



## **Lakeland Fire & Safety**

## **Fiscal Year 2026 Third Quarter Earnings Call**

**December 9, 2025**

### **C O R P O R A T E   P A R T I C I P A N T S**

**James Jenkins**, *President, Chief Executive Officer and Executive Chairman*

**Calven Swinea**, *Vice President, Finance*

**Barry Phillips**, *Chief Revenue Office*

**Cameron Stokes**, *Chief Commercial Officer*

### **C O N F E R E N C E   C A L L   P A R T I C I P A N T S**

**Gerard Sweeney**, *ROTH Capital Partners*

**Mark Smith**, *Lake Street Capital Markets*

**Michael Shlisky**, *D.A. Davidson & Company*

## P R E S E N T A T I O N

### Operator

Good day, and welcome to the Lakeland Fire and Safety Fiscal Third Quarter 2026 Financial Results Conference Call.

All lines have been placed on a listen-only mode and the floor will open up for your questions following the presentation.

During today's call we may make statements relating to our goals and objectives for future operations, financial and business trends, business prospects and management expectations for future performance that constitute forward-looking statements under federal securities laws. Any such forward-looking statements reflect management expectations based upon currently available information and are not guarantees of the future performance and involve certain risks and uncertainties that are more fully described in our SEC filings. Our actual results, performance or achievements may differ materially from those expressed in or implied by such forward-looking statements. We undertake no obligation to update or revise any forward-looking statements to reflect events or developments after the date of this call.

On this call, we will also discuss financial measures derived from our financial statements that are not determined in accordance with the U.S. GAAP, including Adjusted EBITDA excluding FX and Adjusted EBITDA excluding FX margin, organic sales, adjusted gross profit, adjusted organic gross margin and adjusted operating expenses. A reconciliation of each of the non-GAAP measures discussed on this call to the most directly comparable GAAP measure is presented in our earnings release and/or supplemental slides filed with our earnings release. A press release detailing these results was issued this afternoon and is available in the Investor Relations section of the Company website, [ir@lakeland.com](mailto:ir@lakeland.com).

At this time, I would like to introduce you to our host for this call, Lakeland Fire in Safety's President, Chief Executive Officer and Executive Chairman, Jim Jenkins; Vice President, Finance, Calven Swinea; Chief Revenue Officer, Barry Phillips; and Chief Commercial Officer, Cameron Stokes.

Mr. Jenkins, the floor is yours.

### James Jenkins

Thank you, Operator, and good afternoon everyone. Thank you for joining us today to discuss the results of our fiscal 2026 third quarter ended October 31, 2025.

We continued revenue momentum in the third quarter of 2026 despite a challenging tariff and macroeconomic environment as we focused on recent acquisition synergies, increasing our market share within the fragmented \$2 billion fire protection sector in the largest global markets, and growing our Industrial products business. Calven will go over the financials in more detail shortly, so I'll provide you with a brief overview.

We achieved net sales of \$47.6 million, representing a 4% year-over-year increase, driven by a 31% increase in Fire Services products. In the U.S., our sales increased 25% year-over-year to \$15.2 million. We continue to anticipate growth in our Fire Services, both organically and through our acquisitions, as well as in our Industrial segments in the months and years ahead.

Adjusted EBITDA excluding FX was \$200,000, a decrease of \$4.5 million or 95% compared with \$4.7 million for the comparable year-ago period. Sequentially, our Adjusted EBITDA decreased \$4.8 million or 96%.

Adjusted gross profit as a percentage of net sales in the third quarter was 31.3% versus 41.7% in the comparable year-ago period and decreased 612 basis points sequentially from 37.4% in the second quarter.

Our adjusted gross margin percentage decreased in the second quarter of fiscal 2026 compared to the same period last year, primarily due to lower acquired company gross margins, increased material and freight costs and tariffs. Margins in the acquired businesses were impacted by increased material costs. This shortfall is meaningful and it's important to emphasize that the EBITDA impact this quarter was driven by both revenue and gross margin shortfalls. The two are inseparable. The revenue misses directly reduced gross profit dollars, removing the operating leverage we depend on to convert volume into earnings. Even if margins had held, the lower revenue base would have pressured EBITDA. Conversely, the margin compression amplified the effect. EBITDA underperformance reflects the combined impact of lower volume and reduced margin per dollar of revenue, not margin deterioration alone.

SG&A remained disciplined and broadly in line with expectations. The quarter broke on revenue and gross profit dollars, not on expense growth. Several factors contributed to the margin compression. Freight in and tariffs ran above forecast. Throughput and mix inefficiencies affected COGS, labor and our mix shifted from higher-margin categories.

