NASDAQ:BELFA Q3 2025 Earnings Call Transcript

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Operator | Conference Operator:

All participants are in a listen-only mode. A brief question and answer session will follow the formal presentation. If anyone requires operator assistance during the conference call, please signal the operator by pressing star, then zero on your telephone keypad. As a reminder, this conference is being recorded. I would now like to turn the call over to Jean Marie Young with three-part advices. Please go ahead.

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

Thank you, and good morning, everyone. Before we begin, I'd like to remind everyone that 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 disclaims 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 cause actual results to differ materially from our expectations as discussed in our filings with the Securities and Exchange Commission, including our most recent annual report on Form 10-K for the fiscal year ended December 31st, 2024, 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 release. Our press release and our SEC filings are all available at the IR section of our website. Joining me today on the call is Farouk Tewik, President and CEO, and Lynn Hutkin, CFO. With that, I'd like to turn the call over to Farouk.

Farouk Tewik | President & CEO:

Thank you, Jean. And we appreciate everyone joining our call this morning. Thank you. During the third quarter, we continue to see robustness across most of our end markets, particularly within the commercial aerospace, defense, and networking sectors, with continued steady rebound within our distribution channel and consumer lines. Our profitability this quarter surpassed our expectations thanks to the continued dedication and discipline of our global team. This strong performance reflects our global team's dedication from pursuing strategic business opportunities and investing in key customers to effective procurement cost management, operational efficiencies, and improved fixed cost absorption, resulting from increased sales volumes. As part of our ongoing commitment to operational excellence, we are continuously reviewing our global footprint with an eye towards scaling Bell for long-term performance. In October, we made the strategic decision to transition operations from an additional facility in China to a subcontractor during the fourth quarter of 2025. This move follows a thorough evaluation of internal manufacturing costs versus outsourcing, and outsourcing in this instance proved to be the better alternative. We expect the transition to largely be completed by December 2025 with a fair amount of annualized cost savings to be occurring as we head into next year. We're also progressing with the restructuring initiative at our Glenrock, Pennsylvania facility. Following the sale of the building in the second quarter of 2025, we are now transitioning the remaining manufacturing operations to other bell sites, with full completion expected by early 2026. The Glenrock initiative is projected to incur minimal incremental restructuring cost in Q4 2025. And throughout this process, we have already realized significant annualized savings as we had previously discussed. To put this in perspective for some of our newer investors, our restructuring efforts over the past four years have resulted in seven facility consolidations in addition to the sale of our check business in 2023. These actions have resulted in over 600,000 plus net square footage reduction in our manufacturing lines while leaning into automation and investing for the future of our factories. And I recall that, again, just to put a pin on it in terms of where we are heading, which is the more important part. As we approach the end of 2025 and look ahead to 2026, our focus is and has been firmly on our go-to-market strategy and driving growth, both organically and inorganically. Throughout the past few months, we have been meeting with Bell's key leadership across the world to identify the areas, methods, and resources needed to better achieve top-line growth. While we're in the early stages of strategic planning, I want to emphasize the exciting collaboration and energy within Bell's extended leadership team as we chart our next chapter. One of the common themes emerging is shifting our historical focus from products to end markets. and customers to ensure we are delivering the totality of Bell to them. This mindset shift will take a while to cement, but is a logical step for a company such as Bell, given the impressive breadth of our product portfolio. This is an exciting effort and one that is key for a long cycle design business such as Bell. In addition to driving growth, we're investing in the foundational structures that support our business, especially around IT systems and data infrastructure. To give you an example of some of the current initiatives, we are in the process of updating and implementing the CRM platforms, travel management software, developing various dashboards, tools for key financial and operational metrics and KPIs. These enhancements will enable our leaders to make faster data-driven decisions, strengthen accountability, and improve overall performance. Standardizing our processes and terminology will also allow us to scale efficiently and seamlessly integrate future acquisitions. In summary, there's a tremendous amount of activity and excitement underway at Bell, all aligned to our common goals of growth and continued maturity. With that, I'll turn the call over to Lynn to run through the financial highlights from the quarter and some color on the Q4 outlook. Lynn?

Lynn Hutkin | CFO:

