NASDAQ:ALNT Q3 2026 Earnings Call Transcript

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Conference Operator | Operator:

Welcome to the Alliant Inc. Third Quarter Fiscal Year 2026 Financial Results Conference Call. At this time, all participants are in a listen-only mode. A question-and-answer session will follow the formal presentation. If anyone should require operator assistance during the conference, please press star zero on your telephone keypad. Please note this conference is being recorded. I will now turn the conference over to Craig Mahalik, Investor Relations. Thank you, Craig. You may begin.

Craig Mahalik | Investor Relations:

Thank you. Good morning, everyone. 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 third quarter 2026 results, provide a strategic and operational update, and share our outlook. We'll then open the line for your questions. As a reminder, earnings released in the company's slide presentation are available on our website at Alliant.com. If you're 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 to comparable GAAP measures in the tables accompanying the earnings release, 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 and Chief Executive Officer:

Dick? Thank you, Craig, and welcome, everyone. I described our performance as a demonstration of the earnings power of the model. The third quarter took a meaningful step further. We delivered record revenue, record margins, and record orders. It was a breakout quarter across both the P&L and the order book. Revenue increased 18% to a record $164.4 million and 19% organically. Gross margin expanded 330 basis points to a record 36.6%. Operating margin expanded 480 basis points to a record 13.6%, and net income more than doubled. At the same time, orders reached a record 218 million, and backlog ended the quarter at another record 351.5 million. What I am most pleased with is how those results came together. Higher volume, favorable mix, and continued operational improvements all contributed, and that combination drove strong operating leverage. Operating income increased 83% on 18% revenue growth. That is the kind of conversion we have been working toward, and it reflects years of work to reshape the portfolio, simplify the organization, and change how we operate. Simplify to accelerate now or stand is a part of that story. As I discussed last quarter, stand is not a single program. It is how we work. It is the mindset and the tool set that allows our team to make decisions faster, remove obstacles and execute with urgency and ownership. This quarter, it helped us translate stronger demand into improved profitability while continuing to invest in capacity, technology, and productivity. In other words, we are not choosing between growth and margins. We are funding growth and expanding margins at the same time. Demand was strongest in our targeted growth areas. Aerospace and defense grew 36% on strong defense-related demand. industrial group 15% led by industrial automation, including solutions supporting data center and infrastructure. And vehicle was a meaningful contributor as well, which Jim will discuss in more detail. In the third quarter, data center and

infrastructure related sales were 21.1 million, or 12.9% of total revenue, up 40% from the prior year period, and up 5 million from the prior quarter. Data center and infrastructure represents approximately 10% of our well-diversified business. Through our Alliant Power portfolio, including active and passive harmonic filters, line reactors and related solutions, we help customers reduce harmonics, protect critical equipment and maintain clean, reliable power and increasingly compute dense environments. As power density increases, demands on power quality, reliability and energy management become more exacting and that plays directly to our engineering strengths. We have also been investing to support that opportunity. The additional capacity at our Milwaukee operation is now online and supporting our growth. That gives us additional production capacity to serve customers as demand continues to grow. We recognize the power availability, permitting, and community concerns can affect the pace and location of individual data center and infrastructure projects. Those are factors we continue to monitor. Against that backdrop, we continue to see strong growth in that business, and we remain focused on what we can control. Diff. Products, Discipline Capacity Investment, and Reliable Execution for our customers. Energy management goes beyond data centers. It is becoming increasingly more important in all markets and applications we serve. Regarding our defense vertical, we are focusing on applications where our proven products and solutions create value for our customers. and we are aggressively launching several new products to meet the new and emerging needs of the defense markets. Our proven solutions in other adjacent markets brings critical core unit volume into the equation. Simple translation, we are aligned with the changing paradigm to leverage existing solutions to drive out costs for defense related solutions. More on this market later. So stepping back, the third quarter reinforced three things. Our portfolio is aligned with the right markets, our operating model is becoming more scalable, and demand gives us a positive outlook as we move into the fourth quarter and early 2027. With that, I will turn it over to Jim for a more detailed review of the financials.

