

NASDAQ:BELFA Q2 2025 Earnings Call Transcript

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Operator | Conference Operator:

Good morning, and welcome to the Bell Fuse second quarter 2025 earnings call. If anyone should require operator assistance during the conference, please press star zero on your telephone keypad. As a reminder, this call is being recorded. I would now like to turn the call over to Jean Marie Young with three-part advisors. Please go ahead, Jean.

Jean Marie Young | Investor Relations, Three-Part Advisors:

Thank you, and good morning, everyone. Before we begin, I'd like to remind everyone that during today's conference call, we will make statements relating to our business that will be considered forward-looking statements under federal securities laws, such as statements regarding the company's expected operating and financial performance for future periods, including guidance for future periods in 2025. These statements are based on the company's current expectations and reflect the company's views only as of today and should not be considered representative of the company's views as of any subsequent date. The company just claims any obligation to update any forward-looking statements or outlook. Actual results for future periods may differ materially from those projected by these forward-looking statements due to a number of risks, uncertainties, and other factors. These material risks are summarized in the press release that we issued after market closed yesterday. Additional information about the material risks and other important factors that could potentially impact our financial performance and to cause actual results to differ materially from our expectations. This discussed in our findings with the Securities and Exchange Commission, including our most recent annual report on Form 10-K and our quarterly reports and other documents that we have filed or may file with the SEC from time to time. We may also discuss non-GAAP results during this call, and reconciliations of our GAAP results to non-GAAP results have been included in our press releases. Our press release and our SEC filings are all available on the IR section of our website. Joining me on the call today are Farouk Tewik, President and CEO, and Lynn Hudkins, CFO.

Jean Marie Young | Investor Relations, Three-Part Advisors:

With that, I'd like to turn the call over to Farouk. Farouk? Thank you, Jean, and good morning, everyone.

Farouk Tewik | President and Chief Executive Officer:

We are very pleased with our second quarter performance, which surpassed our revenue expectations and delivered gross margins at the higher end of our projected range. The Bell team really came through strong aided by a few factors, including in-market performance and an uptick in our inter-quarter terms, which we have not really seen much of in recent quarters, particularly in our power magnetic segments. From an in-market standpoint, commercial air defense and networking led the way along with certain pockets of distribution sales within the power magnetic segments. These trends signal that we are heading into recovery as we have been anticipating following nearly two years of inventory destocking in the channel. And they reinforce our confidence and continued growth as we move into the second half of the year, setting aside some of the geopolitical noise around tariffs. During our last quarterly call, the potential effects of tariffs on our sales and margins were uncertain. In retrospect, tariffs had a limited impact in the second quarter, accounting for about 2 million of our sales and having a minimal effect on margins. Although we have slightly better clarity now, there are still many variables at play regarding tariffs, and we will continue to adapt to this

evolving landscape in collaboration with our suppliers and customers. Overall, we are encouraged by the strong results this quarter and are excited by the momentum building within the business as we head into the second half of the year. Looking ahead to the third quarter, we are optimistic about continued growth with sales guidance in the range of \$165 to \$180 million. and gross margins projected between 37% and 39%. Strong bookings in Q2 support our expectation of sequential growth for the remainder of the year, and we remain confident in our ability to deliver value to both our customers and shareholders. With that, I'll turn the call over to Lynn to run through financial highlights from the quarter. Lynn?

Lynn Hudkins | Chief Financial Officer:

