

NASDAQ:RFIL Q2 2025 Earnings Call Transcript

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Conference Operator | Operator:

Greetings. Welcome to ORF Industries' second quarter fiscal 2025 Financial Results Conference call. At this time, all participants are in listen-only mode. A question and answer session will follow the formal presentation. If anyone should require operator assistance during the conference, please press star zero on your telephone keypad. Please note this conference is being recorded. I will now turn the conference over to your host, Donnie Case, Investor Relations at ORF Industries. Donnie, you may begin.

Donnie Case | Investor Relations, ORF Industries:

Thank you, Paul. And good afternoon, everyone, and welcome to ORF Industries' second quarter 2025 earnings conference call. With me today are ORF's Chief Executive Officer, Rob Dawson, and CFO, Peter Yin. We issued our press release after market today, and that release is available on our website at orfindustries.com. I want to remind everyone that during today's call, management will make forward-looking statements that involve risk and uncertainties. Please note that information on this call today may constitute forward-looking statements under the securities exchange laws. When used, the words anticipate, believe, expect, intend, future, and other similar expressions identify forward-looking statements. These forward-looking statements reflect management's current views with respect to future events and financial performance and are subject to risk and uncertainties. Actual results may differ materially from the outcomes contained in any forward-looking statement. Factors that could cause these forward-looking statements to differ from actual results include the risk and uncertainty discussed in the company's reports on Form 10-K and 10-Q and other filings with the FTC. ORF Industries undertakes no obligation to update or revise any forward-looking statements. Additionally, throughout this call, we will be discussing certain non-GAP financial measures. Today's earnings release and related current report on Form 8-K describes the differences between our GAP and our non-GAP reporting. With that, I'll now turn the conference call over to Rob Dawson. She's Executive Officer. Please go ahead, Rob.

Rob Dawson | Chief Executive Officer, ORF Industries:

Great. Thank you, Donnie. And welcome to our second quarter fiscal 2025 conference call. I'll start with our second quarter highlights and some thoughts on the current environment. And our CFO, Peter Yen, will cover our financials before opening the call up to your questions. Ray Babisi, our President and COO, won't be joining us today as he's proudly attending his son's graduation. Now let's talk about the quarter. We followed our exceptionally strong first quarter with a very successful second quarter. Fiscal second quarter net sales grew 17% to \$18.9 million year over year. And gross profit was 31.5%, exceeding our target goal of 30%. For the third consecutive quarter, we delivered an operating profit, which was \$106,000 versus an operating loss of \$415,000 in the second quarter of 2024. And adjusted EBITDA was more than \$1.1 million with a 6% margin. Moving us closer to our 10% adjusted EBITDA margin goal, we ended the quarter with a backlog of \$15 million and as of today, it stands at \$18.4 million, a big increase from six weeks ago. To us, this seems like night and day compared to our results in the first half of fiscal 2024. I believe we've reached the inflection point where RFI's repositioning from a products company to an integrated solutions provider for diversified end markets is printing through in our financial results. Our results are now more diverse, both by product and customer than ever before. We're driving growth in wireless, aerospace, public safety, and industrial OEM customers. While we're also identifying applications in markets like energy, transportation, wireline telecom, data centers, and new industrial use cases. We're seeing repeat and new customer wins across the board in

