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BMI.N - Q2 2025 Badger Meter Inc Earnings Call

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## CORPORATE PARTICIPANTS

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**Scott Graham** *Seaport Research Partners - Analyst*

**Andrew Krill** *Deutsche Bank AG - Research Analyst*

**Robert Mason** *Robert W. Baird & Co Inc - Senior Research Analyst*

**Jeffrey Reive** *Rbc Capital Markets - Equity Analyst*

## PRESENTATION

### Operator

Ladies and gentlemen, welcome to the second-quarter 2025 Badger Meter earnings conference call. (Operator Instructions)

It's now my pleasure to turn the conference over to Barbara Noverini, Head of Investor Relations. Please go ahead.

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### Barbara Noverini - *Badger Meter Inc - Investor Relations*

Thank you. Good morning and thank you for joining the Badger Meter second-quarter 2025 earnings conference call. I'd like to introduce myself as the new Head of Investor Relations. With me on the call today are Ken Bockhorst, Chairman, President and Chief Executive Officer; and Bob Wrocklage, Chief Financial Officer.

The earnings release and related slide presentation were made available this morning on our website. Quickly, I will cover the Safe Harbor, reminding you that any forward-looking statements made during this call are subject to various risks and uncertainties, the most important of which are outlined in our press release and SEC filings. On today's call, we will refer to certain non-GAAP financial metrics. Our earnings slides provide a reconciliation of the GAAP to non-GAAP financial metrics used.

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

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### Kenneth Bockhorst - *Badger Meter Inc - Chairman of the Board, President, Chief Executive Officer*

Thanks, Barb. Welcome to our second quarter 2025 earnings call. I'm pleased to report another quarter of record sales and solid financial results that demonstrated disciplined execution and the durability of the drivers that supports technology adoption across the water industry.

Against difficult comps in the prior year quarter, sales grew 10% year over year or 5%, excluding the SmartCover acquisition. Despite trade-related cost headwinds, gross margins continued to trend above our normalized range of 38% to 40%, and we generated robust free cash flow in the quarter. Halfway through the year, I remain encouraged by the resilience of our business as we face ongoing macroeconomic trade and policy uncertainty. Our proven history of differentiated operational execution combined with ongoing customer demand and momentum in technology adoption trends positions us to successfully navigate this near-term uncertainty while supporting the long-term goals of our customers.

Bob will review the details of the quarter, and then I'll be back to provide some thoughts on BlueEdge and our outlook. Go ahead, Bob.

**Robert Wrocklage** - *Badger Meter Inc - Senior Vice President, Chief Financial Officer*

Thanks, Ken, and good morning, everyone. Turning to slide 3. Total sales of \$238 million in the second quarter of 2025, represented an increase of 10% year over year or 5% sales growth when excluding just over \$10 million in sales from SmartCover in its first full quarter under our ownership. Total utility water product line sales increased 11% year over year or 6% excluding SmartCover. As expected, moderating core sales growth from recent double-digit levels was primarily a function of the difficult second quarter sales comparison, which was the high watermark for the prior year.

In the quarter, we delivered higher sales of meters, BEACON Software as a Service, water quality, and remote monitoring solutions. Sales for the flow instrumentation product line were essentially flat year over year as lower demand in the deemphasized array of market applications offset modest growth in water-related end markets.

Turning to profitability. Operating earnings increased 8% year over year to \$44.9 million with operating margins down 40 basis points to 18.8% from the prior year's 19.2%. The structural mix benefit of technology adoption by our customers continues to benefit gross margins, which expanded 170 basis points to 41.1% in the second quarter from 39.4% in the prior year quarter. As expected, this did represent a sequential decline from 42.9% in the first quarter of the year, which you'll recall was the result of favorable customer and product mix that quarter that did not repeat this quarter.

