NASDAQ:BELFA Q3 2026 Earnings Call Transcript

Generated on 11/25/2026

Conference Operator | Operator:

Good morning and welcome to the Bell Fuse Inc. Third Quarter 2026 Earnings Call. As a reminder, this call is being recorded. If you'd like to ask a question, please press star one on your telephone keypad. I would like to now turn the call over to Jean Marie Young with Three-Part Advisors. Please go ahead, Jean.

Jean Marie Young | Three Part Advisors:

Thank you and good morning, everyone. Before we begin, I'd like to remind everyone that during today's conference call, we will make statements relating to our business that will be considered forward-looking statements under federal securities laws such as statements regarding the company's expected operating and financial performance for future periods, including guidance for future periods in 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 obligation to update any forward-looking statements or outlook. Actual results for future periods may differ materially from those projected by these forward-looking statements due to a number of risks, uncertainties and other factors. These material risks are summarized in the press release that we issued after market closed yesterday. Additional information about the material risks and other important factors that could potentially impact our financial performance and cause actual results to differ materially from our expectations 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 FCC 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 FCC filings are available in the IRF section of our 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. Good morning, everyone. We appreciate you joining our call today. We are pleased to have delivered another strong quarter, led by continued momentum in our data solutions and industrial end markets. We also saw increased demand through our distribution partners, which contributed positively to our performance during the quarter. It was a nice quarter to see the team deliver these results with lost productivity in certain operations due to summer vacations and holidays in places like Israel. We're very proud of the performance of our global team and the quality of its execution in a heightened demand environment. Our factories did an outstanding job securing materials, increasing manufacturing capacity, and strengthening business resiliency. The operational discipline enabled us to deliver growth despite continued variability and uncertainty in global markets. We're also moving faster and operating with a more entrepreneurial mindset. were making decisions closer to the customers, responding more quickly to changing market conditions, and acting decisively on opportunities. Growth was led by our data solutions business, including the broadening AI ecosystem, as well as our industrial applications. This performance demonstrates the strength of our global operating platform, the resilience of our business, and the ability of our people to execute at a high level. As previously discussed, and as some of you know, Bell is now organized under two in-market-based segments, and we are entering an important period as we plan under the new organizational structure. We will be holding our second Global Leadership Offsite in November, bringing together our global leadership teams for the first time since establishing the two new segments. The

session will focus on further defining our operating model and strategic priorities, as well as continuing to identify segment initiatives that unlock the full value of our structure. I'm excited about this one as we have had some new teammates at the executive level and among our key leaders at the VP level. On another note, we continue to see strong bookings across the business with record all-time high bookings, again, exceeding our level of sales during the quarter. This provides us with continued confidence in the momentum across the markets we serve. Based on information available today, we expect fourth quarter net sales to be in the range of $220 million to $240 million, with gross margin between 40% and 42%. This outlook reflects continued momentum across our key markets, including data solutions, industrials, and defense, as well as ongoing demand through our distribution partners. Overall, we're excited about our performance this year and how the year is shaping up. I am proud of our global team's focus on execution, their commitment to advancing the organization, and their continued efforts to deliver another remarkable quarter for our shareholders. And with that, I'll turn the call over to Lynn for the financial review. Lynn?

Lynn Hutkin / Asya Merchant | CFO / Analyst, Citigroup:

Thank you, Farouq. From a financial perspective, we've delivered a strong third quarter with double-digit year-over-year revenue growth across both segments, improved gross margin, and higher adjusted EBITDA margins. Third quarter sales were 220.5 million, up 23.2% compared with the prior year quarter. Growth was strong across multiple end markets, led by data solutions and industrials. We also saw an uptick in activity through our distribution channel, with strong end customer demand coming from both segments. Gross margin was 40.9%, up 120 basis points year over year. The increase was driven primarily by operating leverage from higher volumes, pricing, and stronger execution. These benefits were partially offset by higher material costs and unfavorable foreign exchange impacts. Adjusted EBITDA was $52.5 million compared to $39.2 million a year ago, an increase of approximately 34%. adjusted EBITDA margin increased to 23.8% from 21.9%, reflecting strong conversion of revenue growth into operating profit. From a segment perspective, ADRS revenue was 106.6 million, up 10.3 million, or 10.7%, compared to Q3 25. Growth was led by sales into industrial applications largely through the distribution channel, followed by defense. These areas of growth were partially offset by a decline in commercial airspace due to the timing of shipments into this market. ADRS gross margin was 39.6% compared to 41.1% last year. The decrease was largely attributable to market and channel mix in addition to unfavorable FX movements related to the Israeli shekel and Mexican peso. Turning to ITVS, revenue for the segment was 113.9 million, up 31.2 million, or 37.8% year-over-year. Growth was led by the data solutions and market, which was up 27 million, or approximately 61%, compared to Q3 25. We continue to see strong growth with our AI-focused customers, where Q3 revenue totaled approximately 12.4 million. As a reminder, this amount is what we refer to as our AI floor as we have additional exposures to AI that leaves visibility within our general data solutions customers. This is an increase of 9.2 million from Q3 25. Also, the DataMate acquisition in March 2026 contributed $4.9 million to Data Solutions revenue during the quarter. Strength across these end markets was partially offset by a decline in transportation revenue during the quarter. ITDS gross margin was 42.7%, up from 38% last year, an improvement of 470 basis points. The increase was primarily driven by higher volumes, improved utilization, and pricing actions. These benefits were partially offset by foreign exchange impacts related to the Chinese renminbi and higher material costs. Regarding operating expenses for the quarter, R&D expense was 8.8 million, up 1.3 million year over year. The increase was primarily attributable to higher personnel costs. SG&A expense was 39.4 million, up 6.6 million from last year. The increase was primarily driven by higher compensation and benefits, including stock compensation, an increase in legal and professional fees, higher costs in USD as a result of FX movements, and the inclusion of data meets SG&A expenses in the 2026 period. We expect SG&A to run at a similar level to the third quarter going forward. Cash flow and liquidity. We ended the quarter with $333.1 million of cash and securities compared with $57.8 million at December 31st. The increase was largely the result of the equity raise completed during the second quarter of this year. We continue to be in a strong cash position to fund growth, manage volatility, and pursue strategic opportunities. From a working capital perspective, we continue to invest in working capital to support our growth through the first nine months of 2026. Accounts receivable increased by 33 million, reflecting

