NASDAQ:ALNT Q2 2025 Earnings Call Transcript

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Operator | Conference Operator:

Good morning and welcome to the Alliance Inc. second quarter fiscal year 2025 financial results conference call. All participants will be in listen only mode. If you need assistance, please signal a conference specialist by pressing the star key followed by zero. After today's presentation, there will be an opportunity to ask questions. To ask a question, you may press star, spin one. Please note, this event is being recorded. I would now like to turn the conference over to Craig Mahalik, investor relations. Please go ahead.

Craig Mahalik | Investor Relations:

Yeah, thank you and good morning everyone. We certainly appreciate your time today as well as your interest in Alliance. Joining me today are Dick Wazella, our chairman, president and CEO, and Jim Michaud, our chief financial officer. Dick and Jim will walk through our second quarter 2025 results, provide a strategic update and share our outlook. We'll then open up the call for Q&A. Should have a copy of the financial results that were released yesterday after the market closed. If not, you can find it on our website at alliant.com along with the slides that accompany today's discussion. If you're reviewing those slides, please turn to slide two for the safe harbor statement. As you are aware, we may make forward looking statements on this call during the formal discussion as well as during the Q&A. These statements apply to future events that are subject to risks and uncertainties as well as other factors that could cause actual results to differ materially from what is stated on today's call. These risks and uncertainties and other factors are discussed in the earnings release as well as with other documents filed by the company with the Securities and Exchange Commission. You can find these documents on our website or at scc.gov. I want to point out as well that during today's call, we will discuss some non-GAP measures which we believe will be useful and evaluated in our performance. You should not consider the presentation of this additional information in isolation or as a substitute for results prepared in accordance with GAP. We have provided reconciliations of non-GAP to comparable GAP measures in the tables accompanying the earnings release as well as the slides. So with that, please turn to slide three

Dick Wazella | Chairman, President and CEO:

and I'll turn it over to Dick to begin.

Moderator | Conference Moderator:

Dick?

Dick Wazella | Chairman, President and CEO:

Thank you, Craig, and welcome everyone. We continue to

Dick Wazella | Chairman, President and CEO:

build momentum in the second quarter, delivering record gross margin, strong profitability, and exceptional cash generation. This performance reflects the consistent execution of our operational priorities and the alignment we are seeing across our markets, organization, and strategic roadmap. Revenue increased 5% sequentially and 3% -over-year, supported by solid demand in data center infrastructure, defense, and select high-value medical applications. While power sports within the vehicle market remained under pressure, we did see healthy sequential growth from that vertical. It is worth noting that approximately $3-4 million of revenue was pulled into the second quarter as customers accelerated shipments due to concerns around supply constraints and heavy rare earth materials. Gross margin reached a record 33.2%, up 100 basis points sequentially and 330 basis points from a year ago, driven by a favorable mix, higher volumes, and continued improvement in operating discipline. This translated into meaningful EBITDA growth and a significant increase in profitability, with net income up 58% from Q1 and nearly five-fold -over-year. We also generated $24.5 million in operating cash during the quarter, another record which enabled us to further reduce debt and strengthen our balance sheet. Our Simplify to Accelerate Now program remains central to our performance, driving efficiency, aligning with evolving customer needs, and enhancing responsiveness across our global operations. The operational foundation we have built is delivering results even in a dynamic external environment, including tariff and material supply challenges, particularly in heavy rare earth where we are actively managing constraints. The initiatives we put in place are tracking well, both in terms of cost savings and operational agility. For example, our Dothan restructuring, launched as a quarterstone of the 2025 effort, is on track and expected to play a meaningful role in achieving the $6-7 million in targeted annualized savings this year. Looking ahead, we remain focused on building on this momentum, executing with discipline, scaling the benefits of our transformation initiatives, and advancing toward our long-term financial and strategic objectives. With that, let me turn it over to Jim for a more in-depth review of the financials.