Thank you, Farouk. From a financial perspective, we delivered another strong quarter marked by continued margin expansion and robust sales growth across all segments. Third quarter 2025 sales totaled 179 million, representing a 44.8% increase compared to the same quarter last year. In addition to the 34.4 million of incremental revenue in the current quarter related to the Enercon acquisition, Each of our three product segments achieved double-digit organic growth over last year's third quarter. Profitability improved alongside sales, with gross margin rising to 39.7% in Q3 25, up from 36.1% in Q3 24. This margin expansion was driven by improved absorption of our fixed costs in our factories with the higher sales volumes, and by strong execution within each of our segments in maintaining discipline around the SKU level profitability. Turning to some details at the product group level, power solutions and protection delivered another exceptional quarter with sales reaching 94.4 million, representing a 94% increase compared to the third quarter of last year. Excluding A and B, organic sales grew by 11.3 million or 23.2%. reflecting strong demand for our power products in key markets. Sales of power products for networking applications increased by 11.4 million. Growth within the networking market reflects both rebound in demand following a long period of inventory destocking and new incremental demand driven by AI. As we've noted in the past, it is difficult to isolate exactly how much of this growth is AI driven. but to provide a comparable metric to prior quarters, our third-quarter sales into AI-specific customers were 3.2 million in Q3-25, up from 1.8 million in Q3-24. Other areas of strength within the power segment were seen in sales of our FUSE products, which were up 1.8 million, or 41%, from Q3-24, and an increase of sales into consumer applications of 2.3 million, or 39%, from Q3 24. As an important note, FUSE products and consumer-facing products have very short lead times and are generally the first areas where we see the pickup in inter-quarter turns, which is a positive indicator for the overall business. As an offsetting factor, e-mobility sales were 2.2 million in Q3 25 versus the 3.4 million in Q3-24, and sales into the rail market were 8 million in Q3-25 versus 9 million in Q3-24. Gross margin for the segment came in at 41.8 percent for the quarter, up 240 basis points from Q3-24, largely driven by the higher sales volumes and better absorption of fixed costs at our factories. Turning to our connectivity solutions group, sales for the third quarter of 2025 reached 61.9 million, up 11% compared to Q3 24. This growth was primarily driven by strong performance and commercial aerospace applications, where sales totaled 18.8 million, an increase of 6.3 million, or 50.5% year over year. Connectivity product sales into defense applications also continued to be robust in the third quarter, with sales rising 3.6 million, a 31.2 percent increase from the prior year quarter. Contained within our defense number here are sales into space applications, which amounted to 2.5 million in Q3-25, up 25 percent from Q3-24. While connectivity sales through the distribution channel were down 1.9 million or 9.7% versus Q3 24, it's important to note that this reflects the shift of an end customer out of the distribution channel and who we are now servicing directly. Profitability within the connectivity segment continued to improve with gross margin for the group rising to 40.3% in Q3 25 from 36.6 percent in Q3 24. This margin expansion reflects the benefits of operational efficiencies achieved through facility consolidations completed last year and a more favorable product mix. These positive factors were partially offset by minimum wage increases in Mexico and foreign exchange pressures related to the peso. Lastly, our magnetic solutions group delivered a strong quarter with sales reaching 22.7 million, an 18% increase compared to Q3 24. This performance was consistent with the expectations we shared on our last earnings call and was primarily driven by higher shipments to a major networking customer. Gross margin for the group improved to 29% in Q3 25, up from 27.3% in Q3 24. This margin expansion was supported by higher sales base and the benefits of facility consolidations in China, which helped reduce fixed overhead costs. These gains were partially offset by minimum wage increases in China and unsavorable foreign exchange impacts related to the remedy. At September 30, 2025, R&D expenses totaled $7.5 million in Q3, 2025. representing an increase of 2.1 million compared to Q3 24. This increase was primarily attributable to the inclusion of Enercon's R&D costs, which amounted to 2 million during Q3 25. Looking ahead, we anticipate that R&D expenses in future quarters will generally remain consistent with the Q3 25 level, as we continue to invest in new technologies and solutions to support our customers and drive long-term growth. Our selling general and administrative expenses for the third quarter of 2025 were 32.8 million, or 18.3 percent of sales, up from 26.7 million in Q3 24. Importantly, SG&A as a percentage of sales declined from 21.6 percent last year. reflecting continued progress in managing our cost structure as our business grows. The increase in total SG&A dollars was primarily driven by the inclusion of Enercon's SG&A expenses, which contributed $6.6 million to the quarter, and our U.S. medical claims continued to be high in the third quarter. As noted in prior quarters, our legacy level of SG&A expense was maintained during our period of reduced sales, such that we believe we are already spending the right amount on fixed SG&A infrastructure needed to support future growth. Turning to our balance sheet and cash flow, we closed the quarter with $57.7 million in cash and securities, down $10.5 million from year end. This decrease was primarily driven by our proactive efforts to strengthen the balance sheet, including paying down $62.5 million in long-term debt. resulting in $225 million of total debt outstanding at September 30 of 2025. Additionally, we made $2.5 million in dividend payments and invested $8.6 million in capital expenditures to support growth and efficiency initiatives. These outflows were partially offset by $7.8 million in proceeds from property sales and 1 million from the sale of health maturity securities earlier in the year. Looking ahead to the fourth quarter of 2025, we continue to see strength across all three segments. Historically, we have seen seasonality in the fourth quarter with fewer production days due to the holidays being celebrated around the world. In light of this historical trend and based on the information available as of today, we expect Q4 25 sales to be in the range of 165 to 180 million. We noted in the second and third quarters that the trend of inter-quarter sales has resumed, and this range assumes that trend continues into the fourth quarter. And with that, I'll now like to turn the call back to the operator to open it up for questions.

Operator | Conference Operator:

Thank you. Ladies and gentlemen, we will now begin the question and answer session. If you would like to ask a question, please press star and 1 on your telephone keypad. A confirmation tone will indicate your line is in the question queue. You may press star and 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. Ladies and gentlemen, we will wait for a moment while we poll for questions. The first question comes from the line of Bobby Brooks from Northland Capital Markets. Please go ahead.

Bobby Brooks | Analyst, Northland Capital Markets:

Hey, good morning, guys. Thank you for taking my question. I just wanted to circle back on the last piece that, Lynn, you were touching on for the fourth quarter guide. Obviously, something that caught my eye was the historical trend of 4Q being lower than 3Q. And you mentioned that trends of inter-quarter sales have have resumed and that the range assumes that continues in the fourth quarter. I was just wondering if we could just discuss, discuss what other factors might be at play driving that outlook a little bit more detail. Cause I feel like that's, you know, a really kind of exciting development for you guys.