Gross margin in the second quarter of 2025 also continued to benefit from ongoing operational excellence initiatives, while recently implemented price increases partially mitigated certain tariff-related cost pressures in the quarter. Year-to-date, we have adeptly managed the controllable aspects of the known tariff landscape. However, the trade environment remains fluid. As an example, copper prices recently spiked on copper-specific tariff concerns. Although we primarily use recycled brass in our ingot recipe, secondary markets like these do experience ripple effects when the primary commodity is impacted.

Last quarter, we walked you through the manufacturing and supply chain footprint supporting our US sales, along with the tariff-related exposures and mitigation efforts. While announced and rumored tariff rates by country and commodity continue to evolve, our underlying tariff-related exposures and mitigation actions remain the same. Most importantly, we continue to see the competitive playing field as level in terms of both exposures and planned mitigation actions, including any potential targeted pricing actions. That said, the ongoing trade uncertainty and lag impact of mitigation actions, once again, prompts us to leave our normalized gross margin range of 38% to 40%, unchanged for now despite another quarter of gross margin performance above 40%.

SEA expenses in the second quarter were \$52.9 million, an increase of approximately \$9.1 million year over year, due primarily to the addition of SmartCover including \$1.6 million of intangible asset amortization. Excluding the acquisition, SEA expenses increased \$3.3 million, the result of higher personnel costs to support growth and approximately \$1 million of deferred compensation expense resulting from the year-over-year change in stock price that is unique to this quarter.

The income tax provision in the second quarter of 2025 was 24.5% modestly above the prior year's 23.8%. Consolidated EPS was \$1.17 versus \$1.12 in the prior year quarter. Primary working capital as a percent of sales at June 30, 2025, was 21.8%, consistent with the prior quarter end and about 200 basis points better than a year ago. Free cash flow increased 19% year over year to \$40.6 million largely due to higher earnings and working capital differential between years.

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

**Kenneth Bockhorst** - *Badger Meter Inc - Chairman of the Board, President, Chief Executive Officer*

Thanks, Bob. Next, I'd like to talk about the progress we've made since the launch of BlueEdge last year. As a reminder, BlueEdge is the brand that unifies the comprehensive suite of products and solutions that enable our customers to manage their water and wastewater systems beyond the meter.

In June, our booth at the ACE tradeshow in Denver, which is our industry's biggest event of the year, highlighted the various use cases of our extensible solutions and included SmartCover for the first time. We also featured our new Field App, which brings the power of our BEACON software to utility field personnel, and we introduced Cobalt, which leverages machine learning for advanced insights within our BEACON platform. Our booth was the physical representation of our evolution behind the meter.

Today, our BlueEdge portfolio of water management solutions provides tremendous value to customers, and it was exciting to see the energy in our booth as well as the enthusiasm that both long-standing and soon to be new customers have for our solutions. While it's only been years since we've launched this concept, we've already seen meaningful momentum in our efforts to inform utilities of the advantages of our BlueEdge solutions.

Furthermore, we've elevated our already strong reputation as a trusted partner. A long-term relationship with us means that we'll be there to enable our customers as they evolve and plan for the future. We're seeing increasing numbers of RFPs that ask for solutions beyond the meter and are offering elevates our standing in the bid process while providing tangible reasons for us to continue our partnership with customers post sale even after their AMI projects are complete. In summary, we're very pleased with a strong start to this evolving aspect of our long-term strategy.

Finally, turning to the outlook. We routinely highlight that our business can be uneven quarter to quarter and year to year. It is simply the nature of the business, given utility replacement cycles, project deployment schedules, project phase in, phase outs, et cetera. The difficult second quarter comparison from a year ago that Bob discussed earlier is just one example of phenomenon.

Another example is that we did have a number of AMI projects wrap up in the second quarter. While we already have new AMI projects in hand to replace them, the timing of the start of those projects is such that we expect absolute sales to decline sequentially in the third quarter of 2025. Despite the moderation in sales, we still expect sales growth year over year, excluding SmartCover.

Nevertheless, despite the macroeconomic trade and policy uncertainties we've experienced year-to-date, the multiple long-term secular trends fueling growth where we are positioned in the water industry remains strong. Our core products and solutions are critical to the operations of the water utility, commercial and industrial customers.

