Thermon Group Holdings, Inc.
Form 10-K
May 30, 2018

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549
FORM 10-K
x ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For The Fiscal Year Ended March 31, 2018

or
¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to
Commission File Number: 001-35159
THERMON GROUP HOLDINGS, INC.
(Exact name of registrant as specified in its charter)

Delaware	27-2228185
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification No.)
100 Thermon Drive, San Marcos, Texas	78666
(Address of principal executive offices)	(Zip Code)

(512) 396-5801
(Registrant's telephone number, including area code)
Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common Stock, $0.001 par value per share	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. ¨ Yes x No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. ¨ Yes x No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. x Yes ¨ No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).
x Yes ¨ No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or

information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. þ

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer x	Accelerated filer o
Non-accelerated filer o (do not check if smaller reporting company)	Smaller reporting company o
	Emerging growth company o

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ¨

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). ¨ Yes x No

The aggregate market value of the registrant's common equity held by non-affiliates as of September 30, 2017 was $576,947,503 based on the closing price of $17.99 as reported on the New York Stock Exchange. Solely for the purposes of this calculation, directors and officers of the registrant are deemed to be affiliates.

As of May 29, 2018, the registrant had 32,497,992 shares of common stock, par value $0.001 per share, outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

As permitted by General Instruction G of Form 10-K, certain portions, as expressly described in this report, of the registrant's Definitive Proxy Statement for the 2018 Annual Meeting of Stockholders to be filed with the SEC are incorporated by reference into Part III of this Annual Report on Form 10-K.

THERMON GROUP HOLDINGS, INC.

ANNUAL REPORT
FOR THE FISCAL YEAR ENDED MARCH 31, 2018

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FORWARD-LOOKING STATEMENTS

This Annual Report on Form 10-K ("this annual report") includes forward-looking statements within the meaning of the U.S. federal securities laws in addition to historical information. These forward looking statements are made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. These forward-looking statements are included throughout this annual report, including in the sections entitled "Risk Factors," "Management's Discussion and Analysis of Financial Condition and Results of Operations" and "Business" and include, without limitation, statements regarding our industry, business strategy, plans, goals and expectations concerning our market position, future operations, margins, profitability, capital expenditures, liquidity and capital resources and other financial and operating information. When used in this discussion, the words "anticipate," "assume," "believe," "budget," "continue," "contemplate," "could," "should," "estimate," "expect," "intend," "may," "plan," "possible," "potential," "predict," "project," "will," "would," "future" and similar terms and phrases are intended to identify forward-looking statements in this annual report.

Forward-looking statements reflect our current expectations regarding future events, results or outcomes. These expectations may or may not be realized. Some of these expectations may be based upon assumptions, data or judgments that prove to be incorrect. In addition, our business and operations involve numerous risks and uncertainties, many of which are beyond our control, which could result in our expectations not being realized or otherwise materially affect our financial condition, results of operations and cash flows. The statements include but are not limited to statements regarding: (i) our plans to strategically pursue emerging growth opportunities in diverse regions and across industry sectors; (ii) our plans to secure more new facility, or Greenfield, project bids; (iii) our ability to generate more facility maintenance, repair and operations or upgrades or expansions, or MRO/UE, revenue from our existing and future installed base; (iv) our ability to timely deliver backlog; (v) our ability to respond to new market developments and technological advances; (vi) our expectations regarding energy consumption and demand in the future and its impact on our future results of operations; (vii) our plans to develop strategic alliances with major customers and suppliers; (viii) our expectations that our revenues will increase; (ix) our belief in the sufficiency of our cash flows to meet our needs for the next year; (x) our ability to integrate acquired companies; (xi) our ability to successfully achieve synergies from acquisitions; and (xii) our ability to make required debt repayments.

Actual events, results and outcomes may differ materially from our expectations due to a variety of factors. Although it is not possible to identify all of these factors, they include, among others, (i) general economic conditions and cyclicality in the markets we serve; (ii) future growth of energy, chemical processing and power generation capital investments; (iii) our ability to deliver existing orders within our backlog; (iv) our ability to bid and win new contracts; (v) competition from various other sources providing similar heat tracing and process heating products and services, or alternative technologies, to customers; (vi) changes in relevant currency exchange rates; (vii) potential liability related to our products as well as the delivery of products and services; (viii) our ability to comply with the complex and dynamic system of laws and regulations applicable to domestic and international operations; (ix) our ability to protect data and thwart potential cyber attacks; (x) our ability to continue to generate sufficient cash flow to satisfy our liquidity needs; (xi) a material disruption at any of our manufacturing facilities; (xii) our dependence on subcontractors and suppliers; (xiii) our ability to obtain standby letters of credit, bank guarantees or performance bonds required to bid on or secure certain customer contracts; (xiv) our ability to attract and retain qualified management and employees, particularly in our overseas markets; and (xv) the extent to which federal, state, local, and foreign governmental regulations of energy, chemical processing and power generation products and services limits or prohibits the operation of our business. Any one of these factors or a combination of these factors could materially affect our future results of operations and could influence whether any forward-looking statements contained in this annual report ultimately prove to be accurate. See also Item 1A, "Risk Factors" for information regarding the additional factors that have impacted or may impact our business and operations.