higher sales volumes in Q3 26 compared to Q4 25. Inventories increased by 56 million due to investments made in raw materials to accommodate an increase in orders and timing of shipment. Accounts payable increased by $37 million, largely in line with the higher inventory levels. Capital expenditures were $11 million during the first nine months of 2026 as we continue to invest in efficiency initiatives and capacity requirements. We continue to focus on improving the cash conversion cycle through better receivables management and payables planning. We do, however, expect inventory turns to remain challenged in the near term as we build inventory levels to support our growth projections. With that, I'll turn the call back over to the operator to open the line for questions.

Conference Operator | 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 two if you'd 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 is from Bobby Brooks with Northland Capital Markets. Please proceed with your question.

Bobby Brooks | Analyst, Northland Capital Markets:

Hey, good morning, team, and thank you for taking my question. I'm really impressed by the 4Q outlook, and I think it's more impressive when you add the context of how that really bucks the seasonality, historical trend the business used to see. So on that note, I just wanted to give you the floor to add that context for folks who might be newer to the story, and also to expand on what factors you feel are helping drive that sequential step up.

Farouq Tuweiq | President and CEO:

Thanks, Bobby. Good morning. Thank you for the question. So you are correct, historically, you know, I'd say most of the time Q4 generally is a step down from Q2 slash Q3. And partially that's attributed to the productivity or their lack of that happens in Q4, whether we're thinking around, you know, end of December holidays, you know, Thanksgiving, our nature tends to be golden week. and also when we look at last year, I think the Jewish holidays were in October. So when we look at Q4 this year, I'd say we have a little bit more productivity given that some of those holidays shifted into September. But there is still the fundamental reality that demand is very strong into Q4. and that demand is really cutting across the majority of the business as we're thinking Q over Q, whether it be the A&D markets, data solutions markets, distribution. So there is definitely a demand of tick and drivers that's helping carry momentum into Q4. So that's going to really what resulted in the upper guide. Strong demand, strong bookings, as we said, all-time high. record for us more than sales in a quarter, coupled with more productivity days in Q4.

Bobby Brooks | Analyst, Northland Capital Markets:

That's very helpful. Thank you. And it also just feels like, piggybacking on that, it just feels like the growth initiatives launched the last year or two are really starting to shine through, whether that be the new sales head, revamped sales comp, aligned better with KPIs. or the Reshape Go-To-Market strategy for Tier 2 customers. So my first question is, is that fair logic and can there even be more benefits from those? And then secondly, more recently enacted growth initiatives this year, such as the resegmentation to go to customers by end market and be a solution provider rather than approaching by product, are benefits from those those initiatives enacted this year kind of still developing and not reflected in today's results in the 4Q Guide?

Farouq Tuweiq | President and CEO:

Yeah, I would say I think we've launched a fair amount of initiatives, right, including a lot of the stuff that you just talked about here, Bobby. But I would say we are seeing the benefits of a lot of those initiatives. Obviously, our business, given the nature of our design cycles, It's hard to say week over week, but if we zoom out and look at the first nine months, I would say all initiatives have bared some kind of fruit. I would also say, if you remember, where we launched Q4 last year, and we talked about around key accounts and business development efforts to drive further customer intimacy, I think that was a very crucial moment. Play For Us, and we're seeing the data intimacy translate into more shots on goal. But to your point around really driving all of our portfolio to the extent that we can to our customers, I think has been very helpful. are also, I would say, some of these longer-term relationships that we've been growing up with over time, if you will, that used to be Tier 2 or maybe smaller, that we have grown together and they're hitting their strides as well. So allocating some bets on some customers, I think, is also paying off for us. In terms of the call it system approach sale that we always knew would be a little bit of a longer one because it's a retraining of the market perception of kind of where we are and who we are. But we're definitely seeing some glimmers of, you know, we can do this and we can do this as well type approaches, which is nice to see. Also, let's not forget our Slovakia-European efforts have also continued to bear fruit. So really, it's kind of across the board. The other thing I would say that we did this time, as well is that we are, I alluded to it earlier here, around pushing down the sales closer to the segment so that it's a little bit more entrepreneurial ownership mindset for faster reaction and better read on the market. So I feel like we're picking up speed, we're seeing more, and we're kind of bear-hugging the customers. So I would say all around, we like a lot of our initiatives. We have better systems. If you remember, we also invest in systems. We still would like to optimize a little bit more. But we're seeing the fruits of that. I can't say we have quote unquote arrived, but we're definitely becoming dangerous to see more and also really drive accountability down the organization, I'd say.

