NASDAQ:BELFA Q2 2026 Earnings Call Transcript

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Dylan | Operator:

Good morning and welcome to the Bell Fuse second 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. 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 Marie Young | Investor Relations, Three Part Advisors:

Thank you, Dylan, and good morning, everyone. Before we begin, I'd like to remind everyone that during today's conference call, we will make statements relating to our business that will be considered forward-looking statements under federal securities laws, such as statements regarding our 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 expectation and reflect the company's views only as of today and should not be considered representative of the company's views as of any subsequent date. The company disclaims any obligation to update any forward-looking statements or outlook. Actual results for future periods may differ materially from those projected by these forward-looking statements due to a number of risks, uncertainties and other factors. These material risks are summarized in the press release that we issued after market closed yesterday. additional information about the material risks and other important factors that can 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 reconciliation of our GAAP results to our non-GAAP results have been included in our press release. Our press release and our SEC filings are all available in the IR section of the website. Joining me on the call today is Farouq Tuweiq, President and CEO, and Lynn Hutkin, CFO. With that, I'd like to turn the call over to Farouq. Farouq?

Farouq Tuweiq | President and CEO:

Thank you, Jean, and good morning, everyone. We appreciate you joining our call today. We are excited to have delivered another strong quarter in Q2 led by robustness across the majority of our end markets and in particular within data solutions and defense sectors. Our distribution partners have also seen a significant uptick in demand. This trend started earlier in the year and has become more pronounced in Q2 with channel sales at its highest level since mid-2022. Bell completed an equity raise in May, selling approximately 1.7 million shares into the market, generating net proceeds of approximately 440 million. The proceeds were utilized to fully pay off our debts with the balance of the cash earmark to fund the closure of the Enercon transaction in Q1, 2027, and to invest in other initiatives to support Bell's growth. As announced last quarter, Bell is now organized under two in-market based segments, Aerospace Defense and Rugged Solutions or ADRS and Industrial Technology and Data Solutions or ITDS. Q2 was the first full quarter for us under the new structure and the team has made nice progress in our segment strategic initiatives. During the quarter, we achieved a notable milestone with Bell's facility in Slovakia gaining their required certification as a defense manufacturer in Europe. We noted on last quarter's call a European defense project win for the Slovakia site, and we're excited to report that Q2 marked an additional eight project wins from the European defense customers for the site. We anticipate these translating to sales beginning in the latter part of 2027, which is the normal monetization cycle of defense wins. From a people perspective, much of the year has been focused on building the team structure to support our growth. This initiative is across the board from operations and sales to IT, finance, legal, and HR. In this area, we made notable progress in Q2 and anticipate having all of the key roles filled by the end of 2026. We have also been doubling down on building out the AMD sales team in Europe and have filled some key positions there as well. We are very excited about these additions. Shifting to what's ahead, it was another strong quarter of bookings across the business, exceeding our level of sales for the sixth consecutive quarter. Based on the information available today, we are projecting that sales for Q3 to be in the range of 205 to 225 million with gross margin in the range of 39 to 41%. Anticipated drivers of the sequential growth from Q2 is a continuation of the same trends, defense, data solutions, and an increase in demand from components through our distribution partners. As a point of note, the recent project wins, robust bookings, and overall favorable market conditions will enable us to take a fresh look at our product portfolio. In this regard, we anticipate there will be some revenue rotation in the coming quarters whereby higher growth, better margin business will emphasize ahead of our lower margin business and products. We continuously evaluate our business and now have the luxury of focusing on better ROI business. Overall, we are in exciting times and there continues to be great momentum across the business. I'm proud and thankful of our global team for their collective efforts and pulling together, pushing forward and achieving another remarkable quarter for our shareholders. And with that, I'll turn the call over to Lynn for the financial review.

Lynn Hutkin | CFO:

