NASDAQ:OCC Q3 2026 Earnings Call Transcript

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Beau | Conference Operator:

Good morning, everyone. My name is Beau, and I will be your conference operator today. At this time, I would like to welcome you to Optical Cable Corporation's third quarter of fiscal year 2026 earnings conference call. All lines have been placed on mute to prevent any background noise. After the speaker's remarks, there will be a question and answer period. If you would like to ask a question over the phone at that time, please press star 1 on your telephone. If you would like to remove yourself from the queue, please press star 2. With that, Ms. Felix, you may begin your conference.

Caroline Felix | Investor Relations:

Good morning and thank you for joining us for Optical Cable Corporation's third quarter of fiscal year 2026 conference call. By this time, everyone should have a copy of the earnings press release issued earlier today. You can also visit www.occfiber.com for a copy. On the call with us today are Neil Wilkin, President and Chief Executive Officer of OCC and Tracy Smith, Executive Vice President and Chief Financial Officer. Before we begin, I'd like to remind everyone that this call may contain forward-looking statements that involve risks and uncertainties. The actual future results of Optical Cable Corporation may differ materially due to a number of factors and risks, including, but not limited to, those factors referenced in the forward-looking statement section of this morning's press release. These cautionary statements apply to the contents of the Internet webcast on www.occfiber.com as well as today's call. With that, I'll turn the call over to Neil Wilkin. Neil, please begin.

Neil Wilkin | President and Chief Executive Officer:

Thank you, Caroline, and good morning, everyone. I will begin the call today with a few opening remarks. Tracy will then review the third quarter results for the three-month and nine-month periods ended July 31st, 2026 in some additional detail. After Tracy's remarks, we will answer as many of your questions as we can. As is our normal practice, we will only take questions from analysts take live questions from analysts and institutional investors during the Q&A session. However, we also offer other shareholders the opportunity to submit questions in advance of our earnings call. Instructions regarding such submissions are included in our press release announcing the date and time of our call. I will say that today we have more questions than we typically would get on a quarter from individual investors. We'll answer as many of those as we can. and then when we get to the Q&A for institutional investors, please limit your questions to things that were not addressed by the questions from the individual shareholders and we'll be limiting the questions we'll take from institutional investors to one question per person. With that, we'll begin. Following a solid start to the year, we continued to build on OCC's strong growth and momentum during the third quarter of fiscal year 2026, delivering year-over-year increases of net sales, gross profit, and net income. Net sales increased 22% to $24.3 million, and gross profit increased 43.9% to $9.1 million during the third quarter. Our net sales increase was largely driven by strong demand in OCC's enterprise, data center, and specialty markets. Our strong gross profit results during the third quarter and also fiscal year to date continue to demonstrate the benefit of OCC's manufacturing operating leverage. As our production volumes increase, our fixed manufacturing costs are spread over higher sales volumes, and manufacturing efficiencies also tend to increase. As of the end of the third quarter, our sales order backlog and forward load stood at $13.5 million. We are now in the last quarter of our fiscal year, and we are confident in OCC's ability to build on our momentum and capitalize on the opportunities ahead. At the same time, we continue to explore opportunities to further strengthen OCC's

capabilities and support long-term growth. As always, we remain focused on delivering exceptional service to our customers and end users and driving sustainable value creation for our shareholders. And with that, I'll turn the call over to Tracy, who will review in additional detail our third quarter of fiscal year 2026 financial results.