As a reminder, the meter is the cash register of the utility and remains a priority for investment. Thus, our ongoing conviction and high single-digit revenue growth over the long term is underpinned by these enduring favorable industry fundamentals, along with customer order and demand trends, project awards pending in future RFP activity, and the competitive positioning of our broad portfolio of solutions to best address water challenges.

We continue to generate strong cash flow and retain a balance sheet with significant financial flexibility to withstand macroeconomic pressure while pursuing both organic and strategically relevant inorganic investments, all while paying a dividend that has grown in line with earnings for over three decades.

After nearly six months of integration, we remain on track to deliver the anticipated sales and cost synergies associated with the SmartCover acquisition. We've made tangible progress in leveraging Badger Meter resources across SmartCover business, continue to identify go-to-market opportunities for SmartCover as part of our BlueEdge suite of solutions.

Finally, I'd like to call out our recently published 2024 sustainability report. I'm proud that the collective efforts of our team allowed us to exceed and raise our targets for greenhouse gas intensity production. while also delivering record 2024 financial results. Our continuous improvement philosophy towards sustainability efforts continues to produce favorable outcomes as it has across the entire business.

In summary, we're carefully managing through uncertainty in the broader environment by focusing on what we can control in the near term while diligently executing against the long-term strategic plan that we're confident will continue to create value for both our customers and our shareholders.

With that, operator, please open the line for questions.

## QUESTIONS AND ANSWERS

### Operator

(Operator Instructions) Nathan Jones, Stifel.

### Nathan Jones - Stifel Nicolaus & Company Inc - Analyst

Good morning, everyone. I guess my question is going to be on the SG&A expense line. Just looking at it sequentially, it's kind of gone up about \$7 million, which was I think, more than people were looking for. You've got an extra quarter of SmartCover in there and that onetime deferred comp number in that. Can you talk about the other investments that have been made there to support future growth, I guess, ex the \$1 million write-up of deferred comp.

Is just kind of \$52 million, a new level of SG&A that we should be expecting going forward?

### Robert Wrocklage - Badger Meter Inc - Senior Vice President, Chief Financial Officer

Yeah. I think you picked up on, I think, the two main pieces that are relevant to the quarter, Nathan. Certainly, yes, a full three months of SmartCover's SEA run rate, which, of course, we mentioned that acquisition is above line average organically. And then when you add the intangible amortization to that, which, again, we've sized for the year and the quarter, that's certainly an element of that uptick sequentially.

You've also picked up on the very unique item to the quarter, that being the deferred comp expense to the tune of about \$1 million. So absent those items, essentially SEA growth year over year is up \$2 million to \$3 million. And it's ongoing investment to support the wonderful things that we're doing in the marketplace in terms of continuing to evolve our software offering to keep it leading best-in-class, continue to bring innovative product development to market that differentiates not only our meter-to-cash products but are around the meter technologies and continue to drive adoption of those technologies, which remain very early stage in terms of US and North American water utility adoption.

And so yeah, I mean, those are pieces of it. Obviously, we don't guide, but you've picked up on the outliers that would help to inform your outlook moving forward.

### Nathan Jones - Stifel Nicolaus & Company Inc - Analyst

I guess the \$1.6 million of intangible amortization, is any of that like inventory step-up or something that goes away? Or is that what you expect the continuing level of amortization to be?

### Robert Wrocklage - Badger Meter Inc - Senior Vice President, Chief Financial Officer

Yeah, that is entirely the intangible asset amortization. The inventory step-up that was a small amount in association with the acquisition passed out in the first quarter. So essentially, that's the continuing run rate for the life of those varying lived intangibles that we disclosed in the financials.

### Nathan Jones - Stifel Nicolaus & Company Inc - Analyst

Okay. So there's no reason to expect it to be less than \$52 million in the SG&A line going forward?

