NASDAQ:BELFA Q1 2026 Earnings Call Transcript

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Lynn Hutkins | Chief Financial Officer:

Good morning and welcome to the Bellevue's first quarter 2026 earnings call. At this time, all participants are in a listen-only mode. A question and answer session will follow the formal presentation. If anyone should require operator assistance during the conference, please press star zero on your telephone keypad. Please note this conference is being recorded. I would now like to turn the call over to Jean Marie Young with three part advisors. Please go ahead.

Jean Marie Young | Vice President, Investor Relations:

Thank you. Good morning, everyone. Before we begin, I'd like to remind everyone that during today's conference call, we will make statements relating to our business that will be considered forward-looking statements under federal securities laws, such as statements regarding the company's expected operating and financial performance for future periods, including guidance for future periods in 2026. 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 obligations to update any forward-looking statements or outlook. Actual results for future periods may differ materially from those projected by those forward-looking statements due to a number of risks, uncertainties, or other factors. These material risks are summarized in the press release that we issued after market close Yesterday, additional information about material risks and other important factors that could potentially impact our financial performance and cause actual results to differ material from our expectations is discussed in our findings with the Securities and Exchange Commission, including our most recent annual report on Form 10-K and our quarterly reports and other documents that we have filed or may file with the SEC from time to time. We may also discuss non-GAAP results during this call, and reconciliations of our GAAP results to non-GAAP results have been included in our press release. Our press release and our SEC filings are available in the IR section of our website. Joining me on the call today is Farouk Tewik, President and CEO, and Lynn Hutkins, CFO. With that, I'd like to turn the call over to Farouk. Farouk?

Farouk Tewig | President and Chief Executive Officer:

Thank you, Jean, and good morning, everyone. We appreciate you joining our call today. We delivered a strong start to fiscal 2026. First quarter performance reflected broad-based momentum across the business and continued execution, both operationally and commercially. We also delivered solid profitability supported by disciplined operational performance and favorable NICs. Before we get into the quarter in more detail, I want to highlight an important step we took during Q1 to better position Bell for continued growth. We completed a business unit realignment designed to align our teams around how our customers buy and how we win, enabling greater customer intimacy, faster decision-making, and a more coordinated approach to delivering our full portfolio solutions across connectivity, power, and magnetics. This structure strengthens our ability to bring more of Bell to each customer. expanding share of wallet through integrated selling, improved program execution, and tighter alignment between engineering, operations, and the commercial teams. Accordingly, Bell now operates two focused business units. First one, Aerospace Defense and Rugged Solutions, or ADRS, which combines our legacy connectivity business with Enercon. focused on mission-critical applications across commercial aerospace, defense, space, and rugged industrial environments, and industrial technology and solutions, or ITDS, which integrates our pre-Entercon power and magnetic businesses, focused on data solutions, transportation, and industrial markets where performance, reliability, and scale matter. This structure sharpens accountability, accelerates decision-making, and increases the speed at which we translate engineering into customer wins. It also enables product-agnostic access to Bell's full portfolio, so customers engage with us as a solutions partner aligned to their end market requirements. In that context, I am pleased to share that we closed the acquisition of Datamate from Method Electronics in March for $16 million. DataMate adds approximately $18 million in annual sales with margins in line with Bell and is expected to be immediately accretive. It will operate within our industrial technology and data solutions business unit. Strategically, this expands our Ethernet and broadband portfolio in a highly complementary way and positions us to grow in data centers, industrial automation, smart buildings, and broadband deployments. It also strengthens our U.S.-based manufacturing and engineering footprint. We're excited to welcome the DataMate team. They bring new customers, differentiated technology, and strong talent, and we look forward to what we'll accomplish together. Turning to business performance, within ADRS, results were driven by robust demand in defense and commercial aerospace, with continued strength across key platforms and programs, supported by strong demand and stable OEM build rates. We also saw ongoing progress in space as production schedules and program content continue to expand. Robust bookings during the first quarter within ADRS were driven by both sustained program demand and continued traction with our channel partners, resulting in a strong foundation heading into the back half of the year. we're also beginning to see the fruits of our organic growth initiatives over the past year. In Slovakia, for example, we secured two new defense design wins that are progressing through final certification steps and remain on track to complete in the second quarter. The win was initiated by Enercon with ramping up the Slovakia entity to produce an Enercon design, highlighting our global ability to deliver to our customers locally. In addition, we achieved our first bundled Cinch and Enercon win on a new design in Israel, which is a great early proof point of what this broader integrated portfolio can do when our teams collaborate across the organization. Within ITDS, we continue to see healthy demand signals across networking and data infrastructure, with momentum improving in data center connectivity and high-performance compute applications. Customer activity remains elevated as the industry invests in AI-oriented architectures, driving opportunities for power conversion and protection, as well as high-speed interconnect solutions that support next-generation switching and server platforms. We are expanding our design wind funnel and investing in engineering and operational capabilities to support these growth vectors, including manufacturing resilience and multi-site capacity to serve global data center customers. As we think about the broader environment, we remain mindful of trade policy and tariff dynamics, as well as demand variability by end market. We continue to work closely with customers to manage these conditions, including pricing and supply chain actions where appropriate. We are seeing some general upward pressure in certain material and logistics inputs, and we remain prepared to use the levers within our control, procurement actions, pricing discipline, and operational execution. to support the overall direction we've laid out. With that overview, I'll turn it over to Lynn to walk through the financial results in more detail. Lynn?