Thank you, Farouq. From a financial standpoint, we delivered a strong second quarter. We grew revenue, expanded margins and materially improved liquidity. These results increased earnings quality and financial flexibility. In Q2, total sales were 210.7 million, up 25% from the prior year quarter. Growth was broad-based, led by the defense and data solutions sectors, as Farouq mentioned. The increase in sales through our distribution channel was most prominent among our component products, including fuses, integrated connector modules, and RF connectors. Growth margin was 39.9%, up 120 basis points year over year. The increase primarily reflected operating leverage from higher volume and improved execution. These benefits were partially offset by higher material costs and unfavorable foreign exchange impact. Adjusted EBITDA was $48.9 million compared with $35.2 million a year ago, an increase of approximately 39%. Adjusted EBITDA margin increased to 23.2% from 20.9%. This improvement reflects stronger conversion of revenue growth into operating profit. From a segment perspective, ADRS revenue was $110.5 million, up $18.6 million or 20.6% from Q2 2025. Growth in ADRS was led by defense, which totaled $66.5 million in Q2 2026 a 28.4% increase from Q2 25. Sales into industrial applications were also strong during the quarter, largely through the distribution channel. These areas of growth were partially offset by a decline in commercial air versus last year. ADRS gross margin was 41.1% compared with 41.4% last year. Higher sales volumes added leverage into the P&L, but those gains were more than offset by foreign exchange and material cost pressures during the quarter. Pricing increases implemented on new orders earlier in 2026 are expected to benefit Q3 and subsequent periods. We are also investing in capital projects and process improvements to increase throughput, efficiency, and capacity. Turning to ITDF. Revenue for this segment was $100.2 million, up $23.8 million, or 31.1% year-over-year. Growth was led by sales into the data solutions end market, which was up $20.7 million, or 55% from Q2 2025. Higher demand within data solutions includes the beginning of a ramp related to recent project wins in the high-performance computing space. The acquisition of DataMate in March 2026 contributed 4.4 million of sales in Q2 26 and is included within Data Solutions. While to a lesser extent, we also saw meaningful growth of sales into industrial and consumer applications, which rebounded nicely through our distribution channel in the second quarter. Strength in these end markets were partially offset by transportation, which declined modestly versus last year. ITDS gross margin was 38.8% up from 36.6% last year, an improvement of 220 basis points. The increase was primarily driven by favorable product mix and operating efficiencies, including higher volume and improved utilization. These benefits were partially offset by foreign exchange impacts. The weaker U.S. dollar relative to the renminbi increased costs at our

China manufacturing locations during the current year period. Turning to operating expenses, R&D was $9 million, up $0.9 million year over year. The increase was primarily due to higher personnel costs in the 2026 period. SG&A was $36 million. and many more. We expect SG&A to run in the range of approximately $34 to $35 million in future quarters. Turning to cash flow and liquidity, We ended the quarter with $306.1 million of cash and securities up from $57.8 million at December 31st. This largely resulted from the equity raise completed in May, which generated net proceeds of approximately $440 million. During the second quarter, as Farouq mentioned, we repaid our full debt balance of $197.5 million, resulting in no outstanding debt balance at June 30th. This increase in cash materially improves liquidity and our ability to fund growth, manage volatility, and pursue strategic opportunities. From a working capital perspective, we have heavily invested in working capital to support growth throughout the first half of 2026. Accounts receivable increased 32 million based on higher sales volume in Q2 26 versus Q4 25. Inventories increased $32 million as additional raw materials were procured to accommodate the increase in orders received during the first half of 2026. And accounts payable increased $33 million, largely in line with the higher inventory levels. Capital expenditures were $4.9 million during the first half of 2026. We do anticipate a slightly higher level of CapEx in the second half of 2026. We're prioritizing projects expected to improve throughput, drive growth, and have a quick ROI. Going forward, we will focus on improving the cash generation cycle through better receivables management and payables planning. We do expect inventory turns to remain challenged in the near term as we build up our inventory levels to support our growth projections. Longer term, the objective is to convert a greater portion of earnings into consistent free cash flow as the business grows. And with that, I'll turn the call back over to Dylan to open the line for questions.

Dylan | Operator:

Thank you. We will now be conducting a question and answer session. If you'd 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. Our first question comes from Bobby Brooks with Northland Capital Markets. Please go ahead.

Bobby Brooks | Analyst, Northland Capital Markets:

Hey, good morning, team, and thank you for taking my question. First, I was curious to hear more discussion on the Slovakia site gaining the A&D qualification, because that seems like a very meaningful update for the efforts to grow Enercon product sales within the region. So could you expand on what this means for the long-term strategy? And I think it would also be helpful for folks to remind them of what the Slovakia site was before this.

Farouq Tuweiq | President and CEO:

Yeah, thanks for the question, Bobby, and good to connect with you here. So maybe start backwards from your question. Slovakia historically was our industrial power factory, so focused on things like rail and e-mobility, laser cutting equipment, so kind of very high applications on the power side of the business. And we've been in the process of modifying the facility so that it could also accommodate the aerospace and defense type applications from the acquired Enercon business to serve as a storefront for the European market as that market seeks to have more localized content. Obviously, it sounds a little bit easier than the reality of it, so the team has been hard at work here for well over a year, year and a half on gaining the appropriate certifications, government approvals, You're changing out some flow of the facility, acquiring new equipment, installing equipment, along with also training the team for these applications. So it's a pretty complicated effort. And that was the idea to meet our customers where they are at. And that strategy has started to take hold in terms of translating to WINS. and we mentioned it on the first quarter call and we have nice more wins here on the second quarter and I would say both of these outcomes were in advance of what we initially thought which we when we did this a couple years ago at this point we said we anticipate by end of 2026 to have some wins so that's obviously driven by the market and the realities of the world but also driven by are investments that we've done at the headcount level, marketing level, attending conferences level, and doubling down our efforts with the customers. I would say as we're investing in our go-to-market and sales on the A&D side across Europe, It's really for the whole A&D portfolio, right? Obviously, we have connectivity manufacturing sites in the UK serving the European Union, so we're also needing to push those sales. So when we think about A&D, it is across the portfolio. It's not just any one product line. So from our perspective, it's more the same. Obviously, we flagged Slovakia just given the interest, and it's something we've talked about. But from our perspective, it's kind of more normal investment in the business.