Jim Michaud | Chief Financial Officer:

Thank you, Dick, and good morning, everyone. Please turn to slide four. Third quarter revenue increased 18%, or $25.7 million, to $164.4 million. Foreign currency translation was a $900,000 headwind, so on a constant currency basis, revenue grew 19% organically. Sales to U.S. customers represented 57% of revenue, consistent with the prior period, with the balance primarily in Europe, Canada, and Asia Pacific. Looking at the verticals for the quarter, industrial revenue increased 15% to $81.7 million, driven by continued demand for industrial automation and solutions supporting data center and infrastructure and other critical facility applications. Aerospace and defense revenue increased 36% to $25.5 million, reflecting strong defense related demand for mission critical platforms and systems. As well as favorable program timing. This marks a continued acceleration from the 16% growth we reported last quarter. Vehicle revenue increased 27% to $27.3 million, primarily reflecting stronger commercial automotive demand. Part of that increase reflects shipments accelerated ahead of a customer's model changeover, so we would not view the full growth rate as a new run rate. Medical revenue was down marginally at 2% to $21.3 million as higher demand for surgical precision motion applications was more than offset by lower demand for medical mobility applications. Lastly, distribution sales for a smaller portion of our business increased 39%, reflecting broad-based growth across the channel. Turning to slide five, trailing 12-month revenue reached $600 million. Up 13% from the comparable trailing 12-month period a year ago. Industrial represented 49% of revenue and grew 16%, supported by the same automation and infrastructure demand drivers I just discussed in the quarter. Within industrial, trailing 12-month data center and infrastructure-related sales were $62 million, or 10.5% of total sales, up 56%. Vehicle represented 17% of revenue and grew 14%, driven by strength in commercial automotive, truck, and construction applications. Aerospace and defense represented 15% of revenue and grew 10%, reflecting mission critical defense demand and favorable program timing. Medical represented 14% of revenue and grew 4%, with the same underlying dynamics as the quarter. Distribution represented the remaining 5%. The key takeaway is that our balanced exposure across end markets and geographies continues to support growth, while the mix is moving toward higher value applications in automation, power quality, defense, and precision medical. Please turn to slide six. Gross profit increased 30% to $60.2 million, and gross margin expanded 330 basis points to a record 36.6%. The drivers were

consistent with what we have been discussing. Higher volume, favorable mix, and operational improvements understand, supported by our lean toolkit, Alliant Systematic Tools. As we noted last quarter, mix can be lumpy from period to period, and this quarter benefited from a favorable mix of products and programs. So while we expect some quarter to quarter variability, the structural progress of simplification, lean disciplines, Mastromattei, Stephen Mastromattei. Those actions have kept tariffs from becoming a significant drag on our results, and our operations remain agile and adjusting to minimize the impact of ongoing trade policy changes. With respect to IEPA-related tariffs and the refund process established by the Court of International Trade, we are in the process of applying for refunds of tariffs paid. As of September 30th, We continue to pursue the refunds available to us, but to be clear, tariff refunds were not a meaningful driver of the margin improvement this quarter. Moving to slide 7, operating income increased 83% to $22.3 million, and operating margin expanded 480 basis points to $2.3 million. To a record 13.6%. Last quarter, we noted our operating margin was the highest in roughly a decade. This quarter, we surpassed the company's prior high. Operating costs and expenses were $37.9 million, compared with $34 million reflecting higher sales commissions, personnel-related costs, software and IT investments, and sales and marketing activities. As a percentage of revenue, operating costs improved 150 basis points to 23%, demonstrating operating leverage even as we continue to invest in growth. Restructuring and business realignment costs were $15,000 compared with $800,000 in the prior year quarter, reflecting lower costs associated with the Dothan transition and the timing of other stand actions. We expect full-year restructuring costs of approximately $2 million. Please turn to slide 8. The margin expansion and lower interest expense more than doubled net income. Net income increased 137% to $15.3 million, or $0.91 per diluted share, compared with $6.5 million, or $0.39 per diluted share in the prior year quarter. Adjusted net income increased 82% to $18 million, or $1.7 per diluted share compared with $9.9 million or $0.59 per diluted share. Adjusted EBITDA increased 46% to $29.7 million and adjusted EBITDA margin expanded 340 basis points to a record 18%. Our effective tax rate was 22.2% consistent with the prior year and we continue to expect a full year 2026 tax rate of approximately 21 to 23%. Turning to slide nine, net cash provided by operating activities was 22.1 million for the first nine months of 2026, compared with 43.1 million in the prior year period. The decline primarily reflects higher receivables associated with record revenue and strategic inventory investments to support demand. With backlog up more than 50 million since June, We have deliberately invested in critical materials to protect customer deliveries and supply continuity. Inventory turns were three times in the third quarter, compared with 3.2 times for full year 2025. Day sales outstanding were 61 days, compared with 57 days for the full year 2025, reflecting the timing of record quarterly shipments. Supporting growth and maintaining working capital discipline go hand in hand. Our focus is on collecting receivables, bringing inventory down as materials move through production, and converting stronger earnings into cash. Our financial priorities remain unchanged. Strengthen working capital management, take out costs, and reduce debt. Turning to capital investment. Capital expenditures were $10.6 million for the first nine months, compared with $5.1 million a year ago, as we invest in capacity, technology, and productivity, including in areas tied to data center and infrastructure power quality and automation. We continue to expect full year expenditures of 12 to 15 million. Please turn to slide 10. Total debt was 173.4 million at quarter end, down 7 million from year end 2025. and others. Net debt was $133.7 million and net debt to capitalization was 29%. Our leverage ratio improved to 1.49 times from 1.82 times at year end, largely driven by higher trailing 12 month adjusted EBITDA. The bank leverage ratio as defined under our credit agreement was 1.89 times, well within covenant requirements. We entered the quarter with nearly $40 million of cash and $162 million and others. That gives us meaningful financial flexibility to fund organic growth and pursue value creating opportunities in a disciplined way. With that, if you advance to slide 11, I will now turn the call back over to Dick. Thank you, Jim.