our various product categories. Our expanded portfolio of innovative solutions has further diversified our end markets. As I mentioned on our last call, we want a large custom cabling project from a leading aerospace company. Since then, we've received multiple significant additional orders from this customer. This repeat business builds our credibility and reputation in an industry that demands the highest degree of precision. Our small cell solutions are gaining momentum as we finally start to see some larger deployments moving forward. Wireless DAS build outs in stadiums and venues continue to be opportunity. And we currently have over 100 opportunities in our sales pipeline. And our core custom and standard interconnect offer remain stable and strong. Our direct air cooling or DAC systems are also gaining momentum in the market. In this category, we're continuing to push the boundaries with new innovations to enhance efficient, cost-effective cooling solutions that can cut energy consumption while reducing repair and cost. We recently launched a next-gen system that features advanced control capabilities and anemopore certification for more rugged environments. These new developments expand our opportunity set into wireline telecom, edge data centers, as well as energy and transportation applications. To elaborate on one example application that I've mentioned in recent calls, AI is driving the overall demand for data centers and more equipment is being pushed to the edges of network into the small buildings, cabinets, and enclosures that house equipment there. This equipment must be cooled to operate effectively and consistently. And our DAC systems offer high-efficient, climate-durable cooling that is both eco-friendly and at a lower cost than traditional systems. Our patented systems are built to stand the rigor of outdoor environments. Plus, they have -the-art technology that can reduce operating expenses by up to 70% over conventional HVAC systems, as well as helping companies achieve their green initiatives. Importantly, DAC systems are often funded by operating and maintenance budgets that are not correlated to capex spending, further diversifying our revenue sources. As I mentioned earlier, wireless build-outs in stadiums and venues are regaining the momentum that was lost during the COVID pandemic and coming back in both greater size and numbers. Today, who doesn't know pro or college team looking for a new venue or to modernize their existing venue? Not to mention major upcoming events like the 2026 FIFA World Cup, where the U.S. is scheduled to host games in cities like L.A., New York, Dallas, and Miami, and the 2028 Summer Olympics in L.A. As I mentioned, we have over 100 venues in our sales pipeline and an experienced sales team dedicated to further penetrating this market. We're a technology leader developing new solutions for distributed antenna systems, or DAS, that are needed to enhance wireless capabilities in stadiums, as well as airports and other high traffic venues. On the business development front, we bolstered our sales team with seasoned and connected leaders. Through their efforts, we've migrated up the food chain with key customers and are now getting a larger share of their total purchases. And as previously mentioned, we're breaking into new markets with new customers. This diversity is huge for us. It's also important to note that our prior acquisitions have been transformative in creating new opportunities with high-value solutions. Well-established brands like Microlab have market currency, and the talented teams who've joined us in product engineering and sales are leading the charge to untapped potential. While we're certainly set up to have a breakout year, a looming question is what to expect in the back half of the fiscal year given the uncertainty around the tariff situation and its impact on the supply chain. I think the summary is that so far we've handled it with our usual calm and pragmatic approach. In a bit more detail, for quite some time we've been actively working to drive even greater diversification across our supply chain. And the majority of what we produce and deliver is domestically sourced. We do have some exposure to tariffs from certain products and components through certain suppliers in Asia, but it is limited. By all measures, RFI should be the poster child of what I think the tariffs are meant to accomplish. The majority of our products are produced in the United States by an entirely American workforce. We're very proud of our team, and I believe in the integrity and quality of what we make and how we make it. That said, what's happening with tariffs is beyond our control. We continue to tweak our supply chain and pricing policies to anticipate and manage any potential new cost pressures. And the RFI team has done a great job navigating this challenging and dynamic situation. I really appreciate their flexibility, resilience, and positive attitude. We see plenty of opportunity ahead and are prepared to seize it. RFI has fought through some tough and confusing times in the past and emerged as a stronger and smarter organization. Right now we have a far greater set of opportunities than ever before, and we're focused on making steady progress and penetrating new end markets and winning more opportunities with key customers. So in summary, our results are now more diverse by product, market, and customer than ever before. This evolution has also made our results

more stable and more predictable. We have standing agreements and contracts with the who's who in our various markets. RFI has a marquee list of customers, and it's growing. Our distribution channel is growing stronger as our reputation for quality products and dependable delivery also grows. We've redeveloped product lines and launched new products with a keen focus on managing R&D and capex spend. Our portfolio of innovative solutions is growing and making an impact both in the marketplace and in our results. Operationally, we've consolidated our footprint, streamlined the company, and are continuing to identify other pockets of efficiency. We're driving profit growth through our strong operating leverage and through market execution. Our financial position has greatly improved and will continue to benefit from our intense focus on profitability. We're managing the impact of tariffs and our ability to execute is our strength. With what we know today, we expect our fiscal 2025 third quarter sales to be roughly in line with second quarter sales, which would be a significant increase over the \$16.8 million that we reported in the third quarter last year. We're executing well and doing what we said we would do with enthusiasm and optimism. We've never had a greater team or platform for growth to realize RFI's full potential. With that, I'll turn the call over to Peter.

Peter Yin | Chief Financial Officer, ORF Industries:

Thank you, Rob, and good afternoon, everyone. As Rob mentioned, we're pleased with our second quarter performance. Second quarter sales increased .4% to \$18.9 million year over year and slightly decreased .6% on a sequential basis. Second quarter gross profit margin increased to .5% from .9% year over year. The 160 basis point improvement was driven by an overall increase in sales and also reflected a better product mix and our continued efforts to drive cost savings and operating efficiencies. Second quarter operating income was \$106,000, a significant improvement from the operating loss of \$415,000 we reported last year. Consolidated net loss was \$245,000 or 2 cents per diluted share and our non-GAAP net income was \$701,000 or 7 cents per diluted share versus the comparable period net loss of \$4.3 million or 41 cents per diluted share and non-GAAP net income of \$132,000 or 1 cents per diluted share. Second quarter adjusted EBITDA was \$1.1 million, a significant improvement compared to adjusted EBITDA of \$572,000 in Q2 2024. Moving to the balance sheet, we continue to manage our working capital to strengthen our liquidity and overall capital structure. As of April 30th, we had a total of \$3.6 million of cash and cash equivalents and we had working capital of \$12.1 million and a current ratio of approximately 1.6 to 1 with current assets of \$32.7 million and current liabilities of \$20.6 million. As of April 30th, we had borrowed \$8 million from our revolving credit facility. We continue to keep a close eye on our borrowing costs and see opportunities in the near term to move to a more advantageous financing structure for us as our overall performance have been improving. We're pleased with the interest we have received from various lenders to explore more favorable terms that will reduce our cost of capital and enhance our liquidity. The strong demand to engage in discussions on our credit facility is a testament to the strength of our company and our position in the market. Our inventory was \$12.6 million down from \$14.7 million last year. The continued decrease in inventory reflects our ongoing improvement to streamline our procurement and supply chain processes. As we close our second quarter, some shipments of inventory were delayed as we worked through the tariff impact with our customers. During our Q2, it is important to note that we did not experience a material impact related to tariffs or delayed shipments from our vendors. The majority of the delays were for inventory items where we had sufficient inventory quantities on hand to meet our current delivery dates to our customers. We continue to work with our customers and to diversify our supply chain and we believe our efforts will help to minimize our exposure on the additional tariffs that were introduced. We believe our current inventory level supports our strategic business model of inventory availability and we continue to manage this closely as we expect to see continued demand in the second half of 2025 as discussed earlier in the call. Moving on to our backlog, as of April 30th, our backlog stood at \$15 million on bookings of \$18.7 million and as of today, our backlog currently stands at \$18.4 million. In closing, our team delivered a strong first half of fiscal 2025 and we are eager to capitalize on the opportunities before us to drive increasing value for our shareholders. With that, we'll open up the call for your questions.

Conference Operator | Operator:

Thank you. At this time, we'll be conducting a question and answer session. If you would like to ask a question, please press star one on your telephone keypad. A confirmation tone will indicate your line is in the question queue. You may press star two if you would like to remove your question from the queue. For participants using speaker equipment, it may be necessary to pick up your handset before pressing the star keys. Once again, that's star one if you wish to ask a question today and please hold while we pull for questions. And the first question today is coming from Matt Maus from B Riley. Matt, your line is live.

Matt Maus | Analyst, B. Riley:

Hi, this is Matthew, Oscar Josh, taking my questions. Sure, come back. So to start, I was wondering what would you credit for a lot of that backlog growth that you've been seeing in bookings? How much of that business that you think will get recognized over the next year? What would you credit for that growth?

Rob Dawson | Chief Executive Officer, ORF Industries:

Yeah, thanks for the question, Matt. I think the increased backlog is really spread out across several different product areas. So I think that's the best news for us is there's not a concentration challenge in there. It's not one large order. It's several orders across several product lines of varying sizes. So we're encouraged by that. I think at any time, you know, our backlog, when people ask questions about it, we say, look, it's a good health indicator. But when it was, you know, 12, 13, 14 million, I wasn't worried about it being too low at, you know, 18 or 19 million kind of where it stands now. I think it's a good indication that we've got a lot of good things going and we got a lot of business ahead of us. How much of that goes out in a short window of time really depends on the product line. You know, some of these things come and go in a six-week window. Other things maybe are projects that will be spread out over a few different quarters. So most of our backlog is really made up of those projects. What doesn't get reflected there is our book and ship business that can come and go in a day or two days, which is a material amount of our sales come in that way. So I think that the healthy thing for us is, to my earlier point, we've got a mix of short and long-term opportunities in there across a lot of customers and a lot of product areas.

Matt Maus | Analyst, B. Riley:

Great. Thanks. Yeah, it's great to hear about the area. So I can be helpful. Fresh between, you know, bottom like cell tower stock sales and in terms of revenue. Matt, we're not getting

Rob Dawson | Chief Executive Officer, ORF Industries:

any of you. You're getting cut in and out there. So maybe, I don't know, can you repeat that?

Matt Maus | Analyst, B. Riley:

Can you hear me now?

Rob Dawson | Chief Executive Officer, ORF Industries:

I think so. Let's give it a try.

Matt Maus | Analyst, B. Riley:

Yeah. So thanks for the color on the wind being spread out across different areas of the business. I was wondering if you could give a quick refresher on the split between things like products like the cell tower side, small sales and DAT systems in terms of revenue contribution.