Moving on, the strategic acquisitions of California PPE and Arizona PPE expanded our global fire footprint into the U.S. personal protective equipment, decontamination, repair and rental markets and added approximately \$5 million of annual recurring revenue. Arizona PPE is the leading UL-certified independent service provider for performing advanced decontamination, inspection and repairs on fire fighting garments for the Arizona market. California PPE is a leading and rapidly expanding UL-certified ISP in the California firefighting services market, one of the largest fire markets in the United States. From these two outstanding companies, we intend to continue growing the North American service segment of the global fire services market by leveraging the combined strengths and experience of Lakeland's LHD service offerings in Asia and Australia with the outstanding teams from Arizona PPE and California PPE to develop a strong North American platform.

Lakeland LHD was awarded an approximately US\$5.6 million three-year contract to provide advanced decontamination, managed care and maintenance services for the Hong Kong Fire Services Department's firefighter protective gear, one of the largest emergency response organizations in Asia. A contract running through 2028 covers advanced decontamination services as well as comprehensive care and maintenance of an estimated 14,500 firefighter ensembles each year. This award underscores our strong presence in the Asia Pacific market and reinforces the trust placed in our services by one of the region's most respected fire services organizations.

Additionally, we completed a \$6.1 million sale and partial leaseback of our Decatur, Alabama warehouse property to an unrelated party in connection with capital reallocation initiatives, resulting in a gain of \$4.3 million, as well as strengthening the balance sheet and providing financial flexibility for future growth.

The third quarter reflected the impact of tariff uncertainty, inflation effects and the associated mitigation strategies we have employed since the election. Beyond tariffs, we also faced raw material inflation and rising supply chain costs that also contributed to the impact on both revenue and gross margin.

Revenue softness was visible across our portfolio in the U.S., Canada, Latin America and parts of EMEA. North America faced challenges with revenue down quarter-over-quarter, and Latin America came in below our plan due to macroeconomic conditions impacted by political uncertainty.

Our acquired businesses also came in below our plan due to timing, certification delays and material flow issues rather than underlying demand.

As we step back, it's important to acknowledge that this softness is not isolated to Lakeland; nearly all of our peers are reporting similar challenges: tariffs, freight, raw material inflation and rising supply chain costs.

This is not an excuse, but it is the reality of the environment we are operating in, and it reinforces that the pressure on margins is broad-based, not unique to us.

At the end of Q3, inventory was \$87.9 million, down from \$90.2 million at the end of Q2 fiscal year 2026. We have recently initiated a series of targeted actions to optimize inventory levels across our entire organization.

Looking ahead, we are highly focused on the upcoming tender cycle, which will position us for stronger execution and building momentum heading into calendar year 2026. Renewed tender activity is expected to increase demand for fire services in the U.S. and internationally and contribute to improved performance at Eagle and LHD Germany. We have approximately \$178 million of global tender opportunities, including \$38 million over \$100,000 in value with high probabilities of success. These opportunities are positioning us for expanded operating leverage with expense reductions and expanded margins as tenders deliver margins above normalized profile. We are now starting to see tender wins for calendar 2026 across our entire product portfolio.

Taken together, this past quarter was unacceptable. We missed our targets across multiple areas, and as CEO I take full responsibility for that performance. Our forecasting has not been reliable and the gap between our internal expectations and actual results has grown too large. Because of this, we will be withdrawing formal guidance. Instead, we are shifting to a more disciplined operating model focused on measurable execution, cash generation and transparency.

To help lead us forward, we have also realigned our finance team with the appointment of Calven Swinea as interim CFO effective January 1. You'll be hearing from Calven in a moment.

At the same time, it is important to recognize that this quarter occurred against a backdrop of unprecedented headwinds across virtually all of our global operations. These challenges affected not just Lakeland but our peers as well, many of whom have publicly acknowledged similar pressures.

Despite this environment, our long-term fundamentals remain intact and our strategic condition has not changed. We remain extremely optimistic about the underlying demand signals we are seeing - a robust and global fire tender pipeline; the necessary U.S. refinery shutdown cycle ahead; our disciplined sales process and clear signs of pent-up demand across nearly every region. We expect these headwinds to begin to ease as we move into calendar year 2026, and we continue to believe strongly in the long-term potential of both our Fire and Industrial strategies.

This is not about lowering ambition. It's about rebuilding trust through results, not projections. We will provide regular updates on key operational milestones, inventory reduction progress, margin improvements and ERP and integration timelines. When our forecasting accuracy, sales cadence and operational visibility improve to an acceptable standard, we will revisit reinstating guidance. For now, our full focus is on running the core business with rigor, improving forecast accuracy and delivering sustainable, predictable performance.