**Robert Wrocklage** - *Badger Meter Inc - Senior Vice President, Chief Financial Officer*

Yeah, we'll leave that to you to figure out. But ultimately, you picked up on the two unique pieces. Yeah.

**Nathan Jones** - *Stifel Nicolaus & Company Inc - Analyst*

Fair enough. I guess then maybe you could provide a little bit more color. I mean, you ran through a few of the things there, Bob. But just on what kind of capabilities, let's not call them expenses, you call them capabilities have been added to the business to support future growth.

**Kenneth Bockhorst** - *Badger Meter Inc - Chairman of the Board, President, Chief Executive Officer*

Yeah. So Nathan, as you reflect on the past five years, I think it's probably not fair to think about it because Q2 2020 was the COVID quarter, but we're up 165% revenue over that five-year period. So some of it is just the random things of continuing to increase capacity on some of the product lines that we continue to invest in, and some of it is investing and, of course, people. And as we go through our five-year strategic plan every year, and we look forward on what the new skills and new offerings are. We're going to have sometimes that drives investing in different kinds of skills that we currently have today, continuing to invest in our software business that we're totally excited about.

So all the things that we've told you over the years that we're investing in to grow. It's just a matter of continuing to do that. And frankly, we still feel taking the SmartCover piece aside, our ability to grow at a rate faster than our investment in SEA, is still -- that still is impact.

**Robert Wrocklage** - *Badger Meter Inc - Senior Vice President, Chief Financial Officer*

I think that's the key there is that there's nothing unique about the rate -- there's nothing unique about the rate of investment in this quarter. Is anything different than what we've been doing for the last four or five years in terms of our primary cash capital allocation priority of organic investment in the business. It's just the way I think it's sequencing on a year-over-year basis and in concert with those two unique items that you mentioned to start your question.

**Operator**

Scott Graham, Seaport Research Partners.

**Scott Graham** - *Seaport Research Partners - Analyst*

Yes. I have a similar question to Nathan. I just want to maybe come at it a little bit differently. You were -- I thought it pretty clear in your bullet points here on the SEA that the \$1.6 million stays but the \$1 million of variable deferred comp is unique to the quarter. So am I to infer that, that means that, that goes away next quarter?

**Robert Wrocklage** - *Badger Meter Inc - Senior Vice President, Chief Financial Officer*

Not in its entirety, but when you experience a quarter where the stock price goes up over \$50 from beginning to end and you have liabilities associated that track that there's going to be an oversized impact that is absolutely unique to the second quarter.

**Scott Graham** - *Seaport Research Partners - Analyst*

Understood. Got it, that's clear. Thank you. But one other question though around this, Bob. You also, I think, indicated that if you strip those out, there was a \$3 million core increase. Now if my calculations are right here, that \$3 million core increase on a year-over-year basis is about the same

as your sales number, sales increase in total, which would suggest that maybe there was a little bit -- because you typically get leverage off of that line would suggest maybe a little bit more investment in this quarter, although you just said that was not the case.

So maybe you can connect those dots for me.

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**Robert Wrocklage** - *Badger Meter Inc - Senior Vice President, Chief Financial Officer*

So I think the simplest way to say this is that we're comparing to a quarter of SEA as a percent of sales at 20.2% which is abnormally low. Stripping out all the noise in the quarter, so in essence, stripping out SmartCover for all intents and purposes, we'd have been at 20.7%. So yes, there is a 50 basis point increase but that is a -- no in any way different than where we've been historically or in recent quarters and is still indicative of our ability to leverage SEA over time, just not quarter to quarter.

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**Kenneth Bockhorst** - *Badger Meter Inc - Chairman of the Board, President, Chief Executive Officer*

Yeah. I mean we (inaudible) have done --

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**Scott Graham** - *Seaport Research Partners - Analyst*

Thank you for that clarity.

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**Robert Wrocklage** - *Badger Meter Inc - Senior Vice President, Chief Financial Officer*

Yeah.