Tracy Smith | Executive Vice President and Chief Financial Officer:

Thank you, Neil. Consolidated net sales for the third quarter of fiscal 2026 increased 22% to 5%. $24.3 million compared to $19.9 million for the same period last year. Consolidated net sales for the first nine months of fiscal 2026 were $62.9 million, an increase of 18.3% compared to net sales of $53.2 million for the same period last year. During the third quarter and first nine months of fiscal 2026, we experienced an increase in net sales in our enterprise, data center, and specialty markets compared to the same periods last year as we continue to see general market growth opportunities in our industry, both domestically and internationally, with strength specifically in our enterprise, data center, and specialty markets. As Neil mentioned, our sales order backlog and forward load increased to $13.5 million at the end of the third quarter of fiscal 2026 as compared to $13.3 million as of April 30th, 2026, $10.4 million as of January 31st, 2026, and $7.3 million as of October 31st, 2025. Turning to gross profit. Our gross profit increased 43.9% to $9.1 million in the third quarter of fiscal 2026 compared to $6.3 million in the third quarter of fiscal 2025. Gross profit margin, our gross profit as a percentage of net sales, increased to 37.4% in the third quarter of fiscal 2026 compared to 31.7% in the third quarter of the prior year. Gross profit increased 35.5% to $22.1 million in the first nine months of fiscal 2026 compared to $16.3 million in the first nine months of fiscal 2025. Gross profit margin increased to 35% in the first nine months of fiscal 2026 compared to 30.6% for the same period last year. Cable Corporation, Tracy Smith, Neil Wilkin Cable Corporation, Tracy Smith, Neil Wilkin SG&A expenses increased to $7 million in the third quarter of fiscal year 2026 compared to $5.7 million for the same period last year. SG&A expenses as a percentage of net sales were 28.7% in the third quarter of fiscal 2026 compared to 28.8% in the third quarter of fiscal 2025. SG&A expenses increased to $18.8 million in the first nine months of fiscal year 2026 compared to $16.9 million the same period last year. SG&A expenses as a percentage of net sales were 29.9% in the first nine months of fiscal 2026 compared to 31.8% in the first nine months of fiscal 2025. The increase in SG&A expenses during the third quarter and first nine months of fiscal 2026 compared to the same periods last year was primarily the result of increases in employee costs, contracted sales personnel-related costs, and shipping costs. Included employee costs and contracted sales personnel-related costs are compensation costs and sales incentives. OCC recorded net income of $1.9 million or 21 cents per basic and diluted share for the third quarter of fiscal 2026 compared to net income of $302,000 or 4 cents per basic and diluted share for the third quarter of fiscal 2025. OCC recorded net income of $2.5 million or 28 cents per basic and diluted share for the first nine months of fiscal 2026 compared to a net loss of $1.5 million or 19 cents per basic and diluted share for the first nine months of fiscal 2025. With that, I'll turn the call back over to you, Neil.

Neil Wilkin | President and Chief Executive Officer:

Thank you, Tracy. As I previously mentioned, we received a large number of questions in advance of today's call, some of which came in just before the call. We believe that some of these questions that have been submitted will be of interest to most participants, so we're going to go through those questions first, and then we will address any remaining questions live from analysts or institutional investors. As we've stated before, we'd like to take one question from each institutional investor, because I think we're going to be covering a lot of the questions you may have through the previously submitted questions. Caroline, if you'd please begin by reading the questions we've received that we were provided in advance of the call, and we'll proceed to respond.

Caroline Felix | Investor Relations:

Thanks, Neil. The first question is can you please go into more detail about how backlog and quarterly revenue have been changing in this new demand cycle and how it is different from prior instances where backlog has bumped to above 10 million? You had said in prior calls that you expected the second half of 2026 to be very strong. Is this reflected in current and future expected backlog? Is that assumption still valid, or is the second half of 2026 looking different at all, positive or negative? How long do you expect this higher backlog to sustain?