Lynn Hutkins | Chief Financial Officer:

Thank you, Farouk. From a financial standpoint, we had a solid quarter with continued sales growth, margin expansion at the gross profit line, and healthy cash generation. Before walking through the results, I want to cover a couple of points of clarification related to our new segment structure. First, the realignment that Farouk mentioned became effective March 31, 2026. And as a result, our Q1 reporting and all prior periods presented have been recast to reflect the new structure. Further, we filed recast segment information by quarter for 2024 and 2025 and an 8K filed on April 6 for reference. Second, beginning in Q1 2026, our end market sales figures will capture all sales into a given end market, including both direct to customer shipments and sales through the distribution channel. In the past, distribution channel sales were called out separately in total rather than allocated to individual end markets. We will provide prior period comparable figures where appropriate to help investors evaluate performance on a consistent basis. With those points in mind, let me turn to the quarter. In the first quarter, total sales were 178.5 million, up 17.2% from the prior year period. Gross profit margin was 39%, up 40 basis points from Q1-25. The gross margin performance improved leverage of our fixed costs on the higher sales volume, partially offset by higher material costs and impacts from foreign currency fluctuations. Below the gross profit line, GAAP's operating income was $23.7 million compared to $25 million last year, while adjusted EBITDA was $34.5 million versus $30.9 million in the prior year period. Now turning to results by reportable segment. In the Aerospace Defense and Rugged Solutions, or ADRS, segment, sales for Q126 were 99.8 million, up 20.1% versus Q125. Growth was led by a $9.4 million increase in defense market sales, up 19% from Q125, and a $3.9 million increase in commercial aerospace sales, up 22% from Q125. ADRS gross profit margin was 41.5% an improvement of 140 basis points from Q125. This margin expansion was largely driven by improved leverage of fixed costs on the higher sales volume and a favorable shift in product mix. These benefits were partially offset by unfavorable foreign exchange movements, primarily related to the weakening of the U.S. dollar against the Israeli shekel and the Mexican peso. Within the industrial technology and data solution segment, or ITDS, sales amounted to 78.7 million, up 13.8% from Q125. Growth was primarily resulted from AI-driven strength and data solutions, coupled with the continued year-over-year recovery of sales into our enterprise networking customers. This growth was partially offset by lower transportation sales versus Q125, particularly within the rail and e-mobility markets. IPDS growth profit margin was 36.6% compared to 37.3% in Q125. The margin decline was primarily driven by higher material costs, particularly related to gold, copper, and PCBs, and unfavorable foreign exchange movements particularly with the Chinese renminbi. Turning to operating expenses and cash flow, R&D expense increased to 8.5 million from 7.2 million last year, reflecting continued investment in technologies aligned with our targeted end markets. Of this increase in cost, we estimate approximately 400,000 related to foreign currency movements as we have a large engineering population in China and Israel. We anticipate R&D will run in the range of approximately $8 million on a quarterly basis going forward. SG&A increased to 36.7 million, up from 29.5 million in Q125. Of the $7.2 million increase, we are estimating approximately $3 million was one time in nature, including acquisition-related costs related to data mate, segment leadership, transition costs, and a prior year benefit, which was non-recurring in the 2026 quarter. The remaining $4 million of the increase reflects targeted commercial and infrastructure investments to support growth in addition to an increase in commissions on higher sales and unfavorable foreign exchange impacts. On a go-forward basis, we expect SG&A expense to run at approximately 33 to 35 million per quarter. We ended the quarter with 59.4 million of cash and securities. Net cash provided by operating activities was 13.8 million. up from 8.1 million during the first quarter of 2025. Capital expenditures were 2.6 million, generally in line with the prior period. During the quarter, we closed the DataMate acquisition, investing $15.2 million. To help fund that transaction while maintaining balance sheet flexibility, we had 7 million of net borrowings from the credit facility during the first quarter of 2026. To close on the financials, we delivered a very strong quarter, driven by solid execution and healthy demand across the business. Looking ahead, we see continued strength and momentum for the balance of the year, and remain confident in our ability to perform. We are also operating in an environment of higher input costs, and we're actively managing that pressure by focusing on the levers we can control, pricing discipline, procurement actions, and operational efficiencies. At the same time, we're enhancing Our focus on the cash conversion cycle, improving inventory turns, receivables, and payables discipline as a key enabler to generate cash, strengthen flexibility, and accelerate Bell's growth strategy. With a strong quarter behind us and clear priorities in front of us, we're executing with urgency and discipline. With that, I'll turn the call back over to Farouk.