Dick Wazella | Chairman, President and CEO:

Thank you, Dick,

Jim Michaud | Chief Financial Officer:

and good morning, everyone. Let's begin with slide five. Revenue for the second quarter was $139.6 million, a 3% increase -over-year and up 5% sequentially. This growth was driven by continued strength in our aerospace and defense programs, industrial markets, especially HVAC and data center infrastructure, and select medical applications. Revenue growth also benefited from a favorable foreign exchange impact of $2.4 million. Sales to U.S. customers accounted for 55% of total revenue in line with last year. The geographic and end-market diversification of our portfolio remains a key strength. Looking at our market performance, aerospace and defense grew 13%, reflecting program timing and strong execution. We continue to see a healthy pipeline of opportunities in the defense sector and believe this market will remain a solid contributor to growth as we move forward. Medical was up 4%, led by solid demand for surgical instruments. The industrial market increased 3%, driven by continued strength for HVAC and data center market applications where our power quality solutions are needed. We are also encouraged by early signs of recovery in industrial automation, where demand has been challenged over the past year given the inventory de-stocking. We are beginning to see more consistent activity and ordering trends. Vehicle revenue was down 7% due to ongoing softness in power sports, although we did see sequential sales improvement in the vehicle market. Now turning to slide 6 for the composition of our revenue over the trailing 12 months, along with the key catalysts driving these changes. We have seen a meaningful shift in mix, with growth in higher value, industrial and aerospace defense solutions helping to offset ongoing pressure in the vehicle market. This evolution reflects not only external market dynamics such as softness in recreational spend and volatility in automation, but also our deliberate effort to focus on more resilient margin accretive applications. The industrial sector is our largest market and reflects similar impacts as the recent quarter. Aerospace and defense continues to be a growth driver. Meanwhile, our vehicle exposure has been intentionally refined. While near-term demand in power sports remains soft, our proactive repositioning away from lower margin programs is helping to protect profitability. Overall, our revenue mix today is more diversified, more balanced, and better aligned with where we see long-term opportunity, and that puts us in a strong position to manage near-term headwinds while driving sustained performance. On slide 7, we are pleased to report a record gross margin of 33.2%, up 330 basis points from last year and 100 basis points sequentially. This improvement marks our fourth consecutive quarter of expansion. Key drivers included favorable mix, higher volumes, and ongoing implementation of lean manufacturing disciplines, as well as our Simplified to Accelerate Now program. Slide 8 highlights our operating leverage. Operating income more than doubled to $11.7 million, with operating margin rising 480 basis points year over year to .4% and approving 180 basis points sequentially. SG&A was .7% of sales, down 60 basis points from last year, demonstrating cost discipline despite inflationary and incentive-based pressures. Restructuring and business realignment costs were $1.1 million in the quarter, supporting future margin improvement. Turning to slide 9, net income increased to $5.6 million, or $0.34 per diluted share. On an adjusted basis, net income was $9.5 million, or $0.57 per diluted share, up from $0.46 per share in Q1 and $0.29 per share in the prior year. Our effective tax rate for Q2 was 23.1%, as we continue to expect our full rate to land between 21 and 23%. As for interest expense, we did see an increase despite lower debt levels. As we discussed last quarter, this was largely due to the expiration of two favorable interest rate swaps late last year, which were replaced at higher prevailing rates. While still competitive in today's market, they are not as favorable as the prior arrangements. Additionally, our amended credit facility carries a modestly higher spread, contributing to the increase. That said, our overall interest burden remains manageable, and our strong cash flow is enabling continuing deleveraging. Adjusted EBITDA increased meaningful to 20.1 million, or .4% of revenue, driving strong conversion on higher volumes and a more favorable mix. This represents margin expansion of 420 basis points year over year, and 120 basis points sequentially. Turning to slide 10, we delivered record operating cash flow of 24.5 million in the quarter, up 76% sequentially, and nearly three times the level generated in the same period last year. On a -to-date basis, operating cash flow now stands at 38.4 million, more than double what we achieved in the first half of 2024. This strong performance reflects both profit growth and disciplined working capital execution. Our inventory turns improved to 3.1 times, up from 2.7 at the end of the year. This was driven by tighter demand alignment, better planning, and continued progress under our Simplify to Accelerate Now initiative. At the same time, our day sales are standing improved, signaling stronger collections and more efficient conversion of sales into cash. We used a portion of our cash to reduce debt by 20 million in the quarter, bringing us to the balance sheet discussion on slide 11. We ended Q2 with nearly 50 million in cash and lowered our net debt by 35.8 million year to date, bringing our leverage ratio down to 2.3 times, compared with 3 at the end of last year. Our bank-defined leverage ratio, which excludes certain items like foreign cash, was 2.9 times well within covenant levels. Capital expenditures were 3.2 million through the first half of the year. We have refined our full year 2025 capital expenders outlook to a range of 8 to 10 million, compared with the prior estimate of 10 to 12. Overall, we are executing well across all three of our financial priorities for 2025. Improving inventory turns and working capital, maintaining cost discipline, and reducing debt. These efforts position us well to continue expanding profitability and create financial flexibility for strategic execution. With that, if

