NASDAQ:BELFA Q4 2025 Earnings Call Transcript

Generated on 6/10/2026

Operator | Conference Operator:

Good morning and welcome to the Belfu's fourth quarter 2025 earnings call. At this time, all participants are in a listen-only mode. A brief question and answer session will follow the formal presentation. Should anyone 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 everybody 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 2026. These statements are based on the company's current expectations and reflects 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 close 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 is discussed in our filings 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 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 Tuik, President and CEO, and Lynn Hutkin, CFO. With that, I'd like to turn the call over to Farouk.

Farouk Tewaik | President and CEO:

Thank you, Gene, and good morning, everyone. We appreciate you joining our call today. I want to begin by expressing a big thank you to our global team for making customer service and meeting demand their top priorities and for delivering innovative technologies as a key partner to our customers. As a result, 2025 was a milestone year for Bell with record revenue and EBITDOT. We delivered net sales of $675.5 million for the full year, a 26.3% increase over 2024, and achieved a record GAAP and non-GAAP EPS. Fourth quarter sales reached $175.9 million, up 17.4% year over year. Our gross margins expanded to 39.1% for the year, reflecting strong execution and operational discipline. Aerospace and defense, including space, continued to be strong drivers for us in 2025. For the full year, A&D accounted for 38% of our consolidated sales, with 28% from defense and 10% from commercial aerospace. Recovery in the networking end market and growth in AI applications also contributed to higher sales in 2025. Order volumes remain strong across multiple end markets throughout the year, resulting in a full-year book-to-bill ratio of 1.1. We have seen continued improvement and strength heading into Q1. This sustained momentum in incoming orders highlights a healthy demand environment across our end markets and positions us well as we move into 2026. Our team delivered these record results despite headwinds from material pricing, particularly gold, copper, and PCBs, and unfavorable FX movements in the peso, renminbi, and shekel. We're actively monitoring these factors and have and will continue to take pricing actions to mitigate incremental costs, ensuring continued margin strength. Operationally, we successfully completed the closure of our Pingwao China facility in Q4. transitioning operations to a third-party supplier without interruption to the business. This move is part of our ongoing efforts to optimize our global footprint and drive cost efficiencies. We also made significant progress in strengthening our balance sheet, paying down our debt by $90 million during 2025. This has created additional capacity and flexibility for future investments and potential acquisitions as we continue to pursue growth opportunities. Looking ahead to 2026, we anticipate continued growth in aerospace, defense, space, and AI, the same revenue drivers that have benefited Bell over the past few quarters. Additionally, we have seen positive shifts in sales across the networking, consumer, premise wiring markets, as well as through our distribution channel. The rebound in these areas are expected to continue into 2026. We also foresee increased raw material input costs and a weaker USD, which will require us to proactively manage pricing and pass costs along where appropriate. Our pipeline for M&A activity remains active, and we are excited about several opportunities currently in various stages of evaluation. We anticipate a better backdrop in terms of M&A opportunities as the market noise settles down a bit in 2026. As announced a few weeks ago, we're excited to welcome Tom Smelker to our executive team. Tom joins us from Mercury Systems, bringing valuable experience and a fresh perspective in aerospace and defense. His leadership will help us better align our organization with changing customer needs and industry trends. As we continue to evolve, we are reviewing our segment structures to ensure we're well positioned for future growth. With aerospace and defense now representing a significant portion of our business, we see opportunities to further tailor our leadership and strategy to the unique demands of these markets. Before turning the call over to Lynn here, I would like to take a moment to recognize Pete Bittner, president of our connectivity solutions business. who will be retiring in April after 23 years with Bell. Pete has been instrumental in shaping and growing the segment, and leaving it in great conditions as he pursues his next chapter. And we thank him for his many meaningful contributions. Wish him great luck, and he'll be missed, but we're sure he'll enjoy his time with his wife and family. I'd also like to take a moment to recognize Dan Bernstein, who transitioned out of the CEO role in May 2025. This past year has been one of a significant transition for Bell, and I want to sincerely thank Dan for making it a seamless one. Our business transformation, which began years ago under Dan's leadership, laid a strong foundation for the company's continued success. His vision and commitment to Bell's growth have positioned us well for the future, and we're grateful for the guidance and dedication. On behalf of the entire organization, thank you, Dan, for your outstanding contributions and for setting Bell up for success. With that, I'll turn the call over to Lynn to run through the financial highlights from the quarter and provide color on the outlook for Q1 2026. Lynn?

