NASDAQ:ALNT Q2 2026 Earnings Call Transcript

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Operator | Conference Operator:

Greetings and welcome to the Alliant Inc. Second Quarter Fiscal Year 2026 Financial Results Conference Call. At this time, all participants are on a listen-only mode. A question and answer session will follow the formal presentation. If anyone requires operator assistance during the conference, please press star zero on your telephone keypad. As a reminder, this conference is being recorded. It is now my pleasure to introduce your host, Craig Mihalik, Investor Relations. Thank you. Please go ahead.

Craig Mihalik | Investor Relations:

Thank you and good morning, everyone. We certainly appreciate your time today as well as your interest in Alliant. On the call today are Dick Warzala, our Chairman, President, and CEO, and Jim Michaud, our Chief Financial Officer. Dick and Jim will review our second quarter 2026 results, provide a strategic and operational update, and share our outlook. We'll then open the line for questions. As a reminder, earnings released in the accompanying slide presentation are available on our website at Alliant.com. Following along, please turn to slide two for our Safe Harbor Statement. During today's call, we may make forward-looking statements that involve risks and uncertainties. Actual results may differ materially from those indicated. These risks and factors are outlined in our SEC filings and in the earnings release. We will also discuss certain non-GAAP measures, which we believe will be useful in evaluating our performance. You should not consider the presentation of this additional information in isolation or as a substitute for results prepared in accordance with GAAP. We have provided reconciliations of non-GAAP Two comparable gap measures in the tables accompanying the earnings relief as well as the slides. With that, please turn to slide three and I'll turn it over to Dick to begin.

Dick Warzala | Chairman, President & CEO:

Thank you, Craig, and welcome everyone.

Dick Warzala | Chairman, President & CEO:

We delivered an excellent second quarter and more importantly, one that further demonstrates the earning power of the model when stronger demand, improved mix, and disciplined execution come together. The quality of the quarter was evident across the P&L with strong top line growth, record gross margin, and a significant increase in earnings. We also saw excellent order activity with record bookings in the quarter and in the period that resulted in a 1.31 times book to bill ratio. That gives us improved visibility into the second half of the year and supports a constructive view as we move through 2026. What stands out is not just the magnitude of the quarterly improvement, but the quality of it. We saw broad-based demand across key targeted markets, especially industrial automation, data center and other infrastructure, aerospace and defense, and medical applications. At the same time, the operating work we have been doing throughout the organization is increasingly showing up in better margins, better leverage, and better earnings conversion. This quarter also enforces the value of the portfolio we have been shaping. We have intentionally positioned Alliant toward higher value motion, controls, and power applications where our engineering content is deeper, our customer relationships are stronger, and the margin profile is more attractive over time. That strategy is helping us improve not only growth, but also the quality and durability of that growth. If you look at the end market mix, the portfolio continues to align well with long-term secular drivers. Industrial remains an area of particular encouragement for us, especially where our technologies support automation, electrification, energy efficiency, and digital infrastructure. Those are markets where we believe our capabilities are differentiated and where the opportunities continue to expand. Data center and other infrastructure have become an increasingly meaningful contributor within our industrial business. As we indicated previously, we plan to provide investors with more visibility into this market given its growth profile and strategic importance to the portfolio. In the second quarter, Sales tied to data center and infrastructure applications were $16.3 million, or 10.6% of total revenue, up 60% from the prior year period. On a trailing 12-month basis, sales were $57.1 million, or 9.9% of total sales, up 69% year-over-year. This opportunity is centered on the power quality layer of the data center, where our Elliott Power portfolio brings deep domain expertise. Through active and passive harmonic filters, line reactors, and related solutions, we help customers reduce harmonics, stabilize and clean the electrical waveform, and meet stringent power quality standards, including IEEE 519 compliance. The result is more reliable and efficient power for increasingly compute-dense data center environments, stronger protection for critical equipment, and a strong fit with the challenges operators face as AI and other high power applications increased load and complexity. So stepping back, the second quarter was about more than just strong reported results. It was another proof point that the actions we have taken to reposition the company, simplify the organization and drive better execution are translating into stronger financial performance and a more resilient operating model. Turning to slide four, I want to spend a moment on Simplify to Accelerate Now or STAN because it is an important part of why the organization is performing better. STAN is driving better decision-making, execution, margin, and responsiveness. But the key point is that it is not a single initiative or short-term program. It is a company-wide mindset that shapes how we think, make decisions, solve problems, collaborate across teams and serve customers every day. In simple terms, STAND is how we work. At its core, STAND is designed to unleash more of the organization's potential by empowering our teams to act with urgency, ownership, and accountability. The now in STAND matters. It reinforces a get-it-done mentality, removing obstacles when we work forward and delivering results faster rather than waiting for things to happen. It is also supported by a practical tool set. That includes our Elliott Systematic Tools, or AST, which helps standardize, simplify, and continuously improve how we work. It also includes digital and IT tools that reduce manual processes and redundancy, as well as AI and other enabling technologies where they can improve decision-making, productivity, and execution. What matters most, though, is the result. In the second quarter, operational improvements understand contributed to record gross margins through better mix, execution, and cost discipline. We are seeing faster decision making, stronger accountability, and better responsiveness across the company. And those improvements are helping create a more scalable and more profitable operating model. The annualized savings figures on the slide 10 million in 2024 and 6 million in 2025 are a reflection of this broader effort. But I would emphasize that STAN is bigger than cost takeout. It is about building a culture that continuously improves the business and positions Alliant to move faster and serve customers better over time. So when we talked about improved margin, better leverage, and stronger earnings power, STAN is one of the foundational reasons that it is happening. With that, let me turn it over to Jim for a more in-depth review of the financials.