Dick Warzala | Chairman, President and Chief Executive Officer:

Third quarter orders were a record 218.1 million, up 64% year over year and 8% sequentially. resulting in a book-to-bill ratio of 1.33 times. This is the second consecutive quarter of record orders, which reflected broad-based demand across key targeted markets led by industrial and aerospace and defense. The defense side of that demand is encouraging. Any inquiry and quoting activity we have previously discussed is turning

into orders. These are custom, mission-critical applications where our engineering depth matters. Backlog reached a record 351.5 million, up 52% year-over-year and 18% from June. Most of that backlog is expected to convert to revenue within six to 12 months, reflecting revised order patterns to ensure critical material availability on a longer-term basis. Turning to slide 12, I will close with three themes. First, proven earnings power. We translated higher revenue into record margins and substantially stronger earnings, demonstrating the leverage in our model. Stan is embedded in how we work, strengthening productivity, cost discipline, and execution. Second, targeted growth vectors. Data Center and Infrastructure is a growing contributor, now at more than 10% of sales, and we believe it will continue to exhibit future growth as well. Aerospace and Defense, momentum is building. Our drone and unmanned systems offering is also taking shape. Since we discussed that on our last call, we have moved from building the platform to taking it to market. In August, we introduced the Vioxxalon Apex drone drive, a next generation electronic speed controller that combines gallium nitride power technology with advanced field oriented control. It complements our ever expanding line of custom gimbal and propulsion motor solutions and our newly launched standard off the shelf propulsion motors with several models slated to be produced both in the USA and Europe and design to meet NDAA compliant supply chain requirements. What sets Alliant apart is that we can supply both. That is standard and custom motor solutions to meet the exacting needs of our customers. Last month at AUSA, we gave our drone portfolio its first public launch alongside several other products we supply for defense applications. That included live demonstrations of the Viaxilon Apex Drive powering a motor, a deployable drone hangar and storage systems, customized structural composites, self-sealing fuel tank technology, counter UAS motors and drives, gimbal and remote weapon systems motors, electric steering solutions, including autonomous and steer-by-wire solutions, traction solutions for ground vehicles, and specialty motors and actuators used in a wide variety of defense applications. Our booth and displays this year were quite different and innovative, and we are very honored and proud that Alliant Defense was voted best in show at the event. When presented by AUSA leadership, it was stated that, The award was based on the overall design, presentation, and creativity of the company's exhibit experience. Without revealing everything, not only did the experience generate a buzz at the show, more importantly, the response gave us a strong set of customer opportunities to pursue. Hats off to our entire marketing and support team for thinking outside the box and truly changing the game and presenting Alliant to the market. Back to the market and I want to be clear on expectations. We are in the early innings of developing our drone and counter UAS component sales. But as stated earlier, we differentiate ourselves by providing both off the shelf standards and application specific custom solutions to meet the most demanding requirements. While others may have designs, Alliant already produces over 5 million motors annually and has the critical production capabilities and know-how to produce these products at scale. Our focus right now is on driving adoption of our solutions, getting them into customer qualification and design cycles, and building the pipeline. We view revenue contribution as more of a 2027-2028 objective. What makes us confident is that this builds on decades of engineering and custom mission-critical motion solutions for a wide variety of defense applications while utilizing common technology to strengthen our broader defense, industrial, and commercial offerings. Third, position for 2027. Our record backlog of 351 million provides a positive outlook as we finish out the year and move into 2027. Our near-term priorities are clear. Convert backlog, support our internal growth opportunities, and maintain a disciplined approach to investment. Customer schedules, mix, and the trade environment will continue to affect individual quarters. But what gives us confidence is what we control. A stronger operating model, a healthier balance sheet, and a portfolio aligned with long-term secular trends in robotics, automation, electrification, digital infrastructure, defense modernization, energy management, and medical. Before closing, I want to thank our team members around the world Record results like these are earned on the shop floor in engineering and across every function, and they reflect the ownership and urgency that defines Stan. We are building momentum with stronger earnings power, and we believe Alliant is well positioned to continue that progress. With that, operator, let's open the line for questions.