Farouk Tewik | President & CEO:

Yeah. Hey Bobby, just, I'll let kind of Lynn jump in here with the more details, but I just want to kind of call out a comment that caught my ear here, which is, this kind of step down over Q4, I think you said bucking the seasonality trend. I think if you look at, you know, we see a potential of that if you just look at the range that we put out there, 165 to 180 versus, let's say, the 179 that was delivered, so possibly. But when we look at the range, I think it's broader than that in the sense that we do expect some seasonality, right? I mean, at the end of the day... we're going to have fundamentally less working days as we head into the holiday season and year end and as we look kind of around the world and also just various holidays, whether it be kind of Golden Week or some of the holidays, for example, in Israel. So I just want to be mindful that we just do have less working days. So could it happen? Sure. I think the good news is we're expecting it to be a good quarter, and maybe we beat Q3, but I just want to be mindful of that. And I'll turn that over to Lynn here.

Lynn Hutkin | CFO:

Yeah, so just to add to what Farouk said, I think that we are seeing continued strength in areas like commercial air, defense, AI, space. We are continuing to see the rebound coming through in networking and distribution. So all of these trends are continuing from Q3 into Q4. So it's definitely end market strength continuing. But to Farouk's point, just mathematically, there are fewer production days in the quarter. So there's Golden Week in China, which was the first week of October. And then there's Thanksgiving and all of the winter holidays throughout the world in December. So those are the pieces. So I mean, if you stripped out the holidays, the messaging would likely be different. you know, if you look back at our trend historically, you know, having a dip from Q3 to Q4 is pretty natural for us. So.

Bobby Brooks | Analyst, Northland Capital Markets:

Yeah, I really appreciate that color. And I guess more so it's just, I definitely can appreciate that. Yeah. You know, a lot of the ranges would be for QB coming in lower than three Q, but I guess what just caught my eye was the guidance that you gave matched what the guidance was for three Q and, And usually your guidance is for even the high end of the range being lower than what 3.2 was. But I can appreciate those puts and takes you just laid out. The other piece is just like on those legacy customers and kind of the order trends, is it fair to assume that those, it seems like it's fair to assume that those are still trending positively, but maybe could you give some more context as to like how to think about where they could go like obviously we're coming off like trough levels in 24 but do you think they can like do you feel like they are like continuing to improve or are they just at an improved level now stabilizing just curious to hear more on that i think if we look if we zoom out and we look at kind of let's say the last five years 2020 2025 i think the industry would generally agree with the statement that it's been anything but normal

Farouk Tewik | President & CEO:

in terms of the extreme extended lead times that happened in the earlier part of the timeframe I just laid out to an extended dip, if you will, where the industry was kind of down for a longer time than normal. And then you overlay a lot of geopolitical and economical uncertainties, let's say, right? So I think the reason I point that out, I'd say is It's still a little bit, I would say, not normal. And I think what we're seeing is a little bit of maybe hesitation, if you will, on the part of the customers and kind of robustly coming back. So the good news is that the attitudes have changed a little bit, I think, from a historical perspective. But what we are seeing in our business, and we're looking at backlog and discussions, there's definitely a positive outlook. I think maybe if you look back at, again, we have a lot of customers in a lot of places, so just general terms here. But generally, we'd see people maybe coming back a little bit stronger. And I think if you look at the industry-wide, and I was at a conference last week, there was a little bit of timidness. So people are maybe not investing as much in a buffer stock and really more kind of just ordering as needed. But what we really look at is the end demand, right? Our customers' demand. We're in a B2B business. So what does their demand cycles look like? Where are their products going? And are they growing? And the answer is yes, as reflected with our number and with our guide. So we like the outlook, but I think it's hard to generalize that everybody is feeling all, you know, yippy about the world. So nonetheless, we like our positioning. We like where we are with our customers. And I think we'll have pretty good outcomes here.

Lynn Hutkin | CFO:

And just to add, our book-to-bill was positive again this quarter. So that's the third consecutive quarter of a positive book-to-bill ratio. And I mean, we hadn't seen that trend since back in 2022. So I think just generally, we're seeing more activity, which is positive.

Bobby Brooks | Analyst, Northland Capital Markets:

Got it. And then just last one for me is, It was really impressive when you were going through each kind of segment of the power, and it really seems like power was driven, this robust results in power were driven across many different segments. And it was nice to hear you break out what Enercom was as well. And just curious on Enercom, You know, is the integration of them into you guys kind of wrapped up now, or is there still a bit more to go? And then just curious on, obviously, you guys are working on long lead time projects, but any early reads on kind of cross-selling opportunities maybe started to bubble up here?