Jim Michaud | Chief Financial Officer:

Thank you, Dick, and good morning, everyone. Please turn to slide five. Revenue increased 10% year-over-year to $153.8 million. On a constant currency basis, revenue grew 9% organically, with foreign currency translation providing a favorable tailwind of approximately $1.3 million in the quarter. 54% of second quarter sales were to U.S. customers, with the balance primarily in Europe, Canada, and Asia Pacific, continuing to reflect the benefit of our diversified geographic footprint. Looking at the verticals, industrial revenue increased 17%, driven by continued strength in industrial automation and power quality solutions supporting data center infrastructure. Aerospace and defense increased 16%, reflecting strong defense-related demand and program activity. And notably, that growth came despite the previously announced MTEM Booker program cancellation. Medical increased 9% on broad-based demand, including surgical robotics and other precision motion applications. The vehicle market declined 7% due primarily to lower power sports demand. Overall, this slide reinforces both the breadth of demand in the quarter and the continued alignment of the portfolio with higher value applications. Turning to slide six, the trailing 12-month market mix continues to support a more resilient and more margin accretive business profile. Industrial represented 49% of trailing 12-month revenue at the end of the second quarter, up from 47% a year ago, while medical remained steady at 15%, vehicle was 17%, aerospace and defense was 15%, and distribution was 4%. The bigger takeaway here is that the portfolio is increasingly aligned around attractive growth verticals and higher value applications, including motion and controls tied to automation, power quality for data center infrastructure, precision medical applications and defense related programs. That mix matters because it supports both growth and profitability. It also helps explain why we continue to see Thank you. Thank you. We have said the margin opportunity at Alliant is structural and this quarter is a good example of that. The simplification of work, lean disciplines, footprint actions and productivity improvements across the business are creating a more scalable margin profile and that gives us confidence the progress is durable over time. Mix also played an important role in the quarter and mix can be lumpy so while we are encouraged by the gross margin performance, We would expect some quarter to quarter variability as those structural gains continued to build. On the tariff front, the team also continued to do a very good job mitigating exposure. Across the last year, we have taken a disciplined approach that includes pricing actions where appropriate, supplier negotiations, strategic buys, sourcing adjustments, and broader supply chain diversification. Those actions help keep tariff related pressure Thank you for joining us. Thank you for joining us. were $600,000 in the quarter down from the prior year, but remain elevated due to costs associated with the Dothan transition. We continue to expect restructuring and realignment costs of approximately $2 to $3 million for the full year 2026. So the message on this slide is that we are seeing the leveraged benefits of a stronger operating model while still funding the business appropriately and continuing to work through remaining transition-related costs. Please turn to slide nine. Earnings growth accelerated meaningfully in the quarter as the margin improvements flowed through the P&L and lower interest rents provided an additional tailwind. Net income increased 85% to $10.4 million or $0.61 per diluted share. Adjusted net income increased 42% to $13.5 million or $0.80 per diluted share and adjusted EBITDA increased 18% to $23.7 million or 15.4% of revenue. Interest expense declined by approximately a million year over year to 2.5 million due to the lower average debt balance. The effective tax rate was 20.2% for the quarter. We continue to expect a full year tax rate in the range of 21 to 23%. The bottom line takeaway is straightforward. Stronger mix, higher gross margin, improved operating leverage and lower interest expense combined to produce substantially stronger earnings. Moving to slide 10, net cash provided by operating activities was $14 million in the quarter and $20 million for the first six months of the year. The year-over-year change in operating cash flow primarily reflects accounts receivable timing and investments in inventory to support our rapid growth and strategic buys of critical materials. Inventory turnover was 3.1 times compared to 3.2 for the full year 2025. We continue to focus on inventory discipline, strengthening working capital management, and taking out costs while also making disciplined investments to support growth and protect the supply chain where appropriate. The broader point is that the working capital profile reflects both growth and intentional actions. We have been willing to make selective inventory investments where that supports customer service and helps mitigate supply and tariff-related uncertainty, while still keeping a sharp focus on cash conversion over time. Capital expenditures were $7.1 million for the first six months of 2026. We are investing in capacity and productivity, notably in areas tied to data center-related power quality, automation, and other growth initiatives. for full year 2026, we expect our capital expenses of approximately 12 to $15 million. Please turn to slide 11. Continued deleveraging remains an important part of the financial story. Total debt ended the quarter at 173.3 million, down 7.1 million since year end 2025. Net debt was 131.2 million Leverage improved to 1.63 times and the bank leverage ratio improved to 2.07 times, which is defined under our credit agreement and excludes foreign cash and certain other adjustments. We also ended the quarter with approximately 42 million of cash and 162 million of unused revolver capacity. This continues to strengthen our financial flexibility. A stronger balance sheet lowers interest expense, supports disciplined investment in the business and provides capacity to pursue value-creating opportunities while remaining well within our covenant requirements. With that, if you advance to slide 12, I will now turn the call back over to Dick.