Lynn Hutkin | CFO:

Thank you, Farouk. From a financial standpoint, we had another strong quarter and year with continued margin expansion and solid sales growth across all segments. Fourth quarter 2025 sales were $175.9 million, up 17.4% from the same quarter last year. Full-year 2025 sales totaled $675.5 million, a 26.3% increase over 2024. On an organic basis, sales grew by $41.5 million, or 7.8% over 2024. All three product segments delivered organic growth for the quarter, demonstrating the strength of our diversified portfolio. Profitability improved alongside sales, with gross margin rising to 39.4% in Q4-25, up from 37.5% in Q4-24. For the full year of 2025, gross margin was 39.1% compared to 37.8% in 2024. This margin expansion was driven by improved absorption of fixed costs in our factories due to higher sales volumes, and by strong executions within each segment, maintaining discipline around SKU-level profitability. These results highlight our ability to drive value through operational efficiency and strategic focus. Now turning to our product groups. Power Solutions and Protection delivered another exceptional quarter, with sales reaching 92.5 million in Q4-25. an increase of 18.5% compared to the fourth quarter of last year. The sales growth in the power solution segment was driven by several key end markets, including a $1.5 million increase in sales of our front-end power products serving the networking end market in Q4-25 compared to Q4 last year. Fourth quarter sales into AI-specific customers reached $4 million in Q4-25, up from the 3.3 million in Q4-24. Fused product sales were up by 1.4 million in Q4-25, a 31% increase from Q4-24. Sales into consumer applications increased by

1.8 million in the current quarter, up 32 percent from Q4-24. And just to note, in our power segment, this is also where we had the acquisition last year, so there was some organic growth on the defense side as well. These areas of growth were partially offset by a decrease in sales of our rail products by $4 million, and e-mobility sales were down 1.1 million as compared to Q4-24. The gross margin for the power segment was 44.5% for the fourth quarter of 2025, representing a 390 basis point improvement from Q4-24. This improvement was primarily driven by higher power sales into the aerospace and defense end markets, a favorable shift in product mix, and better absorption of fixed costs at our factories. Our connectivity solutions group achieved sales growth of 15.1% during the fourth quarter of 2025, as it reached 60.5 million compared to Q4 24. This improvement was due to the continued strong performance in commercial aerospace applications, where sales totaled 18.2 million, an increase of 3.8 million, or 26% year over year. Sales into space applications amounted to 2.6 million in Q4-25, up 53% from Q4-24. Connectivity sales through the distribution channel were up 3.8 million, or 20%, versus Q4-24, primarily due to shipments into the defense end market through the distribution channel. Profitability within the connectivity segment continued to improve with gross margin for the group rising to 37.2 percent in Q4-25 from 36.6 percent in Q4-24. This margin expansion reflects the benefits of operational efficiencies achieved through improved revenue, a more favorable product mix, and facility consolidations completed last year. These positive factors were partially offset by minimum wage increases in Mexico. Lastly, our magnetic solutions group sales delivered a solid quarter with sales reaching 22.9 million in Q4-25, a 19.1% increase compared to Q4-24. This performance was primarily driven by higher shipments to a major networking customer. Gross margin for the group was 27.3% in Q4-25, down from 29.1% in Q4-24. This margin differential was due to minimum wage increases in China, an increase in material costs, primarily in gold and PCBs, and unfavorable foreign exchange impacts related to the remedy. Research and development expenses totaled $8 million in Q425, representing an increase of $1.1 million compared to Q424. This increase was primarily attributable to the inclusion of Endercon's R&D costs, which amounted to an incremental increase of $1 million during Q425. We anticipate that R&D expenses in future quarters will generally remain consistent with the Q425 level as we continue to invest in new technologies and solutions to support our customers and drive long-term growth. Selling general and administrative expenses for the fourth quarter of 2025 were 32.6 million, down 2.2 million from the 34.8 million in Q4-24, primarily driven by lower acquisition-related legal and professional fees in 2025 compared to 2024. Turning to our balance sheet and cash flow, we closed the year with 57.8 million in cash down $10.5 million from last year, primarily driven by our proactive efforts to strengthen our balance sheet, including paying down $90 million in long-term debt, resulting in $197.5 million of total debt outstanding at December 31, 2025. Additionally, we made $3.5 million in dividend payments, and we invested $12 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 held to mature securities earlier in the year. During the full year of 2025, we generated cash flows from operations of $80.6 million. Taking into account our swap agreements, The weighted average interest rate on our debt balance at December 31st, 2025, was 4.4%. Looking ahead to the first quarter of 2026, we continue to see strength across all three segments. Historically, our first quarter tends to be our lowest sales quarter of the year, given the impacts of the Lunar New Year holiday in China. In light of this historical trend, and based on the information available as of today, we expect Q126 sales to be in the range of $165 to $180 million. Gross margin is expected to be in the range of 37% to 39% given anticipated headwinds related to higher material costs and the unfavorable FX environment we are in. Overall, our consistent performance, strategic investments, and operational excellence have positioned Bell for continued success. We remain committed to driving shareholder value, innovating for our customers, and capitalizing on growth opportunities across our markets. I'd now like to turn the call back to the operator to open the call for questions.

Operator | Conference Operator:

Thank you. We will now be conducting a question and answer session. If you would like to ask a question, please press star 1 on your telephone keypad. A confirmation tone will indicate your line is in the question queue. You may press star 2 if you would like to remove your question from the queue. For participants using speaker equipment, it may be necessary to pick up your handset before pressing the star keys. One moment, please, while we poll for questions. The first question is from Bobby Brooks from Northland Capital Markets. Please go ahead.

