to have delivered another record year. The team is managing well through a strategic transformation and exponential data center growth. This year represents the fourth year of earnings growth of 20% or more, resulting in a compound annual growth rate in excess of 40%. As we look ahead, we expect to continue to capitalize on this momentum and drive further margin improvement as the data center production volumes ramp.

Now moving to the cash flow metrics, please turn to slide 10. Free cash flow was a positive 153 million in the fourth quarter. As Neil announced, we reached a long-term capacity agreement with a key strategic data center customer and received an upfront cash payment of 165 million. This payment is intended to support our capacity expansion and to meet future volume commitments under this agreement. From an accounting standpoint, the customer payment represents a down payment to secure future volumes. It did not impact the income statement and was recorded as a contract liability, and this liability will be reduced over the life of the contract based on future volumes. Net debt of 363 million was 84 million higher than the prior fiscal year-end. This included the funding for the three acquisitions completed earlier this year, the investments in CapEx and working capital required to grow our data center business. Our balance sheet remains quite strong with a leverage ratio of 0.8, and based on our earnings and cash flow outlook, we expect it will decline further in fiscal '27. CapEx for fiscal '26 totaled 143 million. As I explained last quarter, some of the data center capital investments will carry over into the next fiscal year as we continue with our capacity expansion to meet our future customer demands.

Now let's turn to slide 11 for our fiscal '27 outlook. Similar to last year, there's a great deal of uncertainty across the markets and the global economy especially around input costs, tariffs, and the overall supply chain. With regard to trade and tariff risk, our team is continually assessing the impact on our business including the recent announced 232 tariffs on metals. We believe that we'll be able to recover the majority of these impacts with pricing and surcharges. While the net risk is quite manageable, we can be impacted by the timing of the material price adjustments. Our guidance ranges to start the year reflects the current level of uncertainty in the markets and input costs. Also, our outlook includes a full year of Performance Technologies. Once we know when the pending transaction will close, we'll provide an update on our full year outlook for the remaining business. For fiscal '27, we expect total company sales to grow in the range of 20% to 35%. For the Data Center segment, we expect sales to grow 60% to 80%. This is ahead of our previous multiyear estimate of 50% to 70%. We don't anticipate that the part shortages we started to experience in Q4 will impact our full year production but will temporarily impact our capacity ramp.

Consistent with the previous year, we expect that each of the quarters will show very rapid year-over-year sales growth in excess of 50%, and from a sequential standpoint, we anticipate that Q2, Q3, and Q4 will all show sequential increases. For Commercial HVAC, we expect sales to grow 5% to 10% this year. This is driven by accelerated growth in our heating and IAQ businesses. In addition, we expect that the recent growth trends in the coils business will continue with mid-single-digit growth in fiscal '27. For Performance Technologies, we anticipate sales to be flat to up 5%, driven primarily by material pass-through agreements and growth in stationary power programs. We are expecting most other markets to be flat with opportunity for improvement in the back half of the fiscal year.

With regard to our full year earnings, we expect fiscal '27 adjusted EBITDA to be in the range of 650 million to 680 million, representing a growth rate in excess of 40%, and this implies at least 100 to 200 basis points of margin improvement. We expect that this will be driven by a margin increase in all three business segments. From a free cash flow perspective, we expect we'll generate a higher level of free cash flow. and as a percentage of sales, we believe it will be between 4% and 6%. Please see the appendix in this presentation for all our key assumptions including interest expense, taxes, depreciation, and amortization expense. As we currently look at the next several quarters, we expect that margins and earnings will increase sequentially throughout the year driven by the data center trends I described and our material cost recovery plans. From a year-over-year perspective, we anticipate that each quarter will result in double-digit earnings growth with favorable margin comparisons to begin in Q2 and continuing through year-end. As Neil and I previously noted, we are now operating under three business segments, and to assist everyone with modeling and analysis, we'll provide a recast fiscal '26 segment results, and we'll begin reporting this way with our first quarter results.

To wrap up, we're excited about our fiscal '27 outlook and fully expect to deliver another year of record sales and adjusted EBITDA. Very few companies are planning to grow earnings in excess of 40% this year and drive meaningful margin improvements. I'm proud to say that this team has executed on these types of results over the last several years. They've worked hard to execute on our strategy using 80/20 as a guide. The recent announcements related to the LTA and pending spin-off of Performance Technologies are truly historic. We remain confident that these actions are setting the stage for long-term sustainable growth for Modine shareholders. With that, Neil and I will take your questions.