Bobby Brooks | Analyst, Northland Capital Markets:

That's excellent to hear. And just last question for me, kind of piggybacking on the Slovakia UK EU efforts. Just any new program wins for A&D? I think the last quarter you were up to like 10 year to date, and a lot of those were kind of cross sales where there was an intercom plugging in with the cinch or the reverse. Just wanted to hear any comment there.

Farouq Tuweiq | President and CEO:

Yep. So the good news is really more of the same, right? In terms of program wins, we've definitely seen them come through in the third quarter. You know, over time, obviously, as we've talked about previously, these wins specifically in the kind of start off small over time to grow up. So we'll see where that goes. I think we're also, you know, I think recently, maybe into the fourth quarter here, we had our and what we think is our first one as we think about using Slovakia as a little bit of the storefront for our connectivity business, which is kind of an interesting play for us here because as we talked about the impact of Brexit and where our facilities today sit in the UK. So I'd say it's more of the same, which is the good news, but I think roughly the same program wins we had in the second quarter, which I think was 12 is what we called out last time, Bobby. So the good news is it's really more of the same. And if we think about starting out this year at zero and to get to where we are today, I would say it's gone very nice.

Bobby Brooks | Analyst, Northland Capital Markets:

I definitely agree with that. Congrats on the strong quarter.

Unidentified Analyst | Analyst:

I'll turn to the Q. Thank you.

Conference Operator | Operator:

Our next question is from Tomo Sano with JP Morgan. Please proceed with your question.

Brendan | Analyst, J.P. Morgan (on behalf of Tomo Sano):

Hi, this is Brendan on for Tomo. Thanks for taking my questions. First, I'd just like to ask on the revenue mix shift. So, you know, you've mentioned the revenue rotation into higher growth, better margin business. Is that simply a factor of markets growing faster and therefore becoming a larger percentage of your mix? Or does that represent more of a strategic shift where you're making a more concerted effort to adjust your revenue mix?

Farouq Tuweiq | President and CEO:

I'll maybe just start out with a disclaimer on this one, right? As we think about in markets or our two BUs, they all have their own separate commercial efforts, sales organizations, largely factories, go to market, right? So it's not like we're allocating decision between the BUs. What we're focused on is inside the BU. Where are we better aligned from a technology customer intimacy and better alignment? And that's where we want to focus on where we can get more returns. And as we've doubled down on the let's call it customer intimacy and going deeper from a commercial effort and standpoint, We're seeing things that we'd like to maybe focus on more than others. I would say that's nothing unusual for really any business or industry. I think that's a little bit of a new muscle for us. Over the past few years, as we've built up the funnel, we can have a little bit of the luxury of saying, you know, we're going to go here a little bit more versus here. So it makes it sound, I think, a little bit more than what it really is. but I think the good news is we are having the luxury of choice nowadays and we want to make sure we're making the right choices both in allocating our work hours and our work dollars.

Brendan | Analyst, J.P. Morgan (on behalf of Tomo Sano):

Got it. Thank you. And then touching on thoughts on M&A. So last quarter you mentioned the market was showing aggressiveness and irrationality, some peers doing acquisitions that weren't for you, particularly now that you have a net cash position. Just kind of curious how M&A ranks within capital allocation versus organic capex, buybacks, etc. And has your view on valuations within your pipeline changed at all over the past quarter?

Farouq Tuweiq | President and CEO:

As a long cycle design business, we kind of need to think things out a little bit in longer term perspectives. And from that perspective, our M&A strategy hasn't shifted or changed. We're just as hungry for M&A. We are pursuing multiple avenues of it. The market dynamics remain the same, elevated competitive sets, and sometimes the feeling that people are just buying for the sake of buying. But as a long cycle design business, we will be disciplined. Thank you for joining us today. But when we have something at the appropriate time, we'll share with the team. But I would say we had hoped to have done an acquisition in Q3 and Q2, but also we're going to be disciplined in our approach. So we like the pipeline. It's like anything else in life. We'd like to be a little bit more better at pipeline, but also we're going to be disciplined in our approach.

Brendan | Analyst, J.P. Morgan (on behalf of Tomo Sano):

Great. Thank you.

Conference Operator | Operator:

Our next question is from David Williams with Needham & Co. Please proceed with your question.

David Williams | Analyst, Needham & Company:

Hey, good morning and congrats on the really solid results and guidance here.

Conference Operator | Operator:

Thank you.