Dick Warzala | Chairman, President & CEO:

Thank you, Jim. Orders increased 49% year-over-year and 27% sequentially to a record 201.3 million, resulting in a book-to-bill ratio of 1.31 times. Backlog ended the quarter at $298 million, and most of that backlog is expected to convert to revenue within three to nine months, which is consistent with our historical conversion patterns. That order strength was led by industrial and aerospace defense, and it gives us improved visibility into the second half of 2026. So when we put together the strong second quarter results, the continued margin progress, and the strength in orders and backlog, We believe the company is entering the back half of the year with solid momentum. As we look ahead, the message is that Alliant is executing with discipline while continuing to position the business for growth. First, our portfolio remains aligned with attractive growth verticals, including industrial automation, data center and other infrastructure, aerospace and defense programs, and medical applications. These are areas where customer demand remains healthy and where our technologies and engineering capabilities can create differentiated value. We also continue to make encouraging progress in the drone and unmanned systems market. While this is not a major revenue driver for us today, we do see a meaningful opportunity to expand our presence over time, and we are making strong strides in building a viable off-the-shelf offering for commercial and defense-oriented applications. We expect that portfolio to continue taking shape during the second half of this year. This builds on capabilities we have already discussed publicly, including COTS propulsion motors and the broader expansion of our motion, control, and power solutions for unmanned applications. Second, the company is operating with more discipline and better responsiveness. Stan and our broader optimization actions continue to support margin expansion and we remain focused on cash generation, disciplined capital spending and continued deleveraging. Those are not temporary initiatives. They are central to how we are running the business and improving the quality of our financial performance. Third, we believe the company is positioned for continued growth. Stronger demand, record orders and increased backlog support improved visibility and we are building momentum with improving earnings power. While the macro and trade environment remains dynamic, our diversified end markets, global operations, and proactive mitigation actions help support resilience. What gives us confidence is what we control. We have built a stronger operating model, we have a healthier balance sheet, and we have continued to align the portfolio around long-term secular drivers, which we believe Elliott is well-positioned to benefit from over time. With that, operator, please open the line for questions.

Operator | Conference Operator:

Thank you. The floor is now open for questions. If you would like to ask a question, please press star 1 on your telephone keypad at this time. A confirmation tone will indicate that your line is in the question queue. You may press star 2 if you would like to remove your question from the queue. For participants using speaker equipment, it may be necessary to pick up the handset before pressing the star keys. Again, that's star 1 to register a question at this time. Our first question today is coming from Max Michaelis of Lake Street Capital. Please go ahead.

Max Michaelis | Lake Street Capital Analyst:

Hey, guys. Thanks for taking my questions, and congrats on really the solid quarter. I kind of want to jump into the orders here, really strong order growth, especially in industrial as well. I mean, you shared the data center revenue number, I think it was up 60% in the quarter. Is that sort of in line with the order growth you're seeing as well, or is that ahead or below, or anything you could share there would help?

Jim Michaud | Chief Financial Officer:

I'd say it's in line.

Dick Warzala | Chairman, President & CEO:

Okay. And you'd say that has continued kind of into Q3? Did we say that?

Dick Warzala | Chairman, President & CEO:

Or are you asking a question, Matt? I'm just teasing. Now, yes, to answer your question, we do see we're one month into Q3, but we do see it continuing. Order intake is strong and shipments remain to you know, strong as well.

Max Michaelis | Lake Street Capital Analyst:

Okay, great. And then you touched a little bit on drones. I mean, is there any sort of extra information you can kind of give us around orders? I know it's not a huge part of revenue in the A&D sector yet, but are they starting to see a little bit of pickup and growth in the order side of things related to drones and autonomous systems?