Thank you, Farouk. From a financial perspective, sales for the second quarter of 2025 reached \$168.3 million, reflecting an increase of 26.3% from the second quarter of 2024. Strong performance in our AMD end market and improved sales in our magnetic segment helped offset the year-over-year decline in our consumer rail and e-mobility end markets within our power segment during the second quarter of 2025 compared to the same period of 2024. Turning to our product groups, Sales of power solutions and protection in the second quarter of 2025 amounted to \$86.8 million, representing an increase of 48.2% compared to the same period last year. This growth was largely driven by our aerospace and defense exposure, which contributed \$32.6 million to the power segment for the second quarter of 2025. On the consumer side, sales decreased by 1.7 million in Q2 of 25 compared to Q2 of 24, primarily due to the trade restriction imposed on one of our suppliers in China, as mentioned in prior earnings calls. Additionally, given that e-mobility sales were still robust in Q2 of 24, we saw a \$2.3 million year-over-year decline in the SEND market in Q2 of 25. Sales into the rail end market have been normalizing in 2025, coming off a strong 2024, resulting in a \$3.3 million reduction during Q2 25 compared to the same period in 24. AC climbs were partially offset by a \$2.3 million increase in sales to our AI customers, bringing total AI sales for Q2 25 to 2.6 million. Further, circuit protection sales increased by 1.8 million in Q2-25 compared to Q2-24. The gross margin for the power segment in the second quarter of 2025 was 41.9%, representing a decline of 380 basis points from Q2-24. If you recall, we had pulled out in last year's second quarter about approximately 400 basis points of the power gross margin resulted from non-recurring items. that were reported at 100% gross margin in Q2 24, such as cancellation fees. Adjusting for that, power margins were up slightly from Q2 24 due to the inclusion of the higher margin Enercon products. Turning to our connectivity solutions group, sales for Q2 25 reached 59.2 million, an increase of 2.4% compared to Q2 24. Sales for commercial air applications in Q2 25 were 20.5 million, which represented an increase of 5.1 million, or 33%, from Q2 24. Connectivity products sold into defense applications totaled 13.4 million in Q2 25, an increase of 12% from Q2 24. And sales into the space and market amounted to 2.3 million, in Q2 25, the same level as in Q2 24. The gross margin for this group was 39.2% in the second quarter of 2025, representing an improvement of 30 basis points from Q2 24. This margin expansion was largely attributable to operational efficiencies achieved through facility consolidations completed in 2024, along with favorable foreign exchange impacts related to the PESO compared to the 2024 period. These positive drivers were partially offset by minimum wage increases in Mexico that took effect in 2025. Lastly, in the second quarter of 2025, our magnetic solutions group recorded sales of 22.3 million, representing an increase of 32.5% compared to the second quarter of 2024. Led by a rebound in demand from our networking customers and through the distribution channel. This level of growth aligns with expectations discussed during last quarter's earnings call, where we noted this segment would be our highest percentage grower in 2025. The gross margin for the magnetics group improved to 28.7% in Q2 25 compared to 26.4% in Q2 24, marking an improvement of 230 basis points year over year. This increase in margin was primarily driven by the higher sales volume in Q2-25, as well as improved operational efficiencies from the recent facility consolidations in China. R&D expenses reached 8.1 million in Q2-25, a higher level compared to Q2-24, primarily due to the acquisition of Enercon. Our annual compensation increases also now occur in March each year, And this also contributed to the higher expense in Q2 25. We expect future quarters to generally align with the Q2 25 expense. Selling general and administrative expenses totaled \$30.9 million, representing 18.4% of sales. Compared to the prior year, SG&A increased by \$6.8 million in the second quarter of 2025. The increase was primarily driven by Intercom's SG&A expenses, which contributed \$6

million in the second quarter of 2025, in addition to annual compensation adjustments that took effect in March 25 and higher than anticipated medical claims during the second quarter of 2025. One last item to note on the P&L side as we look to Q3 is the foreign exchange environment that we're currently in. and the weakening U.S. dollar versus each of the three currencies that they'll have exposure to, namely the Chinese remedy, the Mexican peso, and the Israeli shekel. We have hedging programs in place for each of these currencies to help mitigate some of the financial impacts of the movements in these rates, but our gross margin guide for Q3 of 37% to 39% does factor in some potential downward pressure related to FX. Looking at our balance sheet and cash flow, we finished the quarter with \$59.3 million in cash and securities. During the second quarter of 2025, we utilized \$30 million of cash for repayment of long-term debt. This pay down in the second quarter alone results in a \$1.7 million reduction in our annual interest expense. Other cash uses during the quarter included \$3.9 million on capital expenditures, and dividend payments of \$800,000. These payments were largely offset by \$20.7 million in cash flow generated from operating activities during the second quarter. That concludes our commentary on the second quarter results, and I'd now like to turn the call back to the operator to open the call for questions. Robert?

Operator | Conference Operator:

Thank you. We'll now be conducting a question and answer session. If you'd like to ask a question at this time, please press star 1 from your telephone keypad, and a confirmation tone will indicate your line is in the question queue. You may press star 2 if you'd like to withdraw 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. Thank you. Thank you, and our first question today comes from the line of Bobby Brooks with Northland Capital. Please receive your questions.

Bobby Brooks | Analyst, Northland Capital:

Good morning, guys, and congrats on the outstanding quarter. I was curious to hear a bit more about the trends you're seeing that underpin the guidance. The press release mentioned a rebound in networking and some other segments. with the distribution along with the strong Q2 bookings, which I think you said lead you to believe that you're going to see sequential growth in the back half. Maybe could we just expand on that? And is it old customers returning to normal ordering patterns, new customers coming into the fold, or maybe something different?