Farouk Tewik | President & CEO:

Yeah, so I would say I think we want to be just mindful of the word, you know, integration, because the plan was never... kind of a, let's say, classical approach to integration, right? So for our, when we think about integration, it's really around alignment from a go-to-market and tackling opportunities and co-selling and making sure that we are kind of creating opportunities together. And obviously, in Europe, it's a little bit of a different playbook as we've talked about in the past, right, just in terms of trying to manufacture a little bit more there and be more present in our customers' backyards. But putting all that aside, I think we're definitely moving in the right direction. There's definitely obviously more work to be done, but we are seeing some nice, let's say, early sparks of where one side of the house is bringing an opportunity to the other side of the house. I think our, let's call it, lead sharing, co-tackling is better, but we do have more room to go, keeping in mind that while we also want to do that, it is a very busy market, right? So step one, we've got to do our day jobs and get out and push, and we're seeing the benefits of that strategy, but also want to make sure that we're more aligned. So I would say we like what we're doing. We could do a little bit more, and we plan on doing a little bit more.

Bobby Brooks | Analyst, Northland Capital Markets:

Fair enough. Appreciate the call and congrats on the great quarter. Our turn of the queue.

Farouk Tewik | President & CEO:

Thanks, Bobby.

Bobby Brooks | Analyst, Northland Capital Markets:

Thank you.

Operator | Conference Operator:

Thank you. We take the next question from the line of Theodore O'Neill from Litchfield Health Research. Please go ahead.

Theodore O'Neill | Analyst, Litchfield Health Research:

Yeah, thanks very much and congratulations on the good quarter. Lynn, you mentioned in your prepared remarks you saw a shift, you had a shift of a customer out of distribution to service directly. And I had three questions related to that. How often does that happen? What determines the shift? And how does the distributor feel about it?

Farouk Tewik | President & CEO:

So I would say, first of all, I thank you for the question there, Theo. I'd say, you know, we've kind of talked about in the past, distribution is a very dynamic channel. And they're great and key partners for us and within our industry. And it's really hard to paint this in a broad stroke, but I'll try my best. Some customers... while we may design and work with them directly, ultimately they want the distributor to aggregate all their purchases, right? So we may start the relationship direct and it goes into the distribution channel to give them some kind of fixed fee. And the inverse of that also happens where a customer comes to us through distribution and then we develop something together and it can be distributed and worked through the distributor or sometimes it does come out. So it happens both ways. And I would also say some of the guiding principles on that include minimum order quantity. So if it's something smaller, we'd want it to go through distribution. So sometimes we push people into the distribution channel to really maximize our cost to service these customers' model. So I would say it's definitely a dynamic channel. And I would say when we look at distribution, it's a great discovery channel for new customers. So I wouldn't say we're doing anything unusual in our industry. But because at the same time, we're not looking to burn the relationships, right? So this is pretty, pretty standard, I would say. The other thing is not all distributors are the same. There are some folks that really focus on kind of low quantities. And as things scale, they don't want you in the channel. So you take it out directly. Other folks more, you know, if it's big and opening up doors. So I'd say the answer is depends. But I wouldn't say anything unnatural or odd happened here.

Theodore O'Neill | Analyst, Litchfield Health Research:

Okay, thanks for the color on that. And what's the M&A opportunity looking like for you right now?

Farouk Tewik | President & CEO:

Yeah, I mean, I think we've been very clear. We like our balance sheet. We continue to pay down our balance sheet. We like where the direction of just paying down more heading into Q4 and into next year is going. So we feel like we are in a very good position to do an M&A deal. I think really the question is we tend to think about is how big and what is it? And when I say how big, it's both in terms of just size and scale, complexity, and also purchase price, right? So today, I'd say it's still not a healthy M&A environment, but I think we are seeing a step up in terms of opportunities versus Q1, Q2 this year. So we are seeing more shots on goal. I would not classify it as normal yet. but we definitely have some opportunities ahead of us that we're kind of working through. I would also say is it feels like if you look at our course of a corner, we always have something live. The question is, do you want to strike and do you like the business fundamentals? So that kind of answers our question, Theo.

Theodore O'Neill | Analyst, Litchfield Health Research:

Yep. Thanks very much.

Farouk Tewik | President & CEO:

Thank you.

Operator | Conference Operator:

Thank you. We take the next question from the line of Jim Ricciuti from Needham and Company. Please go ahead.

Jim Ricciuti | Analyst, Needham & Company:

Thanks. Good morning. I apologize if you gave some of this detail in the presentation. I joined a little late, but I did hear something regarding the ongoing... transition with some of your manufacturing footprint. I think, did you say you're divesting a facility in China, if I understood you correctly? Are you partnering with a contract manufacturer on these products? And if I missed it, did you provide any detail on which product areas are affected and to what extent this is going to have an impact on margins, or is it fairly small?

Lynn Hutkin | CFO:

So, Jim, it's within our magnetics segment and we basically went through an analysis of whether it was more cost efficient for us to be manufacturing internally versus outsourcing that manufacturing. And in this case, we chose that outsourcing was the better alternative. As far as impact on gross margin, that would be about $1 million.

Farouk Tewik | President & CEO:

Yeah, give or take. Obviously, we're in the process of moving that, but it will be positive. And more importantly, I'd say than that, Jim, is allowing us to focus on the things that we excel at, right? So hopefully it unlocks more bandwidth and brain width for us to pursue things that have a better ROI for us.

Jim Ricciuti | Analyst, Needham & Company:

Got it. And, you know, the strength you're seeing in networking – wondering if you could maybe drill down into that a little bit. Is that is that being driven by by just the increased AI investment that we're all hearing about? Or is it simply the distribution channel having just burned off the excess inventory that was out there? Or maybe it's combination of both?