With that, I'd like to pass the call to Barry to provide an update on Fire Services.

### **Barry Phillips**

Thank you, Jim.

Looking at our Fire Services, revenue underperformed primarily because certification cycles and tender timelines extended longer than anticipated across multiple regions. These are timing delays rather than structural demand issues. The opportunities remain in the pipeline, the majority have not been lost; they've simply shifted later than expected. We continue to believe that we have a high probability of success in securing \$38 million of these opportunities within our total pipeline of \$178 million.

Our tender activity remains strong globally. Current delays reflect regulatory timing and administrative bottlenecks, and as Jim mentioned, competitors have cited similar headwinds. The underlying demand environment for fire services and protected gear remains intact.

We remain highly confident in our major tenders currently in the late stages. Feedback from end users and procurement teams remain positive. Delays have been driven by certification cycles and administrative timing, not competitive losses, and our confidence remains high. Though we are not assigning timing commitments to these opportunities except to say the majority of the \$38 million of opportunities we believe will hit in FY27.

Fire Service margins remain structurally sound. The temporary compression came from the volume timing and low absorption during the delays. As volume normalizes and tenders convert, margins are expected to recover without requiring broad pricing actions.

For our sales team, the priority is to build a dependable base of monthly sales that is not dependent on large tenders or seasonal cycles. This means expanding distributor engagement, tightening forecast accuracy, strengthening bid coverage across brands, and accelerating new product commercialization.

Our global fire strategy remains intact heading into next fiscal year. The product portfolio is broader and stronger than at any time in the Company's history. The Jolly NFPA launch is progressing, LHD Europe is stabilizing and we're positioning the entire fire platform across the upcoming global cycle.

I'll now pass the call to Cameron to cover our industrial and chemical critical environment sectors.

### **Cameron Stokes**

Thanks, Barry.

During the third quarter, Industrial demand softened across several industrial channels faster than expected. Distributors reduced inventory, certain customers deferred purchases, and competitive pricing tightened in pockets of the market. Our forecasting did not capture these shifts quickly enough, creating the variance between expected and actual performance. We are seeing cyclical adjustments in certain channels, not long-term erosion. Several customer segments and geographies show stabilization signals, and we expect run rate predictability to improve as customer inventories normalize.

In response, forecasting has been unified into a consistent process across all industrial regions with more rigorous mid-month accuracy checks and tighter reconciliation with distributor data. We've shifted to channel-level segmentation so forecasting reflects real behavior inside customer groups rather than broad regional assumptions.

Looking to our competitors, share movement has been limited and localized. Pricing pressure has increased in spots where certain competitors have short-term tariff or sourcing advantages. We are addressing this with selective incentives aimed at volume stability, while managing overall margin discipline. Our sales strategy requires rebuilding distributor run rates, re-engaging customers who deferred purchases, tightening CRM and channel discipline, and stabilizing the chemical and critical environment segments. These actions create a predictable foundation of volume. When delayed tenders, certifications, and turnaround activity return, that volume becomes upside that drops directly to operating leverage.

The goal is stable, predictable growth driven by improved forecasting accuracy, stronger distributor engagement, recovery in delayed chemical and critical environment orders, and disciplined channel management. We are focused on building consistency rather than volatility.

With that, I'd like to pass the call to Calven to cover our financial results.

### **Calven Swinea**

Thank you, Cameron, and hello everyone. I'll provide a quick overview of our fiscal 2026 third quarter financials before diving into the details.

Revenue for the quarter grew \$1.8 million year-over-year to \$47.6 million, an increase of 4% compared to the third quarter of fiscal 2025. Consolidated gross margin decreased to 29.7% from 40.6% for the third quarter of fiscal 2025, while our adjusted gross margin decreased to 31.3% as compared to 41.7% in the year-ago period. Adjusted operating expenses increased by \$0.4 million from \$14.3 million in Q3 of last year to \$14.7 million in the third quarter of fiscal 2026, primarily due to inorganic growth.

Net loss was \$16 million or \$1.64 per basic and diluted earnings per share for the third quarter of fiscal 2026, compared to net income of \$100,000 or \$0.01 per basic and diluted earnings per share for the third quarter of fiscal 2025.

