NASDAQ:RFIL Q4 2025 Earnings Call Transcript

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John | Conference Operator:

Greetings. Welcome to the RF industry's fourth quarter fiscal 2025 financial results conference call. At this time, all participants are on a listen-only mode. A question and answer session will follow the formal presentation. If anyone should require operator assistance during the conference, please press star zero on your telephone keypad. Please note, this conference is being recorded. I will now turn the conference over to your host, Donnie Case, Ambassador Relations. You may begin.

Donnie Case | Ambassador Relations:

Well, thank you, John, and good afternoon, everyone, and welcome to RF Industries' fiscal fourth quarter and year-end 2025 earnings conference call. With me today are RFI's Chief Executive Officer, Rob Dawson, President and COO, Ray Babisi, and CFO, Peter Yin. We issued our press release after market today, and that release is available on our website at rfindustries.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 the 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 uncertainty. Actual results may differ materially from the outcomes contained in any forward-looking statements. Factors that could cause these forward-looking statements to differ from actual results include the risk and uncertainties discussed in the company's reports on Form 10-K and 10-Q and other filings with the SEC. RF Industries undertakes no obligation to update or revise any forward-looking statements. Additionally, throughout this call, we will be discussing certain non-GAAP financial measures. Today's earnings release and related current report on Form 8K describe the differences between our GAAP and non-GAAP reporting. With that, I'll now turn the conference call over to Rob Dawson, Chief Executive Officer. Please go ahead, Rob.

Rob Dawson | Chief Executive Officer:

Thank you, Donnie, and welcome everyone to our fourth quarter and fiscal year-end 2025 conference call. I'll start with our fourth quarter highlights and observations of what our team achieved in fiscal 25. Ray will then provide a progress update on our go-to-market strategy, and Peter will cover our financial results before opening the call to your questions. In the fourth quarter, our team kept building on the momentum we delivered throughout the year. Net sales grew 23% year-over-year to $22.7 million. Over the past several quarters, I highlighted how our strategic transformation was driving profitable growth and the operating leverage from executing our plan really showed in Q4. Gross profit margin of 37% exceeded our 30% target and adjusted EBITDA was 11.5% of net sales above our stated goal of 10%. We controlled our fixed costs while driving strong sales growth and that execution delivered a significant increase in profitability. As I mentioned, our results steadily accelerated throughout the year. And for the full fiscal year, net sales were $80.6 million, an increase of 24% compared to fiscal 2024. Gross profit margin for the year was 33% compared to 29% in the prior year. And we delivered adjusted EBITDA of $6.1 million, a huge increase compared to $838,000 in adjusted EBITDA in fiscal 2024. From both the top line and bottom line perspective, fiscal 25 felt like a breakout year for RFI. And going forward, our goal is to prove what our operating model is capable of producing. While the general overall environment continues to have its share of uncertainties and increased costs, our team will continue to execute our long-term strategic plan to further transform RFI from a