Dick Wazella | Chairman, President and CEO:

you advance to slide 12, I will now return the call back over to Dick. Thank you, Jim.

Dick Wazella | Chairman, President and CEO:

While

Dick Wazella | Chairman, President and CEO:

our -to-bill ratio was modestly

Dick Wazella | Chairman, President and CEO:

below 1 at .97, demand trends remained steady in key sectors like industrial, where our power quality solutions continue to perform well, and in aerospace and defense, where we are seeing continued traction with both legacy and new programs. Backlog ended the quarter at 236.6 million, down slightly from Q1 and prior levels, as customers continued to manage through inventory normalization. The majority of our backlog is still expected to convert within three to nine months, which is consistent with historical patterns. Importantly, we are seeing signs that the de-stocking cycle is largely behind us, especially in the industrial automation and markets. Order activity is becoming more consistent, and quoting volumes are improving in several key verticals, which gives us confidence heading into the second half. That said, we do expect third quarter sales to be sequentially lower due to the three to four million in revenue that was pulled into Q2. While Europe is showing signs of stabilization, the region has not fully recovered, and Q3 is typically a seasonally weaker period in Europe. As we look ahead, our strategy remains unchanged to drive sustainable, profitable growth while delivering lasting value to our customers, employees, and shareholders. We continue to align the business around margin-accretive, technology-forward solutions that meet the evolving needs of our customers in motion, control, and power. The benefits of our Simplify to Accelerate Now program are clearly reflected in our performance through margin expansion, operating leverage,

Dick Wazella | Chairman, President and CEO:

improved working capital, and stronger cash flow. We remain proactive in

Dick Wazella | Chairman, President and CEO:

managing external risks, including tariffs and rare earth supply dynamics. Our mitigation strategies are proving effective, and we are confident in our ability to protect both supply continuity and profitability. More broadly, we are encouraged by constructive signs across our serve markets, supported by long-term trends in electrification, automation, energy efficiency, and precision control. This includes seeing early signs of recover in industrial automation and steady momentum in A&D. The operational foundation we have built, the strength of our balance sheet, and the momentum behind our core initiatives positions us well to execute through the second half and to drive long-term value well beyond.

Dick Wazella | Chairman, President and CEO:

With that, Operator,

Dick Wazella | Chairman, President and CEO:

let's

Dick Wazella | Chairman, President and CEO:

open the line for questions.

Operator | Conference Operator:

Certainly. We will now begin the question and answer session. To ask a question, you may press star and 1 on your telephone keypad. If you are using a speakerphone, please pick up your handset before pressing the keys. To withdraw your question, you may press star then do. Today's first question comes from Greg Palm with Craig Hellam Capital Group. Please go ahead.

Greg Palm | Analyst, Craig-Hallum Capital Group:

Hey, good morning. Thanks for taking the questions, and congrats on the results. Thank you, Greg. Good morning to you. So, I just want to maybe understand, again, kind of what you're seeing out there. So, it sounds like, you know, you're feeling good that the de-stocking is in the rear view mirror. You're starting to maybe see some green shoots in industrial. A&D remains strong. You know, anything else you want to maybe call out or highlight?

Dick Wazella | Chairman, President and CEO:

No, I think you've hit the highlights.