Adjusted EBITDA excluding FX, was \$0.2 million for the quarter, a decrease of \$4.5 million or 95% compared with \$4.7 million for the third quarter of fiscal year 2025. Adjusted EBITDA excluding FX margin in the third quarter of fiscal 2026 was 5.5%, a decrease of 988 basis points from 10.3% in the third quarter of fiscal 2025 and a decrease of 918 basis points from 9.6% in the second quarter of fiscal 2026.

Cash and cash equivalents were \$17.2 million on October 31, 2025, compared to \$17.5 million on January 31, 2025.

On a consolidated basis for the third quarter of fiscal 2026, domestic sales were \$19.2 million representing 40% of total revenues, and international sales were \$28.4 million, accounting for 60% of total revenues as our recent Veridian acquisition contributed to increased U.S. revenue. This compares with domestic sales of \$15.4 million or 34% of the total, and international sales of \$30.4 million or 66% in the third quarter of fiscal 2025.

Looking at our third fiscal quarter of 2026, our quarterly revenue faced challenges globally. Sales from our recent acquisitions accounted for \$10.1 million, while organic sales were \$37.5 million. Sales of the Fire Services product line increased by \$6 million year-over-year, driven by \$3.4 million in sales from Veridian as well as organic Fire Services growth of \$3 million.

Adjusted gross profit for the third quarter of fiscal 2026 was \$14.9 million, a decrease of \$4.2 million or 22%, compared to \$19.1 million for the third quarter of fiscal 2025, due to lower sales, higher product costs and tariffs, and impacted U.S. gross profit by \$3.2 million versus Q2. Adjusted gross profit as a percentage of net sales decreased to 31.3% for the third quarter of fiscal 2026 from 41.7% for the third quarter of fiscal 2025.

On an adjusted basis, operating expenses excluding foreign exchange were \$14.7 million in the fiscal third quarter, more accurately showcasing the decreases in both our organic and inorganic segments resulting from the new cost reduction initiatives. On a sequential basis, adjusted operating expenses were stable and increasing by \$0.1 million or 1% due to focused cost control measures and the previously mentioned initiatives.

Adjusted EBITDA excluding FX was \$200,000 for the fiscal third quarter, a decrease of \$4.5 million or 95%, compared with \$4.7 million for the third quarter of fiscal 2025 and a decrease of \$4.8 million or 98% compared with \$5.1 million for the second quarter of fiscal 2026. This significant decrease was a result of lower performance in North and South America.

Adjusted EBITDA FX margin was 0.5% for the most recent quarter, a decrease of 988 basis points from 10.3% in the third quarter of fiscal 2025 and a decrease of 918 basis points from 9.6% in the second quarter of fiscal 2026.

Revenue for the trailing 12 months ended October 31, 2025, was \$193.5 million, an increase of \$41.7 million or 27%, versus the Q3 fiscal 2025 trailing 12 months revenue of \$151.8 million with our recent Fire Service acquisition supporting Lakeland's continued revenue growth. Trailing 12 months Adjusted EBITDA, excluding the impacts of FX, was \$9.3 million compared to \$11.7 million for the prior quarter's trailing 12 months. The decrease was driven by lower margin revenue mix, increased material and freight costs, and tariffs.

Considering we completed four acquisitions in the past 12 months, the full integration and implementation which requires some time, we believe the resulting synergies and efficiencies will begin to translate into stronger financial performance in the coming quarters.

Adjusted gross margin percentage decreased in the third quarter of fiscal 2026 to 31.3% compared to 41.7% in the same period last year due to lower acquired company gross margins, increased material supply chain costs and tariffs. Margins in the acquired businesses were impacted by increased material costs.

Adjusted EBITDA excluding FX was \$0.2 million for the fiscal third quarter a decrease of \$4.5 million or 95%, compared with \$4.7 million in the third quarter of fiscal 2025. The decline was driven primarily by significant revenue shortfalls in Latin America, our highest margin region, and lower-than-expected sales in the U.S. Fire and Industrials. Veridian, LHD and Eagle were also impacted by NFPA certification delays and slower tender conversion globally. These factors more than offset the reductions achieved in operating expenses. We are currently implementing an additional \$1.3 million of cost reductions for the fourth quarter.

Reviewing our performance for the third quarter, our most recent acquisition of Veridian contributed \$3.4 million of revenue during the quarter, and LHD added \$6 million across three subsidiaries: Germany, Australia and Hong Kong. We expect sales from our Fire Services to accelerate as we fulfill open orders, capitalize on cross-selling opportunities, and execute on our sales and tender pipeline.

Looking at our organic business, our U.S. revenue decreased 3% to \$15 million from \$15.4 million, driven by declines in our Industrial business due to tariff uncertainty. Our European revenue, including Eagle Jolly and our recently acquired LHD business, increased 6% to \$15.2 million. We continue to see very good sales opportunities in Europe and are committed to its growth trajectory.