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**Scott Graham** - *Seaport Research Partners - Analyst*

Thank you for that clarity. Okay. So then let me just ask this one last question, if I may. The third bullet point says that strategic price increases mitigated certain tariff impacts, which suggests to me that you were maybe price/cost negative in the quarter? And then if that's the correct assumption, should you essentially be price/cost neutral for the rest of the year?

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**Robert Wrocklage** - *Badger Meter Inc - Senior Vice President, Chief Financial Officer*

So I think you're picking up on the right dynamic. Certainly, our book of business here is -- varies in terms of go to market. Sometimes we're direct, other times, we're through distribution. Sometimes we have PO to PO pricing. Other times, we have long-term contracts, right? The pricing actions implemented in the quarter were implemented in, call it, mid-April. And by default, they won't be effective on everything that we shipped in the quarter.

To the extent tariff cost pressures remained static, which I don't think anyone is saying, those to be the case. You're exactly right in your diagnosis of how we've characterized the second quarter results. I think what remains to be seen and the main priority reason why we're not redrawing a gross margin line or normalized gross margin range in this quarter despite, again, once again, having 41.1% gross margins is the uncertainty associated with tariff costs.

So the last part of your question is difficult to answer, not knowing exactly what the forthcoming reciprocal tariff impacts are as well as then the tariff around copper, which at this time is just a rumored statement, nothing that's been firmly implemented. And so that's the overall hesitancy to tell you that were going to be cost neutral moving forward because the cost side can change while equally the price side can change as well.

**Operator**

Andrew Krill, Deutsche Bank.

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**Andrew Krill** - *Deutsche Bank AG - Research Analyst*

I wanted to follow up on the comments about the AMI projects in the funnel and it being a little unclear when they might start. So just is this like a change where they've been deferred or pushed out a little bit? Or is this more normal course of business? And can you maybe also just generally comment on like muni activity in general because I think there have been some fears maybe of like a little bit of softness there.

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**Kenneth Bockhorst** - *Badger Meter Inc - Chairman of the Board, President, Chief Executive Officer*

Yeah. So Andrew, yeah, so as we talk about all the time in this business, it can be uneven from quarter to quarter. So we're just basically letting you know it's not a stack bar where you add one quarter to the next, and it can be the same. So just trying to be transparent here that some projects have rolled off, but we certainly are excited about the projects that we'll be rolling out that our funnel remains as robust as ever. So not a concern for the long term in any way.

It doesn't change our view on high single digits through the cycle. Just pointing out that we still expect to grow next quarter and into the future, but it's just not a stack bar from sequential.

In terms of total just market demand, like we always have, we continue to spend a lot of time talking to customers in several pieces of the cycle on who's working with consulting firms on AMI projects that we'll see in three to five years, how we're doing on RFPs that are currently in motion, things that are currently being rolled out orders, backlog. We're every bit as bullish as we've ever been. So customer demand side in terms of people acquiring what new projects are moving forward with projects remains largely unchanged.

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**Andrew Krill** - *Deutsche Bank AG - Research Analyst*

Okay. Great. That's very helpful. And then a quick clarification on the comments about sales being down quarter over quarter into 3Q. Just was that a total sales comment or more core sales. So in other words, like kind of strip out SmartCover and your core dollars are down as well. Thanks.

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**Kenneth Bockhorst** - *Badger Meter Inc - Chairman of the Board, President, Chief Executive Officer*

Yeah, Andrew, that's a core comment.

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**Robert Wrocklage** - *Badger Meter Inc - Senior Vice President, Chief Financial Officer*

Yeah. So the script specifically clarified excluding SmartCover. So essentially, core growth within, obviously, the noncomparability of SmartCover in Q3 '25 not being in Q24.

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**Operator**

Rob Mason, Baird.

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**Robert Mason** - *Robert W. Baird & Co Inc - Senior Research Analyst*

Ken, Bob, maybe I'll just pick up real quick around SmartCover. So the sales in the quarter looked like they were -- and this is I guess the first full quarter we're seeing a SmartCover. Above the run rate of sales that they reported last calendar year. So I'm just curious, is that reflective of seasonality in the business? Is that kind of underlying organic growth?