Conference Operator | Operator:

Thank you. We will now be conducting a question and answer session. If you would like to ask a question, please press star 1 on your telephone keypad. 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 your handset before pressing the star keys. One moment please while we poll for questions. Our first question. is from Max Michaelis with Lake Street Capital Markets. Please proceed with your question.

Max Michaelis | Analyst, Lake Street Capital Markets:

Hey guys, thanks for taking my questions and congrats on the really strong quarter. First question for me, it seems like buying behavior has changed over the past 90 days. I mean, is this across all end markets or should we be thinking more A&D data center? Help me out with that.

Dick Warzala | Chairman, President and Chief Executive Officer:

Oh, I think we're seeing it everywhere. It's demand increases and material availability is driving customers and basically all markets to say, hey, let's get some, make sure we have some materials on hand. That also can explain increases in inventory and impacts certainly cash flow. So it's definitely changed and, you know, we are getting Orders out there getting orders in-house a little earlier so we can secure materials to make sure that their demand for the future is satisfied. That's another reason why we talk about, you know, the backlog is going to ship over the next six to 12 months.

Max Michaelis | Analyst, Lake Street Capital Markets:

Okay, that makes sense. And then to the margins, really strong quarter, just EBITDA, EPS as well. How much of that margin improvement is structural from the things you guys have done in terms of We're working the cost structure, the business versus mix.

Dick Warzala | Chairman, President and Chief Executive Officer:

Well, I'd say there's at this point what we're seeing is mostly a mix change. The cost structure is we have gone ahead and we've made some structural changes to reduce costs. That's ongoing. But what happens is the earnings power is showing through. It's a mixed change as well as we get over those breakeven points in our operations, then we're starting to convert the sales at an operating margin, at a variable margin level, not just at a gross profit level, as well as maintaining OPEX. I mean, that certainly has an impact on it. But mix was a, I will say to you, was a pretty significant factor as well.

Max Michaelis | Analyst, Lake Street Capital Markets:

Okay, last one for me. Outside of A&D and data centers, which seem to be getting all the love these days, obviously just with the high growth rates, we've talked about sort of the wastewater treatment opportunity. I know it's early innings. I mean, anything you can help me out there, especially with the sizable order growth, any from the wastewater water treatment space?

Dick Warzala | Chairman, President and Chief Executive Officer:

Yeah, and thanks for bringing it up. When we talk about infrastructure, that's certainly one piece of infrastructure we're talking about. That has been a steady growth market for us over the years, and we absolutely see it continuing. And also, as we were discussing in the conference call here, is we don't want it to get lost that energy management and a demand for energy and better quality of power driving down cost. I mean, that's affecting everything. Everything. So while data centers get all the attention because of the high consumption, that's causing everyone to take a look at energy efficiency and energy management throughout their business. So I do think that fits well with us as well. And wastewater treatment plants are good. Yeah, wastewater treatment is going to continue to grow in the future as well.

Conference Operator | Operator:

Awesome, guys. Thanks for taking my questions.

Jim Michaud | Chief Financial Officer:

Thank you, Max.

Conference Operator | Operator:

Our next question is from Tomo Osano with JP Morgan. Please proceed with your question.

Tomo Osano | Analyst, J.P. Morgan:

Hi, good morning, everyone.

Dick Warzala | Chairman, President and Chief Executive Officer:

Morning, Tomo.

Tomo Osano | Analyst, J.P. Morgan:

Morning, Tomo. Congrats on the quarter. Maybe on some investment and priorities into 2027, with a backlog at the record high level, how are you planning capacities and and many more. Thank you. Thank you, Tomo.