Our forward-looking statements are not guarantees of future performance, and actual results and future performance may differ materially from those suggested in any forward-looking statements. We do not intend to update these statements unless we are required to do so under applicable securities laws.

PART I

References in this annual report to "we," "our," "us," the "Company," or "Thermon" mean Thermon Group Holdings, Inc. and its consolidated subsidiaries taken together as a combined entity. A particular fiscal year is the twelve months ended on March 31 of the given calendar year (e.g. "fiscal 2018," "fiscal 2017" and "fiscal 2016" mean the Company's fiscal years ended March 31, 2018, March 31, 2017 and March 31, 2016, respectively). Thermon Group Holdings, Inc. is a holding company that conducts all of its business through its subsidiaries, and its common stock is listed on the New York Stock Exchange under the symbol "THR."

ITEM 1. BUSINESS

Business Overview

We are one of the largest providers of highly engineered industrial process heating solutions for process industries. For over 60 years, we have served a diverse base of thousands of customers around the world in attractive and growing markets, including oil & gas, chemical processing and power generation. We are a global leader and one of the few thermal solutions providers with a global footprint. We offer a full suite of products (heating units, heating cables, tubing bundles and control systems) and services (design optimization, engineering, installation and maintenance services) required to deliver comprehensive solutions to complex projects. We serve our customers through a global network of sales and service professionals and distributors in more than 30 countries and through our ten manufacturing facilities on three continents. These global capabilities and longstanding relationships with some of the largest multinational oil & gas, chemical processing, power and engineering, procurement and construction ("EPC") companies in the world have enabled us to diversify our revenue streams and opportunistically access high growth markets worldwide. For fiscal 2018, approximately 63% of our revenue was generated outside of the United States.

During fiscal years 2015 and 2016, we acquired three companies, Unitemp Corporation ("Unitemp"), Sumac Fabrication Company Limited ("Sumac") and Industrial Process Insulators, Inc. ("IPI"), adding complementary products and services to our core thermal solution offerings. Additionally, in October 2017, we completed the acquisition of CCI Thermal Technologies Inc. (now Thermon Heating Systems, or "THS"), allowing Thermon to greatly expand our product offerings and the end markets we serve. We continue to actively pursue both organic and inorganic growth initiatives that serve to advance our corporate strategy.

Our legacy thermal solutions product - also referred to as heat tracing - provides an external heat source to pipes, vessels and instruments for the purposes of freeze protection, temperature and flow maintenance, environmental monitoring, and surface snow and ice melting. We offer both electric and steam heat tracing, as both are utilized to a significant extent in our end markets. Customers typically purchase our products when constructing a new facility, which we refer to as "Greenfield projects", or when performing maintenance, repair and operations on a facility's existing heat-traced pipes or upgrading or expanding a current facility, which we refer to collectively as "MRO/UE." A large processing facility may require our heat tracing for a majority of its pipes, with the largest facilities containing hundreds of thousands of feet of heat-tracing cable and thousands of control points. While our products represent a fraction of the total cost of a typical processing facility, they are critical to the safe and profitable operation of the facility. These facilities are complex, with numerous classified areas that are inherently hazardous - and where product safety concerns are paramount. We believe that our strong brand and established reputation for safety, reliability and customer service are critical contributors to our customers' purchasing decisions.

Our customers' need for MRO/UE solutions provides us with attractive recurring revenue streams. Customers typically use the incumbent heat tracing provider for MRO/UE projects to avoid complications and compatibility problems associated with switching providers. We typically begin to realize meaningful MRO/UE revenue from new

Greenfield installations one to three years after completion of the project as customers begin to remove and replace our products during routine and preventative maintenance on in-line mechanical equipment, such as pipes and valves. As a result, our growth has been driven by new facility construction, as well as by servicing our continually growing base of solutions installed around the world, which we refer to as our installed base. Approximately 63% of our revenue for fiscal 2018, excluding THS, was derived from such MRO/UE activities.

In April 2015, we expanded our product offerings beyond our legacy heat tracing products and now offer temporary electrical power distribution products through our Sumac product line. Sumac products are sold in many of the same markets as our thermal solution offerings, which we believe will provide an attractive complementary offering to our customers that engage in new facility construction as well as maintenance, turnaround and expansion activities.

