Industrial & Commercial Services | Environmental Services & Equipment

CECO Environmental Corp.

Environmental and process equipment used within industrial facilities: the picks and shovels of the industrial and energy ecosystem

CECO

CECO Environmental Corp. (CECO)
Recommendation: Neutral | **12-Month PT:** $51.00
Current Price: $54.29 | **Implied Downside:** (6.1%)
Industrial & Commercial Services / Environmental Services & Equipment

FIU

Critical Equipment Inside Industrial Infrastructure

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CECO **designs and manufactures industrial equipment** used to **control emissions, treat contaminated water, and protect equipment** in large industrial facilities. Because these systems are **essential for regulatory compliance and operational reliability**, demand remains persistent

Two Operating Segments

Engineered Systems

Emissions control, filtration and separation, dampers and expansion joints, acoustic and thermal systems for power generation, hydrocarbon processing, marine, and water treatment

Industrial Process Solutions

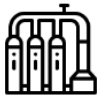
Air pollution control and filtration equipment used in manufacturing processes such as aluminum can production, automotive manufacturing, and electronics fabrication

Industrial Infrastructure & Process Systems Value Chain

Engineering & Construction Firms

Design and build industrial facilities and infrastructure

→



Industrial Equipment & Environmental Systems

CECO and peers who provide:
Emissions control systems
Air quality systems
Water treatment equipment
Thermal & acoustic management

→

Industrial Facilities & Operators

Power plants, refineries, manufacturing plants, wastewater plants

→

Industrial End Markets

Power Generation, Oil & Gas, Water Treatment, Manufacturing, Marine

CECO does not directly build or operate any infrastructure but instead provides environmental and process equipment used within industrial facilities, along with installation and maintenance. This positions CECO as a "picks and shovels" supplier within the broader industrial and energy ecosystem.

Post-Thermon: *adds industrial heating and thermal management systems for pipelines, power generation, and other industrial infrastructure*

Recent Operating Performance

~$215M	$29.8M
Q4 revenue, ~35% YoY growth	Q4 adj. EBITDA, up 57%
~$793M	**>$6.5B**
Record 2025 backlog, up 47% YoY	Sales pipeline per management

The share price decline reflects investor caution around the Thermon acquisition and near-term earnings volatility rather than a deterioration in underlying business fundamentals

Secular Tailwinds and the Thermon Catalyst

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The **$2.2B Thermon acquisition** expands CECO into **thermal management and process heating**, positioning it to benefit from **energy transition, industrial reshoring, and global infrastructure investment**

Industry Drivers

>$100T of global energy transition investment expected through 2050

Policy U.S. Inflation Reduction Act and the EU's Fit for 55 program

Capex Declining renewable costs and corporate decarbonization commitments drive investment in power generation, grid infrastructure, and facility upgrades

Supports sustained demand for the environmental control, process management, and thermal systems used within industrial infrastructure

Thermon Acquisition

$2.2B	~27%	$40M
Cash & stock	Premium	Cost synergies

Strategic rationale

- Expands offerings into thermal management and process heating
- Broadens exposure to energy infrastructure
- Diversifies revenue streams
- Expands global reach and customer relationships

If it increases earnings power: EBITDA could rise, margins may expand through cost synergies, and multiples could compress relative to future earnings

What to Monitor Post-Close

1. **Synergies** Realization of the ~$40M in targeted cost synergies
2. **Cross-selling** Revenue growth across CECO and Thermon customer bases
3. **Margins** Operating margin improvement as integration progresses
4. **Accretion** Post-deal EPS and EBITDA growth vs. prior expectations and consensus
5. **Leverage** Total debt and net debt / EBITDA after the transaction

Trading Broadly In Line With Industrial Peers

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CECO currently trades **broadly in line with comparable industrial peers on EV/EBITDA**, suggesting the market has **already incorporated expectations for improved earnings** following the Thermon acquisition