Bobby Brooks | Analyst, Northland Capital Markets:

Hey, good morning, team. Thank you for taking my call. So I wanted to touch on kind of sales initiatives moving forward. So you guys brought in the new head of sales about a year ago, right? And I'd just be curious to hear where he sees the most interesting opportunities for growth. Obviously, Farouk, when you initially joined as CFO a handful of years ago, you led a massive shift in the margin profile of the company, which a lot of that was sort of like low-hanging fruit that you targeted. So I'm just curious to hear if that's sort of same scenario, if Uma has seen that sort of same scenario, and again, like what he sees as the largest opportunities to go after.

Farouk Tewaik | President and CEO:

Yeah, thanks, Bobby, and good to speak with you here. I think that's a pretty nuanced question. As a reminder, we are largely in a medium to long-term design cycle businesses, right? So as we think about influence, and we think about A&D, I'd probably suggest the largest part of A&D for 2026 is going to be simply receiving orders from the customers as they get funding and deployment. So if we were to think about sitting early on in the year here about new wins and when they get funding, you're at least a year out, probably one to two years before you monetize them. In some of our shorter design cycle businesses on the other end, I would say something like Fuses you could probably see a win a couple of quarters out, and that translates to some sales or some of our consumer business. So we are a long-cycle design business. There's no quick wins here. We sell technology. We want to get in with the customer. We want to do the hard stuff, and therefore that does take a while. If we look at the past few quarters and some of the benefits that have been there, that has been a reflection of the work that the team has done at a global level, within the various businesses, right? So I would suggest that the wins and the performance that we had in Q4 was probably not much due to sales efforts that happened in Q4, right? This is stuff that probably happened earlier in 2026. So we are seeing the benefits of the global team folks in doubling down. When we look across the business, we have new wins across probably all of our end markets, maybe a little bit less so in places like e-mobility or Maybe some of our, you know, I'd say rail is kind of a little bit on a slow year, but I would say more often than not, we always have new wins. And when we think about the funneling process, right, we want to make sure we're going after a robust set of opportunities that are good opportunities and try to convert them to sales. And that process we started a while back. Now, that's not to suggest that we don't have work to do. On the last call, we talked about CRM implementation. In Q4, we redid, you know, a little over three dozen worth of contracts with our reps in the U.S. to really lean into new opportunities. So, you know, we're trying to move the whole system forward from compensation structures to software and data and and mindset shift, and it's been happening, right? It's evolutionary. So we've seen the wins. Where is it going to come from? I mean, we think probably, you know, there's a lot of money going into A&D, data centers, AI, a lot of obvious interest going in there. But, you know, quite frankly, our consumer business did very good last year. So I think what we like about us is we touch a lot of end markets. and we like the way they're looking today, heading in 2026, a little bit more maybe than early 25 or 24. So a long answer to yours. I just want to caution, we're not a quick-term business, and we're trying to sell more design-in type work or modified solutions versus just purely off-the-shelf stuff.

Bobby Brooks | Analyst, Northland Capital Markets:

Absolutely. Really appreciate that detail, Color Farouk. And then, maybe just turn into the one cue guide, very, very impressive, but just wanted to maybe unpack that a little bit more and maybe hoping to get a little bit more granular on the expectations for growth across the three segments.

Lynn Hutkin | CFO:

Sure, Bobby. So, you know, as we look to the first quarter, and I guess I'll compare it to this recent Q4 that just ended here, We're seeing a lot of the same areas of strength across all three segments, so not seeing much in the way of significant shifts or changes from Q4 to Q1. I think the only variable in there is the Lunar New Year holiday, which impacts primarily magnetics and then to a lesser extent power. So those are the areas where, you know, we may see a little bit of softness from Q4 to Q1. But other than that factor, everything is pretty similar to the Q4 drivers.

Bobby Brooks | Analyst, Northland Capital Markets:

Got it. Appreciate the call up there. Congrats on the great corner. I'll return to the queue.

Operator | Conference Operator:

Thank you. The next question is from Christopher Glenn from Oppenheimer and Company. Please go ahead.

Christopher Glenn | Analyst, Oppenheimer & Company:

Thank you. Good morning. I just want to build on Bobby's question about developing the commercial funnel. So you mentioned focus on design and then modified by modified bursts off shelf is how you're developing the funnel. That makes sense. We've heard that. I'm curious if you're noting any traction in win rates versus historical as you mature these strategies?

Farouk Tewaik | President and CEO:

I think we're doing a better job at defining what a win is and how we want it to be at certain levels of margin. The other thing I think we are moving more towards, as we head to 2026 and we talked about last call, is we want to really try to bring the whole Bell portfolio to our customers. I think historically we've been really more focused around selling a specific product, like a fuse or a connector or a power supply. And we do need to do a better job at doing a little bit more systems-type sales to our customers. Now, this is a little bit of a longer journey. But the idea there is we want to get more alignment to the customer, solve more of their problems and challenges, and really be – you know, a little bit more of a solutions, address the difficult things for our customers. So it's not just simply about more shots on goal, which we are seeing. We're seeing better shots on goal, but we still want to continue to evolve to, you know, higher content on goal. So, yes, we're seeing better. Also, the market's a little bit better place, right, which creates more opportunity for us. I think the team also, if you remember, we spoke on the last call where we started creating new internal groups and structures to align to that. So, for example, we created a key accounts group, right, which we have not had that most of the time. It was kind of sitting inside the BU's. Now we want to have a more Bell-focused key account groups that bring all of our products to the customers because we do have a lot of SKUs. um you know same thing on the business development efforts we're coalescing the teams around in markets as we think about products and directions so i would also argue customer service is an extremely important part of this as we create an easier user experience for our customers and we used to have a lot of different email addresses to customers and different forms and everything and the like or different pricing lists to our distribution partners So I think calling these things out to not underemphasize that there's a robustness in what we're doing that needs to be pervasive in our holistic approach to the market. So the short answer is yes there, Chris, but it's also more than just trying to get more shots on goal.