Our newest offerings - made possible through the acquisition of THS - give us the ability to access a much broader footprint of a typical refining or heavy manufacturing facility where our legacy products have generally been required. With our full suite of heating products, we can now extend well beyond the external heating of pipes offered by heat tracing. Our family of environmental heating products (branded as “Ruffneck” and “Catadyne”) range from electric or gas-powered space heating for personnel operating in harsh and hazardous environments to specific components in the same environments that need special protection. THS also offers a broad spectrum of capabilities in the process heating line. Immersion, circulation, and other highly-engineered forms of process heating (branded as “Caloritech”) protects process fluids as they reside in tanks or vessels or in-transit through the plant. One can think of our legacy capabilities as heating “from the outside,” whereas our additional capabilities provide us the products to heat “from within.” THS holds an “N-stamp,” or Nuclear Component Certification, allowing us to serve the nuclear power sector with heating and filtration products. These highly specialized filters use advanced mediums and specialized metals to perform under extreme heat and pressure. These products are branded as “3L Filters.” Lastly, our “Fastrax” and “Hellfire” lines, as well as some “Caloritech” products, provide a full-spectrum offering to the rail and transit industry. In both rolling stock and rail infrastructure, THS is a market leader in providing heat to rail cars, tracks, and switches throughout the world.

Our corporate offices are located at 100 Thermon Drive, San Marcos, TX 78666. Our telephone number is (512) 396-5801. Our website address is www.thermon.com. Copies of the charters of the committees of our board of directors, our code of business conduct and ethics and our corporate governance guidelines are available free of charge on our Investor Relations website located at http://ir.thermon.com. All reports that we have filed with the Securities and Exchange Commission ("SEC"), including this Annual Report on Form 10-K and our Current Reports on Form 8-K, can be obtained free of charge from the SEC's website at www.sec.gov or through our Investor Relations website. In addition, all reports filed with the SEC may be read and copied at the SEC's Public Reference Room at 100 F Street, NE, Washington, D.C. 20549-1090. Information regarding the operation of the public reference room may be obtained by calling the SEC at 1-800-SEC-0330. None of the information on our website or any other website identified herein is incorporated by reference in this annual report and should not be considered a part of this annual report.

Company History

Thermon, Inc., our principal operating subsidiary in the United States, was founded as a partnership in October 1954 and later incorporated in Texas in 1960. At that time, our primary product was a thermally conductive heat transfer compound invented by our founder, Richard Burdick. Under Mr. Burdick's leadership, we experienced steady growth by diversifying our products and expanding our geographic reach. Mr. Burdick and his family maintained a controlling interest in us until August 2007, when the controlling interest was sold to an affiliate of the Audax Group private equity firm. During Audax's tenure as our majority owner, we positioned ourselves to take advantage of rising demand in the energy end market and secured significant capital projects.

On April 30, 2010, an investor group led by entities affiliated with CHS Capital LLC and two other private equity firms, which we refer to collectively as our "former private equity sponsors", acquired Audax's controlling interest in us. The acquisition and related transaction expenses were financed through the issuance of senior secured notes and an equity investment by our private equity sponsors and certain members of our current and former management team. As used in this annual report, the "CHS Transactions" refer collectively to such acquisition, the equity investment in us by CHS, our other former private equity sponsors and certain members of our management team and related financing transactions.

In May 2011, we completed the initial public offering of our common stock (or "IPO"), and our common stock became listed on The New York Stock Exchange under the ticker symbol "THR." Our former private equity sponsors sold shares of our common stock in both the IPO and a secondary public offering in September 2012. As of March 31,

2013, our former private equity sponsors had sold or otherwise disposed of all of their shares of common stock in the Company.

On March 2, 2015, we acquired substantially all of the operating assets and assumed certain operating liabilities of Unitemp located in Cape Town, South Africa in a $3.9 million cash transaction. Unitemp, formerly a distributor of Thermon's thermal solutions in South Africa, offers heating, sensing, portable instruments, monitoring and control solutions to industrial customers throughout Sub-Saharan Africa. On April 1, 2015, we acquired a 75% controlling interest in the business previously operated by Sumac for approximately $11.0 million in cash and up to $5.9 million of potential additional contingent cash consideration, which was settled for $5.8 million in fiscal 2017. Sumac is based in Fort McMurray, Alberta, Canada and designs and manufactures temporary electrical power distribution equipment that is used in hazardous-location and general purpose areas within industrial facilities. On July 31, 2015, we acquired 100% of the capital stock of IPI, an insulation contractor located in Port Neches, Texas serving the U.S. refining, petrochemical, power and energy, marine and pulp and paper industries, in a $21.8 million cash transaction. IPI has a significant presence in the Texas and Louisiana Gulf Coast region.