Farouk Tewig | President and Chief Executive Officer:

Thanks, Lynn. As we look forward ahead, our focus remains on executing our commercial and operational priorities while navigating the external environment, including ongoing tariff and trade-related uncertainties and demand variability across our various end markets. Looking ahead, we have a strong outlook for the second quarter. We are guiding sales in the range of $195 million to $215 million, with a gross margin in the range of 38% to 40%. This outlook is supported by robust bookings across the business in recent quarters and is driven by higher demand from our defense, commercial airspace, and data solutions customers. Before we open the line for questions, I want to recognize Pete Benard and his retirement after 35 years of Bell. Under Pete's leadership, we strengthened our connectivity platform and delivered meaningful profitability improvement while deepening customer relationships. We're grateful for Pete's contributions and wish him and his family all the best. With that, I'll turn the call back over to Carrie to open up the line for questions.

Lynn Hutkins | Chief Financial Officer:

Thank you. We will now be conducting a question and answer session. If you would like to ask a question, please press star one on your telephone keypad. A confirmation tone will indicate your line is in the question queue. You may press star two 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 start keys. And our first question will come from Luke Junk with Baird.

Luke Junk | Analyst, Baird:

Good morning. Thanks for taking the questions. Rick, maybe you could just provide some comments on book-to-bill trends. You mentioned robust bookings were one of the things that is supportive of the guidance. And within that, if there would be any end-market highlights you'd want to call out as well. Thank you. Yes, sure.

Lynn Hutkins | Chief Financial Officer:

Good morning, Luke. So on book-to-bill trends, I would characterize them as robust in the first quarter here. And that was really seen across the full business in both segments and across most of our sub-segments. I think the only exception would be in transportation. But when it comes to aerospace, defense, data solutions, you know, very robust book to bill in Q1.

Luke Junk | Analyst, Baird:

Got it. Thank you. Second, you mentioned that the ITDS growth was primarily AI-driven with strengthened data solutions. Just hoping you could provide a little more color on what you're seeing, and I don't know if you're going to be spanking out the AI dollars specifically. Going forward, and Farouk, you mentioned serving global data center customers as well. Hoping we can maybe double click on that trend too. Thank you.

Farouk Tewig | President and Chief Executive Officer:

Yeah, I think we have obviously seen our customers benefit from all things data center build out. Obviously, AI and data generation and everything that we're reading out in the world is additive to that effort. And we're seeing that across our portfolio, specifically on the, you know, AI customers that we service. We're definitely seeing a very healthy pickup in their bookings and customers and orders, and therefore that downstreams to us. So I think we would say that with Caritas, it's a very, very healthy environment. The bookings continue to be more robust. The outlet continues to strengthen and all the good things that I'll refer to Lynn here on more specifics around that.

Lynn Hutkins | Chief Financial Officer:

Yeah, and Luke, so I know in the past we had called out AI-specific sales. You know, as we're entering 2026 here, things are getting a little more blurred, and we had alluded to this last year where we had AI-specific customers but also selling into our regular way enterprise networking customers where their demand was increasing significantly. due to AI demand as well. So, you know, I think going forward, we will be talking more generally about data solutions, but we did see it across both of those platforms, I would say, the AI-specific customers and into our more general enterprise networking customers where we saw strength in Q1 that that was AI-driven.

Luke Junk | Analyst, Baird:

Understood. Last question for me, just curious to get your perspective on posture right now at U.S. and Israeli defense prime. Seems like there's a fairly obvious replenishment opportunity. Just how much of that is baked into the 2Q guidance sequentially? And as you look into the back half of the year, just qualitatively the potential for some additional upside or just clarity on that opportunity? Thank you.