Christopher Glenn | Analyst, Oppenheimer & Company:

Great. Thanks. That was great, Colorfruit. And then on the AI customer base, you mentioned that as one of the continued drivers of growth next year. You know, you've often described it as being an early stage, I think, you know, with single source to well-funded more startups versus the headline big three or four. You're just curious if any of those customers are potentially, you know, positioning for, you know, adoption curve for their technology where you can coattail, you know, not necessarily, you know, first half of 26, but more conceptually?

Farouk Tewaik | President and CEO:

Yeah, I think the answer is yes. Sure. The body language from our customers, I'd say across the networking side, but specific to your question around AI, yes. And that is obviously reflected based on the bookings that came in, you know, towards the end of the year last year, the discussions that are ongoing with our customers, and obviously the ultimate outlook that we put out there in the quarter. So the answer is yes, we're seeing the positive momentum scaling and continue to move forward. And also, let's not forget, you know, there's a networking set of customers that bundle our product into their solutions that ultimately make it to folks like hyperscalers, right? So When we think about networking, it is obviously AI, and that is not an insignificant number for us, which is nice to see the team's efforts pay off there, but also the networking side is just as important, because we do touch AI in a couple of different ways, right?

Christopher Glenn | Analyst, Oppenheimer & Company:

Yep, understood. And then just defense, just wanted to I get a lot of questions about the mix. I think you're pretty broad-based, rotor, fixed-wing, munitions, comms, radars, maybe even. Just curious if all those categories, if that is accurate, you know, where the weightings are.

Farouk Tewaik | President and CEO:

Yes, in short.

Christopher Glenn | Analyst, Oppenheimer & Company:

Okay. Okay. Great. Understood. I understand.

Farouk Tewaik | President and CEO:

Yeah, I would say we want to be careful with kind of talking about it at our size here, right? But all the kind of main, you know, we're on all the major programs and some not major programs. So it's a very diversified portfolio. And we're, you know, to the things that you called out, munitions, things that fly, right? And we're doing more rounds. Obviously, space is a little bit tangent to that as well, but we cover encryption communication, right? So all the things that you talked about, we probably touch it.

Christopher Glenn | Analyst, Oppenheimer & Company:

Great. And last one, just housekeeping, any thoughts on share class consolidation? I think one of your holders generated a headline.

Farouk Tewaik | President and CEO:

Yeah, I would say, you know, I think from the gist of it, our shareholder structure is a little bit more nuanced from the perspective of the economic differential between the two shares, right, versus just a vote-no vote. So that's one. I would say, you know, as an appropriate due course, we'll have a company that a response and views on that at the appropriate time. I don't want to speak on behalf of the board, but at the appropriate time, we'll address that. And also, I think what we're trying to do here, Chris, and we've really been at this for the last handful of years here, is we want our fiduciaries to serve the best interests of all of our shareholders, A's and the B's. And as we build a company that's set up for the future, with, you know, good performance, investing in our employees and our customers, ultimately that's kind of what moves the needle. So I just want to, you know, we're very aware of the fiduciary duty, but I think the board at the appropriate time will have a response that's a little more formal to this.

Christopher Glenn | Analyst, Oppenheimer & Company:

Thank you.

Farouk Tewaik | President and CEO:

Sure thing.

Operator | Conference Operator:

The next question is from Theodore O'Neill from Litchfield Hills Research.

Theodore O'Neill | Analyst, Litchfield Hills Research:

Please go ahead. Congratulations on the good quarter. Thank you, Theo. Thank you. Yep. So, are you guys seeing any impact from the spike in prices on memory?

Farouk Tewaik | President and CEO:

I was going to say, you know, our customers, I would say, largely are the ones that feel it. We not directly are impacted by that. Obviously, we have our other, let's say, spike in prices that we're dealing with, like cold and copper I spoke about. But on the memory specifically, it's more I'd say our customers are influenced by that.

Theodore O'Neill | Analyst, Litchfield Hills Research:

Okay. And on the gold, copper, and print circuit board side and the weaker dollar, do you have the ability to hedge some of those or do you pass the pricing on? How do you adjust for that?

Farouk Tewaik | President and CEO:

Yeah, that's a good point. Today we hedge our effects exposure from a raw material perspective. You know, we're in the business of providing solutions to our customers and technology, so we want to focus on what we're good at. We're not running a prop desk here trying to hedge everything, right? So I think our approach has been we want to try to do our best to mitigate and offset price increases, but to the ability and work with our customers to the extent that we can't. We unfortunately have to pass it along, and I think that's not unique to us and really kind of in line with the supply chain behavior. But ultimately, we want to be great partners. The extent we can offset it, sometimes we will find alternate sources. We want to be a solutions provider really to our partners. But in cases we can't, we need to do the unfortunate decision of passing it along.