David Williams | Analyst, Needham & Company:

Maybe first, I just want to ask, in the script you had talked about some uncertainty in the global markets and maybe some volatility there. Just curious if you could maybe walk us through What you're seeing and what maybe specifically you were pointing to, and is that more global or any region specific that you're seeing any of that volatility?

Farouq Tuweiq | President and CEO:

I think the short answer is yes. As a global business, operations in Asia, Europe, North America, there's definitely always something seemingly going on. And I would say when we think about what are these headwinds, Thank you for joining us. largely, as we've said in the past, we're exposed to Renminbi, Peso, and Sheikol against the US dollar also kind of trending in the wrong direction. Geopolitical tensions also are not helpful or additive as we all read the news out in the world. I'll also say, you know, we've had even kind of more interesting situations where A company gets added to the no trade list, if you will, that keeps getting updated seemingly in a regular cadence where it really prevents our opportunity to just plan easier. So we had a situation like that in Q3 where one of our sub-suppliers got placed on a list and all of a sudden now you're scrambling to find alternatives. So it feels that the team is constantly in some kind of scramble mode. and it's amazing to me how to see the team pull together. I know these things seem a little bit maybe insignificant from the outside looking in because I think the team does a good job making it look easy but on the inside there's a lot of people working really hard in all sorts of ways that they historically maybe haven't had to. So the challenges really are everywhere. Political effects, raw material and also obviously wages as well.

David Williams | Analyst, Needham & Company:

Perfect. Thanks for the color there. And maybe secondly, just on the AI-focused customers that you had kind of talked about in the script, really solid growth there. But just wondering if you could provide maybe a little color on the types of programs you're seeing and maybe the design win activity pipeline and how that's coming together and then maybe where that could ultimately go in terms of revenue topside. Is there any limit or a threshold that's preventing growth longer term there? Thanks.

Farouq Tuweiq | President and CEO:

Yeah, I think the gist of it as we think about our data solutions business, right, while we talk about this concept of floor AI, we know AI is obviously impacting the business. Now, when we also look specifically at our AI play, right, it is continuing strength to strength. We've seen that quarter over quarter this year. We're seeing that into Q4. We're seeing that heading into next year. So the order book specifically, whether it be explicitly or implicitly driven by AI, is definitely trending in a very positive direction for us. We talk about server storage networking, but we are also very mindful around just given our size disclosure of programs and the like, but I would say we are kind of what you would think about the ecosystem. As a reminder, we're not directly interacting with and exposed to the hyperscalers, just to kind of differentiate a little bit, but obviously a lot of our customers do spend some time there. But in terms of where it can go, like I said, we're not going to provide guidance on that. It is a fast-moving market, but we like what we're seeing out of that market for sure. and I get that AI is kind of a big focus for everyone. I think we're also seeing some really nice things in our A&D business and the growth that we're seeing there. So I'll leave it at that for now.

David Williams | Analyst, Needham & Company:

Thanks so much, certainly appreciate the help.

Farouq Tuweiq | President and CEO:

Good luck on the quarter.

Unidentified Analyst | Analyst:

Thank you.

Conference Operator | Operator:

Our next question is from Theodore O'Neill with Litchfield Hills Research. Please proceed with your question.

Theodore O'Neill / Jackson Schrader / Luke Junk | Analysts, Litchfield Hills Research / Craig-H

Thank you and congratulations on the good quarter.

Conference Operator | Operator:

Question for you is, what are you seeing for defense industry demand in Europe, and are there any issues around getting the proper certifications for your factories?

Farouq Tuweiq | President and CEO:

Are you talking about our A&D exposure in Europe and certifying them for the European business? Yes, please. I think that as an issue largely behind us, the plumbing is in place, and I define plumbing as and many, many more. There's always regulatory and check-ins that we have to do and transferring and all that, but that's for us regular way maintenance. But the hardest part was getting all the critical certificates, and I would say that's largely behind us now. It is entirely behind us, I would say, actually.

Conference Operator | Operator:

Okay, great.

Unidentified Analyst | Analyst:

Thanks.

Conference Operator | Operator:

Our next question is from Greg Palm with the Craig Holland Capital Group. Please proceed with your question.

Theodore O'Neill / Jackson Schrader / Luke Junk | Analysts, Litchfield Hills Research / Craig-H

Thanks. Good morning. This is Jackson Schrader. I'm for Greg Palm. Congrats on the results. I wanted to start out with just pricing initiatives I know enacted earlier in the year that eventually we're going to start seeing Q3, Q4. Looks like we did see them, I mean, obviously, benefiting gross margins. Was curious if you could talk a little bit on how much revenue growth is driven by that pricing versus just higher volume. And then secondarily to that, If you could touch on gross margin and ADRS kind of taking a small step down while ITBS kind of took a big step up, how should we be thinking about ADRS gross margin going forward and if there's any potential future increases in pricing that you can enact to kind of offset some of those inflationary pressures that you just mentioned?