Bobby Brooks | Analyst, Northland Capital Markets:

Very helpful caller. And then, so just curious, there's been a continuous focus over the last several quarters by you and the team to pull internal levers to help spur growth. And now the last two quarters we've seen really excellent growth that's pretty much all organic, right, as the year-over-year costs have included the intercom benefit. And what you guided for, for 3Q, is a continuation of that. So I was just curious to hear maybe some Give you an opportunity to step back a little bit, but just curious to hear which initiatives you feel have been most successful and maybe which more recently enacted the initiatives you're most excited about going forward as it relates to growth.

Farouq Tuweiq | President and CEO:

Yeah, so I think that's a fair question. You know, I think I would say that the wins in Q2 and Q1 are really More of the end of the journey in terms of a lot of the work that has been done by the team earlier this year and last year. So, you know, these wins and as we've talked about, especially on the A&D side, it's a long chase cycle. So the fact that we're seeing the results in Q2, Q1, you know, you'd have to look significantly more into the rearview mirror. I would also say as we think about growth across the portfolio, it's not just one area. We're seeing great wins in data solutions. We're seeing some great things on the industrial side, also the distribution side. So there is a swelling effect of some of the successes that the team has been doing. The real question for us is not are we doing good and are we winning, because I think the answer is yes. The focus of us is are we fully living to our potential? and to where we are today, we're still not at our potential. Therefore, the investments in people, in systems and process, driving the commercial organization harder is still happening. So for us, we talk about the strategic initiatives and put folks on it, but it's not like we have not been doing it for the last two or three years. It's just that we're starting to see some of the benefits of that. So we're still not where we need to be. which is, I think, a great opportunity, especially given all the recent wins that we have been doing, but we think we can and should be doing more. So optimization is really what we're focused on versus, okay, we're doing a good job, we're all going to take a break now, right? So it's just that driving force to live to our potential is what we're getting at. And we're still in the process of that. We haven't fully arrived yet. I'm not sure you ever do, but we want to get a little bit closer to the potential.

Bobby Brooks | Analyst, Northland Capital Markets:

I'm sure I can appreciate that. And maybe just any specific ones that come to mind that you feel that maybe these are initiatives, yeah, enacted in like 24 or early in 25 that you feel have kind of really helped spur? Is it just really an accumulation of several different pieces just all kind of flowing together and kind of benefiting at the same time or starting to flow through at the same time?

Farouq Tuweiq | President and CEO:

Yeah, so if we were to put that discussion into two topics, people and process, on the people side of it, we have added a headcount, we have elevated some internal people that are helping to drive the teams We have also, or continue to add, also had kind of like we said, so the people side of it. We also had people that were the right people but potentially not in the right place. So I think on the people side, we've done a pretty fair amount of movement and reassignment and reestablishing KPIs and expectations of performance, which I think is important. On the process side of it, and the process side of it could be anywhere from the data side. So are we collecting data? Are we putting eyes on it? and are we pushing the data piece of it? So we're still, I'd say, in process of that, but we're pretty dangerous today in terms of tracking and managing to that. So we're definitely excited about it as we think about executive dashboards and CRMs and I'd say that stuff we're kind of moving along on pretty good. The other side is the incentive scheme and we will look into probably modify that as we continue to evolve, but just really rewarding performance and establishing and defining what performance means has been pretty important. And then another key element to, as I said, people and process is ensuring there are outside partners, especially in the reps that we use. And if folks recall, we had to redo a lot of our agreements with them to favor and pay more on new wins versus just legacy flow business. So I think that was a catalyst for change. and I think when we look at people process plus outside partners re-establishing our expectations and contracts, I think that has together collectively been the momentum. The other thing I would say is we are seeing that re-segmenting our business has also, I'd say is gonna be another lever and catalyst for focus and helping driving the depth because we are really at the end of the day an end market driven business and kind of, you know, speaking the language and the drive that our customers are in driving those relationships more seriously. The other thing I would say on just the process side I forgot as we talked about restructuring piece of it, obviously we restructured into two segments, but also we created more focus around business development and key account management and we're seeing also the great benefits of that. So we were missing some of these, let's call it more basic structures. So I'm not sure there's one thing I can point to,

Bobby Brooks | Analyst, Northland Capital Markets:

but we're very excited to see what our leaders are doing and the team is delivering on aided by process and outside reps. Super helpful Farouq, really appreciate it and definitely makes a lot of sense as a lot of different pieces go into making a winning team like you have so appreciate the time and congrats on the good quarter. Thanks Bobby.

Dylan | Operator:

Our next question comes from Wamzi Moan with Bank of America, please go ahead.