Greg Palm | Analyst, Craig-Hallum Capital Group:

And in A&D specifically, what, maybe remind us, number one, you know, kind of what your major exposure areas are and just in terms of, you know, kind of visibility to the remainder of the year and even next, you know, where, where, where are we at? How, how strong is the

Dick Wazella | Chairman, President and CEO:

demand? Sure. Well, A&D is certainly in some of the applications that we work on, we do get some good visibility, long-term visibility, and we work on longer term contracts. And we continue to do that. So, we are seeing some very positive results. We've made some significant improvements in our operating capabilities. Some of the restructure we've talked about here that's underway that solidifies operations and gives us and provides greater strength within certain facilities. I think that's playing out well. We're meeting with key customers on a regular basis. And, and, and I think from a legacy business standpoint, and some of the applications we're on, we do see that there is some opportunity to increase volumes and to hopefully expand margins as we've consolidated the operations. Some of the new applications, you know, with government programs or military programs, there's usually risk and there's no guarantee that those programs come to fruition. We have seen a few cancellations. We've seen a few programs move to the right. We're seeing other programs moving to the left, meaning accelerating. So it's a mixed bag right now. We feel, you know, there's a transition going on in terms of the way warfare is going to be fought and the types of vehicles or devices that are going to be needed for that. And I do believe that our team is well positioned to capitalize on it as we move forward. So, you know, there'll be some minor bumps along the way, but we feel we're on track and we're in a good position to capitalize on those as they move forward.

Greg Palm | Analyst, Craig-Hallum Capital Group:

Okay, great. And then maybe lastly on the rare earth magnets, which I know we talked about a lot last quarter, I mean, on a relative basis, you know, given what's happened the last month, are you feeling better, worse, the same? What's the, what's the risk profile there?

Dick Wazella | Chairman, President and CEO:

Yeah, our team has worked extremely hard to stay on top of it and engage all of our operations and, and, and I think, you know, we have a pretty good outlook. What's we feel is going to happen. We've seen some improvements. Although I just, we have to, we have to be very cautious here and say that, you know, this is most of the materials that we're talking about are coming out of China and there's always a risk that things can change in the short term, but we're starting to see some things loosen up. Some of the licenses being approved. Um, we still have some exposure. Uh, we talked before about the exposure we see potentially for remain to the year. There's somewhere between a million and 3 million in shipments that could be impacted by it. Um, but I would also say to you, you know, with, because of that, I mentioned, uh, that we had an accelerated, some accelerated shipments or pull-ins into Q2, we believe that that was reflection of the concern on the heavy rare earth and that our customers wanted to get some supply on hand to make sure that they were protected. So, uh, those were pull-outs. And, you know, as it was mentioned that that could have an impact on our third quarter shipments. Um, I also would state that there's no, yeah, we don't have enough visibility. We don't really know what all of our customers are, plans are. Uh, you know, so while we're saying, you know, there's, there could be an impact, we're also knowing, we also realizing that they could also pull ahead again, and as long as we had materials to supply that, and so I, uh, we, we emphasize that Q2 was a little higher than, uh, what we would have expected based upon the pull-aheads and that Q3 could be impacted because of that, uh, but I would also say to you that we are not a hundred percent sure how our customers are going to react and what they're going to do going forward here, if that's just going to be, you know, inventory, they're going to hold on hand and, uh, and just continue the supply on a normalized basis with, uh, with some safety stock in their possession. So, so those are things that we're seeing and it's caused some of that. And, but I think we are encouraged, uh, that there are some positive signs ahead. Things are loosening up and starting to get to a more normal state.

Dick Wazella | Chairman, President and CEO:

Okay. Thanks for the call. Best of luck. Thanks. Thank you, Greg.

Operator | Conference Operator:

Thank you. The next question is from Ted Jackson with Northland Securities. Please go ahead.

Ted Jackson | Analyst, Northland Securities:

Hey, good morning and congratulations on a very nice quarter.

Dick Wazella | Chairman, President and CEO:

Morning,

Dick Wazella | Chairman, President and CEO:

Ted. Thank you.

Ted Jackson | Analyst, Northland Securities:

I've got a few questions. I'm going back into the, um, the pull forward of revenue. Just had a curiosity, uh, you know, within your reported segments, where was most of that pull forward coming from, you know, your segments like, you know, industrial, medical vehicle, et cetera.