Farouk Tewig | President and Chief Executive Officer:

Yeah, and we talked about, obviously, the geopolitical events for us from an A&D business is helpful and additive. And we've said this in the past where we tend to be levered in a fair amount of exposure to all things on the missile side of the business. So whether it be things that are deploying or the launchers themselves, that's all additive to us. So as you had alluded to here, with the replenishment and the talk about national stockpiles and all that kind of discussion points, that is all added to us. We agree that we think there has been a replenishment cycle going on. Starting out back in the Ukraine days, it never felt like we caught up, and now we saw a lot more usage of the stockpiles. So we agree this will probably be a medium-term vector of growth and replenishment. Obviously, we are also seeing more overall investments going into new business and new platforms as the whole industrial A&D complex is being challenged to step up across the technological spectrum. So that all is additive to us. And we see in our business, whether the funneling and the opportunities are becoming a little bit more, a little bit bigger. So we do see more shots at goal. So whether it be the replenishment on existing platforms or new, we think that that's all additive. And also, as a reminder, we're not just seeing that, obviously, in the U.S. side of the business, but we're also seeing that in our European and Israel business as well.

spk07:

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

Lynn Hutkins | Chief Financial Officer:

And our next question comes from Bobby Brooks with Northland Capital Markets.

Bobby Brooks | Analyst, Northland Capital Markets:

Hey, good morning, guys. Thank you for taking my question. It was great to hear about the first Cinch Enercom package win. Could you just discuss more how that win came about and maybe what you felt was a piece that pushed the customer to give you that order?

Farouk Tewig | President and Chief Executive Officer:

Yeah, I mean, I think, listen, you know, I'm not sure. I don't believe in one magical solutions in the sense that we didn't change one thing and it all worked out, right? We sell highly engineering products. engineered complicated systems, whether it be on the components or on the system side of things. So we, I would say people are very busy, right? As we can imagine, A&D, our organization is very stretched thin. And on top of that, we started partnering to make sure we deliver holistic solutions. So we were alluding to, you know, a couple of opportunities here to maybe just kind of expand the point. We had talked when we acquired Enercon potentially using our Slovakia facility to become our A&D footprint into Europe. And obviously that takes a while to get certifications and sharings of drawings and ramping up the skill set. We had to invest in some CapEx. So we did do that. In conjunction with that, we were able to move some of the products. We had a European customer, that wanted to have manufacturing done on the continent. That's where Slovakia came in. So all that effort, we were able to get the customer out to Slovakia. They saw the facility, they saw the technical capacity. Obviously, they know the product from the Enercon and the engineering. So it was a very good team effort, both from engineering and operations and Enercon supporting Slovakia to get that facility up and going. And the customer saw it and was thoroughly impressed, and we got a couple of POs thereafter. Now, with the first one here, obviously, is a win. You know, this becomes a very great one. On the other opportunity I was talking about, basically, can you hear me, Bobby?

Bobby Brooks | Analyst, Northland Capital Markets:

I just was curious, is that, like, first, is that a specific drone company? Bobby, your line is open.

Lynn Hutkins | Chief Financial Officer:

I think he's taking a phone call.

spk07:

I'm not sure it was for us. No worries.

Farouk Tewig | President and Chief Executive Officer:

You can all appreciate how this goes. But I'll continue to answer your question. The other opportunity was taking an Enercon box, a power unit, and we put a cinch component on it, on the connector and cabling piece of it, so we're able to do the connectivity there. Now, we ended up solving, obviously, a few problems because we had both the power supply and the cable solution. So I think we got very good compliments from the customer. I think more importantly it showed the team the art of the possible. And more importantly than these two wins, to be honest, is we are definitely seeing a more robust collaboration across the organization of ADRS. So when we hear the discussion that they're going through and the opportunities, I think people are significantly much more aware of the whole portfolio and going after it. I would also take a step further and say that we're seeing some of the A&D customers looking for more hardened industrial solutions. And now with our non-Entercon products, it's able to fill that gap. So we're able to fulfill the customer needs from a few different angles, I'd say. But the discussion about it lying was significantly ahead of where it was, I would say, in the recent memory.

spk07:

I don't know if you're back, Bobby, but hopefully that answers your question. Maybe Carrie can move on to the next one. Yep.

Lynn Hutkins | Chief Financial Officer:

Certainly. Our next question comes from Christopher Glenn with Oppenheimer.