Farouq Tuweiq | President and CEO:

Yeah, I appreciate the question. I'll let Lynn comment on the gross margin a little more in detail here. I just want to – I get it. We appreciate that when we report quarterly, that's a static picture of the business. But underneath that, there's a life that happens daily. So we did do price increases, as you had talked about, in February and March. I would say that was kind of a big one because we saw everything in the world moving, and we did all of that. Okay. Okay. But the reality of the matter is the pricing book, the backlog, the cost of materials are moving daily, I would argue, and if not daily, probably every other day. So there are conscious decisions and actions that are purposeful to trying to pass these things on. So since then, we've done obviously various and numerous other price increases. Why? Because the raw materials continue to go up. And we've seen our suppliers give us price increases almost seemingly monthly in some situations. So when that happens, obviously we got a downstream. Where our balancing act needs to come in is really what do you do in relation to backlog? Do you reprice it? Do you slightly modify it? Do you wait for the next order to come in? That is the relationship discussion that needs to be had because sometimes we may trade off kicking the can down the road from a timing perspective for the sake of a longer-term gain. So pricing is definitely part of the mix for sure. Operational leverage is part of the mix. here as well. But it is a hand-to-hand combat, right? Everything we're reading constantly is going up. So I just want to make sure it's not a static discussion that we're talking about. And I'll turn it over to Lynn on the gross margin side.

Lynn Hutkin / Asya Merchant | CFO / Analyst, Citigroup:

Yep. So on the question around the ADRS gross margin and the step-down from prior year, a lot of that had to do with the mix of revenue that we saw in the quarter. So as we mentioned on the call, a lot of the growth that we saw was through industrials and through the distribution channel. Due to timing of shipments, commercial air was actually down year over year, and defense grew a bit, but not as much as distribution and

industrials this quarter. I would say the other thing to keep in mind if we're looking year over year is the FX environment. So if you look at the Mexican peso or the Israeli shekel, we're definitely in a different environment right now than where we were in Q3 last year. So I think those are the large factors driving the margins in ADRS. You know, I think as we're looking ahead, the FX environment has have stabilized and have started to improve a bit on both the shekel and the peso. So if we're talking sequentially, we don't expect FX to be a further negative. That should provide some uptick. And then on the timing of defense and calm air, we do expect that to shift to be a little more favorable heading into Q4.

Farouq Tuweiq | President and CEO:

And one of the other things I would say is we think, you know, and we talked about this a little bit as well, but as we, you know, end of life and shift away from some lower margin business volumes, that should also have a positive impact on the business. So that obviously happens and spurts, and there's a smart way to do that. But I'd say it's really an amalgamation of things that's reflective of our global business and customer base.

Theodore O'Neill / Jackson Schrader / Luke Junk | Analysts, Litchfield Hills Research / Craig-H

Perfect. That's helpful. And then kind of just high level, talking about defense, you know, I feel like everyone has this It's well known, you know, increased spending and some of these primes getting some big like munitions replenishment long-term contracts versus, you know, we're operating on a continuing resolution right now and it seems like there's some uncertainty. Can you just talk about what you're seeing from customers within the fence, both kind of like having long-term very clear high demand versus some near-term uncertainty?

Farouq Tuweiq | President and CEO:

Yeah, I think that's a good way of characterizing it. When we talk to the primes, and also caveat, our prime discussion is really in three separate regions, like the U.S., the Europeans, which that is multiple regions as well, but it's a different, let's call it environment, and then obviously Israel. On the U.S. side of the business, where the language, the chatter in the channel, our customer relationships, Thank you for joining us. Very strong, positive momentum and discussions. So it gives us confidence in that the need and demand is there. And we are seeing increased booking across all of our customers and programs, right? So we're seeing it translate, especially when we look at, I think our backlog in A&D, this go-around was also an all-time record. So we're seeing it. It's still not enough, I think, to meet the demand. So I think the question for the funding that comes out of the programs there. The Europeans, we're seeing the spending. We're seeing the growth. It's reflected in Slovakia. I think they're moving a little bit quicker just given the realities on the ground and for potentially years of underinvestment. On the Israeli side, again, given different dynamics, they tend to move quicker. And also the need is there as well. So we know the need is globally there. It's just really how questions translate down the channel into operations. But all in all, I think the demand drivers are all there, which is good for our business. And we see that in our backlog and our discussions around new wins and new discussions with our customers.

Theodore O'Neill / Jackson Schrader / Luke Junk | Analysts, Litchfield Hills Research / Craig-H

Perfect. I'll leave it there. Thank you.

Conference Operator | Operator:

Our next question is from Wansi Mohan with Bank of America. Please proceed with your question.

Wamsi Mohan | Analyst, Bank of America:

Yes, thank you. As you think about channel inventory levels, it seems like at least there's been very strong demand and momentum that's continuing and restocking channel inventory. How would you characterize the levels of channel inventory Given that we're coming from a pretty destocked state to where we are now, and how much more of a potential positive could it be as we look beyond next quarter?

Farouq Tuweiq | President and CEO:

Yeah, I know that's a fair question. I think, right, there's always, maybe to extend on your question there a little bit, there's always a view on double ordering, channel stuffing, you know, all that kind of I would say that does not seem to be the case on average in the industry and the channel. The need and demand is real, so we don't see that double booking channel stuff inside of the business. We do think of it as being more demand. I would say as we just kind of canvass the industry, I would say that generally view holds, especially in the passives where we play. As we think about booking and backlog, there is life and there's vibrancy there, which is obviously good to see. As we look out and extended beyond fourth quarter, I think the body language, the discussion around the need through the channel also holds. I would also say that this story, quote-unquote, through the channel is not just North America. We're seeing that also in EMEA and APAC, which to me indicates the demand at a global level is positive momentum. So we like what we're seeing, and we think it's positive overall. Okay, thanks for that, Farouq.