Lynn Hudkins | Chief Financial Officer:

Yes, Bobby. What we had talked about earlier in the year is that orders had started to pick up in the first quarter, and we saw that trend continue in the second quarter. A lot of that has to do with the expected rebounding in networking, which largely impacts the power and magnetic groups, and then also within the distribution channels. So if you recall, within connectivity, distribution had been fairly stable over the last couple of years for the connectivity segment, but it had been depressed with the overstocking situation in the power and magnetic segments. So that's where we're seeing the rebound in orders, and that's what we saw coming through in the second quarter, and we continue to see that trend moving forward into the second half of the year.

Bobby Brooks | Analyst, Northland Capital:

Got it. So it seems like just kind of a return to norm there, not necessarily new customers or just any kind of commentary on maybe new business ones?

Farouk Tewik | President and Chief Executive Officer:

Yeah, I would say, I mean, we remember, Bobby, we go through distribution. There's some quick-turn business and things like fuses, right? So we do have new wins and customers that do occur. But given our long cycle, on average, design business, you need a return to growth both from your OEMs and your DISTY. DISTY obviously does touch a lot of new customers along the way and some recurrent. So when we look at the channels, you know, yes, we do see some new business and we have some really nice new wins in the quarter programs in our aerospace defense business, for example. So we do see new, but given the long cycle of the business, you need your existing people with too much in the inventory to wake up and get going again. So it's really an amalgamation of those factors.

Bobby Brooks | Analyst, Northland Capital:

Fair enough. That's a helpful caller. And then just maybe any other strategic growth initiatives or kind of margin enhancements plans through the rest of the year that should be on your radar, or is it more so just a continuous operational excellence in driving just general business efficiency? And maybe dovetail that with the Glenrock Pennsylvania facility sale. Can you remind, I think that was in the connectivity segment, but could you remind us kind of the rationale behind that? And is there any other facilities that you might be eyeing to sell?

Farouk Tewik | President and Chief Executive Officer:

Yeah, so the, maybe starting out backwards here a little bit on the Glenrock piece, that was, I think we announced that Q1 last year or February call last year in 2024, if I recall correctly. And we were looking to drive margin improvements and drive efficiencies within the connectivity business. So better aligned internal resources and a physical footprint space. So that's kind of really was the gist of that. And we've largely kind of moved out of the equipment and we've had the building held for sale for a while. But obviously, just given the environment there, it took a little bit longer to sell because we also want to make sure we got good value for it. And here we are now. We announced that. which obviously allowed us to generate some cash from the sale and then also pay down some debt. In terms of other buildings for sale, you know, nothing for us to talk about at this point. I think the buildings that we own have significantly gone down in number and count, because remember, we have one currently kind of held for sale, if you will, but nothing kind of new beyond that for the time being. When we look at strategic initiatives, we have strategic initiatives going on, you know, seemingly constantly across the organization of different scale and magnitudes. And as we've kind of gone into this week here and leading up this call with the senior team and kind of hearing and talking about what we're doing in business and the travels that we've done throughout the second quarter, there's a lot of energy and excitement. And quite frankly, the team is very busy. And I think the north guiding star here is always for us is how do we grow and how can we grow more? And we've got to play to win and be efficient in our way to go for it. As we've talked in the past, putting the margin expansion to your question, Bobby, obviously we have a mixed issue, right, where magnetics is a lower margin business. Obviously that kind of was a grower for us. So just putting that aside for a second, we always do challenge margins. where can we do more, where can we do better, how can we be better? I think we also need to be realistic in where we sit today on the margin side. We are probably industry leading, if not in the 80th percentile, 75th percentile, or if we're just going to throw a guess out there. So we are in a very good place and a comfortable place. The question becomes is, there might be some room to go here and there, but we also have to be smart about it and make sure we don't dig out because ultimately, We have, let's say, a very high percentage of our APEX and R&D states. We've got to make sure that we are, you know, putting that part of our P&L to work. So, yes, we're always minded on margins. There might be opportunity to push up, but at the same time, we need to be smart about it. So we're comfortable with where they're at today on the gross margin side. We're trending a little bit more in the right direction on the EBITDA side, but we just want to be careful that there's not another, you know, 1,000 bits expansion here, right?

Unknown Participant | Analyst:

Yeah. Great commentary. I'll return to it, too. Thank you, guys. Bye.