Dick Wazella | Chairman, President and CEO:

Yeah, it's two areas that we saw in medical. Um, and what I'll, it's related around the, uh, the, the, the, the, types of materials that are typically used in the high performance solutions. So when we talk about heavy, rare earth, that usually means higher performance solutions and higher performance, uh, comes from, let's say this in, when we look at moat from a motor perspective, uh, smaller size, but higher energy magnets to produce more power. So it's either size constraints that are, you know, that are causing the need to use these higher performance, or it's really truly high performance that the only way to get there is from, uh, the use of this type of magnetic material. So I would tell you medical, some high end industrial, uh, and some defense. Now, also what I would like to state, and I state, I stated this before Ted, but I'll just allow me to repeat this. This, our company has taken an approach, uh, you know, more than 10 years ago. Uh, as I said, before we go through these cycles, it seems like every seven to eight years where magnet prices are under pressure and they, you know, they get increased three to 400%. And, uh, you have to, you know, work with your customers to, you know, get enough material, supply their demand and pass along surcharges based upon those prices. In this case, we were challenged by the fact that we weren't even going to be allowed to receive the materials. So that became a little bit more stressful for us because of this, you know, what's, what's occurred in the past. Our company has been very proactive in designing products where possible that don't contain heavy, rare earth. And we will continue to do so into the future to try to eliminate this risk as much as we possibly can off into the future. But we have already, and had been for years taking actions to do that. And we were, we have been successful.

Ted Jackson | Analyst, Northland Securities:

Um, uh, well, that would be great. And then, you know, the fact of the matter is, is, you know, as these barriers to trade come in place, it's driving the development of a domestic market, which over the longer term would probably be quite good for you. So, you know, we'll see how it plays out over the next decade or so, um, on the magnet supply, you know, I mean, I know as all this came in place that, you know, you guys were on top of it and smart and did bring in some heavy earth, you know, high end product, you know, into inventory to be in front of it. So when you look at where you are with that, at what point would it become an issue if, you know, God forbid, you know, the Chinese just stop things again? I mean, do you have enough supply to get you through the remainder of this year? Maybe you have a supply that would take them into 26. And I'm not saying that you're going to run out of it. I'm just saying, just kind of understanding like what

Dick Wazella | Chairman, President and CEO:

level of safety stock, you know, you put in place.

Dick Wazella | Chairman, President and CEO:

Well,

Dick Wazella | Chairman, President and CEO:

it varies,

Dick Wazella | Chairman, President and CEO:

you know, and it's, it's, uh, there's multiple ways that we would be dealing with that. I'm going to let Jim talk a little bit about some of the things that we've done in the supply chain side and the actions that we've taken to ensure that we have material, but I say it varies because if in fact you have noticed that, uh, you're just not going to receive, and for example, the Chinese will not ship magnets or heavy rare earth materials to the U S for defense applications. The U S doesn't want them and China won't ship them. So, you know, that's been out there for a while and it's opened up opportunities domestically, but what that's, what that will do is drive pricing and cost will go up. Uh, so there's the government has taken some actions to mitigate it in the future. And we are on board and in, you know, in the loop with what's happening here. So it's just, it's hard to give you a specific timeframe because it'll vary based upon products, the amount of safety stock we have for each, uh, what the supply chain is looking like our resourcing and also, you know, identifying some redesign opportunities that, you know, worse comes to worse, if you can't get product, then what are the alternatives from a design perspective that we can accelerate through and get approval from customers typically. And once our products get designed into these types of applications, the redesign and approval process is a very long period of time. Just like we saw during COVID though. Uh, some of those roadblocks are removed, uh, because that you had no choice, but to remove them and, uh, and to accelerate the process itself. So, so if that occurs, then, you know, we may be into that our engineering team, rather than focusing on new opportunities and developing opportunities, you know, maybe redeployed to, uh, work on sustaining and corrective actions. But, uh, like I said, we've, we're in the loop on everything that's occurring. There are some, you know, good developments. They're going to take time to come online and maybe Jim, you want to talk about some of those a bit.