product seller to a technology solutions provider. In fiscal 26, We remain intensely focused on diversifying in markets, driving further customer and market penetration, and launching new products and solutions that we believe will help deliver another year of strong sales growth and profitability. Now I'd like to walk you through how some key initiatives contributed to a successful fiscal 25 and how they set up RFI for future growth and profitability. The baseline story is the difference between being a solutions provider with technologically advanced products and systems versus our historical position as a downstream component supplier. Being a solutions provider, coupled with RFI's reputation and product approvals from key customers, has opened many new channels for growth and has resulted in considerable diversification of both customers and end markets. Ray will go into more detail on trends we're seeing in key end markets, including aerospace, stadiums and venues, and transportation. What I want to point out is that diversification not only expands opportunity, but also mitigates the risk of customer concentration. In the past, there were times when a single customer accounted for a large part of our growth during the fiscal year. While this was good for our top line and is not abnormal in a growth story, we also recognized it could be seen as a vulnerability. Since then, our team has been heavily focused on widening our horizons by innovating our product applications into new end markets and engaging new customers to drive diversification. Now our results are healthier with diversity by product, customer, and market. Three key initiatives are helping our story evolve. First is deepening our relationships with existing customers. We want to partner more closely with our customers. which allow us to add more value and likely gain a larger share of their annual spend. With our high-value proprietary offerings, we can provide tremendous performance and cost benefits to our customers. We've become very adept at partnering with our customers to identify a need and then using a key solution as the tip of the spear to elevate our relationship. Once we began working more collaboratively with the key technical and market resources within our customers on solving their pain points, we saw more opportunities to cross-sell and expand the value proposition of our relationships. Second, leveraging our successes in markets where we have a long history helps us identify needs for similar applications in other new end markets. Once we've proven our value to key current customers, our team has become skilled at aligning with new customers and partners to penetrate new market segments. We believe over time that these new markets and customers will build into healthy contributors to our sustainable growth and profitability. Finally, we're expanding the value proposition we offer to our channel partners. A solid portion of our revenue comes from partners in our distribution channel, and we continue to foster very close relationships with these key companies. As our portfolio of high-value innovative products and solutions grows, our partners' product offerings to their customers are further enhanced. This has resulted in steady recurring sales for RFI. Also, our distribution partners help open the doors to customers we're targeting. Just about every key contractor and integrator buys from distributors, and we appreciate being well aligned with each of those groups. In addition to our key distributors, we also made a strategic decision to partner with certain manufacturers that act as a channel to take us to new customers and markets. As I mentioned on last quarter's call, A major manufacturer of electronic cabinets and enclosures identified our thermal cooling systems as a solution for edge data center installations. And we're starting to see some real traction in these applications. Both of our organizations believe our combined solution addresses the critical role that cooling systems play in the performance and reliability of edge equipment. While still in its early stage, this collaboration can result in a significant new opportunity for us. It's a great example of where a customer sees a problem and comes to RFI for a solution. We look forward to sharing more about these stories in coming quarters. These go-to-market initiatives, along with our continued focus on constant improvement and operational excellence, provided great results in 2025. And we have solid momentum as we enter fiscal year 26. While we expect some of the normal seasonality in Q1, we also expect to accelerate throughout the year in a similar trajectory to fiscal 25. And with what we know today, we anticipate another year of sales growth. As I've noted before, we look at our business opportunity over the long term because results can flex from quarter to quarter depending on when orders are shipped out the door and a small movement of a shipment, even by a day or two, can have a large impact on a single quarter. Our leading indicator is having a strong and diversified pipeline to help fuel top line growth, which in turn can deliver profitability from our operating leverage. Most important, we have a great team that's firing on all cylinders. Their enthusiasm and commitment to maximizing the opportunities ahead is driving RFI forward to our full potential. Now I'll turn the call over to Ray for more detail on the tremendous progress our team has made in executing on our strategic plan.

Ray Babisi | President & COO:

Thank you, Rob, and good afternoon, everyone. Across our business, Q4 reinforces the progress we've made throughout the fiscal 2025. What stands out most is not just where we're seeing growth, but the consistency and discipline behind our execution. Across our targeted end markets, demand remains supported by long-term infrastructure and connectivity investments. In large infrastructure markets, including stadiums, venues, and transportation, activity remained strong throughout the year. We supported more than 130 projects across these categories, delivering a meaningful contribution to revenue compared to prior years. More importantly, this worked strengthen our credibility and visibility, positioning us for future multi-year opportunities, including major global events such as the LA Olympics and the US World Cup, as well as continued airport modernization programs. Our pipeline continues to provide strong visibility across a wide range of infrastructure-related opportunities, reinforcing our confidence in demand stability. The aerospace and defense market also remains solid. Performance here continues to be driven by close collaboration between engineering, operation, and customers to deliver solutions that meet stringent performance, quality, and compliance requirements. Intelli communications and broadband investment remains focused on densification, coverage expansion, and network reliability. our small cell, direct air cooling, and RF passive solutions continue to see consistent traction across both OEM and carrier driven programs. Across all these markets, our distribution channels continue to perform well, delivering consistent contributions based on improved product availability, strong partner engagement, and more disciplined commercial cadence. From an operational standpoint, Q4 reflected continued progress towards more predictable execution and tighter operational controls across inventory, cost, and delivery. Inventory actions were focused on aligning supply chain with demand while managing tariff and supply chain uncertainty. And our cost reduction initiatives continued to deliver tangible benefits. Process and IT improvements are strengthening forecast accuracy, visibility, and scalability across the organization. From an engineering perspective, our focus continues to be innovation aligned with market demand. A more disciplined state gauge process and cross-functional prioritization are improving on how we allocate resources to the highest value opportunities. Customers are increasingly engaging with us early in their design cycles, reflecting our evolution from a component supplier to a problem-solving partner. As Rob noted, RF Industries looks very different today than it did a few years ago. That change reflects clearer accountability, stronger cross-functional alignment, and a more disciplined operating rhythm. Looking ahead to 2026, our priorities are to build on this foundation, executing reliable advancing our product roadmap strengthening leadership and improving predictability across the business there are plenty of external variables we continue to manage but our strong pipeline disciplined operations and aligned teams position us well moving forward what gives me confidence today is the progress we've made in building a more predictable and scalable business with stronger execution better visibility and clear accountability. RF Industries is well positioned to carry momentum into 2026 and continue creating value for our customers and shareholders. Now I will turn the call over to Peter.

Peter Yin | Chief Financial Officer:

Thank you, Ray, and good afternoon, everyone. As Rob mentioned, we're pleased with our fourth quarter and full year results. Starting with our fourth quarter, Sales increased 23% to $22.7 million year over year and 15% on a sequential basis. Gross profit margin increased to 37% from 31% year over year. That is an improvement of approximately 600 basis point that was driven by both higher sales and a more favorable product mix. Fourth quarter operating income was $903,000 a considerable improvement from the operating income of $96,000 we reported last year. Consolidated net income was $174,000, or 2 cents per diluted share, and our non-GAAP net income was $2.1 million, or 20 cents per diluted share. Compared to a consolidated net loss of $238,000, or 2 cents per diluted share, share year over year and non-GAAP net income of $394,000 or 4 cents per diluted share for Q4 2024. Fourth quarter adjusted EBITDA was $2.6 million compared to adjusted EBITDA of $908,000 for Q4 2024. Turning to fiscal year 2025 results, Full year revenue increased 24% to $80.6 million year over year. This included finishing the year strong with shipments from our custom cabling offering to a leading aerospace company. Full year gross profit margin increased to 33% from 29% year over year. That is an improvement of approximately 400 basis points, which was

primarily driven by both higher sales and a more favorable product mix. Full year operating income was $1.8 million, a significant improvement from an operating loss of $2.8 million in fiscal 2024. Full year consolidated net income was $75,000 or one cent per diluted share. And our non-GAAP net income was $4.4 million or 40 cents per diluted share compared to a consolidated net loss of $6.6 million or $0.63 per diluted share year over year, and a non-GAAP net loss of $990,000, or $0.09 per diluted share for fiscal 2024. Full-year adjusted EBITDA was $6.1 million, a substantial improvement compared to adjusted EBITDA of $838,000 in fiscal 2024. Moving to the balance sheet, our working capital and overall liquidity remain very strong. Our improved results allowed us to reduce our net debt by $4.6 million compared to last year. As of October 31, 2025, we had a total of $5.1 million of cash and cash equivalents, and we had working capital of $14.1 million and a current ratio of approximately 1.7 to 1, with current assets of $35 million and current liabilities of 20.9 million. As we discussed on the last call, we have been exploring ways to reduce our overall cost of capital. As a result of our significantly stronger financial results and outlook, I'm pleased that we were able to negotiate more favorable terms and flexibility for our revolving credit facility, reducing the minimum outstanding loan balance, interest rates, and reporting requirements. As of October 31, 2025, we had borrowed $7.8 million from our revolving credit facility. Our inventory was $13.7 million, down from $14.7 million last year. The decrease in inventory reflected further operational excellence. We continue to manage our inventory levels with discipline. balancing our ability to meet strong customer demand while optimizing supply chain operations to maximize efficiency. Moving to our backlog, as of October 31, our backlog stood at $15.5 million on bookings of $18.5 million. As of today, our backlog currently stands at $12.4 million. Our backlog is a snapshot in time and can vary based on whether based on when orders are received and when orders are fulfilled. While we view backlog as a general gauge of health, it can swing significantly at times, making it less predictable, making it a less predictable indication of our near-term sales. We are incredibly proud of the breakout year that we achieved in 2025. While understanding there is still work ahead of us, as we see room for further improvements, we enter fiscal 2026 with strong momentum, and we are optimistic about the future and our ability to drive improved profitability as we continue to grow. With that, I'll open up the call for your questions.