Just how we should be thinking about \$10 million contribution this quarter anyway of SmartCover cover sales and how the maybe quarter-to-quarter pattern should look there?

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**Kenneth Bockhorst** - *Badger Meter Inc - Chairman of the Board, President, Chief Executive Officer*

Yeah. So I'll make a general comment, then I'll keep Bob on the line to jump into. So let me just talk in general about how excited we are about the SmartCover acquisition. So we've added about five months now. I mentioned the great reaction that we had at ACE, a lot of the feedback that we're getting within the market. So getting a lot of positive momentum from both markets and just through the integration that we've had thus far. I think we couldn't be more pleased with the results that we've had thus far and the team that's on board.

So I feel great about the long-term fundamentals there. I think Bob was going to make a point on the sales, so I'll turn it to him. But I just wanted to be clear that everything that we think that we've -- everything that we thought we knew about SmartCover's has proven to be true very early on.

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**Robert Wrocklage** - *Badger Meter Inc - Senior Vice President, Chief Financial Officer*

Yeah. I mean you hit the main point, which is, of course, I know everybody's immediate concern is quarter to quarter, but our long-term growth outlook for SmartCover is multiyear, if not multi-decade, again, referencing back to the sewer line monitoring portion of this business is virtually greenfield with very low digital adoption in the less than one-half of 1%. So essentially, we believe not only in the revenue growth in the short term, but the long term.

I would say this is little to do with seasonality and entirely to do with advancing our positioning as a leader in the market and helping utilities solve primarily four main use cases and what generally tends to be out of sight, out of mind. In fact, underground infrastructure that is blind spots for those utilities. And so yes, we're pleased with the revenue growth thus far, but certainly I have high aspirations as we move forward as well.

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**Robert Mason** - *Robert W. Baird & Co Inc - Senior Research Analyst*

And Bob, my quick math around the contribution from SmartCover at the EPS level. I know this is a GAAP number, of course. Would have been in the neighborhood of kind of \$0.06, \$0.07 dilutive in the quarter year over year?

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**Robert Wrocklage** - *Badger Meter Inc - Senior Vice President, Chief Financial Officer*

Yeah, you're not too far off. As I'll remind everyone, we said at acquisition, EPS accretive in year one and certainly a path to EPS contributions shortly thereafter primarily in year two. So as you can imagine, a lot of that is about market adoption and the great sales opportunities and sales growth that we mentioned, while also leveraging what at the current time is an above-line average SEA business. But that we think, over time, provides well above line average incrementals, both through the combination of software attachment rate and then leveraging the cost base.

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**Robert Mason** - *Robert W. Baird & Co Inc - Senior Research Analyst*

Yeah. If I could sneak in one more real quick. Just again, we'll have to see how the tariff around copper ultimately play out. But if you think that there could be some added cost to copper and that ultimately flows through to scrap brass. Do you think that could have any influence on the

adoption rate between mechanical and solid-state meters? I mean, does the pricing differential that exists today, does that narrow? Does it make the value proposition for solid-state stronger relatively?

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**Kenneth Bockhorst** - *Badger Meter Inc - Chairman of the Board, President, Chief Executive Officer*

Well, yeah. So the first thing I'd remind everyone, Rob, and I know you know this, is we have a great ultrasonic line. So even if that were to happen, we think that wouldn't -- that certainly would not be a negative event. We just bought people up from mechanical to ultrasonic within our portfolio. Secondly, people -- I know there's this myth about mechanical meters.

And clearly, we fully understand a mechanical meter could be smart, too, with the communications and software. And there are tangible reasons why a lot of utilities still want to buy mechanical meter. So along the way, we feel that we have a strong ability to continue to mitigate the cost issues and continue to sell a lot of mechanical meters. And if someone wants to walk up that ultrasonic, we're happy to help them do that too.

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**Operator**

Jeffrey Reive, RBC.