Jim Michaud | Chief Financial Officer:

Yeah. I mean, I think you saw an example of that in yesterday's news where, um, you know, Apple announced that they're, you know, making an investment in manufacturing here in the U S and part of it had to do with the fact that, um, you know, the government is, you know, investing in putting in infrastructure, uh, related to our own exploration and, uh, you know, in rare earth materials and so forth. So I think we're very encouraged by that. You know, we've been in discussions with a lot of suppliers and, you know, as many are, um, understanding, you know, who's going to be a player, uh, you know, who's going to be able to produce and when, uh, so I think we're well in tune with that and I'm actually very encouraged that, um, some of those opportunities are going to come online, uh, you know, sooner than I think any of us expected and, you know, hopefully we'll participate in that. You may want to mention here, you

Dick Wazella | Chairman, President and CEO:

went to

Jim Michaud | Chief Financial Officer:

Washington and

Dick Wazella | Chairman, President and CEO:

the government officials. Yeah.

Jim Michaud | Chief Financial Officer:

Yeah. I, uh, I did have an opportunity to, um, you know, go to the department of commerce and, and, and met with, uh, you know, several of the, um, individuals involved in, in trade talks and so forth and, uh, you know, very, very informative. And as I mentioned, um, they are, uh, obviously helping many companies, not dissimilar to ours, um, in identifying opportunities to look at alternate sources and where those are and the like. So, uh, there's a great collaboration I would tell you, uh, between companies and the department of commerce to ensure that, you know, companies like ours are being supported and we understand what the alternatives are.

Ted Jackson | Analyst, Northland Securities:

I have two more questions. Um, a quick one, hopefully in terms of an answer, but, you know, with all the, um, you know, scuttlebutt and, you know, momentum around kind of, you know, unmanned vehicles and drones and stuff, just kind of curious what kind of exposure you have with any to the market and, you know, how much of that is, you know, based on commercial versus industrial. Just maybe, maybe there's nothing even there, but it's just, it's a hot topic right now. I'm just kind of curious and then I have one more.

Dick Wazella | Chairman, President and CEO:

I'll answer it very quickly. It's a hot topic for us as well. So you guys are, you said short, you wanted

Dick Wazella | Chairman, President and CEO:

a quick answer. I'll give you a quick answer. Yeah. We see it. We see it as you do. It's there's, there's definitely some opportunities and we're well positioned to capitalize on some of this and, you know, without getting into a lot of detail on it, uh, uh, for competitive reasons, I mean, it is something that's on our radar.

Ted Jackson | Analyst, Northland Securities:

Okay. I'll leave it there. Then, um, my last question is, you know, as you, you know, all your efficiency stuff is coming to roost, you're really doing a good job at driving margins, putting, you know, that in the business, you know, making the business, you know, stand up and deliver cash and, you know, deliver return to shareholders. You're up, de-liberating the business. You've gotten your business down to, you know, for lack of a better term, let's call it, you know, targeted leverage ratios. Um, historically you've always been, uh, uh, acquisitive in terms of just, you know, building growth through acquisition as you kind of, you know, exiting some of these, you know, strategic efforts in terms of, um, realigning of the business, restructuring the business, making the business more efficient, getting debt paid down, what's going on on the strategy for you? How active are you in the pipeline? Are you going to turn it back on? That's my last

Dick Wazella | Chairman, President and CEO:

question. Yeah, we really, from a investigation, from a grooming standpoint, from, uh, you know, identifying opportunities for us in the marketplace, we never shut it down entirely. Um, but what we did do is say it's a, it is a time period when we will be establishing communications with certain key, uh, you know, opportunities for us in the future that we saw it was a, a really good strategic fit. So we've been doing that. And I would say to you that, you know, we are not going to stop. We've got, um, some great momentum going in terms of identifying efficiencies and, and, and changing the way we do business, uh, and that the streamlining will continue. I think we just believe it's a heck of a lot more efficient and it's better. And it's, we can do things faster. That's no stand simplified to accelerate now. You know, it's worked its way into the deep bowels and roots of the company. It's not going to change. We're going to keep doing that. It's, it, it really is healthy and it aligns very well with our AST initiatives. So our lean toolkit and training and so forth. So I would say to you that yes, we are getting well positioned that we could execute an acquisition and, you know, we will certainly be very cautious and careful to make sure everything's lining up properly, that it's a great strategic fit and provide some continued increased value for what we're doing. And that's the value of our recent acquisitions have been in, as we've mentioned, has been in certain technologies and market penetration that we were looking for as well as a creative to our average gross margin. So anything we do would need to meet those criteria. But I would say to you that, yeah, you know, we're, we're, we're looking, we're paying attention to what's going on and we've identified some opportunities that in there when the time is right, we'll be looking to bring them on.