Dick Warzala | Chairman, President & CEO:

Sure. So, as we've relayed in the past, I mean, we do see this as a significant opportunity for us. We're well-positioned and well-suited to handle applications that are in the drone and unmanned vehicle markets. So what I would tell you is that we've invested heavily internally here in the last six to nine months, and you'll start seeing product announcements rolling out. The team has done an amazing job, the internal team. They're launching a complete product line of COTS off-the-shelf propulsion motors as well as where our strength has always been in the drone and unmanned vehicle markets is really what we call custom critical solutions. So while there's a number of companies out there supplying these off the shelf products, a few of them can do what we can do when it comes to very specific applications that require design expertise that we can bring to the party. So a little preview, we will be announcing and we'll be releasing some products to the marketplace. There is a ground-based vehicle show in Detroit, more of an engineering show next week outside of Detroit, Novi, Michigan. We'll be displaying some products there that we have never displayed before and we'll be giving a preview of what's to come leading up to AUSA in October where you'll see a full launch of not only the motor products but also electronic products and bringing our composites into the mix as well. So while the results are good and they're improving, I just have to emphasize we've continued to invest. We're making significant investments in leveraging our engineering talent for both the electromagnetics and electronics as well as lightweighting that goes into the defense markets and certainly drones and unmanned vehicles is one of those.

Max Michaelis | Lake Street Capital Analyst:

Awesome. Thanks, guys.

Dick Warzala | Chairman, President & CEO:

That's it for me, and congrats again. Thank you, Max.

Operator | Conference Operator:

Thank you. The next question is coming from Greg Palm of Craig Hallam. Please go ahead.

Greg Palm | Craig-Hallam Capital Group Analyst:

Yeah, thanks. Congrats on the results. I frankly don't know where to start because there's just a lot of things that stood out, but maybe we can go back to the orders commentary because I think Thank you for joining us. A pretty significant step up over the revenue level you just reported. I'm just asking in light of kind of what normal seasonality trends would be.

Dick Warzala | Chairman, President & CEO:

Sure. Great question, Greg. Thank you, too. Yes, we announced in the last quarter that we had made a change into a way that we actually record orders or bookings and that for larger, more significant blanket type orders, we were not booking it into our backlog unless it was within one year and within a scheduled lead time and literally moved into production. So one thing I would say to you is this. There are orders that are sitting out there that haven't been converted into bookings yet that we do have visibility toward. And as they continue to progress and they get released into production, They'll show up on our backlog. It's a little more smoothing rather than the big lumpiness that we had for some of these large orders in the past. So that's a positive because those aren't reflected in there. The second thing I would say to you, what's driving orders a little bit right now is lead time. Lead times have expanded. And we've certainly been encouraging our customers to make sure they get their orders in to us. Don't wait until the last minute because you know lead times for our supply chain and our supply chain have gone out so there is we are seeing some orders coming in quicker than we might have seen in the past not a you know to a great extent but I would tell you that there's some acceleration and let's just say it you know if we look at it you know three three months in advance versus where we would see it before based upon lead time expansion and last question is there anything in there that's really significant Yeah, there's $200 million in bookings, which we think is significant, but there's nothing, you know, no one area that really jumps out and says it's outside that lead time we talked about, so it's continued increase in demand in the areas that we focused on, and the demand is now flowing through. Okay, so you are correct in your assessment. We do see, as Max asked the question earlier about We're a month into the third quarter. What's it looking like? How's it shaping up? And it's continuing at a pretty strong pace here.

Greg Palm | Craig-Hallam Capital Group Analyst:

Okay. Makes sense. And then gross margin was the other. And I'm not sure how much of that strength is just a byproduct of more positive mix or maybe some of it is just a reflection of you're getting to a revenue level here where you're and a lot better able to absorb some of those fixed costs. So I don't know, just curious if there was anything that maybe drove that a little bit higher than what normal or is this kind of a better normalized rate if we assume that the revenue profile continues to scale?

Dick Warzala | Chairman, President & CEO:

Yeah, so both are true, both of what you said. So clearly the absorption as we continue to add volume and with our fixed cost base that we have here, and not have to add cost to support it. I mean, that's clearly driving through margin improvement and the mix is improving over time. This has been a long-term effort of ours to transition the company into certain market opportunities that we felt gave us better opportunity to grow the margin profile based upon the solutions we offered and the integration of the products and the higher margin opportunities. So that is what's happening as well. So it is a combination of both of what you said. It's mixed and it's better absorption. I would also tell you that we're not stopping. We talked about our cost improvements in terms of the cost takeouts and stand and so forth. They're continuing. Last quarter we incurred some costs that we said the transition of a product line, our production line, wasn't going up to snuff and plan as we had expected, and we had incurred some extra costs. We put a full court press on it. We're still not there, but it is absolutely improving. And we see additional opportunities to streamline the organization, leverage what we have, and to continue to do as we gain more, we learn more, and we see more opportunities for those cost reductions as well. So I think it's a combination of things coming together nicely as we've been working on for the last several years.