Wamzi Moan | Analyst, Bank of America:

Thank you so much. Good to be on this call. I wanted to ask a little bit about the very strong defense growth that you're delivering here. Do you see this sustaining through the rest of the year? And do you need to add capacity in defense? I know Lynn, you mentioned higher CapEx. What's that primarily geared towards? And I will follow up as well.

Farouq Tuweiq | President and CEO:

We definitely think the outlook is looking pretty good, right? And let's kind of keep in mind that when we look at revenue, revenue is a little bit of a laggard indicator, right? Because it indicates that you've already won a project and that you're starting to monetize. So from a forward-looking indicator, which the near forward is around bookings, and the kind of medium term is around new wins. So when we look at forward indicators, bookings, and new wins, we're definitely seeing the robustness, and we are seeing the discussion modify on the defense side specifically. Also, we're expanding more on the obviously European piece by increasing our headcount. In terms of capacity, we, you know, capacity has not really been a big concern of ours, and we'd like to actually be more capacity challenged. in the sense that we are obviously investing in CapEx. But the other thing keeping in mind is as we get Slovakia going a little bit, that will naturally give a little bit more flex on the capacity piece of it. So capacity is not really a major concern of ours today. The focus is on the commercial front end of the house. We have the capacity and the ability to run the channel. The maybe more interesting thing we're focused on in addition to the wind is really the challenges within the supply chain, availability of materials is kind of the thing that we think about. So from a manufacturing perspective, not so much, but in terms of sales teams, we're adding more because we think we'll be more, we're adding more engineers also on the A&D business specifically in a place like Slovakia. So all in all, we like how this is looking and we are investing in the right opportunities to get ahead of it as well.

Wamzi Moan | Analyst, Bank of America:

Okay, thanks Farouq. And then just as a follow-up, when you look at the incremental margins in the quarter, those took a nice step up. Looks like in your guidance too, there's very strong incremental margins, particularly at the operating margin level. How much of this is pricing versus mix versus other factors? And was there any pull forward as far as you can tell in the business in any areas that you'd call out if you saw any of it?

Farouq Tuweiq | President and CEO:

Yeah, so when we look back at our call that we had for the first quarter, which we had in April, we had talked about the challenges around inputs, material, and cost, really across the portfolio. Shipping costs were going up. FX was going against us. Raw material input was going against us. So the way I would think about the margin improvement is largely has been operational leverage in nature. which kind of helped drive this margin. So what we did back in February and March timeframe, we did put some price increases on new orders which we said we'll start seeing the benefit of that in Q3 and Q4. So the good news is the way we look at Q2 while we did have headwinds, we know the model is working because despite everything kind of going against us so to speak, we've seen the business deliver the operating leverage. So we have a proof point if you will. and hopefully as we head into Q3, we'll start seeing the benefits of price recovery and operational leverage. We'll obviously not recover the full price in Q3 because it was on new orders that are going to get shipped out over time. So the expectation is we start seeing benefit of price, which I don't think we saw much of that in Q2, and we'll hopefully start seeing some other order of that in Q3.

Dylan | Operator:

Okay, great. Thanks a lot, guys. Our next question comes from Christopher Glenn with Oppenheimer and Co. Please go ahead.

Christopher Glenn | Analyst, Oppenheimer & Co.:

Hey, good morning. So, yeah, just in terms of the gross margin, you know, I think it's the second quarterly guy in a row where you ticked up from what had been the run rate of guidance for three or four quarters previously. And today, Farouq, you noted that You've got a nice opportunity to continue to press higher margin, higher growth products. Are you suggesting that just some of the take rates and the overall growth are allowing you to de-emphasize more of the so-so mix end of your volume? And so you see a fresh kind of mix lever that has availed as the economy and some of your end markets have strengthened?

Farouq Tuweiq | President and CEO:

Yeah, you know, I think we called that out, Chris, is I think the normal expectation is when you start having an abundance of wins or new opportunities is you're thinking about where do we allocate really two things, hours and money. And as we have done a nice job on the wins and we expect more out of the commercial organization, more wins, I think we can start thinking about, well, where do we want to allocate more of our time Thank you for joining us. So it's nothing too special. I think when you look at the industry, our competitors do this on a regular basis. For us, it's a little bit of a new luxury. And we're calling it out because we are a company that's in an evolutionary stage. We've been on this evolution here for the last few years, and we expect to continue to evolve. So from my perspective, this is a testament to the team allowing us to do some of these rotations. So we just called it out really in the spirit of flagging behavior and messaging, where historically we have not done as much of that. Okay, great.

Christopher Glenn | Analyst, Oppenheimer & Co.:

Thanks. And a little bit on the data solution side, I think Lynn set up 55%, maybe 20.7 million in sales, or did she say plus that amount? I'm not sure. But also, you know, key customers hitting scaling inflection has been kind of a topic year to date for the data solutions business. I understand some of your customers in the AI space might, you know, have some optionality and take rate opportunities. Are you seeing some of that start to play through?