Rob Dawson | Chief Executive Officer, ORF Industries:

Yeah, sure. So we don't report specifically how much of those contribute. I think the easier way for us to look at that is that the markets where we've been able to build, or I mean, the applications we've been able to build a full bill of materials, things like small cell and things like distributed antenna systems, we do very well in the wireless space. On the macro tower site, it's a pretty competitive side of things. We do have an offer there, you had a lot of success with, performs well in that space. Our basic coax jumpers and fiber jumpers also perform there. We don't make that a priority. I think as far as developing further into that bill of materials, we do heavily focus on venues where DASH is a big play. Small cell continues to be a big play for us. Last year, it was a minimal contributor to sales. It's become something this year that is more of a growth engine. And you start to see some of the delta year over year. Certainly a contributor there. The other place that we're seeing nice growth, as we mentioned, is in what we've historically called the OEM or industrial markets. We're starting to be able to break those out a little better into things like aerospace and defense, in addition to transportation, energy, heavy manufacturing, some of these other markets. But I think the aerospace world, we've always serviced nice key customers there. We're continuing to add good blue chip customers. We talk about some meaningful orders that we've received from one in particular over the last handful of quarters. We're hopeful those continue. I think the team's performing really well. Part of that, I think the thesis behind your question is we're getting pretty diverse in the applications we're addressing. And they're all starting to produce some meaningful contributions to total sales, in addition to our core run rate that goes through distribution that we don't always know where that's going to end up. Sometimes we can tell. A lot of times we're relying upon our great distribution channel to drive market positioning for themselves and for us. And we don't always know where that ends up. But it's getting pretty spread out across several applications and markets and customers.

Matt Maus | Analyst, B. Riley:

Great. And then the last point, I know you have over 100 opportunities. What is the expected rate and how soon do you expect that to continue mutually?

Rob Dawson | Chief Executive Officer, ORF Industries:

Yeah, so on the distributed antenna side, which again, when we look at that, it's all different kinds of venues. So we talk a lot about stadiums because those are usually the big ticket items. But you're also looking at office and education campuses. You've got medical campuses. You have regular facilities that require things like public safety to go in, in addition to several other different kinds of size, multi-tenant living opportunity kind of buildings as well. So we're always tracking a pretty healthy number of those. I think we've done a good job of adding to that. They're contributing all the time. So you could say that some of our backlog increase certainly is driven by an increase in success in that market. Our expectation of how we perform in the second half of the year and going forward is certainly rooted in the fact that we feel confident in how we're performing in that application. We have the right integrators as influencer customers. Many of them buy

through our distribution channel, which is great. We've gotten approvals on the right kinds of products with the carriers and the neutral host companies. So I think for us, it's always contributing, which is a helpful piece of it. And that 100 is, has it always been at that level? It's kind of ebbed and flowed, but I think we feel like there's certainly an increase of opportunities there. And the bill of materials for us, it can be a small venue that's \$50,000 or it could be a huge stadium built from scratch that's over a million bucks. Those are the kinds of things that we appreciate, kind of the diversity of those different opportunities and structure.

Matt Maus | Analyst, B. Riley:

Awesome. Thank you for that. And I guess last one for me, I was hoping you could expand on the wireless provider, a making up about 11% of revenue for the quarter. What is that? How much more runway is either there? It looks like last was at that level about this time last year.

Rob Dawson | Chief Executive Officer, ORF Industries:

Yeah. So I think that, you know, when you look at our disclosures in the queue around concentration, I think the interesting thing to note is that the top customer in Q2 was different from the top customer in Q1, which was different from who it would have been at the end of last year. This is the sort of project-based nature of certain applications where we get a nice win. That application or that deployment may happen during one quarter, maybe sprout over a few quarters, but as we start to see better execution, I think within our sales team and our technology team, we're getting into more of these kinds of mid to long-term deployments that have large dollars attached to them. So the growth that we're seeing in our business is certainly attributed to some of these larger wins. And the great thing, I think, is in the past we've had some great wins and high sales numbers. And when you looked at it, our concentration was with one customer, maybe, and a bigger chunk of total sales than what we're talking here at this 11%. That same customer in Q1 was a much smaller number, and we do expect repeat purchases from that customer. I think we're also starting to see a list of several customers every quarter putting up a million bucks in kinds of sales with us, which is a new world for us to have that many customers in addition to our distributors performing as a big piece of the total sales mix. Look, it's something to take note of, but I think if you look at the... If we were disclosing the list of all the customers that we're selling to for a company our size, it's a who's who list of who you want to do business with. And it's really a testament to how great our team is at building products, designing them, building them, getting them out the door, and the relationships that we've built to bring us up market into a different world.