Our Latin American operations experienced a \$0.8 million decrease in sales from \$5 million in the year-ago period to \$4.2 million in the current quarter, primarily due to ongoing delayed purchase decisions resulting from political uncertainty.

In Asia, sales decreased 19% year-over-year from \$3.6 million to \$2.9 million.

Regarding product mix for fiscal year-to-date 2026, our Fire Services businesses grew to 49% of revenues versus 39% for fiscal year 2025, driven by a full 9 months of Veridian sales and organic gains in the U.S. For our Industrial product line, disposables accounted for 26% of the year-to-date revenue, while chemicals accounted for 11%. The remainder of our Industrial products, including high performance and high vis accounted for 14% of sales.

Now turning to the balance sheet, Lakeland ended the quarter with cash and cash equivalents of approximately \$17 million and long-term debt of \$37.1 million. This compares to \$17.5 million in cash and \$16.4 million in long-term debt as of January 31, 2025. As of October 31, 2025, our long-term debt of \$37.1 million included borrowings of \$33.2 million outstanding under the revolving credit facility with an additional \$6.8 million of available credit under the loan agreement. We were in compliance with all our credit facility covenants.

In August, we sold our Decatur, Alabama property for \$6.1 million less customary commissions and closing fees and applied 100% of the net proceeds to repay our revolving credit facility.

Net cash used in operating activities was \$17.6 million in the 9 months ended October 31, 2025, compared to \$12.5 million in the 9 months ended October 31, 2024. The increase was driven by a decline in profitability previously discussed, ERP implementation costs, and an increase in working capital of \$7.9 million.

Capital expenditures totaled \$0.8 million for the 9 months ended October 31, 2025, primarily related to replacement equipment for our manufacturing sites and developed technology projects. We anticipate FY26 capital expenditures to be approximately \$1.2 million.

Lastly, given near-term headwinds and in order to prudently manage our cash, the Company has made the decision to suspend its quarterly cash dividend on our common stock. We believe reinvesting profits into growth opportunities such as acquisitions, our market expansion is a better return for shareholders in the future. The payment of any future dividends will be at the discretion of the Board and will depend on the Company's financial conditions, results of operations, capital requirements and any other factors deemed relevant by the Board.

At the end of Q3, inventory was \$87.9 million, down from \$90.2 million at the end of Q2 fiscal year 2026. We have recently initiated a series of targeted actions to optimize inventory levels across specific categories. Our immediate priorities include U.S. Industrial, Jolly, LHD and Veridian, where we see the greatest opportunity to align balances with demand and improve efficiency. Inventory of acquired companies totaled \$14.3 million versus \$7 million last year; \$6 million of the acquired companies' increase came from the Veridian acquisition and LHD's inventory increased by \$1.3 million versus last year. Year-over-year, we saw an increase in our organic inventory of \$7.9 million versus the quarter ended October 31, 2024.

Organic finished goods were \$38.8 million in the third quarter of fiscal 2026, up \$5.6 million year-over-year and down \$0.5 million quarter-over-quarter.

Organic raw materials were \$33 million in the third quarter of fiscal 2026, up \$2.1 million year-over-year and down \$0.4 million quarter-over-quarter.

With that overview, I'd like to turn the call back over to Jim before we begin taking questions.

**James Jenkins**

Thank you, Calven.

In conclusion, we continue to demonstrate net sales growth, reflecting the strength of our underlying business. This growth is further supported by a 31% year-over-year increase in our Fire Services. Our robust pipeline of approximately \$178 million, includes approximately \$38 million in near-term high-probability opportunities, providing momentum heading into fiscal year '27.

We are now starting to see tender wins for calendar Q1 2026 across the entire product portfolio. These opportunities are positioning us for expanded operating leverage with expense reductions and expanded margins as tenders deliver margins above normalized profile.

Our near-term strategy is focused on navigating the continued challenges from the evolving macro environment while expanding top line revenue in our Fire Services and Industrial verticals. By maintaining a focus on operating and manufacturing efficiencies, we believe we are well positioned to deliver higher margins and improve free cash flow, all against the backdrop of ongoing macro uncertainties.

Looking long term, our strategy remains to grow both our Fire Services and Industrial PPE verticals through our strategically located company-owned capital-light model. By maintaining a focus on operating and manufacturing efficiencies, we believe we are positioned to grow faster than the markets we serve.