In October 2017, we, through a wholly-owned subsidiary, acquired 100% of the equity interests of CCI Thermal Technologies Inc. and certain related real estate assets for $262.0 million CAD (approximately $204.2 million USD at the exchange rate as of October 30, 2017) in cash. Such subsidiary and CCI Thermal Technologies Inc. amalgamated immediately after the closing of the acquisition to form Thermon Heating Systems, Inc. ("THS"), an indirect, wholly-owned subsidiary of the Company. THS is engaged in industrial process heating, focused on the development and production of advanced heating and filtration solutions for industrial and hazardous area applications and is headquartered in Edmonton, Alberta, Canada. THS markets its products through several diverse brands known for high quality, safety and reliability, and serves clients in the energy, petrochemical, electrical distribution, power, transit and industrial end markets globally. We believe we will be able to leverage our existing global sales force to further expand the reach of THS's product offerings.

Industry Overview

We estimate that the market for industrial process heating design and parts was approximately $3.2 billion in annual revenue in 2017. With our October 2017 acquisition of THS, our addressable market in fiscal 2018 grew by almost $1.0 billion in annual revenue, consisting of the process heating ($800 million) and transportation ($180 million) industries. This diversified the product and service mix to encompass the industrial process heating industry, which includes industrial heat tracing. We estimate that the industrial heat tracing market is composed of approximately 60% electric heat tracing and 40% steam heat tracing. While some environments welcome a conversion to electric heat tracing, a significant number of applications will remain protected by steam - due to both safety and the fact that many processes generate steam as a by-product, making it readily available. The industrial electric heat tracing industry is fragmented and consists of more than 30 companies that typically only serve discrete local markets with manufactured products and provide a limited service offering. The market for steam heat tracing solutions is equally as fragmented, but served by fewer companies, as the applications can be extremely high-temperature - requiring specific domain knowledge and manufacturing and installation techniques that are unique. Much like electric and steam heat tracing, the process heating market is highly fragmented. Industrial process heating providers differentiate themselves through the quality and reputation of their products, the length and quality of their customer relationships and their ability to provide comprehensive solutions. Large multinational companies drive the majority of spending for the types of major industrial facilities that require process heating, and we believe that they prefer providers who have a global footprint and a comprehensive suite of products and services. We believe we are one of only a few companies that meet these criteria.

The major end markets that drive demand for process heating include oil & gas, chemical processing and power generation. We believe that there are attractive near-to medium-term trends in each of these end markets.

- Oil & Gas. Process heating is used to facilitate the processing, transportation and freeze protection of energy products in both upstream and downstream oil and gas applications. According to the International Energy Agency ("IEA"), natural gas supplies 22% of the energy used worldwide, and makes up nearly a quarter of electricity generation, and plays a crucial role as a feedstock for industry. Also, IEA estimates that global oil and gas upstream capital spending will increase over 5% in 2018. The oil and gas end market accounted for approximately 38% of the total market for industrial process heating in 2018, or approximately $1.2 billion in revenue. As global oil prices continue to recover from the recent depression, Thermon is well-positioned to take advantage of the near-to medium-term growth trends associated with this primary end market.

- Chemical Processing. Process heating is required for temperature maintenance and freeze protection in a variety of chemical processing applications. Factors that may impact process heating demand in chemicals end markets include the rapid industrialization of the developing world, a shift in base chemical processing operations to low-cost feedstock regions, a transition of Western chemical processing activities from commodity products to specialty products and environmental compliance. The IEA estimates that new global petrochemicals capacity will account for

25% of oil-demand growth by 2023. We estimate that the chemicals end market (including petrochemical) accounted for approximately 14% of the total market for industrial process heating in 2018, or approximately $460 million in revenue.

Power Generation. Process heating is required for high-temperature product maintenance, freeze protection and environmental regulation compliance in coal and gas facilities and for safety systems in nuclear facilities. An important driver of demand for process heating solutions for power generation is increasing demand for electricity worldwide. We estimate that the power generation end market accounted for approximately 7% of the total market for industrial process heating in fiscal 2018, or approximately $230 million in revenue. According to the IEA's World Energy Outlook 2017, electricity is the rising force among worldwide end-uses of energy, accounting for 40% of the estimated increase in global energy consumption in 2040 - the same share of growth that oil accounted for during the last 25 years.

- Transportation. Process heating is required to safely clear and heat rail switches, melt snow and ice from platforms, and provide comfort heating and defrosting in rolling stock. With over 1 million kilometers of operational railway in the world, it is still one of the most economical and safe solutions for passengers and products globally. According to an estimate by IEA based on International Union of Railways ("UIC"), Urban, passenger and freight rail continues to grow on the same curve as global gross domestic product, or GDP. Of this growth, the commercial rail and transit sector represents the largest increase at approximately 8.9% through 2028. We estimate that our transportation industry end markets accounted for approximately 6% of the total market for industrial process heating in fiscal 2018, or approximately $180 million in revenue.