Farouq Tuweiq | President and CEO:

Yeah, I kind of live comments on that. But overall, your assessment is correct. We are seeing inflection points. We are seeing growth. And I think we've played it pretty wisely to where we want to allocate resources on that. And we are seeing those efforts, really, nearly two, three, four years ago, efforts paying off today. Lynn, you want to comment on that?

Lynn Hutkin | CFO:

Yeah, so thanks, Chris. Just to clarify the numbers there on data solutions. So it was about $58 million in Q2 26, up from $38 million in Q2 last year. So it was a $20.7 million or 55% increase year over year, just to clarify those numbers.

Christopher Glenn | Analyst, Oppenheimer & Co.:

Great. Thanks for that. And yeah, last one from me. So I think you mentioned eight new European defense design wins, and last quarter you mentioned a couple. Just curious about the spectrum of size of those applications. I know Intercon specialized in small lots. You know, what's the breadth? Is this a couple of customers or is it a wide range of customers and just kind of small lots versus potentially larger lots? Just curious, a little more complexion.

Farouq Tuweiq | President and CEO:

Yeah, kind of a combination of that, right? By default, Europe, you know, not too dissimilar to the American side, you know, there tends to be concentration of OEMs, right? But we tend to think about it is around the platforms that you are on. And ideally, you want platform diversity, whether it be things that fly or things that are on the ground or things on the water. And for us, we want to measure and see diversity of programs because generally it's different engineering teams and sometimes Europe is different countries where these things get done. And so when we look at the diversity, we like the diversity. So it's not a, yes, there are some kind of, you know, if you look at it from a customer perspective OEMs, which is normal for us, right, on the A&D side. but we're seeing the diversity platform. In terms of scale, we think these are multi-million dollar, collectively here, opportunities over, and we think about it, Andy, over the life cycle of the program. So these could potentially turn into some very nice big wins for us. So yes, they're large, but I wouldn't say there's one dominant one, which we kinda like that diversity play a little bit as well. Because also funding cycles, tend to go to maybe differing technologies or different applications. So you want to make sure you have enough diversity so if something gets funded, you're on it. I'll give you, obviously, an example on that. We have pretty heavy presence in the U.S. side on the missiles side of it, which is a topic that's all in vogue, and we're pretty diversified on those, whether it be the launchers or the missiles side of applications. So now we will be benefiting from that growth. Why? Because we kind of had a few... diverse opportunities over our history. So diversity is kind of what we're focused on slash new wins. That's kind of really the only control, but we can't control funding cycles or anything like that. So we want to make sure that we have diverse new wins and we can say we've accomplished that at least in this small sample size that we're talking about. Sounds great. Thank you. Thank you.

Dylan | Operator:

Our next question comes from James Ricciuti with Needham & Co. Please go ahead.

Farouq Tuweiq | President and CEO:

Thank you. Good morning. I was wondering if you could provide any color on the bookings in ITDS and ADRS, where you're seeing the strength. Obviously, you've called out data solutions and defense, but just if you can give us a little bit more color on the bookings activity you're seeing.

Lynn Hutkin | CFO:

Yeah, so Jim, thanks for the question. You know, I think on the bookings, as we mentioned, we have been seeing positive book to bills for six consecutive quarters now that has been broad based. So it's really been across, you know, both segments, most of our product lines, most of our end markets. I would say it is, you know, largely in defense and data solutions. and also through our distribution channels. So this is something that had been, you know, soft for the last couple of years and we're seeing that rebound nicely over these, excuse me, last couple of quarters and Q2 was particularly strong. So, you know, things that go through distribution, as I mentioned on the call, it's, you know, things like fuses and our ICMs and RF connectors. So it's components that kind of go into a, a wide variety of applications. I would say there is concentration in defense and data solutions, but it's not contained to those. It's much more broad-based.

Farouq Tuweiq | President and CEO:

The replenishment that's going to be required on the defense side, particularly in the missiles area. Are you seeing that yet, or is that something you're anticipating that potentially comes later in the year, early 2026? Yeah, so obviously public discourse and discussion leads the money. So the discussions obviously are happening for any casual observer of the news, as I'm sure everybody can follow here. We are seeing positive momentum on that front, but I would say there's a gap still between the required funding that people want to get to replenish and what we're seeing. So it still hasn't trickled all the way down. So in short, we are seeing benefits of that. We are seeing some orders of that. The chatter in the channel around expectations and build rates is great. but still waiting on all sorts of kind of government funding to come through. So the nice news is we are seeing increased orders but still I think the funding needs to be more to achieve let's call it maybe normalization of stockpiles which obviously as you I'm sure are reading the news is not going to happen in the next year or two. So it will be an ongoing effort for the near future.

Dylan | Operator:

Are you seeing more activity in the space market?

Farouq Tuweiq | President and CEO:

I'm wondering, yeah, obviously that's also been in the news. Can you quantify perhaps what kind of revenues you're seeing or the growth in this part of the business? I know it's an area that you have been putting more resources.