Greg Palm | Craig-Hallam Capital Group Analyst:

Yeah, okay. And then lastly, appreciate some of the updated metrics information on data center. I'm just curious, as we sit here today, what is your kind of total capacity level at? And as you kind of think about whether it's Some of the changes that are being proposed, whether it's new architecture, whether it's smaller footprints, how does your solution play into some of these proposed changes that might impact that market over the coming years?

Dick Warzala | Chairman, President & CEO:

Well, I would say to you first, we've been expanding our capacity and we're ready to go online here. Late this quarter or early next quarter, our goal is to have the expansion in place and it's well underway. I viewed it a couple weeks ago. And so we're well positioned, very well positioned to handle the increased demand. So we talked about the acquisition we made a few years back that and the synergies that we've realized at our Wisconsin operations and leveraging the Mexican operations as well, that has paid off big dividends and has helped us quite a bit in terms of expanding our capacity and relocating some of the high labor content products and then concentrating on the more sophisticated assembly and technician type work that we do for the final assembly. With regard to the equipment that we offer, I've mentioned this in the past and from our active filter standpoint we have the highest power active filter in the marketplace today so that does help in terms of footprint and it helps in terms of not having to daisy chain multiple units together to achieve the same power that we can put out in one particular unit so we need to stay ahead of the curve we recognize the market is going to continue moving there's a higher demand coming and It's our responsibility to make sure that we do stay ahead of the curve. As far as the opportunity in the future, based upon everything you hear in the news and so forth, yes, there's some regulatory, but I do think that if everyone just takes a deep breath, some wise decisions have been made to ensure that while these data centers, the large data centers are coming online that they can supply their own power and they can have clean water and do all of this and I think that those actions, they are happening and it's a positive. You did not ask the question but I will answer this because it's gonna come and people have asked us what's the opportunity for us and wanted it simplified in terms of our value of shipments Thank you very much. Thank you. If it's just simply a line reactor, we might be talking about a couple thousand dollars per megawatt. When it gets into a more complete solution, which we offer, including communications, gateways, filters, and reactors, and so forth, and even getting into some equipment that we supply that does fiber alignment, we supply products to that market that does fiber alignment, that that's even in the equation now. were over $40,000 per megawatt. So I'm not going to give you what I believe the forecast is. If anyone could go to one of their AI tools and look at what the forecast is for data center per megawatt or gigawatt that they're looking at and do the math. But I hope that gives you some color. We've been asked that a lot. We've been asked about our growth in data centers. We do believe we're going to continue to grow faster than our average growth within our company in those markets as well.

Greg Palm | Craig-Hallam Capital Group Analyst:

Yep, makes sense. I'm sure I can speak on behalf of everybody on this call. I appreciate all the increased disclosures. Really helpful. Thanks.

Ted Jackson | Northland Securities Analyst:

You're welcome. Thank you.

Operator | Conference Operator:

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

Ted Jackson | Northland Securities Analyst:

Thanks very much. I have a clarification question and then a couple of follow-ups. One is when you gave the data center numbers, you threw out a trailing 12-month at 57.1, and then you put a year-over-year growth rate number for that. I missed the year-over-year growth rate number. Could you say that again, please?

Dick Warzala | Chairman, President & CEO:

Ted, I think I've lost you. I don't know if it's me or you. Hello?

Dick Warzala | Chairman, President & CEO:

Yeah, we've lost you. Hello?

Dick Warzala | Chairman, President & CEO:

Hear me now?

Dick Warzala | Chairman, President & CEO:

Hi, Ken.

Ted Jackson | Northland Securities Analyst:

Can you? It's like an old-sell ad. My question was, you gave some commentary in the data center, and on the trailing 12 months, you said that you put out $57.1 million in revenue, and you gave a year-over-year growth number for that, and I did not catch that. I was curious what that growth number was. I'm going to have a couple actual fundamental questions.

Dick Warzala | Chairman, President & CEO:

Oh, okay. Sorry. Let me pull it back out to make sure it's accurate enough. I've got that off the top of my head here. Jim, you have that handy? I'll find it here real quick here.

Jim Michaud | Chief Financial Officer:

Yep, 69% year-over-year. Okay. Go ahead.