Christopher Glenn | Analyst, Oppenheimer:

Thanks. Good morning, guys. I'm going to ask a question and try to stick around. Just give, if there's background noise, just tell me to mute it, please. So just, you know, continuing with the defense, because it's such a large proportion of your business and such a dynamic area, and then you're generating your own dynamism within that i'd say with these uh you know initial kind of greenfield design wins in the defense sector in europe is that you know kind of consistent with the timeline you would have anticipated from an integration pathway or or you know maybe pulling ahead a little bit just kind of curious of the you know actuals versus your expectations yeah i'd say maybe a

Farouk Tewig | President and Chief Executive Officer:

little bit ahead slash on time. If you recall back to kind of Q4 2024, when we did do the interconnect position, we said, I don't think we're going to see anything probably till at least 26, probably towards the end of 26. So if that is the correct metric, we said back then, you know, here we are roughly in Q1, we're seeing some of the early wins. I would say what It took a little bit longer than anticipated, was getting all the certifications and facility approvals. Obviously, A&D is a heavily, heavily, heavily regulated market. You can't just, you know, be moving things around globally and in emails and so on. So as a result of that, the approval process from the local authorities in Slovakia was longer than we anticipated. Partially it's because they're seeing a lot more investment in the overall country. But putting that aside, we're sitting here, let's call it April. You know, we had some nice wins. We had customers, you know, come through. I would say we're probably slightly ahead of schedule slash on schedule, somewhere in the middle there.

Christopher Glenn | Analyst, Oppenheimer:

Okay, makes sense. And just given the, you know, obvious dynamism in defense procurement and everything and hot regions, these kind of design wins to revenue, are they pretty quick?

Farouk Tewig | President and Chief Executive Officer:

I would say a lot of good things about defense, but quick might not be the characterization of the world. I would generally say, right, because also when you win a program, you've got to prove it out. They've got to do all their testing and then, you know, it kind of scales over time. But the key is when there's a lot of investment and, let's say, spotlight and all things defense, you've got to make sure you're getting into these things early because So as they scale, you know, you're there. I would say if we were to paint a very potentially, you know, let's say range, if it's an existing product, I'd say, you know, you generally get an initial order, but I would probably say before you start seeing kind of volumes 12 to 18 months. And if it's a brand new kind of product or technology that's being developed by the customer, then it could be a little bit longer. Okay. but the key is getting the award side of it, right? Because then you're going to there, it might go through a couple iterations along the way. But if it's an existing product or slightly existing, maybe it's a modified, I'd probably say 12 to 18 months before you start seeing some real dollars. That's just the nature of defense design cycles.

Christopher Glenn | Analyst, Oppenheimer:

Right, right. So the replenishment orders are more kind of the quicker lead time drivers that you're seeing right now.

Farouk Tewig | President and Chief Executive Officer:

Correct. And I will also caveat is, you know, my earlier comments here on defense, not necessarily the fastest movers. I would say that that is probably still true. I would say we are seeing areas where things are moving faster. Right. So there seems to be some buckling of maybe the historical norms. I'd also say there's regional nuances. Right. So I think maybe we're seeing some different speeds in Europe versus the U.S. Maybe Israel would be the fastest move. Um, so I think it's, it's, uh, it's changing a little bit, but I'd say largely speaking, it is a slower moving industry.

Christopher Glenn | Analyst, Oppenheimer:

Okay. And, um, yeah, just, uh, you know, just a quick check on how we think about the back half. Uh, second quarter is obviously a, uh, a pretty striking step change upward in the, in the run rates. And, you know, I think you had some nice latency to some market trends that's showing through. So, I'm not particularly thinking that the second quarter guide has some surge demand kind of factored in. Maybe there's a little one time, but you're talking about almost 30 million sequentially, and DataMate's just a sliver of that. So is that really just a fundamental step in how the run rates are developing with your end market exposure?

Farouk Tewig | President and Chief Executive Officer:

Yeah, and as Lynn said, we are fortunate to play in a lot of great end markets. So much more than not are in moving and growth mode. And as we closed out the quarter and headed into April, we're just seeing that continued robustness across the portfolio. I would also say that distribution is one of these things we're talking about. It started off very good in April. So as we look at backlog, customer chatter, outlook, and the kind of nature of the world, we think we'd expect a very healthy second half. Obviously keeping in mind we do hit with some seasonality in Q3 and Q4, right? So Q3, we hit kind of the European slowdown a little bit throughout the summer months and some Labor Day and 4th of July type events. And then we hit into Q4, you know, we start getting into some of the holidays, whether it be Golden Week or some of the ones in Israel and overall holidays. But putting that aside, we expect a very healthy second half and continued strength.

spk07:

Thanks. I'll turn it over. Appreciate the answers.

Lynn Hutkins | Chief Financial Officer:

And our next question will come from Greg Poem with Craig Hellam.

Jackson Schroeder | Analyst, Craig-Hallum (for Greg Poem):

Good morning. This is Jackson Schroeder on for Greg Poem. Appreciate you taking the questions. I wanted to start out with, and you guys talked on gross margin a little bit and the cost there, but curious how you're feeling about the leverage you're pulling on that. We want to know if there's any kind of timing related things on that, how we might see that play throughout the year. especially as it relates to a new bundle design one in Israel and some of the organic initiatives that you have. So I'm curious if you're doing anything within those new contracts or investments to kind of offset that going forward.