Neil Wilkin | President and Chief Executive Officer:

So there's a lot of questions in that first statement. As you can see from our press release earlier this morning, our results during the third quarter fiscal year 2026 support our previous expectation that the second half of 2026 would be very strong. We continue to believe that that's going to be the case. We continue to have a robust backlog and forward load that are increasing. At the same time, sales are increasing. We can't specifically comment on how long we expect our higher backlog to continue. However, as we've seen in the past, the backlog, when it increases to a certain level, certainly is indicative of what we believe we're going to see in the following quarter or so. But a lower backlog doesn't necessarily mean that that's going to generate a lower sales number. And we've talked about that previously. It's not a data point we've always described. we've only been disclosing it to folks through our press releases and 10Qs when we believe that that number has some significant value. I think I can also say that even though we don't know what the backlog will do, we still do believe that the industry in general is seeing high levels of demand and there does not appear to be any indication that demand is weakening at least as far as we can see at the moment. This does not necessarily mean that we will not see any seasonality. Our first quarter has many holidays in it, including Thanksgiving, Christmas, other December holidays, as well as New Year's. So, at this point, we're not really sure what we'll see in the first quarter, but we are seeing significant amount of demand across the board in all of our markets.

Caroline Felix | Investor Relations:

Thanks, Neil. Next question is, can you touch on performance of OCC traditional markets, including defense?

Neil Wilkin | President and Chief Executive Officer:

Yes. I mean, as we noted in our press release this morning, our enterprise, data center, and specialty market sectors are all increasing during this quarter and during our year-to-date periods for through the third quarter of 2026. Our specialty markets include Markets sectors such as the military market sector.

Caroline Felix | Investor Relations:

Thanks, Neil. Next question. Can you comment on OCC's working capital position and if you feel you have enough working capital to sustain the planned growth?

Neil Wilkin | President and Chief Executive Officer:

Tracy will take this one.

Tracy Smith | Executive Vice President and Chief Financial Officer:

Yes, sure. Our working capital is strong at 19.2 million at the end of the third quarter and improved compared to 13.9 million at the end of fiscal year 2025. We do believe that our working capital and credit revolver are sufficient to support and sustain our working capital needs.

Caroline Felix | Investor Relations:

Thanks, Tracy. The next question is, can you provide some color on the growth rates for new versus existing customers?

Tracy Smith | Executive Vice President and Chief Financial Officer:

I'll take that one as well. As we have noted previously, most of our sales are made through distributor channels, so we do not always have a clear picture of the customer purchasing our products through distribution. are the end users of our product. However, we believe that our growth is being driven by both our existing customers and new customers and end users.

Caroline Felix | Investor Relations:

Thanks, Tracy. Next question. On the last earnings call, Neil, you had said that the sales cycle is longer for data center. Could you elaborate on that? Is the pre-backlog sales process slash pipeline longer because of customer qualifications?

Neil Wilkin | President and Chief Executive Officer:

So, yeah, I'll take that one. Yes, the sales cycle for certain portions of the data center market sector do tend to be longer. That can include qualification requirements as a new supplier for certain new products being supplied. However, as we're going through those qualification processes where they exist or indications or periods where the sales cycle is longer, that those hopefully potential sales do not show up in our backlog our forward vote and backlog is really items where we've either received an order and where we expect that that order is non-cancellable and that we will be delivering it at some point in the future. Sometimes that's a short time period. Sometimes that's a longer time period because we do have some customers that stage the deliveries over time.

Caroline Felix | Investor Relations:

Thanks, Neil. Next question. Does the flattish backlog versus the last quarter reflect a potential normalization in demand? Should we expect backlog to normalize further in Q4 given that Q1 is the softest quarter in terms of seasonality?

Neil Wilkin | President and Chief Executive Officer:

I don't think that this, the backlog increasing a slight amount indicates that the, that demand is flattening in any way. We continue to see significant growth opportunities. and we have seen our backlog and sales forward load continue to grow this past month. This does not mean we may not experience some typical seasonality as I mentioned before in the first quarter, but for now we continue to see a continued strength in demand for our products, even if it's not reflected in a small change in the backlog forward load as of the end of the quarter.