Segments

In connection with acquisitions made since fiscal 2015, the Company reviewed its determination of segments. Previously, we aggregated geographic markets into one reportable segment. Based on our review, we revised our segment reporting to four reportable segments based on four geographic countries or regions: United States, Canada, Europe and Asia. Within our four reportable segments, our primary products and services are focused on thermal solutions primarily related to the electrical heat tracing industry. Each of our reportable segments serves a similar class of customers including large EPC companies, international and regional oil and gas companies, commercial sub-contractors, electrical component distributors and direct sales to existing plant or industrial applications. Profitability within our segments is measured by operating income. Profitability can vary in each of our reportable segments based on the competitive environment within the region, the level of corporate overhead, such as the salaries of our senior executives, and the level of research and development and marketing activities in the region, as well as the mix of products and services. Since March 2015, we have acquired Unitemp, IPI, Sumac and THS. Both Unitemp and IPI offer thermal solutions and have been included in our Europe and United States reportable segments, respectively. Sumac provides temporary power products that differ from our core thermal solutions business. As operating results from Sumac comprise less than 10% of our total sales and operating income, Sumac has been aggregated in our Canada segment. THS, recently acquired in October 2017, has similar economic characteristics as the core Thermon process heating operations. Management intends to integrate THS into the existing Thermon operations as soon as practicable. Therefore, THS has been aggregated in our Canada and United States segments. See Note 17, "Segment Information" for financial data relating to our four reportable geographic segments.

Products and Services

Our products include a wide range of electric heat tracing cables, steam tracing components, tubing bundles, and instrument and control products, as well as complementary product lines acquired in recent acquisitions, including:

- self-regulating and power limiting heating cables, which automatically increase or decrease heat output as pipe temperature changes as well as constant wattage heating cables;
- mineral insulated, or "MI," cable, which is a high performance heat tracing cable for generating high temperatures that is typically used in harsh environments;
- skin effect trace heater, which can heat lines in excess of 15 miles long from a single power point;
- heat traced tube bundles for environmental gas sampling systems;
- heat transfer compounds and steam tracers for comprehensive steam tracing solutions;

- control and monitoring systems for electric tracing of pipes, tanks, hoppers and instrument sampling systems;

- turnkey solutions that provide customers with complete solutions for heat tracing, including design, optimization, installation and ongoing maintenance;

- products and services from the THS transaction, which include high efficiency explosion-proof gas catalytic heaters, convection heaters designed for rugged industrial applications, electric heaters engineered for industrial processes and environments, advanced gas and liquid filtration systems and highly efficient heat transfer systems for rail track and switch equipment;

- products and services from the Unitemp acquisition, which include heating, sensing, monitoring and controlling tools; and

- products from the Sumac acquisition, which include equipment for temporary electric power distribution and lighting products used in energy infrastructure construction projects and maintenance/turnaround projects.

Electric Heat Tracing Applications

We manufacture critical components of an electric heat tracing system, including heating cables, control and monitoring systems and heating systems for tanks and hoppers. We customize these products to fit the specific design parameters for each client's installation. We offer various electric heating cables, including conductive polymer self-regulating heating cables, power limiting cables, constant wattage heating cables and MI high temperature heating cables.

Self-regulating heating cables- Our self-regulating heating cables are flexible and engineered to automatically increase or decrease heat output as pipe or vessel temperature changes. BSX™ self-regulating cables are designed to provide freeze protection or process temperature maintenance to metallic and non-metallic piping, vessels and equipment. HTSX™ self-regulating heating cable is suitable for heat tracing applications involving crude oil and most chemicals.

Power-limiting and constant watt heating cables- Power limiting and constant watt heating cables are flexible parallel resistance cables used to heat trace piping in lengths longer than 500 feet. Such intermediate lengths of pipe are commonly found in pipe racks that connect process units within a plant. These heaters allow longer lengths between power supply points than self-regulating cables. HPT cables offer a power limiting feature along with larger power bus wires to allow delivery of an increased heat output over that found with self-regulating cables.

TEK™ HTEK™ and MIQ™ cables- The TEK™ and HTEK™ series resistance, constant watt heating cables are used where circuit lengths exceed the limitations of parallel resistance heating cables. By using series constant watt heating cables, a single power supply point can energize circuit lengths up to 12,000 feet. MIQ™ high performance mineral insulated heating cables are used for high temperature maintenance, high temperature exposure and/or high watt density applications that exceed the limitations of thermoplastic insulated cables. MIQ™ cables are composed of a high nickel/chromium alloy sheath, which is well-suited for high temperature service and offers high resistance to stress corrosion in chloride, acid, salt and alkaline environments.