Lynn Hutkins | Chief Financial Officer:

Yeah, so I think as we look across the full year of 2026, we're seeing a little bit of a disconnect. Just mathematically, as sales grow, we will have better leverage on our fixed costs within COGS, leading to margin expansions. That's with all other things staying consistent. What we're seeing this year is a rise in input costs, primarily related to material costs. We do have some minimum wage increases around the world. And we are in an unusually, you know, unfavorable, I would say, FX environment where all three of the currencies that impact Bell are all moving in the wrong direction for us. So that's the Mexican peso, the Israeli shekel, and the Chinese renminbi. So we do have things, you know, moving against us as sales are increasing. We are taking actions that are within our control, you know, whether it's through pricing discipline or procurement initiatives or operational efficiencies. But those things take time to put in place. So what we're seeing is probably Q1, Q2, where there's more of a disconnect, where we're paying those higher input costs, and we have not yet seen the benefits of the initiatives that we're doing to offset those.

Farouk Tewig | President and Chief Executive Officer:

And then I also say, you know, as we obviously, you know, we have done some pricing actions to offset these input costs, one of the things we've got to be mindful about is touching the backlog. So to some extent, to Lynn's point, we've got to work through the backlog. So anything new, we've put price increases through. So we'll start seeing the benefit of that as, you know, maybe we might see some of that in Q2, but I think about it as Q3, Q4. we'll start offsetting some of that. So I think that's a testament to the business here. We got a higher margin given the operational leverage and things we control, and then the pricing elements that we did put through, we'll start seeing the benefits of those into Q3, Q4.

Jackson Schroeder | Analyst, Craig-Hallum (for Greg Poem):

Got it. It's really helpful. And I also wanted to talk on the new business structure here, kind of strategic realignment. Curious how you're processing that as it goes through the P&L as we look at organic growth. specifically as we lap Enercon, looking at like the geographic breakdown where we can kind of size where we should be seeing growth here by segment, by geography. You can do that.

Farouk Tewig | President and Chief Executive Officer:

Yeah, I'd say we haven't given forward guides on the growth piece of it. We, at the end of the day, are in very unusual environments. So we haven't given any kind of long-term guidance on that. I think the overall message we expect, as we've always said, we're an end-market-driven business, and we obviously want to be a little bit ahead of that. So as we think of the end markets, we think there's robustness in there. I would also say that when we look at our A&D business, it's been growing for a bunch of quarters already. sequentially, right, from a growth rate perspective, and we expect some of that to continue. But by definition, right, you know, maybe some things, the hot percentages start to go down, but overall we expect robustness and continued top-line growth. So I'll leave it at that. On the ITDS side, the data solutions, data centers, AI, you know, kind of all the infrastructure around data generation and transmission and some of the broadband and kind of the other things we've talked about just now, We also expect robustness there. Obviously, we have a little bit more nuanced game and strategy in that market where we can make sure we can drive margins and get good return on our business. I would say our industrial technology part of it, which would include some of our e-transportation and e-mobility type applications and other industrial. I'd say that one is kind of a little bit later to the game, but we're seeing some nice things in that part of the ITDS business. So all in all, we expect a growth piece of it, but I'll leave it at that.

spk07:

I appreciate it. Thank you.

Lynn Hutkins | Chief Financial Officer:

moving next to Hendy Sassanto with Gabelli Funds.

Hendy Sassanto | Analyst, Gabelli Funds:

Good morning, Farouk and Lynn. Good morning, Hendy. Congrats on strong results. Farouk, I would like to understand more about your data center footprint and post-acquisition of data made. I think my first question is, is data made a growing business? What kind of sales trend? And then second one is, When you talk about data center, AI data center, anything new, any new areas that you want to address, any new product portfolio that you want to develop?

Farouk Tewig | President and Chief Executive Officer:

Yeah, so maybe the first question in the data, yes, we bought it with the expectation of growth. I would say we are a better home for it in terms of the end markets that they play in, the customers they serve. and the kind of language that we do use. I would say in certain of the products, which is their core products, they were the, let's call it, you know, the dominant, great reputation in our industry. So we're very excited for that team to join us. And when we look at the development product portfolio and things that they're working on, we're very impressed by them. So yes, our expectation is that it grows. I'm not sure we do the acquisition And I think also what's the nice thing about DataMate, it gives us a footprint into manufacturing in the U.S. Obviously, the team there, and kudos to the DataMate team, it was a carve-out, so we had to relocate facilities, and those things always bring a certain level of complexity, but we are in the new facility. We're up and going. The team did a great job. It was much more seamless than I probably had anticipated, so thank you to the team there. So that's the expectation of Datamate. I would say Datamate, there are some customers that they bring that we just haven't had inroads with historically that we hope to kind of land and expand a broader Bell portfolio. We have a much broader sales organization and reach globally that we think we can effectuate their growth. And I'd say more importantly, I think people are very excited internally to have access to that portfolio set and also just great engineering. The other thing I would say to your other question on the data center's AI, I mean, look, we have a lot of SKUs. We're always simulating new things. But at the end of the day, the drivers remain the same, which is AI build-out, AI deployment, data center build-out, data center deployments. routers and switches, right, that's kind of where it played. I would say that effectuates our legacy power and magnetic businesses from both sides. So I would say it's pretty broad-based. And as we've talked about, when we say AI, we think of that as a floor versus ceiling because sometimes we lose visibility to where our products are going. But when we look at the floor, which is the clear AI, we're seeing robustness in that growth. So let's call it the clear AI, if you will.

Lynn Hutkins | Chief Financial Officer:

And just to add on to that, so within data solutions, we've talked in the past how our AI exposure is largely within our power products. So if we isolate data solutions just within power products, that increased by 4.8 million or about 27% from Q1 last year to Q1 this year. And much of that was driven by AI.

Hendy Sassanto | Analyst, Gabelli Funds:

And Farouk, a number of companies have talked about the possibility of price increases in the second half. You mentioned pricing action. What are the puts and takes in terms of expectation on price increase in general in your industries in the second half?

Farouk Tewig | President and Chief Executive Officer:

Yeah, I mean, let's be honest. I don't think everybody welcomes us or anybody in the industry with open arms around price increases. But I think there's a general understanding and appreciation for the fact that things are going up. I would also say from an industry-wise, you are correct. It's become normal. I shouldn't say normal, but people have done it and it's part of the world that we live in. So from our perspective, we need to do the right thing by our investors and make sure that we are passing on costs. Obviously, we try to mitigate where we can, but if not, then we will need to pass that on. And I think you hit on it correctly is we took pricing actions in Q1, but that's on the new business, right? So obviously, we have backlog, so we don't want to necessarily – Barring it being egregious or something really kind of crazy, generally you want to update your price sheets and pricing for all the new stuff. So that's why we earlier said we'll start seeing the benefits of that, some of it in Q2, but we think about it more about Q3, Q4. Got it.

Hendy Sassanto | Analyst, Gabelli Funds:

Farouk, any insight into market recovery in industrials, especially on customers' and distributors' inventories?

Farouk Tewig | President and Chief Executive Officer:

Yeah, so we're seeing, you know, I'd say, you know, distribution is a pretty broad, obviously we touch a lot of end markets and a lot of customers, right? But I would say we've seen pockets of definitely robust strength, and we've seen pockets of still recovery side of things. So as a result of that, when we stitch it all together, we'd say it started getting a little bit more stronger as we headed out of the quarter into April. So I would say we are seeing the strength in distribution, the recovery part of it, which I think is additive to our efforts and to earlier Lynn's commentary as well.

Hendy Sassanto | Analyst, Gabelli Funds:

Thank you, Farouk. Thank you, Lynn.

Farouk Tewig | President and Chief Executive Officer:

Thanks, Andy.

Lynn Hutkins | Chief Financial Officer:

We'll go next to Theodore O'Neill with Litchfield Hills Research.

Theodore O’Neill | Analyst, Litchfield Hills Research:

Thanks, and congratulations on the quarter. Two questions for you. The first one, last quarter you talked about weakness in the rail and e-mobility and wondering if anything's changed there. And my second question is about the strength in Q1. In the last 20 years, companies reported a sequential growth in Q1 over Q4 only three other times. So what was driving the strength here in this sequential increase?

Lynn Hutkins | Chief Financial Officer:

Yeah, good morning, Theo. So I'll cover the initial questions first. So on the e-mobility and rail, I would say it's relatively more of the same from Q4. I think on the e-mobility side, Q4 was probably the bottom that we saw. There was a slight uptick from Q4 to Q1, but nothing meaningful. Both of those areas, I would call them still depressed in Q1. similar to Q4. And then what was the other, I'm sorry, the other part of the question? The broader industrial.

Theodore O’Neill | Analyst, Litchfield Hills Research:

The sequential increase in Q1 over Q4. That's really rare.