Lynn Hutkin | CFO:

Yeah, so space for this quarter was 3 million. So it's up slightly from where it was last year. So it continues to be you know small for us but in the area that you know we think that there's a lot of potential in especially as we look out over the next couple of years.

Farouq Tuweiq | President and CEO:

And I think you know Jim that's another example of right we are on a I think we have over 250 customers we're on a lot of platforms and designs the bottleneck is the ability to launch things into space so until that bottleneck gets fixed before maybe we see some bigger numbers but we are well positioned given the wins and where we are and who we're speaking to and the number of customers but they gotta figure out how they get it into space given the bottleneck there. So that's kind of a good example of we need to focus on wins. We don't control when the revenue happens exactly but design wins is really the leading indicator for us. Thank you.

Dylan | Operator:

Thank you. Our next question is from Luke Young with Baird. Please go ahead.

Luke Young | Analyst, Baird:

I'm going to take the questions. Farouq, when I start in Europe, the eight project wins in Slovakia, I think you said that was better than expected, especially relative to the timing of those awards. Can you just say what it means about the pipeline that you're seeing in some of the commercial development activity that is driving that from an internal standpoint as well? Thank you.

Farouq Tuweiq | President and CEO:

Yes, so when we acquired Enercon back in Q4 2024, and we talked about this was going to be a more commercial synergy play, and Europe being a very important piece of that commercial play, and we said at the time, you know, because we know we had to do some work, whether we have a slow market facility, adding some headcounts, restructuring the business, and giving the pace that the Europeans can move at, we said we'd expect to see some of the benefits of the commercial synergies end of 2026. And the fact that we can point to some wins in Q1 and Q2 of 2026 by definition ahead of schedule. Partially attributed to the dynamics changing between obviously the change in administration in 2024, the realities of the ground of changes, and the tone and political discourse has changed. So that has allowed for acceleration of on-continent, let's say, production and leaning into their independence. So I think that's moved up a little bit more. I think we are seeing a lot more opportunities, and part of the restructuring, we said we've added some headcounts I mean the selling of defense products is a very intimate long cycle design sale process so we've added some headcount which we're seeing some nice more shots on goals which we hopefully will translate to new wins we are still looking to add a few more headcounts in Europe we're not you know fully wrapped up there on the team side yet so as we bring on new people and the new people get their legs underneath them across different countries in Europe We continue to expect more robustness in our growth. And then at some point, right, it just becomes a normal part of the business for us. But Europe is kind of the biggest opportunity in both the connectivity business and on the power business because we have an in-market sales, agnostic sales team in Europe that are selling all of our A&D products.

Luke Young | Analyst, Baird:

Well, thank you. Lynn, you mentioned in your remarks that the higher demand and data solutions included the beginning of a program ramp and high-performance compute. Can you just expand on that in terms of materiality and looking into the back half of the year, is this one of the things that we're seeing an uptick in the revenue guidance walking into 3Q?

Farouq Tuweiq | President and CEO:

Yeah, so yes, it is feeding into that. We are seeing, as you noted here, Luke, programmatic wins. Obviously, these are some of the things that we've won quite a while back, but now we're starting to see, right, because as our customers gain customers and as our customers deploy their products, it kind of reverberates back to us, which is great. When we look at the bookings, which lead this indicator, and obviously the chatter with our discussions and the intimacy as they're getting customers, our expectation is further ramp as we close out the year and as we head into next year. So the markers, the indicators, whether it be bookings on books, bookings are promised to come, or general, do you guys have capacity and are you ramping up? Let's figure out planning discussions. All of that is indicating an upward, healthy upward trend.

Luke Young | Analyst, Baird:

Got it. And then maybe bigger picture for just curious to get your updated filter lens for M&A now, some dry powder on the balance sheet and a little bit of noise in the market just in general.

Farouq Tuweiq | President and CEO:

Yeah, you know, I think one of the The things that we tend to think about is we are a long cycle design business. So while we appreciate that public markets are having let's say a lot of changes and shifts that are going on, we are focused on investing in the business for the medium and long term where we think there is good growth, good technology needs, good alignment with our customers, So we'll continue to invest in the business, whether it be technologies or capacity additions or new end markets. Nothing really changed from our perspective. What we are seeing in the market is, I'd say, a fair amount of, let's maybe call it aggressiveness or irrationality around payments. And we've seen some of our peers do acquisitions that we just think are not for us. So we'll focus on us. So we will be disciplined. We appreciate our investors' trust in our recent equity offering, and obviously those are with us for a while, to be honest with you. So we will be disciplined. We're not looking to go all the way crazy. So we will be disciplined in our approach, despite the market doing some maybe irrational things. So the pipeline, from our perspective, There's a lot of opportunities, and at that, I think it becomes a question of how hard do we want to compete and how crazy we want to get. So that's going to be a balance for us, but ultimately, foundationally, we're going to be balanced and mature in our approach of doing things, but not overly conservative.