Ted Jackson | Northland Securities Analyst:

Yeah, no, no, I got it. I appreciate it. Let's move over to, like, more interesting questions. I mean, we spend a lot of time talking about data centers and industrial. Let's go to a couple of the other verticals. Let's start with... uh like the the vehicle mix you know i mean in the past the the the a big component of that had been you know power sports and clearly you've been de-emphasizing it rightly so and you know the market's been doing terrible but the business itself has actually performed pretty well and so i thought it might be interesting to have you lay out sort of The different in markets that are there within the vehicle market. You know, I mean, you've seen a turnaround with regards to the commercial vehicle market. I know you have exposure to the air, but just kind of sort of a, you know, kind of a mix of business that you have in there and kind of what you're seeing with regards to that mix. That's my first question.

Dick Warzala | Chairman, President & CEO:

Sure. So the mix, you know, when we talk about vehicle, as we've mentioned in the past, you know, our goal is to keep, you know, It has been for a while as we repositioned the company for automotive to, well, it's important to us from the standpoint of the volume and the automation capabilities and the zero defect mentality that it brings to the rest of the organization. We wanted to keep it managed in less than 10% of our overall revenues, and we continue to do that. So the other areas, when we say vehicle, includes automotive, buses, construction vehicles, marine vehicles, the ATV market, rail and truck. So those are all combined and year over year they've remained pretty steady and the one growth area that we've seen there has been the automotive.

Ted Jackson | Northland Securities Analyst:

And when you say automotive, that's just basically passenger cars for GM kind of stuff. When you say truck, I assume you're meaning more like Class A, Class 5 through 8 kind of stuff.

Dick Warzala | Chairman, President & CEO:

Correct. Passenger vehicles, when we say automotive, it's more passenger vehicles. And remember, our expertise is around steering applications. That's our primary expertise. There's others as well. But steering is the primary application. It's agnostic to whether it's a You know, petrol or it's EVs.

Ted Jackson | Northland Securities Analyst:

And then historically in the past, you know, power sports was a pretty big component of vehicles. And, you know, I mean, and it's been de-emphasized, it's been shrinking. Where does that stand in terms of its contribution to the vehicle market relative to where it was three years ago?

Dick Warzala | Chairman, President & CEO:

Yeah, that's we're getting into. you know granularity that we have not provided in the past so but I would just say this to you it's steady and we have to remember when we talk about power sports there's a couple you're talking about the ATV versus the UTV market we've made that clear in the past one's a utility vehicle used in commercial and in industrial applications one's passengers or individuals so we continue to focus on more on the industrial you know commercial type applications and we're not by no means is this a market that we want out of I mean we think that it does leverage again our expertise a strong expertise in steering applications and we are able to apply that technology into some of the other vehicle markets as well as automated material handling you know and things of that nature as well so I prefer not to break it out because we're starting to get too granular in terms and just leave it vehicle as a whole as we've been reporting, but suffice it to say that there has been a transition, and we would expect to, I'll say, maintain a certain level of business, but it no longer drives our business as it did 10, 12 years ago.

Ted Jackson | Northland Securities Analyst:

Very good. Shifting over to aerospace and defense, I mean, my model only goes back to 2019, but in the history of what I've got in my model, you had a record quarter.

Craig Mihalik | Investor Relations:

And I'm kind of curious, you know, what's driving that? Are there any particular programs in place that are making that happen?

Ted Jackson | Northland Securities Analyst:

You know, and then, you know, maybe, you know, is there, you know, what do you, what's, you know, maybe talk a bit about, you know, what pushed the quarter to be so strong? What the outlook is and kind of the drivers behind that business.

Dick Warzala | Chairman, President & CEO:

First off, I'm going to say it's going to accelerate. We've talked for many months, many quarters, about the increase in the number of inquiries and quoting that we were doing based on higher volumes and so forth, and they've come to reality. We see that and defense related applications, that's not stopping, that's continuing. And in addition to that, as I put some commentary earlier about what we're doing in the drone area and what we're releasing and coming to market, you'll start to see that unfold. I would emphasize as well the counter drone market. We see that as important as the drones themselves. The product line, I'll just restate it, that we are launching is a state of the art and we put a significant amount of our resources on it and utilize the principles of Stan for the decision making first and how can we accelerate it, how are we going to compete, you know, and I think it's pretty exciting because we're able now to go to the market and we're able to talk to customers who have come to us about volume applications where we weren't positioned to do it where we are positioned. Not that we're opening up the floodgates. We're selective in what we're picking. There are some things that we're not going to chase. But the applications that we're working on, some of the higher-end applications that we've been in all along, now looking at the COTS applications that we're able to support, which then leads us to more and more custom critical. Our team has done a great job. Electronics are being, we've got customers now, some beta customers or alpha customers, I'll call them for some of our electronics releasing, state of the art. Leading edge, state of the art. It's positioning us well and it's helping us because it's not just that technology that we've been designing, we've been investing in and we've been feeling the impact in our P&L as an investment. We're leveraging the technologies not just in for the drone applications, but in defense markets as well as industrial and commercial markets too. So I think we've got a pretty impressive platform of products that are going to be starting to be released and those will come out as well. And it's all just coming together. I think some reality of the quoting we did in the past, converting into orders today, seeing some acceleration, opening up some new opportunities in the markets. I think we're getting better recognition in the market. I think we've done a great job marketing it, and we're going to do even a better job. The team has stepped up big time. So you're going to see more information out there about Alliant and how Alliant plays and so forth. So I think, yeah, it's positive. It's definitely positive.