Comparable Company Analysis

Selected Small-Cap Industrial Environmental & Infrastructure Peers

Ticker Symbol	Share Price ($)	Market Capitalization ($MM)	Enterprise Value ($MM)	LTM Revenue ($MM)	LTM EBITDA ($MM)	LTM EBITDA Margin	EV/LTM Revenue	EV/LTM EBITDA	Price to Earnings	Price to Fwd Earnings	5 Year PEG
CECO	54.29	1,944	2,140	774	128	16.5%	2.8x	16.7x	39.6x	35.0x	1.4x
NPKI	13.18	1,129	1,140	277	73	26.4%	4.1x	15.6x	31.4x	24.2x	N/A
MTRS	169.40	30,915	37,350	14,712	1,969	13.4%	2.5x	19.0x	56.3x	24.9x	N/A
GTLS	206.90	9,899	13,100	4,264	601	14.1%	3.1x	21.8x	Note*	14.2x	0.6x
ESE	266.43	6,832	6,980	1,170	269	23.0%	6.0x	25.9x	55.4x	N/A	N/A
Mean	**Irrelevant**	**$10,144**	**$12,142**	**$4,239**	**$608**	**18.7%**	**3.7x**	**19.8x**	**45.7x**	**24.6x**	**1.0x**
Median	**Irrelevant**	**6,832**	**6,980**	**1,170**	**269**	**16.5%**	**3.1x**	**19.0x**	**47.5x**	**24.5x**	**1.0x**

*GTLS trailing P/E of 626 is excluded as it is not meaningful due to acquisition-related earnings distortion following the Howden transaction.

16.7x

CECO EV / LTM EBITDA

19.0x

Peer median EV / LTM EBITDA

Comparable company analysis indicates a broader valuation range of **~$51–$88 per share**, reflecting higher trading multiples among peers. CECO's current share price falls **within the broader peer valuation range**

Intrinsic Value Suggests Limited Upside

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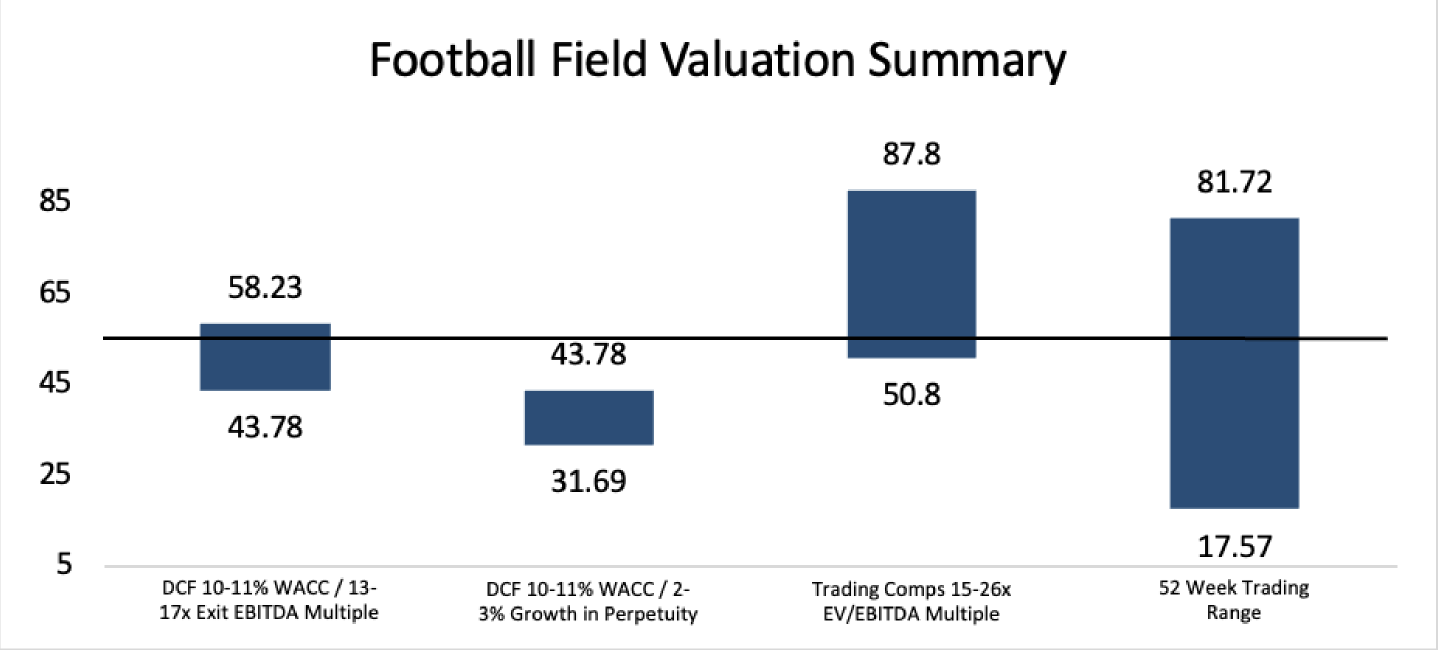
The DCF implies **$33 to $50 per share** depending on terminal value method: **$49.70** using a 15x exit EBITDA multiple and **$33.38** using 2.5% perpetuity growth, versus a current price of **roughly $54**