Luke Young | Analyst, Baird:

Got it. I appreciate the perspective. I'll leave it there. Thank you.

Farouq Tuweiq | President and CEO:

Thank you.

Dylan | Operator:

Our next question comes from Greg Palm with Craig Hallam Capital Group. Please go ahead.

Luke Young | Analyst, Baird:

Good morning. This is Jackson Trader on for Greg Palm. Appreciate you guys taking the questions. Quick follow-up to that M&A piece, just kind of a basic one for me. That extra 20% left for Enercon coming next year, is that as simple as just the 20% coming off that $400 million, or should we expect some kind of like upward or downward adjustment for that?

Farouq Tuweiq | President and CEO:

Yeah, so it's, and this is, you know, for those that want all the exciting details, we have put this back in our public disclosures back in 2024. It's a purchase of the remaining 20% equity interest in the business, and we will be taking measurements of EBITDA and paying a multiple off of that, and then figuring out down to equity value, that's how we're going to get to the 20%. We put a, let's call it a cap on the upside to the tune of 135% of what it was back when we actually did the acquisition. So there is a cap, but it's not 20% of the 400. It's going to be 20% of the actual EBITDA of the business. And we do accrue for all that. I'll let Lynn hit on that here.

Lynn Hutkin | CFO:

Yeah, and just so each quarter, in case you're tracking it, so on the balance sheet, we do have a redeemable non-controlling interest line there. As of the end of June, it was 102.6 million. So that's representative of what it would have looked like as of that date. Obviously, as Endercon continues to do well, you know, that number increases as their TTM EBITDA increases. But to Farouq's point, you know, we will get to the point where there's a cap there. But that's the current value of it as of June. And then just to remind you, there also is another earn-out payment. If you recall, there was a $5 million earn-out that they had achieved based on 25 results that was paid out in early 26. There's a similar one based on 26 results that would be paid in early 27. So those are kind of the two components as far as, you know, cash needs related to that.

Dylan | Operator:

Perfect.

Luke Young | Analyst, Baird:

Just on the organic versus inorganic side, can you kind of size, you know, your excitement and what you're seeing with organic growth on the elevated capex that you have on some sort of short-term high ROI projects? How much of that focus kind of going forward is really in the organic versus inorganic?

Farouq Tuweiq | President and CEO:

I would say we appreciate that some folks will commingle those. For us, those are distinctly separate. Our organic play in the team, the sales initiatives, all the things that we've been talking about is the organic. So our team and our day jobs is focusing on the organic piece of it and driving that. So as we think about CapEx or hiring people or investment in technology, from our perspective, it's organic. In organic, we have a separate team that obviously does partner with our leadership and our senior leaders to identify, pursue, and Go After, but we're not de-emphasizing one over the other. So we kind of look at them as two separate tracks and the objective is for each of those tracks to run as hard as they can. So we're not looking at co-mingling, but our discussions here are generally around the organic piece of the business. We don't put any kind of long-term kind of sizing or targets on that, but we expect continued robustness from here.

Dylan | Operator:

Perfect, Elizabeth. Thank you.

Farouq Tuweiq | President and CEO:

Thank you.

Dylan | Operator:

Our next question is from Tomo Sano with JPMorgan. Please go ahead.

Tomo Sano | Analyst, JPMorgan:

Hi, good morning, everyone. Thanks for taking my question. With the data facility transitions and ERP conversions completed, could you talk about what the state benefits should we expect and when should they show up in the numbers, please?

Farouq Tuweiq | President and CEO:

Sorry, you could have broke up there, Tomo. So the question is around the data, okay, and then, yeah, so okay. So obviously, as we restructured our business and created Key Accounts Group and business development within ITDS specifically because DataMate sits within ITDS, we're seeing the benefits of that, right? So whether it be on the BD side and the team that did come over to us with DataMate has been great. and they've been really doing their day jobs in addition to a facility move, in addition to therapy conversion. We just keep seem to be throwing more at them and they're fully embracing the journey. And we're seeing some of the benefits of that with robustness on the backlog and opportunities. We have fed them into the Bell machine. I'd say we're, I can't say that we're fully up and going, obviously given the nature of our business. but we're starting to see the benefits of that. We invested a little bit more in the BD side for their products and we've already identified a few opportunities so we'll see that coming. Keeping in mind that from a revenue percentage perspective when we acquired Datamate is around 18 million so if you were to think about that from a you know obviously you know 18 is a great number but it's in itself is not going to be a massive mover for the ITDS or Bell Fuse business.

Tomo Sano | Analyst, JPMorgan:

Thank you, Farouq. Appreciate it. That's all. Thank you.

Dylan | Operator:

Our next question comes from Theodore O'Neill with Litchfield Hills Research. Please go ahead.

Wamzi Moan | Analyst, Bank of America:

Congratulations on the good quarter. I've just got one question here. Obviously, with Enercon, you're in a Thank you for joining us.