Operator
Thank you. At this time, we'll be conducting a question-and-answer session. If you'd like to ask a question, please press star one on your telephone keypad. A confirmation tone will indicate your line is in the question queue. You may press star two if you'd like to remove your question from the queue. For participants using speaker equipment, it may be necessary to pick up your handset before pressing the star keys. One moment, please, while we poll for questions. Our first question comes from Matt Summerville with D.A. Davidson. Your line is now live.

Matt Summerville
Thanks. Morning. Mick, I was wondering just a question on margins. As we kind of think about looking at Modine in the context of a climate only sort of RemainCo entity, what would your profitability expectation be for the PT business that's been factored into your guide as again we

think about how to best build and for others to best build a climate only RemainCo sort of model looking ahead?

Mick Lucareli
Yeah. Hey, Matt. I think it's going to be -- good news is relatively clean and your ability to estimate it until we do the recast and then eventually the disc ops after the deal closes. We're looking at this year, so I mentioned already from a top line, flat to 5%. So, relatively consistent top line with last year. From a margin, we see it early this year being between probably like a 14% to 15%, maybe up -- that would be up maybe 25 to 100 basis points. So, that will give you a good idea of impact to PT or how to back that out. There's some complexities around corporate costs that will stay or go with, but net-net, there wasn't a large material difference in remaining SG&A. So, for the most part, I think you'll have the pieces to try to estimate Modine without PT.

Matt Summerville
Thank you. That's helpful. And then maybe if you guys could talk a little bit -- you're guiding fiscal '27 data center business to up 60 to 80. You have this massive long-term agreement for capacity that you disclosed yesterday. How does all of this influence the multiyear CAGR of 50 to 70 that you previously discussed for the data center business? And secondarily, do you see more LTAs, and is the one you just signed accretive to profitability? And if so, maybe talk about that. Thank you, guys.

Mick Lucareli
Yeah. I'll go first. The -- we're not -- we don't see a reason to change our longer-term outlook, and we'll do this year -- later this year, we'll do probably -- we'll go out another year of more formal guidance. But in short, Matt, raising this year up to 60 to 80, I don't think that changes our outlook for the next year being 50 to 70. Some people have asked, would that mean imply a decline? No. We still don't see the funnel shrinking or squeezing the back end of the funnel. So, I'd say for now, we still hold with the fiscal '28, 70% up. And before Neil can jump in, the LTA would definitely be accretive to where we are today. Or say it another way, it's absolutely within the target margins of where we want the data center business to be.

Neil Brinker
Yeah. I agree, Mick. We're in those conversations with customers. We'll always entertain a conversation with the customer relative to an LTA or a derivative of an LTA, some form of it. Honestly, that's -- we're seeing the market move but nothing of this significance for sure. But yeah, there could be potential opportunities for smaller versions of that, yes.

Matt Summerville
Thanks, guys. I’ll get back in queue.

Operator
Our next question is from Noah Kaye with Oppenheimer. Your line is now live.

Noah Kaye
Thanks. Just a follow-up and congratulations, by the way, on making that LTA. So, two related questions on it. First, does this result in you expanding capacity beyond the scope of the expansion that you outlined in July? In other words, is this incremental as an increase in your revenue capacity? How much, if so? And second, I think I understood you, Mick, but I just want to be crystal clear. The LTA you're saying is not really incremental to the targets you've already given us? Or is it more that you are after this fiscal year going back to the 50% to 70% CAGR on top of where you'll exit fiscal '27?

Neil Brinker
Hey, Noah. This is Neil. I'll take the first part of that question. It's in -- the LTA that was announced is in the numbers of the capacity expansion that we've talked about over the last few quarters. And we believe with the annual CapEx that we traditionally spend each year, particularly in the data center business, that annual cycle of CapEx spend will be sufficient for us to continue to grow capacity beyond this LTA.

Mick Lucareli
And then to your question on growth rates, no, I'll try. Again, I'm glad to make sure there's no confusion. This year, we see revenue growth higher, 60% to 80%, and after -- as we roll forward then to next fiscal year, I would still hold to a 50% to 70% growth rate on top of the year we'll finish this year.