Theodore O'Neill | Analyst, Litchfield Hills Research:

Okay. And finally, on the aerospace side, do you have any exposure to the drone market?

Farouk Tewaik | President and CEO:

I would say we generally do, yes. I think the drill market is going through some interesting things, right, where there is let's call it more consumer that tends to get retrofitted as we're seeing out in the world and like Ukraine, that's not really our market. We're more in the military kind of U S primes and, you know, some of the European and Israeli OEMs, the stuff they manufacture. So we're not in the, let's say drones that you and I are maybe buying where we're in the more sophisticated drone game.

Theodore O'Neill | Analyst, Litchfield Hills Research:

Okay. Thanks very much. Yeah.

Operator | Conference Operator:

The next question is from Greg Palm from Craig Hallam Capital Group. Please go ahead.

Danny Agerchon | Analyst, Craig Hallam Capital Group:

Yeah, thanks. This is Danny Agerchon for Greg today. Thanks for taking the questions. Maybe just hitting again on A&D and maybe unpacking how you saw that develop in the quarter, maybe between Enercon and Corbell and maybe what you saw in some cross-sell business. And then obviously we know kind of about the increased spend, but as you look into 2026 here, what gets you excited about the growth in this business and what kind of visibility do you have here?

Lynn Hutkin | CFO:

Yeah, so Danny, I'll take the first part of that question. So the growth that we saw, when we talk about defense, it's both in our legacy Cinch business and through Enercon. We definitely saw growth in the Enercon business. As we look at the Cinch business, I think it's important to also keep in mind what we sell through our distribution channel. So there are direct sales and then there are sales through distribution, which we don't really break out into those end markets today. But we did see, as we mentioned in the commentary, we did see a nice increase in distribution that related to growth in defense for that cinch business. So I would say that it was, pretty split between the two. So both, you know, Cinch and Enercon had robust growth in defense in Q4.

Farouk Tewaik | President and CEO:

One thing maybe just to add to that is it's 2026, right? We're seeing the build rates on the plain side continue to increase and head in the right direction. Also, a lot of the programs around munitions and given, you know, what's going on in the world, these are well-funded programs.

Danny Agerchon | Analyst, Craig Hallam Capital Group:

programs so we think there'll be a prioritization to make sure those get to fruition and the finish line so as we look at an allegation of that we feel pretty good as to where we stand compared to what's funded out there okay no that's that's very helpful thanks and maybe if I can just just touch on gross margin here which was pretty strong in the quarter especially in power I know you mentioned some of those headwinds with with FX and an input cost but any way to quantify those, and then as we kind of have that push-pull between these input costs and passing on price in any way to think about potential margin expansion in 26?

Lynn Hutkin | CFO:

Yeah, I think as we look at the fourth quarter, I think we thought that we may have had some additional FX headwinds in Q4, but we have had hedging programs in place, as Brooke mentioned, So we're still seeing the benefits of those prior hedging programs come through the current periods. So, you know, as we look to 26, we do foresee some margin pressure there on FX. I mean, if you look at the Peso, Remenbee, and Sheckle, they're all moving in an unfavorable direction. And we do hedge probably half of that, but that's going to start rolling off. So we definitely see pressures there. And then even on the material side, that's something that it takes time to ultimately come through our numbers, right? As we're buying raw materials today, that's something that will flow through our financials at a later date. So we do think that we will see margin pressures in 26. And this is why we're, you know, really being mindful of pricing actions that we may need to take with customers.

Farouk Tewaik | President and CEO:

And one thing to just kind of flag on the pricing, right, it's a little bit of – it's not as simple as we wake up and raise our prices, right? There's a little bit of cadence to that, you know, so that some of the contemplations are do you reprice the backlog? Do you come up with an updated pricing list for distribution, which takes, I think, something like 30 days before it's effective? Yeah. So there's a little bit of a time issue. The other thing I would say, and we've talked about this in the past, while our margins are great and we'll always continue to try and push margin expansion, we have pivoted from a margin gain to a growth gain. So we need to make sure that we are winning our fair share of business and opportunities out there that we can get in on. And to enable that, there is some potential investment that we've been doing a little bit around the door-to-market, the systems piece of it, and the people piece of it. So I just want to make sure, and I know the margins, it's a lot of discussions on the bell earnings, and obviously we're very proud of our margins, but we are heading in some headwinds, and we've got to make sure that we have a middle of this kind of growth that's coming that we're positioned appropriately for, not picking out too much.

Danny Agerchon | Analyst, Craig Hallam Capital Group:

Yeah, no, that all makes good sense. I appreciate the color. I'll leave it there.

Operator | Conference Operator:

The next question is from Luke Young from Baird. Please go ahead.

Luke Young | Analyst, Baird:

Thanks for taking the question. I just want to double click on what we've been talking about in terms of, you know, what you've been doing to realign the sales force really thinking more about you know how do you attack markets or key customers but something that you said in the um in the script kind of caught my attention in with tom coming into had the connectivity business that there might be it sounds like opportunities even further down in the organization am i hearing that right in terms of aligning operations maybe even from a, let's say, manufacturing footprint to better attack some of these discrete opportunities?