Farouq Tuweiq | President and CEO:

Thank you. Thank you. Thanks Farouq. The other thing I would say, you know, to that point, we're seeing more investments in new technologies, right? And we're seeing emergence of new players. So we feel like we have a pretty good job at tackling the change in the end markets here, whether it be geographic, technological, or manufacturers. I feel like we're doing a pretty good job at tackling it from all fronts here.

Dylan | Operator:

Thank you. Yep. Our next question is from Asiya Merchant with Citigroup. Please go ahead.

Asiya Merchant | Analyst, Citigroup:

Oh, great. Thanks for squeezing me in here. And I apologize if this was asked earlier because I was on another call as well. But between the two segments, could you maybe peel a little bit about demand dynamics, how we should think about what's baked into the guidance here, both on the top line as well as how we think about gross margins, because it did take a nice step up for the ITDS segment. I think, Farouq, you talked a little bit about price recovery here in the second half. So if you could just help us between the two segments how we think about the gross margin ramp as well. Thank you.

Farouq Tuweiq | President and CEO:

Maybe looking at both segments separately, the main driver on ADRS was defense, spend and production. and on the ITDS side, it was, I'd say that maybe the leader there was data solutions, but also from a percentage perspective, but we're seeing great things in terms of, let's call it industrial, industrial technology business, which would include a large amount of other industrial type applications and rail and so on. But also it cuts across both segments is the increase in distribution. So we're seeing it on all fronts from an end market perspective. And also same thing as we look at the bookings that came out in Q2 is kind of broad-based, which is kind of a good thing versus concentration. The other thing I would say on the gross margin piece, because we put in, let's call it a holistic price increase in February and March, and we said we're not really going to see the benefit of that until Q3 to Q4, I would say the step up in gross margin that happened in Q2 was operational leverage and thanks to a lot of internal work done by the team. So I would not characterize that as pricing. As we head into Q3, it will be a combination of operational leverage and some pricing. And because we can all appreciate the pricing cost dynamic is still was a little bit still challenging Q2, not as maybe big of a percentage, but Q2 had some pricing pressures as well heading into the next quarter in terms of bookings. So we'll see a little bit of both, but I'd probably argue that the most part of our gross margin step-up is gonna be operational leverage in nature.

Lynn Hutkin | CFO:

And the other thing that I'll add is on the FX side, that was a large, Thank you all for joining us. and that does have a big impact on our margin. So if those two currencies do move more favorably, that will also assist the margin expansion.

Farouq Tuweiq | President and CEO:

Thank you.

Dylan | Operator:

Our last question comes from Hendi Susanto with Gabelli Funds. Please go ahead.

Theodore O'Neill | Analyst, Litchfield Hills Research:

Thank you, Lynn. Thank you, Farouq. And then congrats on great results. I'll squeeze my two questions into one. Farouq, would you be able to share the magnitude of the price increase? That's one. And then second, you talk about revenue rotation into favorable higher margin products. Can you share more colors in terms of timing and which product lines or product groups or whether it's broad-based?

Farouq Tuweiq | President and CEO:

Yeah, I appreciate the question here, Andy. I think our pricing Remember, we have a lot of SKUs for our company, our size, and customers. So it was really a surgical effort around what input costs went up where, coupled with the ability for the market to tolerate it. We have to kind of make some serious decisions also along the lines of, well, what is it that we're working on and expect to coming up here? So when we kind of look at all of that, I would say it was pretty broad-based and a pretty wide conversation. So that's one, but I'm not going to put a specific percentage on that. I don't think that will do us well. And then in terms of rotation, it's really within ITDS, I would say, and maybe more specifically as we think about data solutions. you know we are seeing some nice wins and outcomes that maybe we want to you know kind of shift the portfolio and allocate resources again I wouldn't say there's anything special about that or unique I think that's a very normal business going my guess is we'll start rotating some of that and having these discussions and impacts as we head into I don't know Q4 into 2027 will be measured obviously in our approach But, you know, I think we have more than enough growth here to handle the business, right? So partially as we continue to grow and continue to pay our bills and get the operational leverage. So it's a little bit of balance, but we're not looking to commit to a dollar amount to that because I think that would be a little too arbitrary.

Tomo Sano | Analyst, JPMorgan:

Thank you.

Farouq Tuweiq | President and CEO:

Thank you.

Dylan | Operator:

We have reached the end of our question and answer session. I would now like to turn the floor back over to Farouq Tuweiq for closing comments.

Farouq Tuweiq | President and CEO:

Thank you everyone for joining our call today. We definitely enjoy these questions here. We think we have an exciting story and we continue to deliver despite some of the choppiness out in the market. So we're excited to be halfway of the year here and continue to look to hopefully a good close for the year. Thank you again for everyone for their vote of confidence. Looking forward to our next call. Everybody enjoy the rest of your summer.

Dylan | Operator:

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