Wamsi Mohan | Analyst, Bank of America:

And maybe just to follow up, it might be a little bit of a harder hypothetical question to answer, but if you were to look at the demand levels, which obviously are quite strong over here, if you were to say, let's say, raise pricing 5% across the board, across everything that you can, how much of that do you think would stick? I'm trying to ascertain, what is the appetite for increased pricing within your SKUs at your customers?

Farouq Tuweiq | President and CEO:

Let's be realistic, similar to personal levels. I don't think anybody wakes up and says, I would love a price increase to anything that we're doing, right? So I don't think anybody's waking up and giving me hugs of yet to discover that customer. But the way we are seeing is inflationary environment is everywhere. And similar to our raw material customers are passing costs on to us, we're passing them on. I think we may sometimes make strategic decisions. Maybe we're not going to do that for a very purposeful reason, but most of the time we're passing them on. And as we've done that, like I said earlier, we're seeing the increased bookings across all our customers and programs. So the pricing side of it, we have to be made net neutral. If we wake up and arbitrarily did a 5% increase, given where coal is and everything else is coming in, obviously we're also in a comparative world. If we just wake up and do it and nobody else is doing it because they're not seeing inflationary pressures, that's a problem. Assuming we are in this environment and everybody's doing it, we'd probably be pretty okay here. and as a reminder, we've been reacting quickly as this happens. So I'd say we're doing a good job staying on top of it. We need to continue to stay on top of it. But if we just arbitrarily set a 5%, my guess is probably we'd be okay in this hypothetical that we're going through. Right.

Wamsi Mohan | Analyst, Bank of America:

Okay, well, thank you. And thanks for acknowledging that. Look, I guess the last thing is from me is, you know, clearly, you know, to the first question you answered is a much better than seasonal guide for Q4. So as we look beyond Q4 into Q1, I mean, should we be thinking, given what we know today, and I know you're not guiding Q1 explicitly, but should we be thinking of trends to be seasonal or sub-seasonal as we think, look out to Q1? Thank you.

Farouq Tuweiq | President and CEO:

I would say it's probably going to buck the historical trend to the extent of how much and all that kind of good stuff we'll wait and see. Like we kind of said before, there is loss of productivity in the first quarter. Also, people come back from New Year's, starting the business and turning on the factories, coupled with Chinese New Year. So you do have some loss of productivity there. But I do think that this will be maybe not a typical trend.

Lynn Hutkin / Asya Merchant | CFO / Analyst, Citigroup:

Yeah, and I think just to add to that, I mean, about half of our business today is aerospace and defense, which does not have that typical Q1 seasonality tied to it. So that's part of why we're looking to buck the trend here. And then also, as we've talked about, on the data solution side, we are in a bit of a ramp environment. So that's also something that will likely buck that trend.

Farouq Tuweiq | President and CEO:

And I also said earlier, right, we're seeing, you know, record backlog. So we'll kind of frame that a little bit more as time goes on. But we definitely, you know, knock on wood, all things being equal, we appreciate how the year will probably close out and we kind of are excited about 27. Okay, that's great. Thanks, Lynn. Yep.

Conference Operator | Operator:

Our next question is from Hendy Suzanto with Gabelli Funds. Please proceed with your question.

Hendy Suzanto | Analyst, Gabelli Funds:

Good morning, Farouq and Lynn.

Conference Operator | Operator:

Good morning, Hendy.

Hendy Suzanto | Analyst, Gabelli Funds:

Well, I have a question about the decline in commercial aerospace due to the timing of shipment into this market. Should we expect some type of recovery in Q4 or in early 2027?

Lynn Hutkin / Asya Merchant | CFO / Analyst, Citigroup:

Yeah, so I think on the commercial air side, you know, our shipping patterns do not entirely correlate to the underlying demand there, right? We are a very small component into their larger production cycle. So the ordering and shipping patterns, you know, as dictated by the customer there, tends to be choppy, I'll say. So last quarter and this quarter, we certainly had lower shipments going out, but that's not indicative of the underlying demand. So do we expect to see that coming back in future quarters? That answer would be yes.

Hendy Suzanto | Analyst, Gabelli Funds:

Thank you, Lynn. And then Farouq, I would like to follow up Wamsi's questions on price increase. I would like to ask on the other side, like in the inventories and in lead times, some companies discuss extended lead times and then how some customers are willing to secure supplies way ahead. Others have been building inventory to better capture upside in a stronger demand environment, meaning many companies are pointing to next year. I did see that your inventories increased sequentially. I'm wondering whether that is reflective of this type of dynamic. How are you thinking about those dynamics, the puts and takes for Bell Hughes?