Caroline Felix | Investor Relations:

Thanks, Neil. The next question is, SG&A rose to $7 million, above where the operating leverage story would predict. Was the Q2 to Q3 increase in employee and contracted sales personnel a one-time capacity step that now levels off, or should we model continued SG&A growth as revenue scales? Put differently, where does SG&A settle as a percentage of sales at a $100 million plus run rate?

Tracy Smith | Executive Vice President and Chief Financial Officer:

I'll take that one. We don't generally provide guidance related to future or theoretical sales levels. However, certain sales compensation costs included in SG&A as well as other costs such as shipping costs generally tend to fluctuate the sales levels. However, this does not mean we will not see future benefits of SG&A operating leverage as sales continue to grow.

Caroline Felix | Investor Relations:

Thanks, Tracy. Next question is, on funding and dilution. With working capital rising alongside growth and cash still thin, how are you funding the ramp and at what revenue level would you need to raise equity or expand the credit facility? Should shareholders anticipate a capital raise to support fiscal year 2027 growth?

Tracy Smith | Executive Vice President and Chief Financial Officer:

As we believe we've described previously, our cash is swept daily to repay the balance on our credit revolver, so our cash balance at any point in time will generally not be very high. At the current time, we believe we have sufficient availability on a credit revolver and some cash generated from operations to meet our needs for the near term.

Caroline Felix | Investor Relations:

Thanks, Tracy. Next question. Can you give some color on deliveries expected in Q4 and how you see margins progressing throughout fiscal year 2027?

Tracy Smith | Executive Vice President and Chief Financial Officer:

And we don't provide forward guidance, so I won't comment on how we expect margins to progress throughout fiscal year 2027. I will say that we have continued to see strong sales and demand in August, but it is too early to comment on September.

Caroline Felix | Investor Relations:

Thanks. The next question is Can you comment on the increased demand cycle you are experiencing and how long it could last?

Tracy Smith | Executive Vice President and Chief Financial Officer:

Sure. As previously noted, we can't forecast specifically on how long we expect the increased demand cycle to continue. However, I can say that the industry in general is seeing high levels of demand and there doesn't appear to be an indication of demand weakening in the near term.

Caroline Felix | Investor Relations:

Thanks, Tracy. Next question. Can you provide any sort of future outlook regarding customer demand signals?

Neil Wilkin | President and Chief Executive Officer:

So, Caroline, so that you know, we're having a little bit of trouble hearing you. If Bo could confirm that he's able to hear you okay. We're hearing your question and we'll continue to answer them, but your signal's breaking up just a little bit. Do you have any problem hearing, Caroline? Mr. Wilkin, I can hear her loud and clear at this time, sir. Okay. Okay. Maybe on our end then. So hopefully you can hear us. Please flag, let us know if you're having any trouble hearing us.

Caroline Felix | Investor Relations:

Yep, we can hear you okay.

Tracy Smith | Executive Vice President and Chief Financial Officer:

Okay. So other than what we have already disclosed, we cannot really provide any additional future customer demand outlook.

Caroline Felix | Investor Relations:

Thanks, Tracy. The next question is, Are you seeing any new or emerging risks?

Neil Wilkin | President and Chief Executive Officer:

We are not seeing any new or unusual market risks at this time. As we've described during our second quarter earnings call, we have been seeing some industry-wide delays as a result of high product demand and certain fiber optic, optical fiber shortages. Additionally, we've seen some longer lead times for certain raw materials as one would expect given the current high demand for products. We expect these challenges will continue, but we also believe we're taking appropriate action to navigate those challenges.

Caroline Felix | Investor Relations:

Thanks, Neil. The next question is, can you provide an update on OCC's plans to increase capacity? What level of capacity expansion are we talking about and what is the plan?

Neil Wilkin | President and Chief Executive Officer:

We are regularly considering the need for investment in machinery and equipment and or human resources to expand our capacity in general. and also for specific opportunities. We are seeing some opportunities to increase our capacity currently. We do not generally comment publicly on the specific capacity expansion plans for various reasons, including for competitive reasons. And I think that answers the question.