Jim Michaud | Chief Financial Officer:

Good question. So as you know, we're constantly looking for those right opportunities that we've had to our portfolio where it makes sense and we think that it can be accretive to our shareholders. You know that we've made some strategic investments, obviously, in light of the, you know, trade and supply chain dynamic dealing with. So, obviously, our inventory has gone up 18 or 19 million this year. So, I would expect that, you know, hopefully. As we continue to get demand, we will make investments, again, in strategic components that are having longer lead time. So you heard Dick mention that converting the backlog over six to 12 months is simply because of how orders are coming in and the patterns that we're now seeing with getting components and so forth that might be a little bit more difficult. So I would tell you is that we'll continue to manage demand. The debt, I think we're really in a great position. There's a much stronger balance sheet, and we'll look for those opportunities where we think we can make a difference to our portfolio.

Dick Warzala | Chairman, President and Chief Executive Officer:

Yeah, and Tomo, I'll add a little bit to that, too. We talked about the expansion in the Milwaukee facility, which you had a chance to visit. That expansion is complete, and they're now beginning to set it up and utilize the space to handle the increased demand. We're also looking at and increasing our capacity in Mexico. That's well underway, the plans for that. But it's not just add capacity everywhere. I mean, we still are rationalizing our footprint and we're putting the capacity where it's needed. I would also say to you that we've been investing right along here in capital equipment to support growth in these areas that we have We've seen and we're experiencing right now, and we'll continue to do that. With the increase in sales, certainly we would expect to see good cash conversion. So while we've been investing in inventory throughout the year, I think we'll start to see the returns here as certainly the shipments have increased. So a good balance. We're very confident that we'll be handling our debt extremely well and holding our costs, spending the money and investing the money where It's supporting major growth opportunities, which we continue to see in all areas of our business. So that's pretty exciting.

Tomo Osano | Analyst, J.P. Morgan:

Thank you, Dick. And Jim, just one more follow-up on a macro level and strategy questions. Data centers and defense appear to be pretty important growth markets for all entities. But the following the elections, the outlook for defense budgets and policy could shift. But how are you assessing these opportunities and the related policy and demand risks, and then how that affect your pace of the capacity expansion and investments? Like, how are you thinking about the diversifying your in-markets exposure? So you talk about a little bit about it on a prepared remarks, but any color appreciated. Thank you. Sure.

Dick Warzala | Chairman, President and Chief Executive Officer:

Let's start with data center and infrastructure. Max asked the question about wastewater treatment plants. That's infrastructure. You see factory automation. That's not going to go down. That's increasing. People are investing money. We demand and demand continuing. And these projects for infrastructure projects take years and they're well underway. So in the short term, we don't really see and Impact et al. We see growth. And I say short term, I'm talking next two to three years, no matter what happens. They can have a moratorium on new data center installation, but those that are already started need to be completed. And demand for AI is not going to go down. The internet demand is not going to go down. The fact that we're in other markets, for example, We'll talk about defense in a second, but other markets, I mean, we're well diversified, and that's the strength of our portfolio. We consciously set out to ensure that we were a well-diversified company, and it's not going to be boom or bust based upon one secular. And I think that's our strength. So as these others are getting attention and concern about what may happen, we continued and stayed focused on other markets. So We're in semiconductor. We're expanding our reach into that. We're in photonics. We're in life sciences. We're in, as we talk about, robotics of all kinds. We're in medical. So that's the strength of our model. We're in vehicles. It's still an area that we have strength in. And we mentioned when we talk about vehicles, it's not just automotive. Matter of fact, automotive is kept to a certain level that we feel Allows us the opportunity to get core unit volume and pricing advantages. But we're in off-road agricultural construction, marine vehicles, all types. So I would say to you that that diversification is why we feel very confident for the future. Talk about defense. I mentioned AUSA in our exhibit down there. We've never been busier. And what was interesting is The number of customers and potential customers outside of the U.S. that were at that show and looking for solutions. Demand is increasing globally. I think so. So one thing that's happened, even, you know, where the message is clear, they need to invest and they are. And what that brings is some requirements that they're looking for. We're fortunate that we have operations in Europe. You know, 42% of our business is outside of the U.S., and we have very capable engineering and production facilities in Europe. So if we see a decrease in demand in defense, and I'm not so sure we can see it that quickly, we're fortunate that we have operations in Europe. based on replenishment, based upon

the modernization that's occurring, and how these conflicts will be fought in the future is different. And they need different equipment, and we have to stay up with the pace. And we don't see it slowing down. We see Europe and Asia, to some extent, looking at increasing demand and applications. And as I said, our booth was busy. Not just for U.S. companies, but companies outside the U.S. as well.

Tomo Osano | Analyst, J.P. Morgan:

Great. Thank you for the details, Dick. I love it there. Thank you.