Lynn Hutkin | CFO:

Yeah, so in networking, and if we talk about, are you asking about a particular segment or just in general, Jim?

Jim Ricciuti | Analyst, Needham & Company:

And I'm talking about networking because you did highlight that as one of the areas that kind of stood out.

Lynn Hutkin | CFO:

So that was right. So if we're talking about the power segment, we had mentioned it's really a combination of both of those factors that you just said. So there is some rebound happening coming off of a couple of years of destocking that we went through. But then we're also seeing new incremental demand related to AI. So it's It's a mix of those two that's driving the growth in networking.

Jim Ricciuti | Analyst, Needham & Company:

And, Lynn, you mentioned I thought book-to-bill was above one. Is that right? And can you characterize the bookings by the three main product areas, whether there was much variability among the three?

Lynn Hutkin | CFO:

So each of the segments were above one. So we saw positive book-to-bills. across all three segments.

Jim Ricciuti | Analyst, Needham & Company:

Great. Thank you.

Operator | Conference Operator:

Thank you. We take the next question from the line of Greg Baum from Craig Hallam. Please go ahead.

Danny Agerchon | Analyst, Craig-Hallum (for Greg Baum):

Hey, guys. This is Danny Agerchon for Greg today. Congrats on the solid results here. Thank you. I think just first off, maybe kind of a broader question on demand you're seeing from each of your respective geographies, anything to call out in terms of outperformance, underperformance, and then maybe specifically on China. I know last quarter we saw kind of the pause and then the resumption of order patterns. So maybe just kind of what you're seeing, you know, current day and whether those have kind of just returned to business as usual.

Farouk Tewik | President & CEO:

Yeah, I'd say, I think that's a good question. I think giving our end markets, so understanding, right, kind of taking a step back and saying we're, you know, the numbers move around a little bit, but by far, two-thirds plus of our business is going to expose to U.S.-based customers, right? And when we look at those, we also see that you know, A&D is our largest end market today, which kind of lends itself both to the U.S., Israel, and Europe. So when we look at geographies with the lens of the end markets, you know, I'd say the U.S.-based customers and Israeli-based customers are probably leading the way. And then also on the networking side, also those are the vast majority of the people we spend time with. Asia is our smallest exposure. and then Europe slash Israel is in the middle, right? So from a mathematical perspective, we're going to really kind of move the needle as we've seen, as we see our, I'd say, U.S. and Israel business moves predominantly. In terms of demand environment, I'd say the U.S. seems a little bit more healthier, broadly speaking. When we look at Europe, I think it's a little bit of a mixed bag. So our rail business is a fair amount. In Europe, for example, right, we talked about. So that was a little bit down. EV and e-mobility, which sits in our power group, tends to be more European exposure. Obviously, there's other things going on in that sector. But Europe, I'd say, is a mixed bag. It really depends on what it is you're talking about in terms of in-market exposure. Asia is kind of an interesting place for us. It is a small place. But we have, throughout this year, invested in the senior leadership within our sales organization in Asia. And I think we're seeing some nice opportunities coming out of that. So we like what we're seeing, but Asia generally is a smaller play for us. But also keep in mind that for us in the end markets we play in, right, we're not really a heavy consumer business. We're not auto. And we, you know, obviously we're not a race to the bottom on pricing. So Asia for us is a selective strategic play where we pick our spot. So we can do more in Asia. We were planning on doing more in Asia. But I'd say that, you know, that's kind of just round robin there on geographies.

Danny Agerchon | Analyst, Craig-Hallum (for Greg Baum):

Yeah, got it. That's all really helpful. Maybe if I can hit on the power segment and specifically the kind of the gross margin there, I think, is kind of the same thing we saw last quarter where, you know, even this quarter you see even a bigger sequential step up in revenue, but that gross margin kind of stays flat or maybe even slightly steps down. I know last quarter was kind of the legacy business outgrowing Enercon and kind of being a negative mix factor there. So I guess how should we think about that as power continues its growth trajectory and when should we think about kind of that gross margin hooking up with the revenue growth and seeing some expansion there?

Lynn Hutkin | CFO:

Yeah, so I think on the gross margin side for power, I mean, there's a few different factors going on. Obviously, the Enercon acquisition is additive to our legacy power margins. I think the one thing to keep in mind, you know, both in Q3 and going forward here is is there are two currencies within the power segment where there could be margin pressure. So we have the Israeli shekel related to the UNRCON business, and then also the remandee related to the China facility that we have within power. And we don't have a natural hedge in place. We do have some hedging programs, but they're not hedging in all exposure. So that's something that we just need to be mindful of because that can move margins a little bit.

Farouk Tewik | President & CEO:

And then also keeping in mind, you know, some of our other margin businesses like e-mobility and rail are down and there's going to be a higher margin. I think the bigger, you know, I think discussion is today we're at a point where I would say we're at great levels of gross margin. And if we're trying to think about growth What is the opportunity there to expand to new customers, new offerings, and new products versus having an extremely strict line on gross margin? So that's kind of something we're thinking about. How do we smartly think about that to ultimately drive EPS all the way down? Because as we've said in the past to a large degree, our SG&A and R&D are relatively range-bound products. So how do we really get some operational leverage from that cost structure to continue to drive the top line? So these are kind of things that we're all kind of thinking about, but I would say today we're definitely up there in terms of performance on margins.