Our acquisition pipeline also remains robust with active discussions underway, in line with our overall growth strategy. Although challenges have affected our forecasting ability and we have withdrawn our formal guidance, we expect top line revenue growth in high single-digit revenue growth across global operations over the next three quarters.

We are targeting 10% to 12% Adjusted EBITDA margins with incremental growth in EBITDA margins over the next three quarters. Looking further ahead, we expect 15% to 17% Adjusted EBITDA margins over the next three years through cost discipline, operational consolidation, and targeted commercial investments.

As we look forward to the future, we are confident that our continued focus on targeted acquisitions will serve as key growth drivers over the next three to four years. We are actively engaging in discussions aligned with our decontamination rental and services growth strategy. We look forward to sharing upcoming milestones in the weeks and months ahead.

With that, we will now open the call for questions. Operator?

### **Operator**

Thank you. With that, this will now start the question-and-answer session. If you would like to ask a question, please press star, one on your telephone keypad. A confirmation tone will indicate that your line is in the question queue. You may press star, two to remove yourself from the queue. For participants using speaker equipment, it may be necessary to pick up the handset before pressing the star keys. One moment while we poll for questions.

Our first question comes from the line of Gerry Sweeney with ROTH Capital Partners. Please proceed with your question.

### **Gerard Sweeney**

Good afternoon, Jim. Thanks for taking my call.

### **James Jenkins**

Hey, Gerry.

### **Gerard Sweeney**

I wanted to talk about the Fire Service tenders, \$38 million high probability. What makes you think they're high probability? Then the follow-on of that would be, that \$178 million total, is there an opportunity for that to expand further, especially with some of the NFPA determinations coming out in the next couple—hopefully in the next month or two (inaudible).

### **James Jenkins**

Yes, Gerry. I'm glad Barry is here. It's one of the reasons why I wanted to have Barry and Cameron here was to talk about some of these opportunities.

Barry, I'll let you sort of answer that because I know there's a number of buckets that those fall into, those high probabilities.

### **Barry Phillips**

Yes. Thanks, Jim. There's four buckets. To position ourselves in a high probability position is, are we the incumbent? Do we already have the business with that or a relationship with that end department? Next would be, is the competitor that's incumbent struggling in some manner? Additionally, we are also looking

at where we can come in with multiple brand strategy and with some of our portfolio that we have overlaps in gear, for example, we can have two or more bids involved in the process. And lastly, if we're positioned well with the department and we're written into the specifications.

### **James Jenkins**

So Gerry, that \$38 million is where all of those sort of four buckets fall for us. So that's why we view them as high probabilities.

Then that \$178 million, look, we know the high probabilities, and we'll win some of the others in \$178 million. But I think if you talk to any of our competitors, they'll say the same thing. Once these certifications and standards are adopted, sort of the floodgates should open over a period of time.

Again, I think what we're trying to caution is it's going to happen, and it's going to happen during fiscal '27, but it's going to happen over a period of time during that fiscal year.

I look at certifications and standards and they appear over a very long period of time. There's a 10-year sort of window for these W when they do, there's a bit of a loggerhead here that kind of gets kind of slows it down on the decision-making front. I talked about this in prior calls about the '25 year automobile model versus the '26 and waiting, and this is exactly what's happened I think in the tender cycle that we're seeing, is that these tenders, particularly in the U.S. and in areas where NFPA is becoming more rapidly accepted, those tenders have slowed. So we'll see those pick up as soon as those standards are issued.

Recently, we believed the standards were going to come into play in March '25. They were then extended to September of '25 and ultimately extend it to March of '26. We have no reason to believe—and in fact, what we're hearing is that, that will be the date, the '26 should be to date, March '26 should be the date. That's why we're feeling very bullish about where we're driving our fire opportunities.

### **Gerard Sweeney**

Got it. Then on the margin front, if I heard you correctly, obviously, there's a lot more costs, tariffs, raw materials, logistics, etc., but it sounded as though you could recover those costs through just higher absorption or higher production levels and absorbing some of the overhead? Did I hear that correctly? Or could you walk through that?

### **James Jenkins**

That is correct. It's a function of getting ourselves at full capacity at a certain dollar amount where that operating leverage kicks in. That's a critical component to it.

The other is while you're waiting for tenders you're selling hoods and gloves and boots, and frankly, lower margin products to your captive customers who have those needs, and occasionally replacing turnout gear, but it's not 500 suits or 1,000 suits, it's 50.

### **Cameron Stokes**

It's actually a reflection of product mix. Typically, we'd be having a high range or more than two-thirds of our fire sales would be in custom-made turnout gear and the remainder being the commodity products, now we're in the higher range in the commodities while we're waiting for the turnout gear business to come back into—with the new standard.