Operator | Conference Operator:

Our next question comes from the line of Christopher Glenn with Oppenheimer. Please proceed with your questions.

Christopher Glenn | Analyst, Oppenheimer:

Thanks. Good morning. So, yeah, just wondering, you talked about, you know, improving orders, trends in the first quarter, continuing to the second quarter. You also, I think, mentioned improving turns intra-quarter sounded a little bit more like a pivot dynamic that you saw, I guess, perhaps shortly after the last earnings call. So just kind of wondering if we could dive into that cadence a little bit.

Farouk Tewik | President and Chief Executive Officer:

When we look at normal times, which means you'd probably have to go back four or five years ago, but usually you'd head into the quarter with some expectation of go-getting. In those days, let's say, obviously, we have a lot of SKUs, but generally, your lead times are anywhere from eight weeks to 12 weeks, let's say, right? So, the things that were a little bit more quicker turns, you would see some of that intra-quarter turn. Obviously, we headed into COVID and post-COVID years where there was extended lead times. So, we didn't really see much of that intra-quarter turns. And then we head into over-inventory in the channel, right, which just kind of slows everything down. But today, especially in our shorter lead time businesses, for example, fuses, we are seeing heading into the quarter and not having orders. And then all of a sudden the order comes in, we ship it out within the quarter. So that is nice to see because that indicates a little bit more healthiness in the channel, right? and overall the market. So it is an important indicator, I would say, that the market is functioning a little bit more than it's supposed to function, or more in the right way it's supposed to be functioning.

Christopher Glenn | Analyst, Oppenheimer:

Yeah, thanks. And I imagine it's a little tough to bifurcate, but sense of actual end market improvement in Networking, I know that kind of stage one of lack of D-stock and back to normal that you just described is powerful considering the depth and duration of the channel adjustments. But are you able to tease out, you know, kind of the end market is pivoting there?

Farouk Tewik | President and Chief Executive Officer:

Yeah, I think one of the challenges when we look at the distribution channel specifically, as a reminder for folks on the call, we do get POS data, right? So we're effectively seeing what our customers' customers are buying off the shelf. So when we look at what was coming off the shelf versus what we're selling to distribution, there was a mismatch, right? So I would say we, when we look at our percentage decline in our businesses, it was more severe than what we would see, for example, the distribution levels. So when you achieve a little bit of normalcy, that's a little bit of healthiness. So I think your question, Chris, is the numbers, even in the last couple of years, were not as bad as ours, if you will, because there was ordering patterns. And now it seems like we're closing the delta. We also see the inventory levels, and those have come down to very, very low levels. So now you get to more of that parity where orders go out the door and you're more

likely to get an order is the way I can think about it.

Christopher Glenn | Analyst, Oppenheimer:

Makes sense. Just want to, you know, ask about Enercon. You know, you had your second full quarter here. I know you're out inter-quarter talking about it, and it sounds very good. But, yeah, just curious progress on the integration on the commercial side. I don't think there's a whole lot of operating integration intent there, but perhaps you could clarify that.

Farouk Tewik | President and Chief Executive Officer:

Yeah, so I think it's – It's going kind of as we anticipated. Obviously, it's a great team. We're doing great products in a great end market. And given where they play in the product and supply and the way they go to market with it, it's been as advertised. And I think the broader comment, let me just expand on your question here, Chris, is we think of this defense globally, right? We're seeing it in our connectivity business. And we're seeing that expand. So, you know, we are in those markets today, which is a good place to be. You know, I think the team is excited. We're, I'd say, collaborating better. I think, you know, we have some way to go. As you know, this is a long cycle design business and regulatory. Customers are very busy with some replenishment at some times. but we like the direction that we can go, but we can always do better, right? So I think we're situated very well to really capitalize on that acquisition, especially in that end market. So we remain excited and bullish on it.

Operator | Conference Operator:

Great. Thanks for the call.

Jean Marie Young | Investor Relations, Three-Part Advisors:

Thanks, Chris.

Operator | Conference Operator:

Our next questions are from the line of Jim Rashudi with Needham & Company. Please proceed with your questions.

Jim Rashudi | Analyst, Needham & Company:

Hi, thanks. Good morning. I just wanted to ask about what was a modest sequential decline in the power solutions gross margins. Is that mainly a function of the sequential growth in the legacy power business, the increase in Disney? And it looks like, Lynn, if I heard you correctly, it looks like the intercom contribution was roughly flat with Q1.

Lynn Hudkins | Chief Financial Officer:

The Enercon contribution was roughly flat with Q1, yes. So, Jim, are you asking about power margins from Q2 last year to Q2 this year or Q1 to Q2?