John | Conference Operator:

Thank you. At this time, we will be conducting a question and answer session. If you would like to ask a question, please press star 1 on your telephone keypad. A confirmation tone will indicate your line is in the question queue. You may press star 2 if you would like to remove your question from the queue. For participants using speaker equipment, it may be necessary to pick up your handset before pressing the star keys. One moment, please, while we poll for questions. Once again, please press star 1 if you have a question or a comment. The first question comes from Josh Nichols with B. Riley. Please proceed.

Matthew | Analyst, B. Riley Securities:

Hi, this is Matthew. I'm for Josh. Thanks for taking my questions and great quarter. I guess to start off, yeah, I guess to start off, I mean, fiscal 25 came in above our expectations. You had strong momentum exiting the year. I'm just wondering how we should think about the growth trajectory for fiscal 26, especially now that we're almost through the first quarter of your fiscal 26. So I'm just wondering how things are tracking.

Rob Dawson | Chief Executive Officer:

Yeah, appreciate that. Thanks for the question and the comment. So I think, as I said in my commentary, our expectation for 26 is another year of growth. I think the trajectory of how we get there is going to look similar to what it was in 25. The joy of having a first quarter that includes November, December, and January means you're always going to have seasonality, almost regardless of what industries you're selling into. So we expect our first quarter probably to be our platform to start from as our lowest quarter of the year. Again, and

if you look at what we did in 2025, you can see how quickly that accelerates and how the profitability really ratchets up. So while we're not giving specific guidance, I think if you look at our normal, sort of our normal quarterly quarter over quarter growth that we see in a given year, we expect something similar in 26.

Matthew | Analyst, B. Riley Securities:

Got it. And yeah, I mean, this school, I mean, this, this for fiscal fourth quarter was really strong and you had gross margins that expanded to 37%. So I'm just wondering, like, can you break down how much of that was mixed versus operating leverage or pricing?

Rob Dawson | Chief Executive Officer:

Yeah, I think it's really a nice combination of, of product and solution mix, which we're starting to see a solid impact and contribution from some of the higher margin product lines that we sell. But I can't really understate the strength of a sales number that starts to get up above 20 million bucks a quarter. I mean, we really saw it in Q4, and that's not something that we've been able to even model perfectly and say, hey, what's this going to look like if our mix does what we think it's going to do and sales go above a we started to throw a lot of cash to the bottom line. And so I think that was as much the story in Q4 as anything else was. Our sales came in a little higher than even what we expected. We had some orders that were requested to be moved in a little bit, which was great. So we benefited from that. But certainly you can really see what happens when sales creep up above 19, 20 million bucks, how much of that becomes a bottom line impact.

Matthew | Analyst, B. Riley Securities:

Yeah, actually expanding on that bottom line impact, I mean, similarly, EBITDA margin was, you know, like 11.5%, and that was above your 10% target. Is there sort of like a new target that you think you can hit? I mean, you're expected to grow this fiscal 26, so I'd only imagine that as you continue pushing past 20 million, it'll continue to be above that 10% target on a strong quarter.