ThermTrac™ cables - A ThermTrac skin effect system provides a cost-effective alternative to conventional resistance heat tracing on long pipelines by eliminating the need for an extensive power distribution system. A ThermTrac system is designed to heat a pipeline in excess of 15 miles long from a single power point. The versatility of the system makes it well-suited for temperature maintenance, freeze protection and heat-up applications. The system generates heat by the resistance of the electrical current flowing through both the conductor and the inner skin of a heat tube.

Steam Heating Solutions

In 1954, we began manufacturing heat transfer compounds that greatly improved the heat delivery of steam tracing systems. Today, in addition to the broad range of heat transfer compounds, we also offer steam tracers and tubing bundles that provide our customers with comprehensive steam tracing solutions. We manufacture our heat transfer compounds in various configurations so that they can be applied to different surfaces, which increases the heat transfer rate of steam or fluid tracers.

Our heat transfer compounds create an efficient thermal connection between the heat tracing system and the process equipment. Through the elimination of air voids, heat is directed into the pipe wall primarily through conduction rather than convection and radiation. This requires fewer tracing pipes to maintain specified temperature requirements, substantially reducing operating and investment cost. Steam tracing offers the most cost effective solution for certain heavy oil and natural gas processing applications. We have also patented our SafeTrace® steam tracing products for use in applications with stringent temperature requirements.

Currently, we are adding capabilities to include full steam heating solutions. This includes the design, engineering, procurement, integration, installation, and insulation of steam systems that include the steam supply manifold, the condensate return manifold, and the tubing, valves, fittings, heat trace, and other components that exist in-between.

Temperature Controls and Monitoring

We supply a wide range of control and monitoring products, from simple mechanical thermostats to sophisticated microprocessor-based systems that control and monitor the status of electric heat tracing systems. We provide individual units for smaller projects, as well as multi-point controllers that can be integrated into and communicate with a plant's central data management and control system.

We offer a variety of temperature control monitoring systems as part of our TraceNet™ family of controllers. TraceNet™ controllers allow the operator to assess operating control parameters and operating conditions throughout the heat tracing system network utilizing our TraceNet™ control solutions. Our controllers can communicate with up to 4,096 controllers over 32 channels, allowing up to 15,000 heat trace circuits to be monitored within the same network. We actively seek to expand our TraceNet™ product offerings with the goal of offering the customers the most advanced and easy-to-use monitoring systems in the marketplace.

Instrumentation

We specialize in pre-insulated and heat-traced tubing bundles with accessories that offer a complete instrument heating system. Our complete range of products includes both electric- and steam-heated bundles containing various types of tubing (such as copper, stainless steel and polymer) to meet the needs of process and environmental applications. Such applications include transporting samples of gas or liquid in our customized, temperature-controlled tubing bundles to an instrument that typically performs an analysis for purposes of process management or ensuring compliance with internal requirements or applicable environmental laws and regulations.

Hopper Heating

The HT Hopper Heating Module is a self-contained heater designed for operation on surfaces prone to vibration. In cement plants and fossil fuel power facilities, hoppers facilitate the filtering of a facility's ash emissions. Hopper heaters maintain the walls of the hopper at a temperature above the dew point to prevent moisture from combining with ash, thus clogging the filtering equipment. We engineer each system based on the heating requirements of the specific application. The HT Hopper Heating Module has multiple flow paths for electrical current, which eliminates the burnout potential common with series wire-based designs. Protection of the heating element from vibration is accomplished with a cushion layer of insulation that also directs the flow of heat from the module to the surface being heated. The module provides mechanical protection during handling, installation and operation, and its low profile design helps facilitate installation.

Turnkey Services

We provide customers with complete turnkey solutions for their heat tracing needs. Turnkey services include project planning, product supply, engineering services, system integration, installation, commissioning and maintenance. Specialized, turnkey heat tracing services meet the needs of many of our industrial customers who have downsized and outsourced their non-core competencies and are requiring their vendor base to have multi-service and multi-site capabilities.

Our turnkey business in the United States is based in Houston, Texas, Port Neches, Texas and Baton Rouge, Louisiana. During fiscal 2018, we worked on more than 310 turnkey projects, with the largest turnkey project accounting for approximately $5.4 million in revenue. Engineering and construction companies in the United States often subcontract their heat tracing projects to outside parties, including us, because of the field's highly specialized nature.

In July 2015, we acquired IPI, an insulation contractor located in Port Neches, Texas. Prior to the acquisition, IPI was formerly our customer and a subcontractor to the Company for 17 years. IPI enhances our turnkey product offerings

and strengthens our presence in the Gulf Coast region, as IPI serves many of the same end-markets as those served by our core thermal solutions business.