Noah Kaye
All right. That's extremely helpful. Thank you. And then just you called out the weather impacts across the business in the quarter. Just so we kind of have that as a data point heading into next year, can you maybe dimension what the cost impact was, whether it was sort of a lost profitability, lost EBITDA numbers, that's something that you can have and can share with us?

Mick Lucareli
Yeah, from a Climate Solutions side, Noah, I think the weather cost about 50 to 100 basis points in the Climate business from a gross margin standpoint.

Noah Kaye
Okay. Thank you very much.

Mick Lucareli
Sure.

Operator
Our next question is from Neal Burk with UBS. Your line is now live.

Neal Burk

Hey. Thanks for the question. Mick, I think you just mentioned data center growth of 60% to 80% for this year but also for fiscal '28 if I heard that right. Can you just kind of remind us like the number of production lines that you had running exiting the year and how many you're expecting to get to by year-end?

Mick Lucareli
Yeah. I'll go quick, and Neil then can talk about capacity. We see 60% to 80% growth this year on the data center side. So, that's, call it, 1.8 billion to the 2 billion range this year. And then for the following fiscal year, I would still use a 50% to 70% range for our fiscal '28. We'll dial that in, and we'll know more. That's why I said later this calendar year either through an IR meeting or an IR Day, we'll likely give a more firm fiscal '28 or even a '29 outlook for all of you. But in the interim, I would assume next year is still going to be a 50% to 70% growth rate.

Neil Brinker
On to capacity, we have -- this is specific to chillers and data centers. We have half of the capacity running at various rates of efficiency today. We'll be doubling that by the end of the fiscal year.

Neal Burk
That's helpful. And then just a follow-up on -- just to make sure I understand for the current year. I know you said calendar 2027 is when you start recognizing revenue for that $4 billion long-term agreement. Do you have enough visibility to say like is there just basically one quarter assumed in the guide for this year of revenue recognition? Because one quarter alone off of that 4 billion should be pretty substantial.

Mick Lucareli
We actually have a little bit of that built into our current guide. And part of it is we know where the LTA is, and we have windows where they give us firm commit. I don't think we're quite there yet to know what that exact number will be in Q4. And then also, I would just add, as we've tried to do in previous years, I would say we've got the most firm commitments and delivery schedules for the next six months, Neal. And when we get to our Q4 and where we've tended to update our Q4 or raise guidance, if we're fortunate enough, would be probably we get halfway through the year. So, Q4 is kind of our best placeholder for this time, and we're just balancing the known and unknown at this point with regards to that LTA.

Neal Burk
Okay. Thank you.

Operator
Our next question comes from Chris Moore with CJS Securities. Your line is now live.

Chris Moore

Hey. Good morning, guys. So, in terms of -- obviously, data center growth, 60% to 80% this year, continued rapid 50% to 70% and strong beyond that. So, that recognizes the market is dynamic. The mix of products to get there might change. Maybe just strictly from a fiscal '27 perspective, is the mix pretty locked in? And if so, roughly what percentage of that is chillers?

Neil Brinker
So, you're right, and that's why we have the modularity with our factories so that we can adjust and pivot to whichever design that we move forward with. The last number we gave was around half of that was chillers.

Kathy Powers
40% this year, and then [inaudible] about 50%.

Neil Brinker
[Inaudible] Chris, to be specific. So, there is a little bit of a mix shift there. And then the balance of that, the other side would be air handling units, CDUs, other products, fan walls. That would be the -- that's what we have factored into the mix so far.

Chris Moore
Got you. Very helpful. And just on the heat transfer side -- so, the growth this quarter, you've talked about driven both by data center and heat pump customers. Moving forward, just from a data center perspective, how much of that growth is on the data center side? And is that going to be kind of a constant moving forward over the next five years, that piece of the heat transfer growth?

Mick Lucareli
On the -- so, within the coil side, the Heat Transfer Solutions, clearly, the largest rate of growth is coming out of the data center side. I would say the balance of it is -- tends to be more based on replacement cycles or GDP cycles. Neil, anything you want to add?

Neil Brinker
Yeah. And it's pretty new in terms of the growth on the data center side that we're seeing over the last quarter or so. We're still building out the funnel. We're engaging with customers to understand what the short-term and long-term commitments are. But definitely, there's interest there on the data center side as we see our customers wanting to lock up some supply.

Chris Moore
Got it. I appreciate it, guys. I’ll jump back in line.