DCF Valuation Summary

Terminal EBITDA (2030E)	174,312
Terminal FCF (2030E)	137,645
PV of Cash Flows	374,751
WACC (%)	11.00%
Diluted Shares Outstanding	35,645

Approach	**Exit Multiple**	**Growth in Perpetuity**
Terminal Assumption (x, %)	15.0x	2.5%
Enterprise Value	1,956,286	1,374,558
Equity Value	1,771,421	1,189,693
Implied Share Price ($)	49.70	33.38
Terminal Value as % of EV	80.8%	72.7%

*All figures in $ thousands unless otherwise specified



Financial Projections ($ in thousands)

	Actual	Forecasts				
Fiscal year ended	12/31/25	12/31/26	12/31/27	12/31/28	12/31/29	12/31/30
Revenue	774,381	882,794	988,730	1,087,603	1,174,611	1,245,087
% growth		14.0%	12.0%	10.0%	8.0%	6.0%
EBITDA	67,040	79,451	108,760	130,512	152,699	174,312
% margin	8.7%	9.0%	11.0%	12.0%	13.0%	14.0%
EBIT	42,158	52,968	69,211	87,008	105,715	112,058
% margin	5.4%	6.0%	7.0%	8.0%	9.0%	9.0%

Exit multiple DCF: ~$44–$58
Perpetuity DCF: ~$32–$44
Trading comps: ~$51–$88
Current price sits toward the upper end of the DCF range but within the peer range

Risks & Recommendation

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Valuation suggests CECO is **near fair value under conservative assumptions**; upside depends on **integrating Thermon, realizing $40M of synergies, and expanding margins**

Key Risks

1. **Deal completion**
The acquisition remains subject to regulatory approvals and closing conditions and may be delayed, modified, or not completed, forgoing expected benefits and synergies and adding share price volatility

2. **Integration**
Success depends on integrating Thermon, retaining customers, and achieving $40M in cost synergies; shortfalls mean lower margin expansion and slower earnings growth

3. **Industrial capex cyclicality**
A slowdown in industrial activity or capital spending could weaken order volumes, slow backlog growth, and reduce revenue visibility

4. **Leverage**
If earnings growth disappoints after the deal, net debt / EBITDA could rise, limiting growth investment and flexibility in downturns

Recommendation

NEUTRAL

12-Month Price Target

$51.00

Price target derivation: average of the base-case DCF estimate and the upper-bound estimates from the exit multiple and perpetuity growth approaches

Monitoring execution of the Thermon integration