Rob Dawson | Chief Executive Officer:

Yeah, I appreciate that. I think, I mean, one, I want to celebrate how great the team was to get us there in Q4. You know, we put a goal out there of getting to 10%, you know, EBITDA 10% as a percentage of sales. We put that out not long ago and said, yeah, we see an opportunity to get there. We've got to really work hard to do it both on the cost and operational excellence side, but also on the sales side. And everything kind of came together in Q4. I think the expectation for us is we've got to find ways to keep it above that 10% number. That's not an easy feat. I mean, if sales are up, that's great. But we're also up against continued cost increases and other things that are being thrown at us. So we're not putting out a specific different goal than what we already have. Our job is really to keep the profitability at as high a level as we can. again, looking at it over the long term. I mean, if you look at what we did in Q1 through 4 in 2025, you saw that number adjusted EBITDA as a percentage of sales start to crank up each quarter, even as sales didn't grow a ton until you really saw in Q4 with a higher sales number. So I anticipate sort of a similar approach to 2026 and how that's going to go. I mean, the quarter's are hard for us to dictate specifically based on customer demand and timing of shipments around projects specifically. But I think we just want to celebrate that we exceeded that 10% for a little while before we get into what are we going to do next.

Matthew | Analyst, B. Riley Securities:

Got it. Thank you. And last one for me, it'd be helpful if you could expand on those cost increases you mentioned. And how much of those increases do you think can be mitigated with the new products and solutions you're looking to launch this year?

Rob Dawson | Chief Executive Officer:

Yeah, so I think, I mean, look, it's nominal increases. It's the things that, you know, everyone's up against. We do have... A lot of people building products in the United States. We've got a healthy production team that's north of 200 folks building things in multiple locations. We're proud of that. And because of that, we need to keep those folks' wages keeping up with the world and keep them with great benefits. For a company our size, we provide what we believe are really strong health care and 401k matching and other things like that, that in a lot of cases are better than companies much larger than we are. So those are the things that we see increases on sort of annually. And the team's done a good job of managing those. We go in eyes wide open every year knowing that there's these annual renewals of certain things. And we have to do our best to mitigate that where we can. Some of that can be done with pricing, but to your point, some of that can be overcome with just a slightly better sales number with a solid product and solution mix. And so we attack an annual budget with that idea that we expect some increases and we expect that we have to overcome them because that's what we're supposed to do. It's the normal things you would see and then throw in just the general global chaos of things can change with one quick text message or tweet at this point. And so we have to always be on our toes and ready for changes to things like logistics costs and other product costs that might be unexpected at this point.

Matthew | Analyst, B. Riley Securities:

Got it. Thank you. And actually, just a quick follow-up on that. Can you maybe... Give us, I guess, in terms of those new products and solutions, like maybe a couple that you think are going to be the most impactful this year.

Rob Dawson | Chief Executive Officer:

Yeah, look, we continue to feel really good about our integrated systems product lines. DAC and small cell are both things we've talked about for a long time that we're having minimal impact on our sales and have started to really contribute more. We also still feel really good about our legacy product lines. I mean, our custom cabling business is strong and performing extremely well in things like the defense market and other industrial and OEM kind of markets. We're seeing nice, steady growth there and some great customer wins that, in some cases, we're putting out news on when those things come in. in the aerospace and defense market. So I think those three areas are probably items that are more project centric and can be kind of a meatier piece of our total sales. The everything else, which has in many cases a distribution flavor to it as well. We expect those to continue growing and being a nice workhorse in the background, putting up solid growth and profitability there. So it really has become for us sort of the combination of firing on all these different pistons. not expecting every single product line to be perfect every quarter, but expecting a nice balance from them. And when there's contribution from multiple product and solution areas that are project-centric and less seasonal, that starts to give us some predictability and smooth things out where it can.

Matthew | Analyst, B. Riley Securities:

Got it. Thanks for taking my questions. I'll hop back into the queue. Thanks, Matthew.