Jim Rashudi | Analyst, Needham & Company:

No, Q1 to Q2. And so I'm wondering if it's just a function of the legacy power business picking up sequentially. That's correct. Okay.

Lynn Hudkins | Chief Financial Officer:

Yeah, so it is. Right, so the growth was related not to Enercon. Sequentially, they were flat quarter over quarter from Q1, but it was the legacy power business, which historically, you know, is a lower margin product group than the recently acquired Enercon business.

Jim Rashudi | Analyst, Needham & Company:

Got it. Thanks. Brooke, you talked about some wins in A&D, and... It may be still pretty early in where we are with this, but are you seeing, is there anything you can point to in terms of sales synergies as it relates to Enercon, or are these just wins separate from what your ultimate plans are to drive more sales synergies with this business?

Farouk Tewik | President and Chief Executive Officer:

Yeah, so if we think of our connector team and the Enercon team, They're both kind of winning on their own, I'd say, merit today. The joint wins, and we've seen some opportunities kind of cross the wall here and there. But as a reminder, Jim, we've said we don't really expect any revenue centers in 2025. And 2026 is probably our best bet. Probably in the back half of 2026, I think, is more realistic because these are long cycle design businesses. It's a risk-averse customer base. And then also, as we think of just ability to manufacture, there's a fair amount of backlog on the Enercon side that they need to get to. So it is a little bit of a belly full, but really it's driven by the customer's long design cycles. And also we talked about kind of figuring out, well, what customers are we talking about, right? So for the Europeans, We need a little bit of a different playbook where we really kind of leverage some of our European manufacturing footprint to service those guys. So I would say it's, you know, the market is just a long cycle design business. But the good news is here is that teams on their own prerogative are seeing some nice wins.

Jim Rashudi | Analyst, Needham & Company:

Good. Last question from me, just on commercial air. Again, if I heard you correctly, Lynn, it sounded like you had some nice growth in that part of the business. What are you seeing there, and what kind of expectations do you have as you look out beyond the quarter in that part of the business?

Lynn Hudkins | Chief Financial Officer:

Yeah, so, Jim, on commercial air, yeah, if you recall, in Q1, it was just under \$13 million. In Q2, it was \$20.5 million, so nice sequential growth there. still robust. We do tend to see a bit of, you know, patchy ordering patterns, if you will, in that business. So will it be the exact same level as Q2? You know, unclear at this time, but we do expect it to be robust.

Jean Marie Young | Investor Relations, Three-Part Advisors:

Thanks a lot.

Operator | Conference Operator:

The next questions are from the line of Greg Palm with Craig Helm Capital. Please receive your questions.

Greg Palm | Analyst, Craig Helm Capital:

Yeah, good morning, thanks, and congrats on the results. Going back to the last call, that \$8 to \$10 million of so-called paused revenue coming out of China, how much of that was recognized specifically in the quarter and the assumption that the entirety gets recognized over the course of Q3, whatever it was in Q2?

Lynn Hudkins | Chief Financial Officer:

Yeah, so we took a look at that, Greg, and it was about two-thirds of it ultimately got shipped in the second quarter. and the balance is expected to go out in the third quarter.

Greg Palm | Analyst, Craig Helm Capital:

Okay. And Farouk, I think you made a comment at the end of your prepareds. You said expect sequential growth for the remainder of the year. So are you saying you're expecting sequential growth in the December quarter and Q4 as well over Q3? I just wanted to clarify that.

Farouk Tewik | President and Chief Executive Officer:

Yeah, that's a good question. I think when we just look at the second half, I think that's a good point there, Greg. As a reminder, just for everybody on the call, usually Q1 is our weakest quarter of the year. And our strongest is usually Q2 and or three. But usually they're kind of strongest quarter. Sometimes they move around a little bit. And then Q4 is somewhere in the middle. You know, there's the golden week out in Asia and the holiday seasons. and so on. So we're not ready to sign up for sequential Q4 at this point. Obviously, we have to see the orders coming into Q3 to get a better read on it. But we do expect, obviously, overall by definition, given the strong number in Q3 that we guided to and Q4 is divided by Q1, we expect the second half to be better than the first half overall.

Greg Palm | Analyst, Craig Helm Capital:

Yep. Okay. That makes sense. And I guess just sort of Broadly speaking, in terms of what you're seeing currently, I mean, how do you know that some of this is not, you know, pull-ins ahead of tariffs? Like, what's your visibility levels to suggest that none of this is sort of pull-in orders to get ahead of, you know, something that's maybe coming?