Danny Agerchon | Analyst, Craig-Hallum (for Greg Baum):

Okay, yeah, and maybe that kind of plays into my last question here, which is kind of the Q4 guide and the gross margin range. Just looking back year to date, the gross margin's kind of been at like a 39%, and Obviously, revenue levels in Q4, that suggests, you know, higher than, quite a bit higher than what we saw in the first half, you know, at the midpoint here. So I'm sure it's a lot of those factors that you just talked about, but any other things within that gross margin assumptions maybe mix or maybe there's a little bit of conservatism built in there. Any thoughts there?

Lynn Hutkin | CFO:

Dr. Yeah, so I think it's a couple of factors. You know, one is our magnetics group has been depressed over the last couple of years, right? So, as that rebounds, it is our lowest gross margin segment. So, if you're looking at our gross margin in total on a consolidated basis, that would have some downward pressure on it as magnetics grows into a larger piece of the overall pie. So, that's one piece to keep in mind. I think, the, you know, if we're looking at Q3 sales to Q4, you know, seasonally, we're down a bit in Q4 versus Q3. So if that happens, you have less leverage, you know, within your fixed cost absorption, so that could have some potential gross margin pressure. And then, as I mentioned, on the FX side, with the peso, the renminbi, and the shekel, those do directly impact our margins. So those are some of the factors that come into play when we are putting out our guide for margin for the fourth quarter.

Danny Agerchon | Analyst, Craig-Hallum (for Greg Baum):

Okay, got it. I will leave it there. Thanks for all the color.

Lynn Hutkin | CFO:

Thank you. Thank you.

Operator | Conference Operator:

Thank you. We take the next question from the line of Christopher Glynn from Oppenheimer and Company. Please go ahead.

Christopher Glynn | Analyst, Oppenheimer & Co.:

Yeah, thanks. Good morning and congrats on the nice results. Just curious in terms of the development of the commercial multiple that you've described in some detail, where are you seeing the kind of leading end of progress, early adopters, so to speak, in terms of design cycles, new business opportunities generating? Seems like AI, maybe defense. You noted a little progress in Asia. Maybe there's some other cross-sections to bring into the discussion as well.

Farouk Tewik | President & CEO:

Thanks for that, Chris. I think your question is just more commercial across the business and where they're coming from, the new wins.

Christopher Glynn | Analyst, Oppenheimer & Co.:

Yeah, yeah, exactly. And maybe a little color on, you know, new business opportunities. You know, what's the growth there year over year?

Farouk Tewik | President & CEO:

Yeah. So in general terms, right, we, as an engineering-led organization, and we've talked about this, we're a medium to long-term kind of design cycle business. So really the actions and the results that we're seeing today in Q3, you know, you kind of almost got to look back at least one to two, three years to see what was done then. and kind of seeing where these winds have come, right? So I would, obviously, as Lynn said, we do have some inter-quarter turns that do happen. But generally, I would say what happened in Q3 here is probably not a whole lot in large in terms of new business, things that happened in Q2, maybe some Q1 stuff, okay? So this puts a big pressure on us to make sure that today we are working Q3 or Q4 here. We're working for Q2, Q3, Q4 next year and beyond. So the question is, okay, well, how are we as a team tackling go-to-market and what is our sales initiatives and what is our data side of things to help lead those kind of tip of the spear activities? When we look at the activity around new developments and new wins that we saw, for example, in Q3, it's definitely, you know, exciting for us, to be honest with you. We're seeing some nice new wins, some bigger wins than maybe we historically have, some new customers that we historically were not maybe competitive or didn't kind of co-tackle it appropriately. Obviously, with the customers we've had for a very long time, we, I would say, probably constantly win new programs, right? When we look at, obviously... Defense, which is our biggest kind of market nowadays, you know, it's not like there's a whole lot of primes in the U.S., right? So really there we look at are we getting more shots on goal? Are we getting new opportunities as I win? And I think the answer is yes. When I speak to the teams across Bell Pews, I think there's a pretty fair aggressiveness in terms of hunting for the new. We're defining what new is. We want certain margin profiles of business and learning how to win. Again, we've always done this throughout our 76-year history, but I think we're putting more fire around it in recent times. And this was kind of my earlier commentary here, Chris, where When today our business is really kind of, we think about things to some extent from a product perspective, but we have a lot of products that go to the same customer. So how can we align ourselves more robustly to deliver solutions to our customers to ensure that we're not missing, you know, a cable or a connector or a fuse sale because we're selling a power system. So when we look at our product portfolio, I think we can do more with it. And this is back to also my earlier comment here around we've got to invest in the systems and structures that we can make sure we're going after highest ROI opportunities and really measuring performance. It was a little bit of a new muscle for us, but I think the early signs and the wins we're seeing today, we've kind of got to look back, you know, probably before 2025, to be honest with you. Okay, great.

Christopher Glynn | Analyst, Oppenheimer & Co.:

And then just curious on Enercon, if they're – you know, caught up on shipments. I think they had a little delivery snags last quarter. And, you know, did the quarter include some catch up? Or is that just the sequential scaling that the business is generating?