### **James Jenkins**

You kind of couple that in a perfect storm with what's transpired in Latin America, where we've had a significant reliance on Argentina, whether that was true or not it was just the case. And you dropped that

high margin and you dropped the high margin, you see some softness in the high-margin areas in Canada, and that generates sort of a perfect storm when you've got the Industrials that have a geopolitical component and then we have a tender delay. I'm not suggesting those are excuses. We need to work our way around those excuses, or those issues, and we are, and we're driving similar opportunities in Industrial, and I can certainly have Cameron address that.

**Gerard Sweeney**

Got you. One more question. Obviously, multiple international acquisitions, global footprint. How important is getting the ERP system up and running to really give you visibility on the mechanics?

**James Jenkins**

The ERP system, so there's a couple of places internationally where the ERP, the systems you have are pretty solid. China has got a good system for Asia. We've got a nice system in Argentina for Latin America. And so those are—we look at those as lower priorities. Veridian has a very solid ERP system as well.

So the prioritization of this right now is North America, which we're driving towards a June/July rollout for our SAP implementation. Then the next phases are, frankly, to look at some of the acquisitions and folding some of those in. Then it's Vietnam and some other areas.

So, it's going to take a prolonged period of time, but getting the first step in place, which is North America, which is the sort of the brains of the organization, so to speak—the rest of the world is sort of the heart—having the brains of the organization with a solid system in place is going to service us mightily.

Would you agree, Calven?

**Calven Swinea**

Yes. Yes.

**Gerard Sweeney**

I'll jump back in line. Thanks.

**Operator**

Thank you. Our next question comes from the line of Mark Smith with Lake Street Capital. Please proceed with your question.

**Mark Smith**

Hi guys. I just wanted to ask about kind of the certification delays. Can you give us an update on anything that's changed on that since the end of the quarter?

**James Jenkins**

Yes. The delays in certification, we knew that, that certification was coming in March of '26. We also know that all of our products are in the queue for certification with all of our competitors and I don't believe there's any exceptions at this point, Barry. So I'll ask you—I mean, to the extent that we don't expect any further delays on that front.

**Barry Phillips**

The one thing that is different in this cycle—(inaudible) in this space. This is actually the combination of four standards that were brought together. As opposed to having a specific certification standard for firefighting gear, it now was grouped together where it includes firefighting gear, it includes SCBA, PASS or Personal Alert Safety Systems, as well as tactical apparel all under one standard. So that's forced now all the manufacturers to hustle in and go to the same certifying agencies to address all these products that now need to be recertified. So there's quite a backlog at the certification agencies, which has been causing some of this delay for all of us.

**Mark Smith**

Okay. Then if you think about mitigation efforts to improve gross profit margin, can you just talk about headwinds and which ones maybe you expect to normalize first?

**James Jenkins**

Look, I think on the headwind front, sort of the tariffs—we've got issues with the tariffs; we're addressing that as best we can with sort of programs with our suppliers. We're simplifying the product line and sort of shifting production towards the higher-margin categories as those certifications come online, which is a certification component. The idea here obviously is to do that, do an SKU rationalization, which we're in the middle of. We've got sins of the past from a legacy perspective. We've had thousands of SKUs that Helena and her team are rationalizing now down to a much more manageable number. And of course, we've got the targeted inventory reductions and we're about a third of the way there towards year-end of about \$6 million, and we're hopeful we can get a little bit north of that.

Go ahead, Barry.

**Barry Phillips**

Yes. Additionally, we are bringing third-party manufactured products into our own factories, in particular, with our turnout gear production.

**Mark Smith**

Okay. Then lastly for me, just thinking about tariffs, (inaudible) costs, raw material costs, can you just talk about pricing opportunities?

**James Jenkins**

Are you talking about pricing increases?

**Mark Smith**

Yes.

**James Jenkins**

Okay. So yes, so we have our annual pricing increases that are being communicated in Fire and in Industrial. Obviously, they're different businesses so we're addressing them differently. It's not going to be a one-size-fits-all.

We have pivoted a little bit in the tariff range because we have seen competitive pressures on pricing in that regard.

We still are sitting on a significant amount of inventory in the CE space, the critical environment space, that we're looking to move on that is not is not tariff-driven because we've got it in the states now.

So we are increasing cases. We're not going to do them across the board. We're going to do them strategically. We've done it in Fire, and we're doing it in Industrial, and those are driving some additional decisions.