Lynn Hutkins | Chief Financial Officer:

In general, right. So as our end market mix is changing, so you're correct that historically Q4 to Q1 we always saw a, or generally saw a decline in And that was largely due to the Chinese New Year holiday and production interruption that we would see in the January, February timeframe with our large dependence on the China workforce. As more of our business is becoming aerospace and defense centric, we are less reliant on China. So it's just having less of an impact. So we're becoming less seasonal. as our end market mix shifts more towards A&D.

spk07:

Okay, thanks very much.

Lynn Hutkins | Chief Financial Officer:

And we'll take a follow-up question from Bobby Brooks with Northland Capital Markets.

Bobby Brooks | Analyst, Northland Capital Markets:

Hey, good morning. Thank you guys for taking the follow-up.

Bobby Brooks | Analyst, Northland Capital Markets:

I was just curious on... get diving a little bit more into the guide. You know, obviously really nice sequential growth. And even if you back out the benefit from data, my data mate, we're still looking at like really nice double digit year over year growth. So could you just expand a little bit on the factors that underpin that outlook? And is, do you have a visibility with the strong bookings already year to date that that type of sequential growth can keep occurring in the back half?

spk07:

Yeah, so I'll just answer kind of generally here before I turn over back to Land Bobby.

Farouk Tewig | President and Chief Executive Officer:

Yes, our backlog continues to build and grow from year end, strength to strength. Q1 was very healthy. Obviously, delivery, you know, could be kind of spread out. From our perspective, yes, we're seeing that. We're also seeing the robustness of the funnel opportunity and new opportunities and also just general, let's say, industry chatter with whether they're customers or distribution partners. But yes, we put a guide here based on, you know, some very good orders that need to be shipped and scheduled to ship in Q2. Obviously, not all of our backlog is for Q2, so we have backlog into Q3 and Q4. Obviously, it starts to scale down post-Q2, you know, a quarter out roughly. So, but when we look at Again, the forecast, the guidance, the discussions, what we have in the backlog, right, that's how we think of it. That's why we said, yes, we do expect robustness. Now, to the specific level, you know, I think we'll be largely kind of very healthy, putting aside some of the obscenity that comes in a Q3, Q4. So we expect to have a very good year. I think I'll kind of leave it at that. I don't feel anything to add.

Lynn Hutkins | Chief Financial Officer:

Yeah, so, Bobby, on the question about the Q2 guide, you know, I think if you're comparing Q2 last year to what we're guiding for Q2 this year, the strength is really seen across both segments. Within ITDS, I would point to the data solutions portion, which is largely AI-driven, and then within ADRS, It's really commercial air, space, defense. We just have several of our end markets that are running very strong right now. So those are the key drivers, and it is supported by the orders received.

Bobby Brooks | Analyst, Northland Capital Markets:

Awesome. That's a super helpful call. And then just one last one for me is you guys have done a really good job kind of finding – finding strong acquisition targets. Obviously, just the data mate looks like more of that. Just was curious to get a feel on capital allocation and your appetite for more M&A moving forward, or maybe is it a pause just to let the data mate get the integration, or just curious to hear that.

Farouk Tewig | President and Chief Executive Officer:

Yeah, no pause here. We are always out and active on the M&A front. Obviously, you know, if you were to kind of set aside a little bit the data made to acquisition, the cash flow, usually Q1 is our biggest cash, let's say, usage of the year, given its bonus, and we pay our big IT and insurance and all this other kind of good stuff. But putting that aside, I think it was a very good cash flow, and we obviously were able to pay for a data made. So as we look out to the balance of the year, we expect healthy cash flow generation. We have a good amount of opportunity on the access to capital side of things. So when we look at that married up with internal bandwidth and ability to execute upon an acquisition, we like both of the sides. So we are open for M&A. We're actively looking at M&A. It feels like we always have some kind of discussion going on around M&A. so we are not hitting the pause by any stretch of the imagination. I think what we would need to be mindful of, maybe how messy it is and how much integration, and the M&A needs to stand on its own merit. So from our perspective, we're wide open for M&A.

Bobby Brooks | Analyst, Northland Capital Markets:

Really appreciate the caller, and again, congrats on this great quarter. Awesome. Thanks, Bobby. Thank you.

Lynn Hutkins | Chief Financial Officer:

And this now concludes our question and answer session. I would like to turn the floor back over to Farouk Touig for closing comments.

Farouk Tewig | President and Chief Executive Officer:

Yep. Thanks, Carrie. And thank you, everyone, for joining us today. A very important thank you to all of our team globally that delivered this outstanding Q1 and what we think will be a very healthy balance of the year starting out with Q2. So thanks, everybody. I'm looking forward to speaking again in July.

Lynn Hutkins | Chief Financial Officer:

Ladies and gentlemen, thank you for your participation. This does conclude today's teleconference. You may disconnect your lines and have a wonderful day.