Jim Michaud | Chief Financial Officer:

Thank you, John.

Conference Operator | Operator:

Our next question is from Greg Palm with Craig Hallman Capital Group. Please proceed with your question.

Greg Palm | Analyst, Craig-Hallum Capital Group:

Yeah, good morning. It's a shame you picked a pretty bad day in the market report, but it's not going to stop me from congratulating you on your best quarter probably by far in history. So pretty amazing. Thank you very much.

Dick Warzala | Chairman, President and Chief Executive Officer:

We appreciate it.

Greg Palm | Analyst, Craig-Hallum Capital Group:

Thank you. So, you know, I'm curious, maybe we start with, I don't know if you want to lump them together, revenue bookings. I'm just curious. Is it coming from higher volumes from existing programs versus incremental demand from new customers? It's hard to wrap my head around, at least on the booking side, the strength or the absolute level the last couple of quarters. So maybe just give us a little bit more insight on what's going on.

Dick Warzala | Chairman, President and Chief Executive Officer:

Sure. I would say to you, as you know, Many of the long-term projects that we work on, they take months and years. As we've mentioned, we're primarily custom-engineered products. While we do sell some products off the shelf, 80-plus percent of our business is custom-engineered. So there are long-term design-in cycles, and as they're getting converted, you're going through the various steps in getting approved, and turning it into shipments and revenue. Certainly infrastructure projects have been worked on and we've mentioned before, and just to repeat it so everyone's on the same page here, we're later in the game, we're later in the stage. So when infrastructure projects start, they start clearing the land, they start pouring the concrete, they start laying all the electrical and plumbing needs and so forth, We're basically coming in when the equipment's being installed. And so we're later in the game. So things that have been happening and the excitement that has been out there, and I think sometimes questions, why are we seeing it? I mean, I think, yeah, we are seeing it. And it's because we were later in the installation or development process. As far as defense

applications, there's replenishment that's going on. It's not going to stop. There's still a need to refill the pipelines based upon the conflicts that have occurred. There's new applications. For drone applications, you saw it at AUSA. We were showing drone motors and ESCs and drives, but in addition to that, we were showing and exhibiting many of the other things that we do that Mastromattei, Stephen Warzala, Nicholas Hoffman, But as we have moved through time here, I mean, yes, we're getting, we have double digit applications we're working on, many of them customs, and the counter side of it as well is growing. Tremendous interest in our composites and how we combine them together, our electromechanical actuation. And the other thing in the defense markets, which is I think it's going to shorten cycle times and fits directly into what we do really well. We've built commercial and industrial and off-road vehicle markets. And as the defense departments are looking today, they don't have four, five, six, seven years to get them developed. They have to use product that's available today. And our proven on-road, off-road products that have been out there Not in quantities where defense equipment may be in hundreds or thousands, hundreds of thousands and millions. So we can show them a path to get there faster, get there less expensively, including the design cycle time, the capital requirements, and product costs down the road. But I would tell you that demand is strong, and it has been strong and steady in all of our markets. And again, I'll repeat, Schultz, and many more.

Greg Palm | Analyst, Craig-Hallum Capital Group:

Is there any concern or risk that some of this is customers that are stocking or getting ahead of normal, just given supply chain? Or maybe this is all just new customers, new programs, stuff that's been in the works, and now it's all basically additive to an existing book that is growing in itself.

Dick Warzala | Chairman, President and Chief Executive Officer:

Yeah, so a couple things with the customers. I would say to you that as we see, you know, in defense replenishment we've talked about before, you know, that's real. Those are hard, firm orders, you know, and the concerns as you get into some of those programs and in some of the high-performance applications that use critical rare earth materials, that's where we're seeing our customers engaging with us and wanting to ensure that we have a secure supply chain. So we talk about inventory increases. It's to secure that. So the demand isn't going away. In fact, what we're seeing is that they want to make sure that they can get product. So to secure the materials that have been and may be a problem in the future. So we're not seeing that. You're not seeing push outs. And I'll be honest and tell you that the demand we're seeing, nothing that We're seeing today is telling us that we're getting double ordering. It's historical levels, new programs coming on board that's in addition to the historical programs and some of the other replenishment programs that are real that we're shipping to today and will continue to ship into the future. So, you know, our near-term battles are going to continue to be ensuring that we can secure material to meet customer demands. There's more demand out there than we can take today. And from that standpoint, what's driving that is material availability.