Farouk Tewaik | President and CEO:

Thanks for the question there, Luke. I would say a couple things just to maybe answer it from the back way of your question here. So on the operational side, you know, we've, I can't remember, seven, eight facilities. We've done a lot. So what's going to dictate facility moves is the current state of the business and the customer demand, right? We pride ourselves on working with our customers. So obviously for a while, it was a lot of discussion around China to India, then that froze. You know, if that kind of starts up, for some people it did start up, we were going to move some of our products to India. So I would say given the geopolitical world that we live in and realignment and localization of supply chains, We are in these, let's say, active discussions, right? But in terms of Bell and standalone basis, you know, putting aside geopolitical and supply chains, I think our facilities are pretty good. So we have to react to the fundamentals of the market. I think our biggest opportunity here is around the go-to market and sales piece of it. I think maybe just to highlight on, you know, moving a facility for us is a big task, right? And it's not simply as just moving equipment, building some buffer supply, moving equipment from place A to place B. You need to set up a lot of kind of the legal structures. And if you're talking about AMD, there's a lot of regulatory hurdles to jump through as we're setting up, for example, our Slovakia factory to be more AMD facing to the European markets. We're living through the complexity and spider web of getting all the clearances and certifications on defense weaponry control. In addition to that, customers usually always have to and want to come out to your facility and do audits, and usually there's feedback, and that takes a whole issue. So, you know, it's not easy. We don't take these decisions in moving facilities lightly. So we need our customer or market changing dynamics to force our hand on a cut on a facility move, go to markets, Our products today that we have that can be bundled together, that can be brought to bear, as we talked about the key accounts group earlier, that is our biggest opportunity at hand. And then operations, you know, there's always things to be done, sure. But I think we've done so many of them that we need to live in growth land. And if we're not going to move facility, unless it's going to help us grow, right?

Luke Young | Analyst, Baird:

Yeah, that was super helpful. Thank you. Nearer term, just curious from a guidance standpoint, you know, Lunar New Year obviously having a seasonal impact as we've normally seen the business, but it's pretty late this year. I think it's almost as late as it can be just from a calendar standpoint. Would you normally have maybe a little better feel for that seasonal impact in the typical year? Is there any conservatism just because of Lunar New Year timing in the guidance?

Farouk Tewaik | President and CEO:

You know, I think, you know, as you know, Luke, in public land, right, everybody's always trying to figure out the optimal way to guide the street. Our perspective from guidance is we want to land in range, and we build it around the midpoint, right? So we're not trying to – we don't build it to the high end point of our range and, you know, hope to God we go over range. We build it to the midpoint, right, to allow for some room for shifting from corridor to corridor. Obviously, we're an AMD. That tends to be kind of sometimes funny business. if we allow for some over-ordering on fuses. Yes, given how late we are in the quarter, talking about Q4 right here, we are roughly in the back of February. Yes, we have better visibility. But to put your comment and question specifically about Chinese New Year, it's two weeks off, right? Everybody contracts down. It's not just us. It's all the CMs. It's all our customers in the Far East, right? So as a result of that, everybody goes pencils down for two weeks. And when they come back, it doesn't just turn on a dime. Usually there's a week of, let's say, upstart time, getting back into the groove, getting things going. So you're probably talking somewhere between two to three weeks' loss on a three-month period. That's not insignificant. So I wouldn't say conservatism. I would say we want to do what we say we're going to do, and we're going to give it our best guess. So we're not trying to be conservative on that.

Luke Young | Analyst, Baird:

Fair enough. Just want to zoom out from my last question, you know, the power side of networking, obviously you've got some exposure there. I mean, the higher levels of power, the power of these more capable chips really becoming quite apparent in that world right now. And I'm just wondering to what extent you're seeing any pull through from a design cycle point of view for high voltage components from either your tier one customers or your direct customers in that world and especially if there's any IP that might be leverageable either, I think, rail or e-mobility both have some high voltage IP that might be interesting.

Farouk Tewaik | President and CEO:

Thank you. Yeah, I was going to say, I think there's a couple of things to unpack there, right? Specifically, the AI networking world, it's always going to go to more high power, higher density, less energy, right, more efficiency, right? So that's a constant theme over ever. Now, we are seeing, I would say, some new designs coming in relatively maybe in a short period of time. Maybe back in the day it was a three- to four-year design cycle. Things are coming in a little bit sooner. So we are, for example, selling some products at AI, but we're already working on the next-gen stuff. So that has happened a little bit quicker. I will also say generally, right, we do have exceptions, but we're not really an IP business, right? We R&D to fix or address a problem. And then what we want to do is we want to, we do a pretty good job at this inside of each of our business units, is how do we leverage what we've developed for somebody to either standardize it or slight modifications, and then we extend the reach of that product, whether it be through distribution or other similar customers. The other thing we are seeing is which is actually interesting, is some of our actual e-mobility products, given the nature of those products, we are starting to see some military folks looking at, let's say, high-end products and services but not quite military-grade, so kind of what I guess we're calling semi-military being used. So we are seeing that extension of the R&D effort that has gone to e-mobility and to other markets. Now, you know, we haven't won anything yet, but we're feeling good about potential wins coming, if that makes sense. So that's how we extend our R&D dollars. We're not looking to reinvent the world every time.