Farouk Tewik | President & CEO:

Yeah, both. It continues to kind of go from strength to strength. There was a little bit of catch-up, but also just kind of depends on where the catch-up we're talking about is. The biggest issue end of June, as you may recall, just flights stopped coming in, specifically from India and out of Israel. So that's kind of the catch-up, but it wasn't a very long pause, right? And obviously there was local consumption that happened inside of Israel. So there was some catch-up, but also, yes, growth, whether it be sequentially or year-over-year. Great. Thanks for that. Thank you.

Operator | Conference Operator:

Thank you. We take the next question from the line of Luke Jung from BED. Please go ahead.

Luke Jung | Analyst, BED:

Morning. Thanks for taking the question. Brooke, I want to circle back to gross margins and maybe more of a philosophical, a bit bigger picture, certainly. You know, if we look at the gross margin trend this year, it's been above the high-ended guidance through straight quarters, 39% plus in general. And just love to get your thoughts on kind of your feel for volume leverage in the business on a go-forward basis, especially as you continue to layer on those new design wins, just relative to your understanding of the improved cost structure and kind of what that can mean incrementally as you do add volume. Thank you.

Farouk Tewik | President & CEO:

I appreciate that question, Luke. And it's a question we've been thinking a lot about in general is where should you be, right? And I think by all accounts, putting aside our mix between magnetics and the other segments, yes, we're seeing an uplift in margin as sales grow and we are getting operational leverage. The question is, Now that we are really trying to shift our mindset away from just operations and cost efficiency, which always just become regular way table stakes, how do you drive growth? So as we launch new products and go after new customers, invest in new relationships and new technologies, we need to be honest with ourselves and say, okay, what is the pricing strategy on things? So for example, let's say there's a very nice piece of business that was, I don't know, $1 million, $2 million. That was a little bit below corporate averages. But over time, we can scale it up and also get new opportunities. Would we take that business? I think we really need to consider that if it's a strategic relationship. I think the gross margin strategy, let's say, has not been one that was available to us through our history. So now we've got to look at it as an asset and as a tool. Now, keeping in mind, we worked very hard to get our gross margins here, right? We don't want to arbitrarily... uh you know can i get it you know footer into that 37 39 so i think there's a little bit of self-discovery to be honest with you as to where we should be i think when we look at gross margins today i want to make sure we're not pigging out too much um and just and really missing the boat on on eps growth um given that we talked about the range boundness of our sgna and r d so that's i think the sense of maybe a little bit of conservatism there i think the the I appreciate in public markets that everybody's looking to manage a certain level of expectations. But our intention, and we've talked about this internally, is we want to land in range, right? We don't really want to blow the range on the top or on the bottom. So I think our – and we get the optics here, the last three quarters here point. I think we can see some conservatism in it. That's fair. The question is, you know, okay, as we go throughout next year, you know, where do we want to be? The good news is we have a lot of, we have a buffet of options to play while delivering good returns, good gross margins to our investors, and that's kind of the front and center. So it's a little bit of a self-discovery journey we're going through, to be honest.

Luke Jung | Analyst, BED:

That's all very helpful. Second question, just curious if we could double-click on networking and AI specifically in terms of the design win activity and just tilting, you know, the organization to growth overall, I guess I'd be especially interested in Power and, you know, just how you think going forward. I mean, we're seeing this rebound, obviously, in demand from an inventory standpoint and whatnot and those direct AI sales. But as you think about building the pipeline, just the opportunity set within Power specifically. Thank you.

Farouk Tewik | President & CEO:

Yeah, no, today with an improved cost structures and the investment that has gone into the factories from an automation perspective, the improvements R&D teams that have done in terms of moving quicker to launch products, our sales team being more mindful of what we're going after. I think today we're in a better position to go after opportunities and be a little bit maybe more serious about it than we have been able to in the past. Okay. So as a result of that, as we think about networking, there's obviously, as Lynn talked about earlier, we know where our AI products are going, but that's a floor, right? And we know that we sell to some other networking folks that are servicing directly AI. So we know that our products that we're selling to networking guys are probably also being impacted by AI. How do you measure it is a different complexity to it, right? Because our products are high-end products that can go to AI or other applications. But I think it's hard to say that all things going on in the AI data center world is not positively impacting us. The other thing I would say is with the improved operational structure and more focus on the markets is we have, I'd say, started to open up doors with some customers that maybe in the past we were not cost competitive or we're not focused on maybe a little bit too much in our comfort zone. So we're seeing some of that newness as well. The other thing I would say in the networking side, given that there's a lot of investment and focus on it, broadly speaking, we are seeing new entrants into the markets. with newer technologies. So all that, I think, at the end of the day is additive for us from a networking perspective. So, you know, we want to make sure that we're not just simply waiting for the same customers we had three or four years ago to come back. Yes, that's a benefit, obviously. But I would also say we want to make sure we're investing in new relationships. And within the existing relationships, I think we're doing a little bit of a better job learning how to more service our customers to more ingratiate ourselves into that relationship and get more opportunities on goal. Because if you look at some of our big customers, we can do so much more. The question is, how can you do so much more, right? And that's kind of what we're trying to really push the team. And quite frankly, we're seeing some nice results of that.

Luke Jung | Analyst, BED:

All really great, Collin. Just a quick one for my last question. Lynn, you called out for the second straight quarter that there was some increased medical expense in the SG&A line. Just how we should think about that sequentially into the fourth quarter, if you have any visibility, and then going into next year to the extent that that doesn't repeat, would it be reasonable to assume some normalization in SG&A? Thank you.