Ted Jackson | Northland Securities Analyst:

Okay. And then my last question is kind of more curious. You know, with bookings and backlog and the strength you have, I'm just kind of curious, I mean, can you roll into any quarter, you know, how much of a typical quarter is driven by any kind of near-term business that's booking ship in the quarter and kind of in a rule of thumb, how much of it comes out of that?

Dick Warzala | Chairman, President & CEO:

Yeah, it really depends on what we're shipping in the mix. And I've said this before, and just so for sake of making sure it's consistent here, is that as we, for some of the larger contracts that we have out there, we get blanket orders from our customers and then we get releases against us. So we have, you know, and again, I won't get into the individual companies, but we have companies that are basically were able to react to, there's a forecasted demand, there's a mix that we don't necessarily know, but an order gets placed that we have to deliver within 72 hours. So obviously this is part of where you have some inventory and you have a design of a product line that allows you that flexibility. But as far as a rule of thumb here, what would we consider book-to-bill business versus on any, in any quarter versus, you know, a backlog-based business, I would tell you that we're, you know, 20, 25% booked a bill.

Ted Jackson | Northland Securities Analyst:

Okay. That was super helpful. Dick, thanks for all the clarity. It's always a pleasure to listen to you talk about the business. You know it and you're passionate about it. Congratulations.

Dick Warzala | Chairman, President & CEO:

Thank you, Ted.

Ted Jackson | Northland Securities Analyst:

Appreciate it.

Operator | Conference Operator:

Once again, ladies and gentlemen, that's star one to register a question at this time. Our next question is coming from Tomo Sano of JP Morgan. Please go ahead.

Tomo Sano | J.P. Morgan Analyst:

Hi, good morning, everyone. Good morning, Tomo. Thank you for taking my questions. Could you talk about Stan's annualized savings? You had $10 million in 2024 and $6 million in 2025. What is your expectation for this year, and what are the next levels for incremental savings? Thank you.

Dick Warzala | Chairman, President & CEO:

Sure. So I would tell you that for 2026, we targeted an amount similar to what we saw in 2025, five to seven million. And we were still working on that. And I do believe, you know, it's achievable. So and then going forward, as I said, every time we finish something, we seem to uncover that there's more opportunity that I would tell you that, you know, We've got a list of opportunities internally here, given our size and given the resources that we have available to it, that I would say we've got a runway of two to three more years where we can continue to see this $5 to $7 million cost takeouts and optimization of the units.

Tomo Sano | J.P. Morgan Analyst:

Thank you, Dick. And if you could talk about, Dalton, Transitions. Could you update us on ramp quality, delivery, and incremental costs, and when you expect normalization here? Thank you.

Dick Warzala | Chairman, President & CEO:

Yeah, the significant improvement was made in the second quarter, and some of that was realized by, as we mentioned in the first quarter call, you know, we could have shipped more if the transition had gone smoother and so forth, The team is doing a really nice job of attacking the root causes of the problems and getting the efficiency and productivity up as well as starting to cut into some of the, you know, the past dues that are cutting into that. And, you know, every move at Dothan has been around a long time. And unfortunately, you know, it's a high mix business and sometimes low volume. and that adds a little complexity to it and so making, you know, getting everything up to snuff, you know, fixed and identifying the supply chain and ensuring that all of that's being addressed in an appropriate manner. I will tell you that it will continue to improve throughout the year. We're going to continue to invest and improve throughout the year. We're making some investments to accelerate it and we have and This is my opinion that we have significant opportunity to improve not only in Dothan, but also in our ReNOSA facility as well. And that'll continue through the year. You'll see some continued restructuring costs there as we make the investments necessary to ensure that we achieve the results that we're looking for.

Tomo Sano | J.P. Morgan Analyst:

Thank you, Dave. If I may squeeze just one more thing. Hi, Lobo, Dave. Could you talk about the current environment about the factory automations broadly? We were on the automate show and then visited your booths and then felt like a sense of urgency about the factory automations given from some physical AI concept as well. Could you talk about how you see the environment from your perspectives broadly? Thank you. Sure.