Greg Palm | Analyst, Craig-Hallum Capital Group:

Yep. Okay. And then, you know, just lastly, you talked a little bit about drones and counter drone. It was unclear whether you're starting to see or you've seen kind of bookings orders related to that. It sounds like interest is really high, but you know what? Where are we in terms of booking orders or recognizing revenue associated with those product lines specifically?

Dick Warzala | Chairman, President and Chief Executive Officer:

Yeah, great. Yeah, we have until this past year, starting last year, I would say to you where we really focused hard on looking at the standard product lines that are used in most of the drones. We've already been working on specialty applications for higher class drones, the larger drones. Carter, UAS products. But those volumes aren't as high. Prices are higher, of course, than their custom engineered. They're very sticky. What we're seeing today is customers that we have been working with, they have a need for our entire platform, standard and custom engineered. And this is where I've said that we've got an advantage here. You know, we know how to scale. We have scaled. and that's the beauty of it. It's not new to us. So when you've got companies coming on board saying we've got designs, that's great, but can they deliver? Well, we can deliver and we can scale. So we're starting to see, and what's interesting is even in that market, some of the higher volume demand requirements that require automation, that require capital investment, Require a know-how, and that's what we have. So you're not, in our numbers, you're not seeing high growth numbers because of drone demand. You're seeing steady incremental growth over our past sales into that marketplace. And we're just in the very early innings to seeing the growth that's going to occur in not just, as I said, the drone, but the counter drone activities as well. So not much in there beyond incremental. Up to now.

Greg Palm | Analyst, Craig-Hallum Capital Group:

Okay. All right. Appreciate all the color. Best of luck going forward.

Conference Operator | Operator:

Thank you, Greg. Our next question is from Ted Jackson with Northland Securities. Please proceed with your question.

Ted Jackson | Analyst, Northland Securities:

Thanks. Good morning, Ted. Good morning, Dick. I mean, what a fabulous, fabulous set of results. Congratulations.

Dick Warzala | Chairman, President and Chief Executive Officer:

Thank you.

Ted Jackson | Analyst, Northland Securities:

A couple of questions, some of the more fun ones were all taken, but let's just start off with the vehicle revenue and the pull forward. Can you kind of quantify that and then maybe provide some like how we should think about, you know, where that came from in terms of future periods? Is that, was that a pull forward from the fourth quarter or was it from the next few quarters? Just kind of help us so we can retrain, triangulate our numbers going forward.

Dick Warzala | Chairman, President and Chief Executive Officer:

Well, I don't want to Say something totally opposite to what you said. It's not really a pull forward. We have, you know, today we've got certain past dues that if we were delivering the numbers would have been even higher. And as a consequence of certain materials and capacity increases here that we're working on. So what we shipped here in this quarter is not pulled from future demand. The new vans there, we could have

shipped more.

Ted Jackson | Analyst, Northland Securities:

And that was commercial vehicle driven? Is that what you said in the commentary?

Dick Warzala | Chairman, President and Chief Executive Officer:

Is that correct? Across many markets, not just vehicle driven. Vehicle did grow. In vehicle, there was a specific case there where we had some increased demand. I would just say a drop in for increased volume. In all the other markets, it's pretty normal.

Ted Jackson | Analyst, Northland Securities:

Okay. So then it was just, it was just, I mean, I, I wrote down in my notes, I thought you had said it was a pull forward or an acceleration of delivery. So I just assumed that it'd come out of future periods.

Dick Warzala | Chairman, President and Chief Executive Officer:

No, if I said that, I said it incorrectly and I apologize for that, but I would say to you that the real message is that there was, we're not pulling out of future quarters. We're trying to deliver from past borders. Still.

Ted Jackson | Analyst, Northland Securities:

Well, I'm glad I asked the question to make sure that was clarified. Then my next question, Dick, is, you know, when you were talking about, you know, kind of the demand across the board increasing and you made a comment that customers want more and also are wanting to build more inventory. And, you know, so I guess where I'm trying to go with that is I know the end market demand is very, very strong. But am I reading that right? That, you know, in the current environment, you know, everybody wants to hold a little more inventory just because of You know, the changes, reshoring, difficulties in getting materials. So your customers are building, you know, they're running at higher inventory levels and you're running at higher inventory levels. And if that's correct, at what point do you think that kind of normalizes?