Design and Engineering Services

We offer heat tracing design and engineering services during every stage of a project. Providing design services within the quote process is a core element of our business strategy. By delivering design drawings in conjunction with early project specifications, we can determine the customer's heat tracing requirements, which leads to subsequent sales of heat tracing products for that project.

We are focused on providing comprehensive solutions to fulfill the heat tracing needs of our customers. As a manufacturer of a wide range of heat tracing products, we believe that we are well-positioned to evaluate and optimize a system

for a customer without bias towards a particular product, and rely on more than 60 years of experience to craft the most appropriate heat tracing solution for a customer's specifications and needs.

We provide design and engineering services to our customers through our full-time staff of engineers and technicians. Through the design and engineering process, our engineers and technicians located throughout the world provide our customers with design optimization studies, product selection assistance, computer-generated drawing packages and detailed wiring diagrams.

Thermon Heating Systems (THS) Products

In October 2017, we acquired 100% of the equity of CCI Thermal Technologies Inc. and immediately rebranded as Thermon Heating Systems, Inc. ("THS"). THS develops, designs and manufactures the following high quality and durable advanced industrial heating and filtration solutions:

- Environmental heating (“Ruffneck” and “Catadyne”) - which provides electric or gas-powered space heating for both hazardous and non-hazardous areas;

- Process heating (“Caloritech”) - provides a myriad of highly-engineered heating products to multiple end-markets with the purpose of heating and maintaining a process fluid at specified temperatures. Some products also serve the transportation sector with both radiant and convection-style heating;

- Filtration (“3L Filters”) - which provides highly-specialized filtration solutions for the most stringent environments, including the nuclear industry; and

- Transportation (“Fastrax” and “Hellfire”) - provides heating applications to both rolling stock (rail cars) and rail infrastructure (track and switch).

Sumac Temporary Power Products

In April 2015, we acquired a 75% controlling interest in the business previously operated by Sumac. Sumac's line of products and solutions are designed to provide a safe and efficient means of supplying temporary electrical power distribution and lighting at energy infrastructure facilities for new construction and during maintenance and turnaround projects at operating facilities. Sumac products include power distribution panels, master/slave sub-panels, power cords and lighting fixtures - and are sold to end-users operating in many of the same markets as our core thermal solutions, including heavy industrial settings, oil and gas refining and upgrading, power generation plants, petrochemical production facilities and mining operations. A number of these products are engineered-to-order based on proprietary designs.

Sumac's products are designed around the "plug and play" concept and differentiated from others in the industry through unique safety features that include arc flash protection i.e., protecting users while making and breaking connections under electrical load, and offering ground fault protection. Certain products are certified to safely operate in hazardous areas such as live plant environments that process combustible chemicals and materials. Sumac's suite of products is designed to allow for quick reconfigurations of electrical power distribution panels to meet the changing needs of contractors as work moves from one phase to the next during construction and facility maintenance operations. These features help our customers save considerable time on the job site and realize significant cost savings while maintaining the highest level of safety. We believe we will be able to leverage our existing global sales force to further expand the reach of Sumac's product offerings.

Manufacturing and Operations

We have ten manufacturing facilities on three continents. We manufacture the products that generate a majority of our total sales at our principal facility in San Marcos, Texas including flexible heating cables, heat tracing compound and tubing bundles. Our facilities are highly automated, which reduces labor costs. Our facilities incorporate numerous manufacturing processes that utilize computer-controlled equipment and laser technology. We maintain a ready supply of spare parts and have on-site personnel trained to repair and perform preventative maintenance on our specialized equipment, reducing the likelihood of long term interruptions at our manufacturing facilities. Our manufacturing facilities are equipped to provide us with maximum flexibility to manufacture our products efficiently and with short lead times. This in turn allows for lower inventory levels and faster responses to customer demands.

Our flexible heat cable products are manufactured in San Marcos, Texas. The manufacturing building has approximately 48,000 square feet of floor space, including offices. The facility has excess capacity and will support growth of our primary heat cable sales to an aggregate revenue capacity of $400 to $500 million, depending on pricing and product mix.

Our electronic cross-linking facility, which we refer to as our "ECLF," is also located at the San Marcos facility. Cross-linking enhances the thermal, chemical and electrical stability of our low-temperature self-regulating heater cables. By performing cross-linking in-house, we condense the overall manufacturing cycle by approximately six weeks. This enhances our ability to ensure a high level of product quality and to better control the production process.

Our pre-insulated tubing products are manufactured in our facilities in San Marcos and the Netherlands. The majority of our pre-insulated tubing product is custom ordered and made to customers' specifications in a two-part process. The thermal insulation is first applied over the heating cable and process tubing, and a protective plastic outer jacket is extruded onto the bundle to protect the insulation.