Luke Young | Analyst, Baird:

Yeah. Okay, cool. Appreciate it, Brooke. I'll leave it there for now. Thank you.

Operator | Conference Operator:

The next question is from Jacob Parsons from Needham and Company. Please go ahead.

Jacob Parsons | Analyst, Needham & Company:

Hi. Thanks for taking my call here. I'm just asking a question on behalf of Jim Rusciutti. So, you know, we've been kind of hearing a better tone in the commercial aerospace market. particularly with the leading domestic players in the marketplace. So how are you guys thinking about this area of the business in 2026 and potential for better growth within the connectivity solutions area?

Farouk Tewaik | President and CEO:

So as a release to commercial air specifically, right? I mean, for better or for worse, we are, from an OEM perspective, are attached to our largest North American customer. And the way that we're going to make more money, and to be clear, we service that customer both through our connectivity and our power A&D business. So the way we're going to grow revenue is a direct correlation to increase build rates, right? And we've lived the ugly side of that when there was kind of all the union negotiation. If you recall, I think it was Q4 last year, there was a shutdown. It kind of, you know, threw our business a little bit out of whack or back in the days of the grounding of the MACs. So we are going to see how that correlates to the build rates. So what we always point folks to is I think, you know, they're very public about build rates and what's going to get approved and not approved. So take a view on that. And that should have a direct correlation back to us. On the connectivity business, so not the power business, there is an MRO element to it, right? So as we think about MRO cycles, I tend to think about are people on the planes flying being consumed and miles being put on these planes? And so often, those planes need to be kind of retrofitted or MROs, right? So we think flights, and when we look at the earnings of some of the flight operators out there, you know, people are flying and planes are moving. So we feel both good on the OEM and MRO side.

Jacob Parsons | Analyst, Needham & Company:

Yeah, that's all super, super helpful. And if I can just kind of get one more in. So I'm curious, has the book to build – ratio varied much by market vertical, and which areas of the business have you guys seen the biggest changes relative to last quarter?

Lynn Hutkin | CFO:

Yeah, so I think on the book-to-bill side, you know, Farouk had mentioned we were at 1.1 for the full year. You know, I think our book-to-bill has strengthened as the year progressed. In Q4, our book-to-bill was 1.3, and And I would say that strength was seen across all three product segments. So there's not one segment that is really high while someone else is below one. All three are very strong in Q4.

Jacob Parsons | Analyst, Needham & Company:

Awesome. Thank you for taking my questions.

Operator | Conference Operator:

The next question is from Hendy Susanto from GetBellySons. Please go ahead.

Hendy Susanto | Analyst, GetBellySons:

Good morning, Farouk and Lynn. I have several questions.

Theodore O'Neill | Analyst, Litchfield Hills Research:

Good morning, Indy.

Hendy Susanto | Analyst, GetBellySons:

Farouk, can you help unpack more details on your AI opportunities in terms of end products or end devices to help us build better ideas? Some products that come to mind are like power modules, network switches, traditional compute, AI servers, and optical networking. Perhaps you can help us build better ideas of your end devices?

Farouk Tewaik | President and CEO:

Yeah, I would say, Hindi, we want to be a little bit careful here, but our projects I go into are more around the power side of the business. And, you know, the bell power is kind of where it's at, I would say, from a direct where we know things are going for AI. Obviously, our magnetic business is also beneficial from the networking guys. and they're kind of the RJ45s, kind of what we call our magnetic solutions, which is really more maybe a potential interconnect product. So that's how we go at it largely. Our connectivity business doesn't do too much into those end markets, given that we're really more low-volume, medium-volume, harsh environment applications, and that price is coupled with it being more copper-based. So that's how we kind of go at the AI piece of it. And I should say, generally, we do some stuff with the hyperscalers, but that's not really our focus markets. If you remember, we got in trouble there back in 2020. So we want to make sure we pick spots where technology and service matters versus just a copy product with a race to the bottom of pricing.

Hendy Susanto | Analyst, GetBellySons:

And Farouk, may I quickly check if there are products that may carry some opportunity for physical AI or humanoid robots?

Farouk Tewaik | President and CEO:

I think the humanoid market is still getting settled. Today it's definitely not a big dollar amount. It's very much R&D-centric. I think there's a question around, from a humanoid perspective, is that ultimately a consumer product like auto, or is that going to be a technology play? I still think we're far out from mass production, but today it has not been a discussion level for us that's a dominant one.

Hendy Susanto | Analyst, GetBellySons:

Okay. And then what are your latest view and outlook on pockets of market recovery and inventory rebuild activities among customers?