Caroline Felix | Investor Relations:

Thanks, Neil. The next question is Can you provide an update on fiber shortages and potential challenges of higher fiber pricing on OCC's margins?

Neil Wilkin | President and Chief Executive Officer:

Yes. Currently, the industry continues to experience optical fiber shortages due to excessive product demand for data centers as well as certain other product applications. We believe OCC is successfully managing these industry dynamics as we demonstrate during the first nine months of this fiscal year. We do not believe these industry challenges will prevent us from continuing to report strong top-line revenue growth during the remainder of fiscal year 2026. Notably, we work to limit potential impacts on our customers and our gross profits that these industry factors may have. Of course, as we noted in the past, OCC's profit margins can also be impacted by product mix and other factors, which can be difficult to predict.

Caroline Felix | Investor Relations:

Thanks, Neil. Next question. Can you share an update on any potential bottlenecks at ramping up manufacturing, including labor availability and cost?

Neil Wilkin | President and Chief Executive Officer:

We are able to, we are seeing various different effects that are limiting our product shipments at some level. and so those are bottlenecks. Those are primarily impediments to ramping up manufacturing. The primary impediment to ramping up manufacturing at the current time is really optical fiber shortages as we previously described. But as you can also see in our results, we've been able to generate increased sales despite those impediments.

Caroline Felix | Investor Relations:

Thanks, Neil. Next question. Can you provide some color on inventory levels at OCC customers and dealers and if this is above or below average?

Tracy Smith | Executive Vice President and Chief Financial Officer:

As you might expect, we're not able to specifically comment on inventory levels of our products at our customers. That said, given current market conditions, we believe it would be unusual for companies to be carrying inventory in excess of current expected demand.

Caroline Felix | Investor Relations:

Thanks, Tracy. Next question. What is the typical duration of your backlog, and is this currently changing, or does the data center related business have different characteristics?

Tracy Smith | Executive Vice President and Chief Financial Officer:

Various factors determine the duration of our sales order backlog and forward load, which are specific to each customer. Our backlog and forward load generally represents what we consider to be non-cancellable orders. However, in some cases, customers may schedule out future deliveries, while others are expected to ship as soon as we can complete manufacturing. As a result, I would not say there is a typical duration. However, I would say that most of our sales order backlog and forward load is expected to be shipped within two to three quarters.

Caroline Felix | Investor Relations:

Thanks, Tracy. The next question is, can you help us understand what level of capacity OCC is currently operating at? On the last earnings call, Tracy, you had mentioned that OCC is looking into expanding capacity. Could you provide some additional color on which products or end markets you may focus on?

Tracy Smith | Executive Vice President and Chief Financial Officer:

OCC has different levels of capacity for different product families at each of our manufacturing facilities. And so, yes, we are looking into expanding capacity for certain products at certain facilities. And this includes additional hires as well as additional equipment.

Caroline Felix | Investor Relations:

Thanks, Tracy. Next question. Does OCC have opportunities in the grid, battery, energy, and storage systems verticals?

Neil Wilkin | President and Chief Executive Officer:

Yes, OCC has some fiber optic cable and connectivity opportunities in grid and energy vertical market sectors.

Caroline Felix | Investor Relations:

Thanks, Neil. The next question is Google Data is projected to build a large campus of data centers very close to OCC's site in Roanoke. Does this present an opportunity for you?

Neil Wilkin | President and Chief Executive Officer:

OCC's primary focus in the data center market sector is multi-tenant data centers and enterprise. Data Centers. However, we are following the Google Data Center project near us. And as you'd expect, we will explore potential opportunities on that project. And of course, we're very excited that they're going to be setting this data center up so close to our Roanoke facility.