Farouq Tuweiq | President and CEO:

Yeah, no, I think that's a great question, Hindi, right? We are, in addition to an inflationary environment, it's a pretty robust demand environment globally. and as we think about that and our downstream suppliers have increased their lead times, we're back in close contact with our customers to ensure that we're building to forecast. So in some more common area components, we're definitely doing some advanced buys or security buys to get it. So I would say our increase is largely in the raw material side of the business The demand is there. The orders are there. And just as a reminder, Hendy, that the vast majority of our businesses, we're building to an order book. We're not really in the business of making things and sitting on it and hope for demand. So these conversations and backlog orders with our customers are real-time. And as these conversations are happening, we're securing materials and getting in line at some of our suppliers. Worst thing we can do is not ship in a hot demand environment across the business, right? That's one way to really drop customer satisfaction and impact negatively new wins and new designs, right? It kind of poisons the well in terms of the discussions. So back to kind of Lynn was saying, we are putting money in an inventory. We have to meet customer demand and that's kind of part of what we do. It's not unusual in these cycles when you have growth and demand coming. So do we like it from a financial working capital perspective? No. But at the same time, we are here to satisfy customer demands.

Conference Operator | Operator:

Thank you. Our next question is from Christopher Glenn with Oppenheimer & Co. Please proceed with your question.

Christopher Glenn | Analyst, Oppenheimer & Co.:

Thank you. Good morning, Farouq, Glenn, Gene. Building off that last topic, you're just curious. You've done a lot of rooftop consolidation optimization over the years, I think, with automation investment. You've also talked about increasing net throughput despite all that. But now with backlogs and revenue really ramping and projecting the next couple of quarters to exceed normal seasonality, just wondering if you could highlight what kind of – You know, resourcefulness and success you're seeing in the system for throughput other than supply chain, which you already just covered.

Farouq Tuweiq | President and CEO:

Yeah, you know, I think the work that we've done in the last few years to get the factories ready, more leaning into lean. We've sent a lot of CapEx, a lot of great automation programs, even at the systems level across the company. This has allowed us to be more efficient with production and manufacturing. So one of the things that we're not talking about here, right, to your point, Chris, is we're not talking about capacity constraints as an example, right? Because I think we've done a pretty good job at managing that, so we feel good about it. I'll give you another example of this. As we have opened the storefront in Slovakia, this example, it gives operational leverage to to our Enercon facilities in India and in Israel, right? So we're learning to kind of make sure we're moving things around. Same thing with China and India production. We are moving some things across geographic lines to meet customer demands and or requirements, and that investment and collaboration between these two factories, as an example, is another one. Obviously, we invested a lot, as we said, in manufacturing execution systems and we're doing some interesting things on AI and automation. So it really is an all hands-on effort. I'd say the bigger maybe discussion with our customers is around where do they want things manufactured, right? So obviously, we talked about Slovakia as the European storefront and China and India. So it's an interesting time where I'd say location of manufacturing is potentially becoming a bigger topic. So we'll need to stay close to these things depending on where the customer's desires and wishes land that may take us down different outcomes. But we do know things are moving around and dexterity and flexibility between the factories is going to be pretty key going forward.

Christopher Glenn | Analyst, Oppenheimer & Co.:

Cool. Thanks for that. And then just a follow-up one just at... You know, a high-level headline even since time's tight here. Global leadership confab coming up, second one. What's your top priority or two in terms of, you know, just cultivating the enterprise group?

Farouq Tuweiq | President and CEO:

Yeah, you know, I think I'm very excited about this one. Last year when we did it, we walked away with certain tasks and strategic priorities that and I think we've done a pretty good job at executing against that and we've seen some of the benefits of that including some of the systems discussion we've had in the past. I would also say that we've done a fair amount of obviously resegmenting the business was part of those priorities. As we look since we did it last year roughly 12 months ago we've had some new teammates join across our leadership team and they've hit the ground running great. So now we get to show up again with new teammates, our existing teammates and making sure that we're all rowing in the same direction. Obviously, we want to think big. We want to think measurable impact and we want to continue to play to win. We like what we saw and we wouldn't mind a little bit more. So we want to see leadership. We want to see growth mindset. We want to see operation. We want to see supply chain. But there are some big topics and discussions that we need to have but I'm definitely excited to get into the room with the team there so we can think big and continue to drive impact because I think the last 12 months have benefited our shareholders tremendously and we're seeing that across the business. So we've got more room to go but we like what we see but hopefully we can get to the stuff that we haven't gotten to yet as well. Sounds great.

Unidentified Analyst | Analyst:

Have fun. Thank you.

Conference Operator | Operator:

Our next question is from Luke Junk with Beard. Please proceed with your question.

Theodore O'Neill / Jackson Schrader / Luke Junk | Analysts, Litchfield Hills Research / Craig-H

Good morning. Thanks for taking the question. I know we've covered a lot of ground, so maybe just one question from you, Farouq. I'd love to get your perspective on scaling the business in ITDS. In other words, driving operating leverage stairs, these AI programs come online both in a bigger picture, multi-year sense, sort of the art of what could be possible there, as well as maybe more specifically in the near term in terms of what's animating the gross margin upside both on the 3Q print and kind of what you're implying in the 4Q guidance, which seems to be strong as well. Thank you.