Dick Warzala | Chairman, President & CEO:

So let's, you know, for our business, I would kind of look at it from North America and let's say Europe. Europe is seeing some improvement, which is great. It's not going gangbusters, but it's improving. And it's a slow, steady improvement from, you know, we're heavily invested into our customers who are in the automation market. So That's an encouraging sign. It's not just, like I said, big jump in demand all of a sudden. And in North America, we have definitely seen some improvements as well. So there's an acceleration of getting our products in place so that we can handle demand and these pent-up demand for certain projects out there. So there's encouraging signs. As well as our portfolio is evolving and developing there. So I wouldn't want to indicate in any way that We're a supplier to the big integrators, to the big players in the automation industry. And as we continue to enhance our product portfolios and design products that are directed and dedicated to that in niche areas, we're definitely seeing some traction there. And we're going to continue to do that. That changes the margin profile as well. If you're competing with what I'll call a They can be off-the-shelf products, but they're kind of standardized in many suppliers. It will impact your ability to drive margin improvement. So again, our focus has not been on the masses. It's been on ensuring that we can integrate our technologies together, use our electronics to enhance our ability to sell, as well as integrated solutions. And that continues to improve. So it's encouraging. It's definitely encouraging for what we're seeing in the signs there.

Tomo Sano | J.P. Morgan Analyst:

Thank you. It's very helpful. Congrats on a quarter. Thank you. Thank you.

Operator | Conference Operator:

Thank you. The next question is coming from Jerry Sweeney of Roth Capital Partners. Please go ahead.

Jerry Sweeney | Roth Capital Partners Analyst:

Good morning. Thanks for taking my call and congratulations on a nice quarter.

Dick Warzala | Chairman, President & CEO:

Thank you, Jerry.

Jerry Sweeney | Roth Capital Partners Analyst:

One more question. Actually, two more questions on data center work. Wondering if there's an opportunity to expand into some adjacencies around the work that you have now or opportunity or works that you have now. And secondarily, how much of revenue do you feel comfortable with as sort of a percentage of revenue related to data centers?

Dick Warzala | Chairman, President & CEO:

Great questions. Comfortable with as much as we can get. I'll say that. and it's an interesting question because we have been by some of the majors have been asked about and they've come to our facilities and done their assessments and so forth and looked at our capacity and they see that our team has done a nice job. This team's primarily in Wisconsin between our two facilities there and leveraging the Mexican facility. They have been proactive and they've been ahead of the game in making sure that we are addressing capacity needs and labor needs and so forth. So when it comes to this, I kind of give you that answer because I remember when I was sitting in a meeting and the team brought to me, well, we can either do this or we can do this. I say, you go for the big one. Let's just, you know, we'll support it. We'll support it as required. So, you know, how big can that be in relative, as I said, I would prefer not to give you what I think it's going to be. I gave you the numbers of what our value is per megawatt. You can go out and do the calculations yourself and see what the opportunity is. And I say if our goal is to be one of the leaders, if we can move our percentage of capture in the marketplace, then I'm not uncomfortable with seeing our capture rate and they're going 20%, 25%, 30%. So I'll leave it at that and let you work the numbers and everyone else work them on their own because I don't want it coming back to me. That's what I told you it's going to be. What else was it that you were interested in besides that? Adjacents? Yes, it absolutely is. And the same type of solutions we have. So you notice we talk about data center and other infrastructure. Definitely. the same types of requirements that you're seeing at data centers as you get these larger applications, wastewater treatment plants and so forth. There's definitely going to be expansion there and continued demand there and our products serve those as well.

Jerry Sweeney | Roth Capital Partners Analyst:

Got it. Then finally, I lied three questions out too. Obviously, we're in a new build market for data centers. Is there an opportunity for repair, replacement, refurbishment, upgrading of facilities over time or is it too early to tell?

Dick Warzala | Chairman, President & CEO:

No, I think there definitely is. I think there's companies out there focusing on that. They're saying that especially if you're going to get pushback in certain states and localities that are going to push back against data centers, they already have data centers there. The infrastructure is in place. It just needs to be upgraded and expanded. And I think there's clearly going to be some opportunities there. We can play at either one.

Jerry Sweeney | Roth Capital Partners Analyst:

Got it. Great. Thanks, guys. I appreciate it.

Dick Warzala | Chairman, President & CEO:

Thank you, Jerry.

Operator | Conference Operator:

Thank you. At this time, I'd like to turn the floor back over to management for any additional or closing comments.

Dick Warzala | Chairman, President & CEO:

Well, thank you everyone for joining us on today's call and for your interest in Alliant. We will be participating in the Lake Street Big Ten Conference in New York City on September 10th. 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 2026 results. Have a great day. Thank you, operator. That'll conclude it.

Operator | Conference Operator:

Thank you. Ladies and gentlemen, this concludes today's event. You may disconnect your lines or log off the webcast at this time and enjoy the rest of your day.