Farouk Tewik | President and Chief Executive Officer:

I mean, listen, if we're to look at one singular order somewhere, that sure, I mean, we could see that, but it's not a pervasive thing that we've seen. The other thing I would keep in mind, right, as we said, is we got really good bookings in the quarter. So just by definition, you're going to be beyond these deadlines that got placed.

And as we looked at July, we also continued to see robustness in the bookings. which would be beyond the, let's call it, moving deadline of tariffs, whatever it is now. And also, when we look at where it's coming from, it's coming from really all parts of the business. And also, if you remember, our revenue that we talked about on the last call, roughly 10% of that from the previous year was going to China, but we're seeing it across the business. The other thing I would say on the tariff commentary is – When we look at the tariff levels today and kind of where they're shaking out at, I would say the market has digested that, so it's no longer the boogeyman in the room like when it was in the hundreds in terms of tariffs. So I think the market has recognized that. I think they're okay with these lower levels of tariffs, and we're seeing it come from different parts of our business. So it's not just, you know, people that are usually kind of exposed to China tariffs, and that's where the orders are coming from. It's much more pervasive than that.

Lynn Hudkins | Chief Financial Officer:

And just to add to that, Greg, we did survey, you know, the global customer service team who would be kind of have their finger on the pulse there to see if there were pull-ins, right? In order for someone to actually have something pulled in from its regular scheduled ship date, they would need to put in that request that would go to our customer service department. And we did not have any, you know, material available. input from that survey as well.

Greg Palm | Analyst, Craig Helm Capital:

Okay, yeah, I appreciate that color. And last one, you know, for me, you know, A&D, which has, you know, become the biggest, most important in market, you covered commercial aerospace well, but in terms of defense, and maybe this includes Enercon or outside Enercon, just can you remind us like what, you know, either programs and markets applications, like what do you have? I know it's broad-based, but is there anything that you have maybe outsized exposure to in the defense side specifically?

Farouk Tewik | President and Chief Executive Officer:

I would caveat the answer by saying, you know, there's a handful of primes, for example, in the U.S. and in Israel, right? So is there a technical customer concentration? Sure. But really what matters is the program concentration, right? So When we look at the program level at a broader, let's call it, Belfuse A&D, I don't think there's kind of a singular kind of high level of concentration. So it's a pretty diverse program business. So it's not like a commercial air where there is some concentration, right? So it's a pretty diverse business.

Greg Palm | Analyst, Craig Helm Capital:

Got it. But you have a... You have exposure to missile defense. Where does that sort of stack up in terms of programs?

Farouk Tewik | President and Chief Executive Officer:

Missile defense in total, I would say, not sure we added that all up, but I would say we're generally heavier levered towards munitions and generally I would say things that fly. We obviously do other things as well, but just general munitions and planes are is kind of where we're on average leverage.

Jean Marie Young | Investor Relations, Three-Part Advisors:

Got it. All right. Appreciate all the callers. Thanks.

Operator | Conference Operator:

Thank you. The next questions are from the line of Luke Young with Baird. Please receive your questions.

Luke Young | Analyst, Baird:

Good morning. Thanks for taking the questions. Ruth, maybe hoping to start with the third quarter guidance. Beat the high end this quarter, obviously. At the midpoint, you're implying a few million of sequential improvement into 3Q, but you were at the high end. It'd be another seven points of growth into the third quarter. Just where should we think that upside leverages in the model? Is it networking? Or should we think it's more broad-based? I guess I'm gearing to your comments about the orders being robust overall. And I don't know if there's any book-to-bill context you could give us also. Thank you.

Lynn Hudkins | Chief Financial Officer:

Hi, Luke Gislin. So as we look to Q3, I mean, it's really continued strength in – Aerospace, defense, and then the rebound in networking and the distribution channel. So if we're looking at Q2 to Q3 and potential growth drivers sequentially, it would really be more in the areas of networking and distribution coupled with strong defense. And I think the range is to take into account the potential for more intra-quarter turns. So they're still not at the level that they were at historically, but we did definitely see an improvement this quarter from where they had been. So depending on the level of intra-quarter turns turning back on, that kind of is the broader range on the higher side.