John | Conference Operator:

Next question is from Howard Root, private investor. Howard, please proceed.

Howard Root | Private Investor:

Great. Thanks for taking my questions and congratulations, not just on the quarter, but really the transformation you've done over the last couple of years here with RF Industries. It's really a great job. First, I got a couple of questions for Peter. The income taxes and the non-cash one-time charges, can you kind of give a quick explanation of what those were in the fourth quarter?

Peter Yin | Chief Financial Officer:

Sure, I'll tackle the tax first. Tax relates to evaluation allowance there. So not sure if that answers your question or you want me to get into a little more detail there in our footnotes to the K. We kind of have a tax provision footnote that kind of highlights that in a little more detail.

Howard Root | Private Investor:

I'm just going to look, going forward, the $478,000, obviously a huge number for the income taxes. What is that, you know, do you strip out the unusual stuff? What's your tax rate going forward?

Peter Yin | Chief Financial Officer:

So tax rate going forward, it's kind of hard to predict. They're probably in the mid-20s if that's kind of the standard corporate tax rate from state and federal. there, but we have some nuances with valuation allowance items kicking in for us.

Howard Root | Private Investor:

Okay. And then the non-cash, is that part of that was on the taxes side too, or is that something else?

Peter Yin | Chief Financial Officer:

No, the non-cash items is not part of the valuation allowance or the tax provision. So those items are kind of pointed out there. The H-55 you're seeing there, we talked a little bit about um it's related to an accrual uh for a settlement okay and then the interest rate what do you see as a decline in your interest rate kind of going forward from this new reworked line of credit yeah so we're we're you know obviously the the the refinance we've uh disclosed there so expecting a drop but from a cash perspective or interest savings we're expecting kind of at least a quarter million in interest savings for the next year.

Howard Root | Private Investor:

Okay, great. So then more for Rob, you know, the diversification that you've gone through is amazing. And could you put some numbers kind of around on what percentage of your revenue and just really ballpark, Rob, coming from, you know, transportation, aerospace, you know, stadium, data centers, What can you tell us in terms of where you are and types of the revenue growth from there and getting away from your base telecommunications business?

Rob Dawson | Chief Executive Officer:

Yeah, I appreciate the question. I think it's hard to slice that up simply because the numbers get, they share a lot of information. I think for a company our size, trying to slice into the various details, what I can tell you is, On prior years where we had major growth happening, we were seeing the wireless and telecom market in the 70% range of total sales. We're now seeing that more like 50%. About half of our sales are coming from things that I would call telecom and wireless. The remaining half is coming from, in many cases, similar applications maybe, but transportation, aerospace, and defense. industrial and other OEM, public safety, things like that. So I think the way that we disclose those results is a slightly higher level of maybe what you're asking, but hopefully that gives you some color around just the way we've seen the overall impact and contribution from those different markets.

Howard Root | Private Investor:

Great, yeah. And then the backlog, just to kind of explain, what part of that is seasonal? I mean, both the bookings and the backlog took a pretty big drop from Q3 to Q4, and I understand being a shareholder for a bunch of years is that part of that is seasonal. But what part of that is seasonal? What part of that might be from the transformation of the business changes how long you have backlog or what your overall level of backlog would be and when your bookings are coming in? What can you say about that in terms of what that means for your business?

Rob Dawson | Chief Executive Officer:

Yeah, great question on backlog. I think it's, you know, for us, it's as we've said for years, it's, you know, it's a good health indicator that we have a backlog and we've got stuff coming in there. I think we also disclose it probably deeper than most companies where we talk about, you know, end of quarter and based on the bookings that we had, what got us to that number. And then we give an update at the time of our call to make sure people are clear about to elaborate a little bit on how the business does work. And you're right with the way you're thinking about it is, you know, seasonally, we expect to have a solid booking quarter in our fiscal fourth quarter. We also expect to start eating through some of that backlog in our Q1, just around the seasonality of sort of the way most markets work. We also are trying to get better at moving our backlog out the door. You know, it doesn't hurt us to have longstanding backlogs, But it also, at times, some of that backlog can get old and tired. And we want to keep that moving similar to the way we've managed our inventory by bringing it down to a more manageable, healthier level and being faster with replenishing when we need to. Our expectation on backlog is that it sort of hits a low point in our first quarter. and then starts to work its way back up as we see the project-based work on the calendar year start to kick in when people's budgets get finalized and everyone gets settled back into their seats. I think everyone probably felt that this was a strange holiday season because you had Christmas and New Year both falling on a Thursday, which means you basically had two dead weeks from people coming to work and everyone being engaged perspective. we're finally seeing the world get back to a little more normalcy. Our expectation is that that backlog will start to move back up as it normally does this time of year. But at the same time, you can see that we've been moving some of that out the door to get to a fresher level as well.

Howard Root | Private Investor:

Right. And then bookings, the $18.5 million in bookings for Q4, was that kind of according to your plan? Was that ahead of your plan or a little under your plan? How did that fit with your expectations?

Rob Dawson | Chief Executive Officer:

Yeah, I would say it's around our plan-ish. I think it's hard to... Q4 is a tough one because of where our October year end doesn't really align with other people's budgets. So we generally see... a larger booking level happen in our third quarter is kind of just seasonally. That's what we've historically seen. It's starting to smooth out a bit, but the, you know, October, November, December, January timeframe is always any order that we expected in any of those months could be in another one. And that's just, That's just how it falls around the year end and the year beginning. So it was fine. I think we were happy with that number. And the thing that we're even happier about, though, is what we've got in our pipeline that still looks super healthy. Ray talked some about that, the different application areas and the different customer areas where we're seeing growth in the last couple of years. we've still got a really solid pipeline of opportunities that aren't going away. While those move around in those various months, as I just said, we only see us adding to that pipeline of opportunity and feel really good about it.

Howard Root | Private Investor:

Great. Well, I appreciate all the extra color there. And again, congratulations to you and the whole team on outstanding performance from where you were three or four years ago to where you are today. Thanks a lot.

Rob Dawson | Chief Executive Officer:

Great. Thank you, Howard.

John | Conference Operator:

Once again, if you have a question or a comment, please indicate so by pressing star one. The next question comes from Steve Cole with Mangrove. Please proceed.

Steve Cole | Analyst, Mangrove Capital Partners:

Hey, good morning, guys. And I, too, would like to reiterate that it's congrats on a great performance. I'm sure I agree that you should at least savor the victory at least for a day or two, maybe even a week before we start looking at the next set of targets. But I wanted to talk about a couple of things. One thing on the balance sheet is I noticed if I'm doing my math right, we're down to $3 million in net debt, which has probably been the best we've been in quite a while. How is that changing our priorities on capital allocation? Do we see we haven't done any acquisitions in a while? Do we look at share buybacks, acquisitions, dividends? Has the thought changed at all on that, or what is the thinking today on capital allocation?

Rob Dawson | Chief Executive Officer:

Yeah. Hey, Steve. Thanks for the question. I think the At the moment, our priority is the same as it has been. We want to get that net debt as low as we can. Obviously, performance of the business helps. But at the same time, every time the board meets, we talk about best shareholder value. And at the moment, we think the best thing for us, short of having a strategic opportunity in front of us that makes sense, we want to

continue paying down that debt. That is job one. Now, We're also always looking at other opportunities to drive shareholder value and give a nice return. So all of the items that you brought up are up for discussion. Every time the board meets, we talk about those. We haven't done an acquisition in a few years that's been on purpose. And some of that was the market and some of it was us getting to a point where we could actually you know, finish the integration of the ones that we had done, we finally got a chance to do a lot of that work, which is showing through now in our operating leverage and, you know, getting our costs as low as we can. So I think if there were an opportunity that presented itself from an MIA perspective, we might alter those priorities. But at the moment, our priority continues to be debt service and getting that to as low a point as we can.

