NASDAQ:RFIL Q1 2026 Earnings Call Transcript

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Tom | Conference Call Operator:

Greetings. Welcome to the RF Industries first quarter fiscal 2026 financial results conference call. At this time, all participants are in a listen only mode. A question and answer session will follow the formal presentation. If anyone should require operator assistance during the conference, please press star zero on your telephone keypad. As a reminder, this conference call is being recorded. Now, I would like to turn the call over to our host, Donnie Case, Investor Relations. Please go ahead.

Donnie Case | Investor Relations:

Thank you, Tom, and good afternoon, everyone, and welcome to RF Industries' first quarter fiscal 2026 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 be making 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 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 the 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 turn the conference over to Rob Dawson, Chief Executive Officer. Go ahead, Rob.

Rob Dawson | Chief Executive Officer:

Thank you, Donnie. Good afternoon, everyone. Welcome to our first quarter fiscal 2026 conference call. I'll lead off with highlights from the quarter. Ray will provide a progress report on sales and operations, and Peter will cover our financial results before we open the call to your questions. I'm pleased to report that we're off to a great start in fiscal 2026. Net sales were $19 million in the quarter. This was just shy of our record first quarter last year in absolute numbers, but for totally different reasons. Last year in fiscal Q1, we had a large project that created a welcome anomaly and produced increased sales in what is historically a seasonally softer period. Net sales for Q1 this year, however, reflected a far greater diversity of products, customers, and end markets, which I believe will set the stage for upcoming quarters. That said, for me, the big takeaway for this quarter was the meaningful expansion in profitability. Compared to the first quarter last year with similar net sales, gross profit margin improved 250 basis points to 32.3%, operating income tripled to $177,000, And adjusted EBITDA decreased, sorry, adjusted EBITDA increased, wouldn't be positive if I said decreased, increased, EBITDA increased 22% to nearly $1.1 million. To our long-term shareholders, thank you for your patience and confidence that we would deliver on what we promised, a more diversified sales base and increased profits from our significant operating leverage. What's exciting to me is that our entire team is feeling the momentum. And in our business, momentum doesn't just happen. It's earned when strategy and execution move together in lockstep. Over the past few years, we've worked hard to reach this inflection point where we have a clear line of sight to scale both our business and profitability. As you saw in our earnings press release, I'd also like to note that that momentum has produced a huge increase in our backlog, which currently stands at $18.6 million. That's an increase of over $6 million since we last reported earnings in mid-January when the backlog was $12.4 million. Now I'll share specifics on why our business model and strategy are working and why we believe it's sustainable. First, we've worked our way up the food chain with the largest communications companies in the country. We're no longer just a vendor, but a solutions provider with a portfolio of technology forward products and solutions that address many applications within telecom. This expanded access and our high-value product portfolio led to new opportunities that in some cases fall squarely into the operating budgets versus the capex spend. This makes us far less reliant on the cyclical Tier 1 wireless capital spending and aligns RFI to participate more consistently in the year-round maintenance and replacement schedule that's critical to maintaining network quality and integrity. Next, our state-of-the-art systems like direct air cooling and small cell are gaining traction. Our DAC systems are especially adaptable to many applications in new end markets. Equipment at the edges of networks requires temperature control to operate efficiently, and our DAC's ability to lower energy costs by up to 75% while being rugged and easy to maintain delivers a compelling customer proposition. We're serving an impressive and growing customer list here. These solutions have opened doors to many new customers and markets. We're now reinforcing our presence in new verticals, such as wireline, cable, and edge data centers. We believe that we've identified a significant unmet need at the edge of the network, close to where data is generated and consumed. While most know that hyperscale data centers require massive pooling systems, we believe that the small buildings, cabinets, and enclosures at the edges of networks are just as important, and our DAC systems provide a powerful and cost-efficient solution. Additionally, our custom cabling solutions team is engineering, producing, and delivering high-quality, mission-critical solutions to customers across several markets, including industrial, communications, and aerospace, where we continue to win repeat orders from a leader in this market. The strong performance and commitment to innovation and quality from our team continues to add to our credibility and reputation. We refined our go-to-market strategy to specifically target new markets for RFI. Our sales team is doing a terrific job of developing relationships in our target markets and have opened doors and elevated our opportunity set. Our customer roster is amazing. It includes a host of well-known names. For competitive reasons, we generally don't name customers, but our client list certainly makes the team proud. Ray will talk more about our go-to-market progress and operations in his remarks shortly. Structurally, our company is in great shape. Our team has done an outstanding job in diversifying our supply chain with redundant manufacturing sources, both international and domestic, that feed into our U.S. production operations. This allows us to flex up for more demand without incurring any material increase in overhead or capex. This capital light approach has been a big factor in increasing our operating leverage. Financially, RFI is also in good shape. We significantly improved our free cash flow over the past several quarters, reflecting our operational execution, margin expansion, and tighter capital discipline. Last year, we renegotiated our revolving credit facility with improved terms, which should drive significant annual savings. All of this has allowed us to greatly reduce our net debt. While fiscal 25 was a breakout year for RFI, our team is even more excited about 2026. We feel confident that we can execute against our strategic priorities and similar to the trajectory in 2025 and supported by the large increase in our backlog. With what we know today, we expect revenue growth to accelerate in the back half of the year. Finally, I want to thank the RFI team that continues to execute and deliver great results. Thank you to our customers for allowing us to partner with you and to our shareholders for your support. With that, I'll turn the call over to Ray.