Luke Young | Analyst, Baird:

Okay, that's helpful. Thank you. Maybe taking a step back, just bigger picture, I'm thinking of the efforts you've taken in terms of Salesforce-led efforts, be it leadership, be it the incentive structure, and just the timing of starting to see some of that bear fruit relative to your longer design cycles and the sales cycle. Maybe just give us a snapshot of some of the progress markers that you're seeing as of mid-year here that maybe aren't obvious in the business from the outset looking in, but maybe contribute later this year into 26?

Farouk Tewik | President and Chief Executive Officer:

Yeah, I think given the diversity of our business geographically in markets and SKUs, I think it's hard to say this thing did exactly this thing. And we have had so many shots on goals that we're seeing the outcomes of that. So, for example, one of the comments you mentioned, Luke, was around the commission structure. So we initially put that in place back in 2024, and then we modified it and enhanced it heading into 2025. So, you know, the results of I think maybe some of the wins that we're seeing is probably a little bit of modification on the incentive structure really starting out last year. As we also think around just setting targets and pushing out certain products and getting after things a little more efficiently, I think that mindset and then the we play to win type attitude, we're seeing that come through. But also remembering that, you know, for the sales folks to win, you have to be able to produce things in a cost-efficient manner. So when we look at the facility footprint, we started that work maybe two, three years ago at this point, where we've been investing a lot in CapEx and automation the last two years, in 2023 and in 2024, to automate our factories and lean into more lean type concepts. We're seeing the benefits of that. So if you have a sales team that's heading and

shooting in the right direction, we have a manufacturing team that's doing great in or that we're procuring things at a good price point, especially places in our legacy power and my medicine group, right? We want to make sure we're getting things at a decent price point so we can make our margins. So that's also good. As we think, quite frankly, on the executive team compensation realignment, 2023 was the first year where we really set out clear revenue and even dot targets for the team to hit. And now we're in our year three heading into 2025. So as we look at the ranges of what drove this, I think it's amalgamation of these things. And I would say it's a robustness. It is a team effort. It's an orchestra, whether it be from customer service to sales to R&D to manufacturing to procurement. Everything matters. And I think that's kind of the mindset we're leading with. So I'm generally not a fan of one-trick ponies because if that goes the other way, you may get burnt. I think what I like about it is the swelling of team effort to win. We're not perfect, and we've got room to grow and get better, but we like what we're seeing. And obviously, I think some of the outputs of what we're seeing today is that work that we've seen in the last few years.

Jean Marie Young | Investor Relations, Three-Part Advisors:

Appreciate the call. I'll leave it there. Thank you. Thank you.

Operator | Conference Operator:

Our next questions are from the line of Theodore O'Neill with Litchfield Hills Research. Please receive your questions.

Theodore O'Neill | Analyst, Litchfield Hills Research:

Yeah, great. Congratulations on the good quarter. Lynn, you sort of touched on this, but connectivity solutions was up fairly significantly sequentially Q1 to Q2. Were the trends any different there than what you're seeing year over year?

Jean Marie Young | Investor Relations, Three-Part Advisors:

So from Q1 to Q2 versus sequentially?

Theodore O'Neill | Analyst, Litchfield Hills Research:

I'm sorry, sequentially versus year-over-year.

Lynn Hudkins | Chief Financial Officer:

Right. So we did see – so if we're looking year-over-year, there was an increase in commercial air, not as pronounced, versus the sequential increase from Q1. So commercial air in Q2 last year was just over \$15 million. versus \$213 million in Q1 of 25 and then the \$20.5 million in Q2 of 25. I guess looking year over year, we did see a drop in their distribution sales. So while we saw distribution waking up in power and magnetic stern recorder, we did see a slight step back in connectivity distribution. So that was also a driver from Q2 last year to Q2 this year.

Jean Marie Young | Investor Relations, Three-Part Advisors:

Does that answer the question for you?

Theodore O'Neill | Analyst, Litchfield Hills Research:

Yes, sure. And on depreciation, it's almost doubled year over year. What's happening there?

Lynn Hudkins | Chief Financial Officer:

So with the acquisition of Enercon in November, we... We brought on all of their PP&E, and we have the step-ups. So depreciation and the amortization went up quite a bit year over year just because of the new tangible and intangible assets that we brought onto the books.

Theodore O'Neill | Analyst, Litchfield Hills Research:

Okay. Thanks very much.

Operator | Conference Operator:

Thank you. Our final question is from the line of Hendy Sassanto with Gabelli Funds. Please receive your question.

Hendy Sassanto | Analyst, Gabelli Funds:

Good morning, Farouk and Lynn. Congratulations on strong results.

Jean Marie Young | Investor Relations, Three-Part Advisors:

Thank you.