Ted Jackson | Analyst, Northland Securities:

All right. Well, again, congratulations on congratulations in the quarter. And

Dick Wazella | Chairman, President and CEO:

I'll step out of line. Thank you, Ted.

Operator | Conference Operator:

Thank you. As a reminder to ask a question, you may press star then one. The next question comes from Craig Cosgrove, private investor. Please go ahead.

Moderator | Conference Moderator:

Mr. Cosgrove, your line is open.

Dick Wazella | Chairman, President and CEO:

So Mr. Cosgrove used to be

Dick Wazella | Chairman, President and CEO:

a controller for us in one of our operations. I'm guessing maybe by mistake, he's followed us very closely has been a strong supporter since he's left. So maybe he hit the button by mistake.

Operator | Conference Operator:

Thank you. We'll move on to our next question. It comes from Oren Hirschman with AIGH investment partners. Please go ahead.

Oren Hirschman | Analyst, AIGH Investment Partners:

Hi, congratulations on the result. Um, just a couple of random questions. Thank you, Oren. In terms of the, so in terms of the data center business, just one question is, is the power conditioning more to protect the servers, is it to protect the cooling equipment, is it for both? And then a follow up on that on the data center side, you know, I don't remember exactly the number of them in front of me, but maybe almost doubled year over year, please correct me if I'm wrong. You know, could the business be up that much this year again? Do you have enough capacity, even if there was enough to meet that type of demand? And then I want to follow up on that.

Dick Wazella | Chairman, President and CEO:

Okay. So the first question you're asking about what the addition of, I think if I understand it correctly, the addition of our equipment, what it does, how it impacts the data center itself. So you talked about cooling. Yes. Cooling is one of the things that, you know, we're on applications for cooling, but I'd say more importantly, it is about the quality of the power and the efficiency that it brings. So as these, we've talked about this in the past where, you know, we have a very high performance and high power solution that we can bring to the marketplace. And we do bring to the marketplace and any improvements in power quality that you can make are very substantial in terms of a return.

Oren Hirschman | Analyst, AIGH Investment Partners:

So two things there. Cooling. Does the customer get that? Like is that the customer is there enough to understand that if there's a 1% improvement in that quality of power, how much that means to them?

Dick Wazella | Chairman, President and CEO:

Well, you know, I can't speak for the customers, but I can, you know, directly for all the customers, but I think they certainly do understanding that with the demands for power and, you know, the infrastructure that has to go into place and someone that has a more efficient and more, you know, operation, absolutely would probably have an edge.

Dick Wazella | Chairman, President and CEO:

And

Oren Hirschman | Analyst, AIGH Investment Partners:

just part B

Dick Wazella | Chairman, President and CEO:

and C on that question, if I may. So you're talking about the demand and do we have

Dick Wazella | Chairman, President and CEO:

capacity? Yes, we're definitely increasing. And as you know, we don't break that out as a specific pathway. We do talk about HVAC and HVAC is definitely growing for us and it's in the industrial, under the industrial sector. The capacity, you know, it's a, demand is continuing to go up and we see it continuing out of the future based upon the forecast, the growth of data centers and the needs for our type of equipment. And we will, you know, be doing it in another expansion and our main facility that produces this type of product. We also have been able to leverage the acquisition we made last year in January with its electromagnetic out capabilities in Mexico, as well as in, in also in Wisconsin. So I think we were, you know, that the synergies that we realized they were very important and positioned as well to be able to satisfy the demand, but we are and have already invested and we will continue to invest to increase capacity.