Matt Maus | Analyst, B. Riley:

Got it. That was very helpful. Thank you. I'll jump back into the queue. Thanks, Matt.

Conference Operator | Operator:

Thank you. And once again, if you did have a question today, please press star one on your phone at any time to enter the queue. The next question is coming from Steven Cole from Mangrove. Steven, your line is live.

Steven Cole | Analyst, Mangrove:

Thank you. Good evening, I guess, from here, but good afternoon there, Rob and Peter. Indeed. A couple of quick questions. I guess I wanted to talk... For Peter, for a second, just on the credit facility, because I suspect, as you alluded to, that things are getting better. Can you kind of wrap a little bit more color around that in terms of when could we expect another agreement in place and what kind of savings on the bottom

line, we might say?

Peter Yin | Chief Financial Officer, ORF Industries:

Yeah, so I think that is... We expect to have that here in the current Q3, if not definitely by our year end. I think that we'll share more detail there as we finalize, but we expect obviously an interest rate decrease there and savings there we think will be meaningful.

Steven Cole | Analyst, Mangrove:

Okay. Let me turn to another question, if I could. You guys have a 10%, I know, EBITDA target, but your gross margin, I think, was 31 and change. I'm just curious if you could maybe tie out how do we get from the 6 to the 10? Because I would imagine 31 and a half is pretty decent. You've been making some cuts in S&I. So how do we reconcile that and how much is absorption versus continued improvements and max? And is there room to actually exceed? What would have to happen to beat the 10% EBITDA target?

Rob Dawson | Chief Executive Officer, ORF Industries:

Yeah, good question. So I think, I mean, look, you hit on the key levers in this, which one is mix. We do think there's room for mix to get a little better. The bigger thing for us there is also continuing to take out costs and be more efficient in the way we do our production and manufacturing. The tariff changes make that a little funky and making sure we can manage through the drama around those items has been important to us. I think we've done it, but it's something that has to be noted. The last piece is just, you know, we're absorbing all labor now and we're putting up the numbers that we're putting up with the existing cost infrastructure, which you'll notice. Our S&A really isn't going up commensurate with the way sales are going up. We're managing that very well and doing a good job. So I think if we have room to push sales higher as we continue to perform in these product lines with the great customers that we've managed to line up good relationships with and do a good job of managing those kind of ongoing projects, we think sort of the combination of those three things will help push that up. Peter mentioned working on a credit facility to take some additional cost out. There's other levers that we're working on as well to try to bolster that profitability, both the gross profit line and then below the line, which will at this point all fall straight through.

Steven Cole | Analyst, Mangrove:

Right. And another one, just on, I know you've got to be happy with DAC and small cell and, you know, are we seeing, I know you've talked about even broader coverage there, but what is the, as you look out to this year, the back half of this year, is a comfort. I don't know, obviously I know you don't break out in the backlog percentage areas, but I presume we've seen pretty good growth in both of those areas, is that the case? And again, is that being facilitated by multiple and customers or could you give them a little bit more color there? And it sounds like a lot more comfortable than you have been or at least you're seeing it pull through better.

Rob Dawson | Chief Executive Officer, ORF Industries:

Yeah, so I think both those product lines, both DAC and small cell, are meaningful contributors to sales. To the earlier question around, you know, customer concentration, we don't have any concerns there. These are happening across several different customers and several regions. And as we've talked about in the past, these larger customers in particular, in many cases have regional budgets that are deployed by more localized management who are overseeing a, you know, deployment of hundreds or thousands of sites, whether that's small cell or DAC. So we feel good about the diversity, not just across multiple customers, but

even within the customers where there's several regions that operate somewhat independently when it comes to technology. You know, we have to get wins in each of those markets once we've gotten the overall corporate technology approval. So both product lines are contributing, which is, you know, at a material level, which is now helpful to us. And I think we expect those to continue being, you know, some of the drivers of our growth into the back half of the year. And we're hopeful that kind of momentum can continue into fiscal 26.

Steven Cole | Analyst, Mangrove:

Thank you very much, guys.

Rob Dawson | Chief Executive Officer, ORF Industries:

Thank you,

Conference Operator | Operator:

Steve. Thank you. There were no other questions in queue at this time. I will now hand the call back to Rob Dawson for closing remarks.

Rob Dawson | Chief Executive Officer, ORF Industries:

Great. Thank you, Paul. And thanks everyone for participating in today's call. We truly appreciate your support. Have a fantastic and safe summer, and we look forward to talking with you in the fall. Have a good day.

Conference Operator | Operator:

Thank you. This concludes today's conference, and you may disconnect your lines at this time. Thank you for your participation.