Farouk Tewaik | President and CEO:

I don't think we, you know, right, I think the inventory rebuild is kind of stacking up the shelf really on the customers. I think given that everybody... I'd say went through a pretty difficult lesson back in 23 and 24 and overlaid with the terror of geopolitical world we're in. I'd say people are generally ordering more to demand versus building up the shelf. And, you know, quite frankly, I think that's probably a good thing in the sense where if you want to build the shelf, then you've got to deal with the hangover. So today we feel largely, I'm sure there's exceptions, obviously we touch a lot of markets, But largely, we feel it's like ship-to-demand versus ship-to-put-on-a-shelf-and-build-a-buffer stock. Because obviously with tariffs, if things move, the things that you put on the shelf all of a sudden really change pretty quickly. So I think there's a little bit of nervousness around that from our customer perspective.

Hendy Susanto | Analyst, GetBellySons:

Yeah. And then, Lynn, I have a question on seasonality of sales in aerospace and defense. If I look at Endercorn sales, I'm trying to figure out what seasonality we need to model and then plus considering that you may also like winning like more design. So what kind of seasonality can we expect in 2026 in aerospace and defense?

Farouk Tewaik | President and CEO:

I'd say generally aerospace and defense is not a seasonal business where we play, right? North America, Israel, Europe, right? I would say it's really more around, you know, sometimes they move it from one court to the other when things get funding, right? That's kind of where the choppiness comes from. But it's not really a seasonal to seasonal play. I would say, you know, if there was a seasonality element, not to the intercom business, obviously, or connected business, but there is some less working days generally in Q4, just with the holidays and Thanksgiving and some of the Jewish holidays in October. But other than that, I would not say it's a seasonal business.

Hendy Susanto | Analyst, GetBellySons:

Okay. And then I have a question on capital allocation and debt payment, especially following the $90 million of debt payment in 2025. What is your playbook for capital allocation and debt payment?

Luke Young | Analyst, Baird:

Go ahead, Lynn.

Lynn Hutkin | CFO:

So I think as we look at capital allocation, you know, Priority number one is reinvesting in the business through CapEx. We have regular way dividends that we continue to pay. Barring anything on the M&A front, debt pay down is where it would be. And I think from a dollar perspective, the last couple of quarters, they've been robust debt pay downs to the tune of, call it between $20 and $30 million a quarter. And we would look to continue doing that going forward. Now, keep in mind Q1 tends to be a heavy cash utilization quarter, just with our annual bonus payment, insurance payments, things like that. So I expect Q1 would be on the lower side. But as we look to Q2, Q3, Q4, that would be around the level of debt pay down, assuming there isn't anything on the M&A front.

Hendy Susanto | Analyst, GetBellySons:

Got it. Thank you, Farouk. Thank you, Lynn.

Jacob Parsons | Analyst, Needham & Company:

Thanks, Andy.

Operator | Conference Operator:

Thanks, Andy. The next question is from Bobby Brooks from Northland Capital Markets. Please go ahead.

Bobby Brooks | Analyst, Northland Capital Markets:

Hey, thanks for taking the follow-up. So just wanted to circle back and ask specifically kind of on Enercon and cross-selling opportunities there. Obviously, you mentioned this, and more specifically with aerospace and defense, these are long-cycle programs, right? So these aren't happening one quarter and seeing the outcome the next. But just curious to hear if maybe that's still on the back burner just because demand was so robust in 2025 and the segments kind of just had to deal with the demand that they were seeing. So just kind of curious to hear more on that.

Farouk Tewaik | President and CEO:

Yeah, no back burners here. Yes, we understand we got to prioritize, but also remember we have to live in new wind land, right? Because we can't influence when orders come from our customers, right? When the program gets funding, can they sell it, right? What does the military budgets look like? And then you get an order. The thing that we can influence is going after new programs and aligning ourselves to new wins and new design cycles, right? So as we go after these, we are doing a better job at collaborating. I think we're doing a better job at ensuring that both the connectivity and the power side of the house understand what they're going after and weekly calls and putting in some incentives along the way, we can do a little bit better job, but that process is in place. What's interesting is we're definitely seeing some of this, let's say, go to market. There was a couple of interesting quotes in Israel where I was alluding to earlier from our e-mobility products that there was a need locally in Israel that our team flagged, but they didn't need quite the let's say high-levelness of the military stuff, but they needed really complex products, which our e-mobility and Slovakia teams do a great job at. So we're trying to quote those into Israel. So I classify that as kind of a real-time opportunity that we're chasing. Now, we've seen a few of those as well. Another example of this is there was a cabling need at our, let's say, U.S. Enercon business, which our connectivity group can assist with. So they're working on kind of getting all that qualified and approved. Normally, in this case, Enercon would have had to go outside and deal with others, but we're able to capture more of this spend. So the opportunities are real, but in the spirit of greediness, we'd always love to do more. But I think as we're getting more bids out there now at a joint level, we're seeing some nice traction. Hopefully we continue to do that and kick that into gear a little bit more.

Bobby Brooks | Analyst, Northland Capital Markets:

Awesome to hear. And again, congrats on the great quarter. Thanks, Bobby.

Operator | Conference Operator:

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

Farouk Tewaik | President and CEO:

Thank you for that. And, again, could not be more proud of the team for the great year. Again, also thank you for all of you guys joining the call today and taking interest in what we think is a very, very exciting times for Bellevue. So thank you. I look forward to speaking to you in a couple of months from now.

Operator | Conference Operator:

This concludes today's teleconference. You may disconnect your lines at this time. Thank you for your participation.