Caroline Felix | Investor Relations:

Thanks, Neil. The next question is, this summer, Furukawa announced a significant capacity expansion through Litera. Is this an opportunity for OCC

Neil Wilkin | President and Chief Executive Officer:

Well, as you'd expect, we don't speak for Okawa or Litera. However, from OCC's perspective, Litera is not only a strategic collaboration partner with OCC, but they are also an important supplier to OCC. The strategic collaboration with Litera does add certain products to OCC's product offering.

Caroline Felix | Investor Relations:

Thanks, Neil. The next question is, In June, the company significantly stepped up its manufacturing-related hiring in Plano. Is this in relation to the Litera partnership? And am I correctly recalling that OCC does a lot of its data center-related connectivity work in Plano?

Neil Wilkin | President and Chief Executive Officer:

Well, we're actually currently increasing staffing at each of our facilities with the largest increases at our fiber optic cable manufacturing facility in Roanoke and our connectivity and termination facility near Dallas. OCC has capabilities related to our targeted data center market sectors in each of our manufacturing facilities, including Roanoke, Dallas, as well as some in Nashville as well.

Caroline Felix | Investor Relations:

Thanks, Neil. The last question for today is your last 10Q changed its language around the Litera partnership related to Litera products being offered and sold by the company. Does this mean that OCC has started to realize the first sales related to the Lytera partnership in Q2? And could you give us an update for Q3?

Tracy Smith | Executive Vice President and Chief Financial Officer:

As you would expect, we are beginning to see some sales of some Lytera products. That's the change in the language in the 10Q.

Caroline Felix | Investor Relations:

Thanks, Tracy and Neil. We have no other questions that were provided in advance of the call today at this time.

Neil Wilkin | President and Chief Executive Officer:

Well, thank you, Caroline. and now we will answer any additional questions that analysts or institutional investors may have. We ask that you please submit your, to limit yourself to one question. Bo, if you could please indicate the instructions to our participants to call in any questions they have, I'd appreciate it. Additionally, if you'd please mute individuals following their one question. so that we can take as many of the questions from analysts and as institutional investors that wish to ask.

Beau | Conference Operator:

Certainly with Mr. Wilkin, my pleasure. Ladies and gentlemen, at this time, any questions over the phone, please press star one. If you do find that your question has been addressed, you may remove yourself from the queue by pressing star two. So once again, star one for any questions. We'll go first this morning to Sergi

Mascaro with Eden Discovery.

Sergi Mascaro | Analyst, Eden Discovery:

Good morning, Tracy and Neil. Thanks for taking our questions. So the gross margin was very impressive this quarter, and I am wondering if this improvement is just related to higher volumes, or there are other factors or other one-offs impacting the gross margin?

Neil Wilkin | President and Chief Executive Officer:

Well, our gross margin can vary based on manufacturing, Operating Leverage, and the other efficiencies, also product mix. And so we're pleased that we've been able to show an increase in our gross profit margins over the last couple of quarters, gross profit margin percentage over the last couple of quarters, and we're hoping that we'll continue to maintain higher margins at the production levels we're currently at.

Beau | Conference Operator:

Thank you. And just a quick reminder, ladies and gentlemen, any further questions this morning, please press star 1 and we'll pause for just one moment. And Mr. Wilkin, it appears we have no further questions over the phone at this time. Sir, I'd like to turn the conference back to you for any closing comments.

Neil Wilkin | President and Chief Executive Officer:

Okay. Well, thank you. I would like to thank everyone for participating listening to our third quarter of fiscal year 2026 conference call today. As always, we appreciate your time and your investment in Optical Cable Corporation. Additionally, I would like to note that this Friday marks the 25th anniversary of the terrible attack on the United States on September 11, 2001. We are so grateful for our company's first responders and those that serve and support the U.S. military for protecting us protecting our freedom and protecting our way of life. Thank you all.

Beau | Conference Operator:

Have a good day. Thank you very much Mr. Wilkin and thank you Ms. Smith. Again ladies and gentlemen this brings us to the end of today's meeting. We do appreciate your time and participation. You may not disconnect.