Dick Warzala | Chairman, President and Chief Executive Officer:

Well, there's a couple of things occurring. So you're identifying key components that supply is becoming scarce, okay? So they're looking for us to lock that down. So it's not about building more product for them and storing it on a shelf. It is about securing material so we can build product in the future. I don't see our customers taking, I mean, especially as our demands ramping here to production orders that we've had in place and releases against those, you know, the demand that we're seeing and what we're shipping against is real demand, today's demand. I'm not going to say that they're not, in some cases, building their own safety stock and inventory, but typically they don't tell us that. They want to make sure that they're on the top of the list and every customer is the same. And if you know that they're building a safety stock and you know another customer that's building for current production, they don't care about the other customer. They want to make sure that they're satisfied. So there may be some of that going on. And if it is, it's early on in what's occurring. But it is... It's clearly materials and electronic components again, certain steels again, even insulation for reactors and motors and so forth. We're seeing increased demands there. So it's more about supply side and critical parts that they're working with us to ensure. Magnets is another great example,

making sure that we have them on order, we have an access to the supply. That's our inventory increase. I don't sense that our customers are building inventory to any rate levels because we keep getting pushed based on the demand that we have.

Ted Jackson | Analyst, Northland Securities:

So the commentary was really about your need to have a little heavier inventory set to meet your demand and basically ensure that you can deliver the tremendous backlog you have. Correct.

Dick Warzala | Chairman, President and Chief Executive Officer:

Correct.

Ted Jackson | Analyst, Northland Securities:

Okay, and then my last question, which is probably a little more for Jim, is just, you know, on the G&A line item was jumped quite a bit sequentially, and I just kind of was curious, you know, kind of what drove that, and how would we think about that line item on a go-forward basis?

Jim Michaud | Chief Financial Officer:

Yeah, I mean, a couple of things, Ted, right? Obviously, with the record sales and the increased sales that we've had over this year in particular, you know, commissions are higher, as you might expect. Weidman, and so on. You know, our incentive program obviously kicks in, and so, you know, our performance has generated, you know, the strong performance is going to, you know, result in some higher incentives. And then what I would also tell you is that, and again, I think a lot of companies are experiencing this, and I said it during my commentary, is that, you know, with cyber activity continuing to increase, and the cost of subscriptions and monitoring and our investments that we are making to ensure that we were catching, if you will, any activity in the cyber arena. We've made some investments to make sure that our monitoring system is robust and best in class.

Ted Jackson | Analyst, Northland Securities:

And so what we think about it, given, I mean, If we are going to assume you're going to continue to perform at the level you're at, and I would say your backlog and bookings and what you're seeing, it says that you probably are, that going forward we would see, you know, G&A, you know, more of the, you know, kind of This is more of what we should expect on the quarterly run rate going forward.

Jim Michaud | Chief Financial Officer:

Obviously, as a percentage of revenue, it's down, but obviously, there's more dollars that we're spending and investments that we're making to promote Alliant and to promote our product lines and so forth. I would say that you're going to see more dollars spent, but again, we're leveraging our overhead.

Ted Jackson | Analyst, Northland Securities:

Fair enough. Okay. Hey, again, congratulations on the quarter. Thank you.

Conference Operator | Operator:

Thank you very much, Ted. Our next question is from Jerry Sweeney with Roth Capital Partners, LLC. Please proceed with your question.

Jerry Sweeney | Analyst, Roth Capital Partners:

Good morning, guys. Good morning. I think I'm supposed to talk to you in about five minutes on a follow-up call, so I have one quick question. We'll save everything else. You know, your debt levels have come down significantly over the last couple years. Cash flow, it feels like things are humming along. You know, what are your thoughts on dipping your toe back into the acquisition pipeline? And, you know, where do you think is the best opportunity for Alliant to maybe fill in some gaps, et cetera, on that front, if any, right? Yeah.

Dick Warzala | Chairman, President and Chief Executive Officer:

Yeah, so I would say to you this, that we've seen the market become pretty active this year. And we've been looking and we've looked at several opportunities. We have continued to remain very disciplined and look for something that would be complementary, would be additive to what we're doing and continue us on our diversification path. So I would tell you that We're active, and we're not going to stop. When the right thing comes along that makes sense and continues to fit the profile that we've established, we will clearly be in a position to do it.

Jerry Sweeney | Analyst, Roth Capital Partners:

I appreciate that. I will talk to you in a couple of minutes, and thanks for all the detail today. And congratulations.

Conference Operator | Operator:

Thank you. Thank you. There are no further questions at this time. I would like to turn the floor back over to management for closing comments.

Dick Warzala | Chairman, President and Chief Executive Officer:

Thank you everyone for joining us on today's call and for your interest in Alliant. We will be participating in the Roth Technology Conference in New York City on November 18th and then the Northland Virtual Growth Conference on December 16th. 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 fourth quarter Mastromattei. Thank you for your participation.