Oren Hirschman | Analyst, AIGH Investment Partners:

Okay. Two other questions, if I may, you know, just jumping around in terms of the automation side, you know, there was some, some clear signs of a bounce back. I think it's your largest or one of your largest customers had a positive book to bill, let's give us some, some qualitative talk through on what that means for you on the automation side.

Dick Wazella | Chairman, President and CEO:

Sure. We, in the past, we gave it quite a bit of detail on why specific operating unit and what the impact on our performance was as we went through supply chain crisis. And, and as it opened up and how it improved our demand and how has it dropped out again, as there was an overstocking situation, we do expect that, you know, we have turned the corner there and we're getting to a position of normalization. Uh, and that will have a, a very nice positive effect or impact as we move forward, so it is definitely improving. Uh, and we're expecting to see the results as we move throughout the year. And all signs are, are in that direction.

Oren Hirschman | Analyst, AIGH Investment Partners:

Did you see some of that already in this past quarter?

Dick Wazella | Chairman, President and CEO:

We saw an improvement. So we've seen gradual improvement, uh, sequentially in Q1 over Q2. So, uh, we did see improvement, but we're, we're starting, you know, we're continuing to see more improvement as we move ahead to get us to the point of normalization. So yes, a little bit, but we expect more coming forward.

Oren Hirschman | Analyst, AIGH Investment Partners:

Okay. My last question, which I think someone else alluded to, just on the, on the munitions side, you know, there've been a number of companies that have indicated that their capacity constraints, you know, I've even heard of, of, uh, I've even heard of, uh, of a, one of the majors, one of the majors, like, you know, like a Northrop Grumman or a Rockwell, that type of major offering to pay for capacity expansion for, for, for, uh, for a vendor. I've seen two cases like that recently. I guess my question is, you know, is that, is that business, I, I, I'm assuming that business is continuing to ramp for you, are you capacity constrained there as well?

Dick Wazella | Chairman, President and CEO:

No, we, uh, uh, we mentioned the restructuring that we did to consolidate some operations, uh, uh, several years ago, I'd say three, four years ago. We, the main operation for munitions, well, there's two main operations for us for munitions applications and those are being consolidated together, but we, uh, decided to increase our, uh, size of our facility and to allow us to grow into it, uh, and that has put us in a really good position to, uh, to answer your question, we are not capacity constraint.

Oren Hirschman | Analyst, AIGH Investment Partners:

Okay. Oh, you've seen the same as other vendors in terms of the desire from your, well, we've seen, yeah, we, what we've

Dick Wazella | Chairman, President and CEO:

seen. Yeah. So, so, yeah, what we've seen that there, there's certainly in the supply chain side of it, you know, there, there can be, uh, some concern, but we haven't, we've been working on sourcing for a while here when you go back to when the conflicts broke out and then, you know, the initial inquiries on what the projected demand might be, uh, and over time, you know, um, I don't, uh, or I, I'm not sure that you, you had invested in us yet, but we had talked about that, that the inquiry level was quite high, but we hadn't seen any, you know, POs from that to increase the capacity. But we would now have seen that we have seen the orders come to fruition and we now are beginning to ship at higher levels. And so we were prepared, we went out and we did quite a bit of work in advance of this because we were getting quotation requests for some significantly higher volume, so we were preparing our supply base as well as preparing ourselves. And that is coming to fruition.

Oren Hirschman | Analyst, AIGH Investment Partners:

Okay. Great. Um,

Dick Wazella | Chairman, President and CEO:

let's see, that's pretty much my question. Thank you so much. Okay. Thank you.

Operator | Conference Operator:

Thank you. This concludes our question and answer session. I would now like to turn the call back to management for closing remarks.

Dick Wazella | Chairman, President and CEO:

Thank you everyone for joining us on today's call and for your interest in We are very, very proud of you and we are very proud of you for being so resilient. As always, please feel free to reach out to us at any time and we look forward to talking to you all again after our third quarter, 2025 results. Have a great day.

Operator | Conference Operator:

The conference has now concluded. Thank you for your participation. You may now disconnect your lines.