Operator
Our next question comes from David Tarantino with KeyBanc Capital Markets. Your line is now live.

David Tarantino
Hey. Good morning, everyone. Maybe following up on the LTA, understanding that there's often NDAs covering this, but could you give any color on kind of the profile of the customers? Is it new or an existing customer and what technologies the agreement covers? And then maybe within that, how should we be thinking about how the $4 billion shows through in terms of timeline as the capacity continues to ramp here?

Neil Brinker
Yeah. Thanks, David. So, with an existing customer, yes. It's someone that we've had a relationship -- we've got great relationships with our data center customers, and this is just further evidence. And this LTA specific for our chillers.

David Tarantino
Okay. Great. And any thoughts on how --

Mick Lucareli
No, go ahead, David.

David Tarantino
Just any thoughts on how the 4 billion shows through kind of as capacity is still ramping here?

Mick Lucareli
Yeah. So, we mentioned a minute ago, it's calendar, so we'll see some ramp beginning in Q4. We'll know more here probably in another quarter or so. And then it is over three years, and I don't know the exact ramp, but we don't see any more than [inaudible] right now. So, still early days, but hopefully, that kind of helps if you look at 4 billion over three years and no more than 2 billion in any one year. Definitely in a ramp up.

David Tarantino
Okay. Great. And then maybe looking at data center as a whole, could you give any -- some more color on the pipeline here, maybe ex the LTA? I think you mentioned another quarter of record order intake. But kind of any color on continued opportunities as we think about the long-term growth profile? And then maybe talk about your confidence in delivering for those other customers as you ramp capacity for the LTA, as well.

Neil Brinker
Yeah. Certainly, we'll balance this to make sure that we meet our commitments with all of our data center customers. There's no doubt about that. So, before we commit to this or we agree to any kind of long-term agreement around capacity, we want to make sure that we keep all of our customers in mind, and we are able to deliver on those commitments. So, that's considered to your point. What was the second part of your question, David?

David Tarantino

Just the pipeline as a whole. If you kind of exclude the LTA from this quarter, kind of give some color on how it continues to evolve as you kind of put up these record order numbers, how much more is out there.

Neil Brinker
Yeah, it continues to evolve. You're right, and it's growing at significant rates. I think if you look at the trends in the last couple of years, it continues to follow that trend line, and as we move things through our probability funnel, we get to points where we can publicly announce LTAs, which gives hopefully everybody further confidence that we can execute on these things. So, the funnel is large. It continues to grow. Our hit rate continues to increase because of our technology, and because of that, we feel very confident with the guidance that we gave relative to data centers.

David Tarantino
Okay. Great. Thank you, guys.

Operator
Our next question comes from Brian Drab with William Blair. Your line is now live.

Brian Drab
Hi. Thanks for taking my questions. I'm curious if you would say anything about what the probability was that you had assigned to the orders or the opportunity associated with the LTA when you gave us the 50% to 70% forecast for '27 and '28?

Mick Lucareli
From my side, we factored in -- Neil always talks about the funnel, and when we set those longer-term goals, we're really building it customer by customer and program by program. So, we were aware of this opportunity. So, there's some of that that gets factored in, but we don't obviously know -- we didn't know at the time what the magnitude or the scale or [inaudible] would flow over, Brian.

Brian Drab
Yeah. So -- yeah. So, I'm trying to get a sense for is it really incremental? We don't know if you had 4 billion in sales over that period with 80% probability on it. Or was this something like a win where it was like 30%, and it's more of a surprise, but you can't help any further with that?

Mick Lucareli
No. Maybe the way I would say and maybe it will help is when we give a multiyear look like that and we talk about the funnel, we've been -- we'll clear that. Short of an LTA, we don't have multiyear POs. And what this one did is it gave us a really high confidence in a big portion of our two-, three-year outlook. If you run that 60% to 80% and 50% to 70%, right, it implies -- we had talked about being north of 2 billion, and that implies we're at a 3 billion type plus. This is a big component of it that -- in that funnel that gives us more visibility and certainty of that outlook.

Neil Brinker
Yeah. I would just say, when we get out to outside of the fiscal year we're in, it's really difficult to have certainty on what those order rates could potentially be. You see the projects for sure. You have them in that 25% to 50% range, but anything outside of the calendar year can be really difficult to predict. So, if you're looking at things in '27 and '28 and '29, those are going to be the lower end of the profitability funnel. The LTA simply accelerates it through the probability funnel to a high degree of confidence. So, it's significant, Brian.