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**Jeffrey Reive** - *Rbc Capital Markets - Equity Analyst*

You mentioned you're progressing as expected on SmartCover integration. Could you remind us the cost synergy opportunity, where you are today and capturing it? And maybe how quickly you can expect to realize the remaining upside? And is this mostly an SEA cost-out opportunity?

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**Kenneth Bockhorst** - *Badger Meter Inc - Chairman of the Board, President, Chief Executive Officer*

So I don't -- I'm looking above. I don't believe we ever sized the cost-out opportunity publicly.

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**Robert Wrocklage** - *Badger Meter Inc - Senior Vice President, Chief Financial Officer*

Yeah. So I think let me just clarify. So certainly, when we talk about the most dramatic and impactful synergies of the SmartCover acquisition, it is all about commercial synergies, accelerating what was already great stand-alone organic revenue growth by advancing the connectivity of the technology to our existing installed base, whether that's direct at customers or through distribution.

So a number one priority from a synergy's perspective is commercial synergies. As it relates to cost, the comment I made earlier was about leveraging an existing SEA cost base. So prior to Badger's ownership, SmartCover was private equity owned, and they were in basically revenue growth mode. They invested heavily in advancing the technology and software, having the right feet on the street for sales. And so they carried a higher level of SEA coming into our acquisition.

We're not saying we're reducing that. We're saying we're able to lever that as the incremental sales growth that we bring to the table through our great access to market and long-tenured customer relationships occur.

There are certain aspects of cost synergies when you start to look at the product side, meaning the product that SmartCover sells for sewer line monitoring, has PCBAs and has batteries in it and are competents that we're familiar with buying. And whereas we buy hundreds of thousands, if not millions of those parts and components, SmartCover in history has only sold smaller amounts. And we believe we can leverage certain of those components through our supply chain and otherwise, but that is absolutely secondary to the primary synergy, which is commercial synergies. And so a big part of taking this from EPS accretive in year one to EPS accretive in years two, three and beyond is all about the top line revenue growth and then not having to invest in SEA at a rate commensurate with that great high organic above-line average sales growth.

**Jeffrey Reive** - *Rbc Capital Markets - Equity Analyst*

Got it. Thank you. And maybe just switching gears. There has been some discussions about potential cuts to the EPA budget. Do you have a sense of how that could impact demand for metering? And maybe at a high level, how would you break down customer project funding between just muni budgets and federal support like state revolving funds?

**Kenneth Bockhorst** - *Badger Meter Inc - Chairman of the Board, President, Chief Executive Officer*

Yeah. So Jeffrey, there's a lot of ways that utilities have to fund their projects. And remembering, again, as I said in the script, that the meter and AMI is effectively the cash register to the utility. So it remains a very high priority for them regardless of whatever funding may or may not be available. So of course, there are state revolving funds, which maybe reduce some of the new build, but they still exist in the [WIPIA] local cost interest loans are still out there and very supported by the government -- by the federal government.

And then you've got utilities have the ability to raise rates. They have the ability to issue municipal bonds. There's a myriad of ways that the funding happens, and this is where our direct sales model gives us an opportunity to talk directly with utilities on how they're viewing their upcoming plans.

And as you can imagine, we always do that, but we've done that even more so in the last three months with all the noise around this and continue to remain quite positive on the ability to grow high single digits through the cycle because utilities are still talking about investing and they have the means to do that for where we positioned ourselves in the water industry, which your question isn't wrong for the water industry, but I feel like we're pretty well positioned to not be affected by some of those cuts.

**Operator**

(Operator Instructions) We have no further questions in the queue. So I'll hand back over to you Barbara for any closing comments.

**Barbara Noverini** - *Badger Meter Inc - Investor Relations*

Thank you, operator, and thank you all for joining our call today. For your planning purposes, our third quarter 2025 call is tentatively scheduled for October 21, and I'll be around all day to take any follow-up questions you may have. Thanks, and have a great day.

**Operator**

This concludes our call. Thank you very much for joining. You may now disconnect your lines.

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