Farouk Tewik | President & CEO:

Yeah, I would say the – can I give some context here? We're really talking about the U.S. side of the business, and obviously we all read and feel what's going on in all things world of health care and medical care. We are a self-insured plan, right? And whenever we do kind of market checks on it, it still is the most cost advantageous way to do it. So every kind of few years we go out there and check and make sure it's the right. So today we are self-insured. The downside of self-insurance is there could be variability in claims that come in the door. And we're seeing that in Q2 and Q3. But the variability is hard to get a read on it, right? We just don't know when somebody is going to have a major medical issue that comes our way. The plus side of going to a regular way healthcare is you have a fixed cost, but every year somebody comes and, you know, the healthcare companies will give you a big increase, right? So from our perspective, we're still in a cost advantageous way, but it does introduce variability to your point. The other thing I would say is, you know, as just, you know, the overall age of our organization, right, medical claims are not unexpected. So what does that mean for next year? I think that's a tough question to answer for us. But then we obviously saw a spike in Q2 and Q3 a little bit here.

Operator | Conference Operator:

Fair enough. I'll leave it there. Thanks, Brooke. Thank you. Thank you. We take the next question from the line of Hendy Susanto from Gabelli Funds. Please go ahead.

Hendy Susanto | Analyst, Gabelli Funds:

Good morning, Farouk and Lynn. Congrats on strong results. Thank you. My first question is you talk about rebound in networking and distribution customers. Can you talk about rebound or sign-off rebounds across other areas, specifically let's say in magnetic, connectivity, and then some major areas?

Lynn Hutkin | CFO:

Sure. So I think for... So you're looking for a breakdown by product group, Hendy, or just other end markets aside from networking?

Hendy Susanto | Analyst, Gabelli Funds:

I think besides networking and distribution channels, are there early signs of inventory rebound, customers rebuilding their inventory, or maybe whether you have some outlook or expectation on where rebounds would start to take place in other areas?

Lynn Hutkin | CFO:

Yeah, I think the other two areas that we've been seeing a rebound, which had been depressed in prior periods, is in the consumer end markets. If you recall last year, that was the end market that was impacted by one of our large suppliers in China. And so that had been depressed for several quarters. We did see a rebound in that business in the third quarter. So that was nice to see now that we have some new suppliers identified getting product back out into the market at this point. So there's been rebound there. And then also on the fuses side, I mean fuses go into everything, but that's something that had been softer in the past and we're seeing that rebound now. So I think those are probably the other two areas in addition to networking and distribution.

Hendy Susanto | Analyst, Gabelli Funds:

Got it. And then magnetic cells is still significantly below pre-COVID levels. Any push and take in terms of expectation on magnetic cells, let's say like going forward, like whether recovery is somewhat likely in the short to mid-term?

Farouk Tewik | President & CEO:

So I think when we look at Magnetics India, I think when we look at the industry, and we've seen this in our power, right, there was a very unnatural spike that happened back in 2022, 2023, where customers were literally buying and renting new warehouses just to store a lot of these components. Um, so there was a, let's say unnatural behavior there today. So we, you know, if we're to kind of put a range on where we've been, let's say it was 175 to roughly 75. If we look at peak to trough, roughly speaking, I would say 175 is, is, is, you know, probably not on the cards for the next few years. Cause also remember we walked away from certain business and we are being prudent after what business we're going after. And also keeping in mind that the magnetics, as we talked about, there is a product concentration and a two-end market concentration, which is networking and distribution largely. So if we were to look at the ranges of 75 to 175, I would say the range is 180 to 70. So I'll let you kind of decide where we are, but we're seeing the year-over-year overgrowth But 2022 at 180 was extremely unnatural, and we've slimmed down the business since then, so I would not really anchor to that. So I'll kind of leave it at that, but we do think that we got some ways to go here. Got it.

Hendy Susanto | Analyst, Gabelli Funds:

And then, Lynn, may I ask how we should think and project the pace of potentially early debt payments?

Lynn Hutkin | CFO:

The pace of debt payments going forward?

Hendy Susanto | Analyst, Gabelli Funds:

Yes.

Lynn Hutkin | CFO:

Yep. So, I mean, barring, you know, an M&A opportunity coming up or anything like that, we've been running, you know, at a rate of, you know, call it 20 to 25 million a quarter just based on our cash flows. So, we would continue to pay down debt. That would be our first, you know, priority barring anything on the M&A side.

Hendy Susanto | Analyst, Gabelli Funds:

Thank you, Farouk. Thank you, Lynn. Thank you.

Operator | Conference Operator:

Thank you. Ladies and gentlemen, with that, we conclude the question and answer session. I would now hand the conference over to Farouk Twig for his closing comments.

Farouk Tewik | President & CEO:

Again, I want to thank everybody for joining us here and a very big thank you for the BellFuse team around the world and our customers that helped us deliver this great quarter. and we'll put our head down to continue to work throughout the year here heading into 2026. Wishing everybody a great holiday season as we head into year end, and I'm sure we'll be talking soon. Thank you very much for joining us this morning.

Operator | Conference Operator:

Thank you. Ladies and gentlemen, the conference of Bell Fuse, Inc. has now concluded. Thank you for your participation. You may now disconnect your lines.