Steve Cole | Analyst, Mangrove Capital Partners:

Right. And if I... One follow-up just on margin for a sec. So I know obviously margin's doing very well. I guess I'm curious when we look across the base, how much of the improvement of margins coming on the booked inside versus just volume running through the plant? I know you've keyed in on that again today, kind of on a, I know it depends on mix, and we get to a certain level, a lot comes to the bottom line, but are we seeing, is that split 50, you know, if you look at, I don't know how to, phrase the question, but are we seeing a better book? Because I presume as you're getting the aerospace defense stuff, you're getting better booked in margins there, I would think. But can you put some color around that or some granularity?

Rob Dawson | Chief Executive Officer:

Yeah, I think the best I can do there is, you know, look, having a better product mix and solution mix with some of our newer high value, much more technology centric product areas really helps. I mean, that mix just as those areas perform better Matt will tell you that that'll start to drag your gross margins up. Once we cross, you know, 18, 19, $20 million a quarter in sales, now you start to see the impact of, you know, you fully absorb all the labor, much of which for us hits above that gross profit line. So the better we perform top line wise, almost regardless of product line and the mix, you're going to see more profitability, which for us, we live and die by the gross profit line. We manage ourselves really well below the line. It is a function of those things. Can we sell more valuable products and solutions to our customers? And can we get that high as possible? Because when we do, you really see the impact of it. So it's hard for you to ask the question. It's hard for me to give a specific answer on which percentage causes which. But I can tell you that both those things help, although we would see a solid margin improvement just with a higher sales number and a similar product mix than what we've had historically. It wouldn't be as high as 37%, but it certainly would be better.

Steve Cole | Analyst, Mangrove Capital Partners:

And last question, just touching on, you alluded to DAC and small cell. Obviously, it's taken a little while for them to get some traction. But talking about public safety for a minute and density, I know for a long time we're talking about you know, these buildings and venues, you know, and even elevate people had that coverage. Are we seeing, how has the regulatory landscape there changed? Or is it still a local thing? Or is there anything, you know, from a bigger picture, is that market becoming more lucrative and getting more traction as people have put requirements on the books that they're actually enforceable?

Rob Dawson | Chief Executive Officer:

Yeah, we like the public safety market. I mean, we have a great product offering, not just with our RF passives and some RF active gear that we have under the Microlab brand, but also our core connectivity product line fits in there as well with fiber and coax. So we like it. We've sold to it for years. Most of that gets serviced through the distribution channel, which, again, we appreciate those partnerships and getting to

markets like that. I think how those decisions are made and who really dictates what, though, it's still really fragmented. You've got localized ordinances that sometimes are hard to enforce. There's certain cities in the country that have mandated public safety coverage inside buildings, and that mandate is hard to force people to do, and they're unwilling to find these building owners to make it happen. It just becomes a really challenging sort of environment. That's not new. We take part in public safety forums all year long, all the time, and have conversations about it real time. It is similar to kind of bead funding. The federal government says, hey, we need this. And then it gets left up to states and local governments. And then it just becomes a revolving door of people making decisions. And it's been challenging to pin down sort of a final addressable market there, short of saying, for us, it falls into our in-building coverage process. our distributed antenna system product areas and the way we service those applications. So I think it'll continue to get better. New buildings being built tend to have an opportunity to put in some better public safety-based you know, RF solutions. And we're right in the middle of many conversations around that. And I think our offer is really strong there. So we expect that to be an opportunity for us going forward, but it continues to be extremely fragmented from an ordinance and decision-making perspective.

Steve Cole | Analyst, Mangrove Capital Partners:

Thank you guys very much.

Rob Dawson | Chief Executive Officer:

Thanks, Steve.

John | Conference Operator:

We have no further questions in the queue. I will now turn the call back over to Robert Dawson for closing remarks.

Rob Dawson | Chief Executive Officer:

Great. Thank you, John. And thanks, everyone, for participating in today's call. We truly appreciate your support and look forward to reporting on our progress throughout fiscal 2026. Have a great day.

John | Conference Operator:

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