Brian Drab
Yeah. I mean, it feels really significant. I'm just going to press with one more on it just because if it's 4 billion over three years and you're doing -- you said not over 2 billion in any year, I think, a second ago. But I mean, on average, it's like 1.4 billion. And if you're hitting a run rate in fiscal '28 of 3 billion-plus in data center and a little more than half of that is chillers, you're doing like 1.5 billion-plus in chillers, but this one LTA is 1.4 billion on average over three years. So, I'm just trying to see if that thinking makes sense because what it feels like, observing from the outside here, is that there's a big step-up -- like step function increase in data center revenue coming in either fiscal '28 or '29 because you have a lot more customers than just this one. I know there wasn’t a question there so.

Neil Brinker
Well, no, that’s true that the way you're thinking about it in terms of they absorb a huge amount of capacity, and we can always add further capacity based on demand with our annual CapEx budget that we have in place. We've looked at that. We've done the analysis, and we're comfortable with growing with our customers and having further conversations on if we want to invest in more chiller lines and how to go about it. So, it's a fair point.

Brian Drab
Okay. And then just the last one. Can you give any further color on the first quarter? You said supply chain impacting volume. I don't know if you said if volume would be down year-over-year or up year-over-year. Like how -- directionally, like can you give us some sense for how to model first quarter and then also first quarter margins for Climate Solutions?

Mick Lucareli
Yeah. Are you -- Brian, just to narrow that down, were you talking about data centers in particular or the total company or --

Brian Drab
I guess just Climate Solutions EBITDA margin, first of all. I'm wondering -- because I think you said favorable comparisons or something along those lines for the second, third, and fourth quarter. I'm just wondering what you're trying to tell us about the first quarter for Climate Solutions EBITDA margin. And then also how much is volume -- sales volume going to be

impacted for I guess data center or Climate Solutions? However you want to talk about it for the first quarter.

Mick Lucareli
Yeah. So, from a margin standpoint -- actually, maybe I'll just kind of talk about revenue. I think total company revenue in the first quarter should be right in line with our annual revenue range. Probably closer to the midpoint from a total top line. From a margin standpoint versus prior year, we expect that the HVAC -- commercial HVAC and data center businesses will be -- margin will be down year-over-year in Q1 similar to the trend we've had the last few quarters starting in Q2 last year where we've been improving the margin, but on a year-over-year basis, it's been down from a year-over-year comparability. And then as I mentioned at the beginning of the call, we expect that to flip in Q2 for actually all three segments. We would expect beginning in Q2 and then continuing in three and four that, in addition to that top line growth, we'll have favorable year-over-year margins for the balance of the year. So, Q1 is really working through from a data center, the supply chain shortage, and then we'll -- and we'll then be able to continue to ramp our volumes on the data center side. And then HVAC, it's -- we'll be on a holiday, we'll kind of anniversary on those three acquisitions, and that will have a positive impact there beginning in Q2.

Brian Drab
Okay. Thank you very much.

Mick Lucareli
Yeah. Sure.

Operator
As a reminder, if you'd like to ask a question, please press star one on your telephone keypad. One moment, please, while we poll for questions. Our next question comes from Jeff Van Sinderen with B. Riley Securities. Your line is now live.

Jeff Van Sinderen
Hi. Good morning, everyone. I'm just wondering, is there a way to break out how much of your data center business is AI related versus cloud? And I guess, what are your latest thoughts on how the longer-term mix of that will evolve between AI and cloud? And then just maybe how long do you believe the rapid growth of AI data center can continue? Just trying to get, I guess, a sense of how you think about longevity of there versus kind of the ongoing cloud demand.

Neil Brinker
We look at -- we have projects at different levels of scale in our funnels that go beyond. So, we look at -- and we talk to customers, and we have our technology road maps that obviously go beyond that, as well. So, we feel pretty confident over the next several years into 2030 with our projections and our guidance based on the supply chain and the data center capacity that's being added globally. It's difficult for us to know where the product is being used in certain

applications. Our product is universal, so it can go into cloud. It can go into compute. It can go into AI. It's -- the product can serve multiple end-use applications, so it's really hard to know exactly what some of these data centers are actually used for based by the product type that they buy from us. But when it is specific for CDU, then we know that it's for liquid cooling and there's a high degree of certainty that that's part of the AI infrastructure ramp-up. And that continues to grow at the rate that's pretty public. I don't see a reason to think it's going to be any less than that over the next couple of years.