Hendy Sassanto | Analyst, Gabelli Funds:

Farouk, my first question is about the market recovery and inventory rebuild. Some sales will go toward inventory rebuild. On the other hand, like short lead times may not necessitate inventory rebuild to be done like in the past. And there's also some uncertainty on the tariff that may drive customers to... to be more cautious when it comes to building inventory. So let's say, like, in 2025, you will see some benefits on inventory rebuild, but at the same time, like, how should we manage our expectation and what are some guideposts so that we are not overly optimistic because inventory rebuild may take some time?

Farouk Tewik | President and Chief Executive Officer:

Yeah, I would say, you know, that's a good question. I think maybe a couple of things is... Our industry and Bell Fuse obviously has been in this trough for a very long time. Let's call it maybe the industry has been in there roughly two years. And when we look at that two-year context compared to history, that is a very long time. So now we're coming out of a two-year prolonged trough cycle. I think we do see customers being overall more cautious and hesitant. And quite frankly, we potentially thought growth would have come maybe in the last year or where we would have seen those really, really low inventory levels. So we are operating

from a customer universe where people are just more hesitant given tariffs and geopolitical concerns and the world we come in. At the same time, in that normal cycle, people are not necessarily building inventory, right? They are trying to order things to make products and get it out the door. And it's true you build up some inventory along the way, but when inventory builds up, usually the system is not working appropriately. So now we're heading into hopefully the other side of the cycle where the system is working a little more appropriately.

Hendy Sassanto | Analyst, Gabelli Funds:

Okay. And then my next question is the setback to special Chinese supplier situation that has started like several quarters ago. Can we revisit that whether it is now fully behind?

Farouk Tewik | President and Chief Executive Officer:

I mean, it's fully, I caution with that because generally the Chinese supplier, we were selling, you know, some consumer end markets and, you know, and distribution. So with the weakness in that channel, it was a little bit, you know, obviously we lost the revenue and that hurt. So step one to rebuild that lost revenue is to find alternative suppliers. And the team has done a really good job at finding alternative suppliers. So I think we've replaced, from a supplier concentration perspective, a lot of those SKUs. Now the question becomes is can we put those in the market and get them designed in and therefore get the orders going? I would say the team has done a great job at rebuilding supplier base. I would say that we're definitely more robust on that business as we look out to the year end here, and we think we might recover some of that revenue. So we like where we're going, and I would say they're a little bit ahead of schedule in terms of what we thought they'd rebuild that business into.

Lynn Hudkins | Chief Financial Officer:

And, D, just to add to that, That Chinese supplier, the revenue related to that, dropped off in May of last year. So if you're looking at the year-over-year headwinds, that is behind us, where the comps will be apples to apples starting to increase.

Hendy Sassanto | Analyst, Gabelli Funds:

And Farouk, I mean, would you talk about the pricing trends this year, whether there's some pricing decline embedded in the contract and what is the usual timing of pricing trend or whether or not you are able to sustain your pricing?

Farouk Tewik | President and Chief Executive Officer:

Yeah, I think that's a very big question, Hindi, and I think I want to caution we're not, you know, kind of like more of a semi-cycle where, you know, there's so much inventory and every price is down. Our products are designed in and it really depends what end market we're talking about. Aerospace defense We tend to think of that as a price-flat, price-up environment. Some of the other areas, sure, can be a price-flat, price-down, but overall, I would say we haven't really seen the pricing pressures, but generally pricing pressures come in better markets where you will have also new products launching, hopefully with higher margins. So we've got to think about pricing. We're in maintenance mode versus, you know, we're heading to growth or, you know, and everything gets priced down, like maybe doing a more semi side of things. So for us, obviously, we're always mindful of it. You know, we'll have customers ask for it, sure, but we're also launching new products at a higher margin, but we've got some good defense business that is a usual price flat, price up environment.

So it's a big question for us given the diversity of our SKUs and pricing powers.

Jean Marie Young | Investor Relations, Three-Part Advisors:

Thank you, Farouk. Thank you, Lynn. Thanks, Cindy.

Operator | Conference Operator:

Thank you. At this time, I'll turn the call back to Farouk for closing remarks.

Farouk Tewik | President and Chief Executive Officer:

Thank you, everyone, for joining our call here this morning. We are excited about the results that came in here and look forward to connecting with you again as we go through the second half of the year. Appreciate everyone's time and have a good day.

Operator | Conference Operator:

This will conclude today's conference. May it disconnect your lines at this time. Thank you for your participation and have a wonderful day.