Cameron's got an inventory reduction program that he can certainly speak to that is driving decisions because our year-end is February 1, and a lot of our channel partners have new budgets starting January 1. So we're introducing some programs here to help drive some inventory towards the end of this fiscal year with customers that beginning January 1 will have new money to utilize for that.

**Mark Smith**

Okay. Thank you.

**Operator**

Thank you. Our next question comes from the line of Mike Shlisky with DA Davidson. Please proceed with your question.

**Michael Shlisky**

Yes, hi. Good afternoon. Maybe I can just start with—I want to maybe ask for a quick NFPA 101 here. As far as I could tell, you're paying member or a paying customer of this organization. There are people on the board on the committee that approve all these products, and now their action or their lack of action is now causing your business to struggle and other parts of the industry as well. I get that they need time to make sure that firefighter safety is obviously the most important priority. Do you know what they're doing at the NFPA to increase their approval throughput. It just seems like at this point, they're now affecting business activity among their members and that sounds like a real issue.

**Barry Phillips**

NFPA is a standards writing body. They are not the certification agencies that certify the product. The NFPA's standard writing process involves a combination of end users, manufacturers and third-party experts that build up that committee and build up and write the standards, that then go through the process and are reviewed on a five-year cycle. So once the standard is written, peer reviewed and approved and in process, then it becomes the timing from a manufacturing perspective is building to that standard, submitting to that standard a third-party agency and then basically waiting for the third-party agency to commit the approval or provide whatever action is needed (cross-talking)

**James Jenkins**

That's UL, generally, and UL has now all of our competitors and our products sitting there and they've got limited resources.

**Barry Phillips**

Right.

**Michael Shlisky**

Okay. So now let's go the next question. They're a public company at this point and their lack of action is now causing your business to suffer. Have you heard anything from those folks about how fast they're going to increased the throughput of approvals?

**Barry Phillips**

They are working with the resources that they have available to them and working through the process. There options to go to other certification agencies and we use different certification agencies around the world, but we find the same level of performance to wrap. We are committed to trying to push through as rapidly as possible and we'll continue to do so. It is a third-party agency and it's outside of our control.

**Michael Shlisky**

Okay. Maybe last one on this topic. Who's paying the bill? The NFPA or Lakeland for the UL and other agency testing?

**Barry Phillips**

Each manufacturer pays for their certification activities.

**Michael Shlisky**

Okay. Thank you for all the information.

Moving on. The Hong Kong deal in Malaysia, do you think those are going to provide an is margin benefit given the size and the footprint you have there? Should we expect to see some really good margins, I guess, starting in fiscal '27 from those two contracts?

**James Jenkins**

Yes. The Malaysia contract, certainly, that's a high-margin opportunity, long-term opportunity for us. Hong Kong continues to generate really decent margins for us. The tragedy that occurred in Hong Kong—sadly, when you operate a business like this, tragedies end up generating, frankly, opportunities. In Hong Kong, our team spent hours and hours and hours over time helping that Hong Kong team as they thought those fires in those four buildings and hundreds of people lost their lives.

They're going to need a lot of new suits, a lot of new turnout gear as a result of that. We've been on the phone periodically with our friends in Hong Kong driving that business. and they're suggesting to us that we'll see a bump in business there, probably in the first quarter of fiscal '27.

**Michael Shlisky**

Okay. Great. Sounds good.

Then I guess, given the status of—I understand there's quite a few contracts in the pipeline on the fire side, but given the status of—you mentioned there are some competitors that were struggling, are you concerned at all in the pricing environment for what's being bid on today and some of the other folks out there might get a little bit irrational if they're in a bit of a pickle financially?

**James Jenkins**

Well, struggling can be at various different factures. Sometimes it's struggling just to perform and support and provide the equipment in a timely manner. One of the things the standard is also providing is there are requirements, varied requirements in the fabrics that are being used in the products. So it's changing the build-up of those products, which is going to change the price point actually at a higher level in the marketplace because of the need to incorporate the more advanced fabrics into the gear.

**Michael Shlisky**

Okay. Makes sense. I'll pass it along. Thank you so much.

**Operator**

Thank you. With that, there are no further questions. I'd like to turn the call back over to Mr. Jenkins for closing remarks.

**James Jenkins**

Thank you, Operator. Thank you all for joining us for today's call, and thank you to our customers and distributor partners worldwide for trusting us with your lives and safety. Lakeland continues to be well positioned for long-term growth.

If we were unable to answer any of your questions today, please reach out to our IR firm, MZ Group, who will be more than happy to assist.

**Operator**

Thank you. With that, this does conclude today's teleconference. We thank you for your participation and you may disconnect your lines at this time and have a wonderful day.