Jeff Van Sinderen
Okay. Fair enough. And then just I guess thinking about obviously this LTAs is going to be a pretty substantial part of your business. And I guess as we think about kind of challenges ahead that you're navigating relevant to further ramping production, maybe you can just touch a little bit more to the degree that you want to on those and maybe speak to initiatives to kind of get beyond those obstacles to getting production higher.

Neil Brinker
Yeah, that's good. It's a good question, and I just have to commend the team at Modine for this. I mean, all the businesses pitching in to support the data center business, the entire organization pitching in to support the data center because we have such great technology and product that the demand is so high. It's all hands-on deck. We've doubled the data center business four years in a row, and to double that business every single year, it's been extremely hard. And this is the first time we've actually started to bump up against some headwinds on the supply chain side. We're getting to that level of scale. So, we're talking with our suppliers. We're working with our suppliers, and we're engaging in a way we haven't engaged in the past to ensure continuity of supply. We're looking at our suppliers strategically, and then we are also helping our suppliers with the daily cadence and the daily management to ensure that we can keep the capacity at the rate that we want to keep it. So, it's a balancing act. It's a mix of tactics and strategy. It's one of our top priorities as a company. We've invested there significantly with the human capital to support that. We've hired some very talented people to support that. And it's the front of the radar for us as we continue to double our capacity or I should say, double the business over the last several years.

Jeff Van Sinderen
Okay. Great. Thanks for taking my questions. I'll take the rest offline.

Operator
We have a follow-up question from Matt Summerville with D.A. Davidson. Your line is now live.

Matt Summerville
Thanks. Just a couple of quick ones. As we think about the context of this LTA and the chiller lines that you publicly disclosed, you're standing up the 14 lines in the U.S., the 2 lines in the U.K. When all of those lines are ramped, how much of your chiller capacity will be spoken for potentially by this LTA? And how should we think about Modine's sort of playbook to, at some

point down the road, serve the two hyperscalers that you currently have onboarded as customers but those that you're not able to supply chillers to at this moment? And then I have another quick one.

Neil Brinker
Yeah. Well, the ones that we are having conversations with that are beyond the LTA today, absolutely, we can make adjustments, and we can make pivots, but we're looking for certainty to deploy any additional CapEx. So, we would engage in similar conversations and discussions and how we could potentially lock up capacity for a specific customer. We know how to do it. We know the process. We know the playbook. We can do more of it. It's just once we get to that point and the negotiations long term, what years would that impact? I don't have an answer to that right now because we're in discussions. The existing capacity that we have today, a high degree of it is going to be for the LTA. I can't give you a specific number because these are all ramping at different rates. And the -- with the LTA and how we put this together, it's not equal amounts each year. It's different based on project timings and completion of construction. It's a high degree, and we have the ability to adjust if we need to make adjustments to add additional customers.

Matt Summerville
Got it. And then just finally, maybe to kind of get off of the DC topic for a minute. Can you just talk about your M&A funnel actionability and how we should be thinking about M&A in the context of fiscal '28 -- or excuse me, fiscal '27 for Modine? Thanks.

Mick Lucareli
Yeah. We're still maintaining an active funnel, Matt, and that's important. It took us a while to build those relationships, and we want to keep doing our homework on those. In the next -- I'd say, for the bulk of this calendar year, it's still going to be heads down. And we talked a lot about the data center business and how many people at Modine and Neil talked about are supporting a business growing at that rate. And then some of the same people or those that aren't doing that are also actively working daily to stand up the Performance Technologies group so we can complete that spin-off. So, I'd say for the bulk of this calendar year, that's a lot plus the three acquisitions we're integrating in HVAC. Anything could happen, but I really think for our sake or where Neil and I are focused in the next six months or so is going to be just heavily focused on the spin-off and the data center growth.

Matt Summerville
Great. Thank you, guys.

Operator
We have reached the end of the question-and-answer session. I'd now like to turn the call over to Kathy Powers for closing comments.

Kathy Powers

Thank you. Thanks to everyone for joining our call this morning. A replay will be available through our website in about two hours. We hope everyone has a great day.

Operator
This concludes today's conference. You may disconnect your lines at this time, and we thank you for your participation.