Farouq Tuweiq | President and CEO:

Thank you for the question. It's an interesting time to see where we go. So maybe I'll answer it backwards. In terms of the future, I think it would be a great high-class problem if we continue to see the robustness and the growth and investment in the business and the future and there's interesting technologies emerging. but also keeping in mind in the future, hopefully we have M&A that allows us to leverage some of that capacity. So the future, we'll see where it goes, but we kinda like where it's heading. Obviously, growth brings its own set of challenges, but we'll happily take that on. In terms of the business today, I think the team has done a very good job at leveraging really across the business, whether it be the R&D capabilities, commercial efforts, procurement efforts, moving production from one facility to the other facility, or in process of moving more from one place to the other. We have some specific customers that have big opinions about where they want things manufactured for various reasons, and we're happy to oblige. So one of our focus that we've spent on the last few years is can we do it quicker and faster, keeping in mind that in our business, you can't just pick up and move, right? There's audits that have to happen, customer visits, customer sign-offs. So moving something in our world in general is not an easy few-quarter thing. It takes a while, but the question is how do we build some speed and dexterity into it, also with some proactive thinkingness. So we do have to get to that. We can move a little bit quicker, and we're seeing some of the benefits of that. So I think the team on the IGDS specifically, it's nice to see. Capacity, like I said earlier, is really not a bottleneck for us. So we're okay there. It's really the footprint adjustments. And we'll see where that goes, right? Because I think the geopolitical landscape seems to be changing fast. by the minute. And what's maybe good today on this call will give you a different impression on it on the February call. So we need to just make sure we're ready for a range of outcomes and scenarios and that we can move quicker. That's going to relieve our focus errors.

Unidentified Analyst | Analyst:

Hopeful. Thank you.

Conference Operator | Operator:

Our last question is from Asya Merchant with Citigroup. Please proceed with your question.

Lynn Hutkin / Asya Merchant | CFO / Analyst, Citigroup:

Hey, great. Thanks for squeezing me in here. And actually, my question was kind of related to the last one that was just asked. You know, CapEx here, still a small percentage of your revenues, and I get it. Like, you guys are investing here for... the solid demand. But anything, you know, as you think about the demand

picture shaping out for 27 and beyond, how we should be thinking about CapEx intensity. And often investors will always ask about, you know, how flexible that capacity is in the sense that could you divert some of that to, let's say, other programs that perhaps could not be, that perhaps are not as impacted if there is any kind of economic downturn here. Thank you.

Farouq Tuweiq | President and CEO:

Yeah, no, I appreciate that. It's an interesting question, right? But if we look at our manufacturing footprint today, right? So putting M&A aside, or I don't know, we have so much growth, we need a new factory, or putting that aside, but we look at our footprint today, capacity is not an issue. And the capex, and I think this is one of the unique and strengths of Bell Fuse, is we're generally a low-volume, medium-volume, high-mix, medium-mix business. and a lot of our business doesn't necessarily lend itself for over automation where you hit a button, it comes out on the other end, right? So we want to work with our customers on designing, on modifying, on customizing, really trying to drive complexity. We definitely have some commodity stuff, right, for sure, because we think maybe about some of the fuse business. But generally, most of our business is kind of what's called in the modified standard or customized type approach, right? So because of that, you will hit a limitation and you will not give the ROI on a certain level of automations. And I think our team, I would suggest, is probably one of the best at trying to find automation for the environments that we operate in. And this is really kind of true, especially on the power side of the business. Given the nature of our business, I think that's a fair comment there. If you look at our CapEx, maybe there's a percentage of revenue, and I can see where there's just that question, but our revenue is also different. And therefore, I think, not sure that's a very valid metric. I will tell you, we don't have a problem spending on CapEx, especially as we're seeing growth coming in, and where there's opportunity, we'll do it. We just are not going to artificially do it for the sake of automation. and also customers are a key part of that, right? So as we think about what the customers need and do they want that or not want that? And I think just as a reminder for everybody, when we look at our power business as an example, right, across the portfolio, which is over 50% of the business today, the materials are the biggest cost in that bill of materials, right? So as we think about overhead and labor, it's really the procurement is the key. So today we like our CapEx. Sure, there's always things you can spend money on, but we're not holding back money on investment, that's for sure. The other thing keeping in mind, kind of to what I just said earlier, which is what you're talking about is resource allocation. I think our factories are generally designated to make something. So our power factories largely are making power components. Connector factories are making connectors, right? Or magnetic factories are making the magnetics. So when we think about factory resource allocation, we're thinking within that factory, where do we spend our time and energy? So it's not, you know, let's move power from one facility to the other, right? It's a very different product set and complicated one. So we think about efficiency, productivity, quality over automation, right? That's what we're selling. So I think we're at a good level in terms of CapEx, and I think we've stepped it up in the last few years for sure.

Unidentified Analyst | Analyst:

Great. Thank you.

Conference Operator | Operator:

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

Farouq Tuweiq | President and CEO:

Again, thank you for joining our call. We're very excited to have delivered these results to our shareholders, excited about the fourth quarter. So thank you again for joining our call, and we'll look to speak to you in the next quarter. Thanks, everyone.

Conference Operator | Operator:

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