During fiscal 2016, we completed an expansion of our primary pre-insulated tubing product manufacturing plant located in San Marcos, Texas, which significantly increased our production capacity for our instrumentation tube-bundle product line. The total cost of the expanded facility, including the purchase of new capital equipment, was $3.5 million.

Our MI cable manufacturing facility in Calgary, Canada gives us adequate capacity to service the demands of clients in the oil sands projects of Western Canada in a time efficient manner. The facility's strategic location has enabled us to expand our sale of MI cable, which is well-suited for high temperature applications and harsh, arctic environments, into a global business.

THS products are currently fabricated at five THS facilities in North America: Edmonton, Oakville, and Orillia in Canada, and Denver and Houston in the United States. THS maintains state of the art facilities and maintains several recognized facility certifications.

Sumac's products are currently fabricated at a facility in Fort McMurray, Alberta, Canada. Sumac's customer base has primarily been in the oil sands region of Alberta, Canada, which is a remote location. We are in the process of expanding Sumac's temporary power solution presence in the U.S. gulf-coast region with the addition of fabrication capacity at our San Marcos, Texas facility.

In 2017, we completed construction of our newest manufacturing facility in Russia, Thermon Eurasia LLC, a wholly owned indirect subsidiary has begun local production of key products in the greater Moscow region. The new production facility, approximately 20,300 square feet, focuses on manufacturing, fabrication, packaging and quality control of high-temperature self-regulating heating cables, low-temperature self-regulation heating cables, series constant watt cables, mineral insulated heating circuits, power and splice boxes, mechanical thermostats, electronic control modules, heat tracing kits and accessories, control panels and power distribution boards. The facility has helped us better serve our customers in the region through a comprehensive local suite of heat tracing products and services, including sales support, logistics, engineering, technical support, project management, and field services for electric and steam heat tracing, as well as other industrial process heating applications. We believe Russia and the adjacent Eurasian countries represent a very important and promising market opportunity for Thermon, and the new production facility is a key strategic investment. Our capital investment for the new facility was $1.0 million.

We maintain quality control testing standards in all of our manufacturing operations and perform various quality control checks on our products during the manufacturing process. We believe that our highly automated manufacturing process and multiple quality control checkpoints create high levels of operational efficiency.

Purchasing Strategy- Our critical raw materials include polymers, graphite, copper and stainless steel. For most of these materials, we purchase from multiple suppliers in order to avoid any potential disruption of our manufacturing process. For a small number of raw material items that require specific quality specifications, we have single source supply arrangements. We manage the inherent supply risk through purchase contracts and the maintenance of increased safety stock levels at all times. We evaluate pricing and performance of all suppliers annually. For our low-volume custom-built electronic controller components, we select a single supplier based on past performance reliability and monitor the process closely as volumes are too low to divide this product over multiple suppliers. Our purchase specifications are usually based on industry or manufacturer standards. Testing of the raw materials is performed and documented by our suppliers and is reviewed by us at the time of receipt.

Distribution- Our primary distribution centers are located in San Marcos, Texas, Calgary, Alberta and the Netherlands. Inventory is typically shipped directly from these distribution centers to customers, the construction site or our regional sales agents or distributors. Our sales agents may maintain "safety stocks" of core products to service the immediate MRO/UE requirements of customers who are time-sensitive and cannot wait for delivery from one of the central distribution centers. In the United States, a network of agents maintains safety stocks of core products. In Canada, customers are serviced from the central distribution center in Calgary. THS maintains a sufficient supply of inventoried catalog stores at all five THS locations to quickly service customers' needs. Highly customizable engineered products are primarily manufactured out of the Oakville, Canada location. In Europe, customers are serviced from the central distribution center in the Netherlands. In Asia, safety stock of materials are kept in Yokohama, Japan; Seoul, Korea; Shanghai, China; Pune, India; and Melbourne, Australia. Safety stocks are also warehoused in Moscow, Russia, Mexico City, Mexico and Rio de Janeiro, Brazil. We expect to utilize warehouses that have been added through the acquisition of Sumac, IPI and Unitemp in Fort McMurray, Alberta, Canada, Port Neches, Texas and Cape Town and Johannesburg, South Africa, respectively, to store inventory for sales to existing Sumac, IPI and Unitemp customers.

In April 2015, we completed the expansion of our primary distribution center located in San Marcos, Texas at a total cost of $3.9 million including equipment. The expansion has significantly increased our storage capacity, reduced outside storage costs and consolidated warehouse operations for improved efficiencies.

Customers

We serve a broad base of large multinational customers, many of which we have served for more than 60 years. We have a diversified revenue mix with thousands of customers. None of our customers represented more than