Ray Babisi | President and Chief Operating Officer:

Good afternoon, everyone. As Rob highlighted, the momentum we are feeling across this organization is real and it is earned. I'd like to take a few minutes to walk you through how we are actively managing the key levers across our business to drive growth, reduce vulnerability and create lasting shareholder value. I will take you through sales, product management, engineering and operations and the levers driving our strategy forward. Let me begin with the commercial momentum and market position. With the focus and execution of our team, we can maintain momentum even when specific opportunities take longer to close. Something in prior years could have had a significant impact on quarterly results. This resilience comes directly from the diversification we have deliberately built across markets, product areas, and customers. which allows us to manage possible softness or delays in one area with strength in others. Revenue and bookings are, without question, the scoreboard, but they don't tell the whole story. Equally important is how we achieve these results. A big part of that answer is diversification. As Rob mentioned, this diversification is real and it is working. Today, we are actively serving and winning business across aerospace, telecommunication, industrial, medical, data centers, and government and military markets, amongst others. And the strength of that diversification showed in Q1, where strong performance in our custom cable segment helped offset timing delays in integrated systems. This is not accidental. It is the result of our strategic and deliberate effort to broaden RF industry's addressable market and reduce concentration risk. We are also seeing a resurgence in previous delayed opportunities, which is strengthening both our pipeline and our backlog. This improved visibility gives us real confidence heading into upcoming quarters and positions us well to capture growth, manage risk, and continue building sustained shareholder value. Turning to engineering and product management, this is an area of significant focus and investment for us, and one where I believe the work we are doing today will be a key differentiator for RF industries going forward. We remain focused on delivering high-value, high-quality solutions that address evolving customer needs By streamlining our development process and prioritizing high impact projects, we are driving towards faster time to market and more predictable revenue streams. Close collaboration between product management, engineering, and sales ensures that our innovation aligns tightly with market demands. This allows us to respond quickly to shifts in customer requirements and capture new opportunities as they emerge. During the quarter, we continue to advance our new product roadmap through development, qualification, and gate stages. Our work on small cell configurations resulted in meaningful bookings this quarter, demonstrating how close collaboration between engineering, product management, and sales translates into revenue. Our engineering team is building solutions designed not just for today's requirements, but for where our customers are headed. That forward-looking mindset is what we believe will make RF Industries the trusted partner of choice across the markets that we serve. A good example of this is our thermal cooling solutions, which are gaining traction in edge data center and industrial applications. This demonstrates our ability to anticipate customer needs and leverage core capabilities across diverse end markets. Operations. Operations is a key differentiator for us, and I want to be clear about how serious we take it. Across all areas of our business, we are enhancing process efficiency, improving visibility, and reinforcing execution discipline. This ensures that we can scale quickly, maintain constant quality, and protect margins as demand grows. Aligning our resources tightly with our strategic priorities creates the foundation for predictable, sustainable performance, even as we manage multiple moving parts across the portfolio. On the supply chain side, we have taken deliberate steps to strengthen supplier relationships, improving inventory position, and reducing single source dependencies where possible. And as the tariff environment continues to evolve, be assured that we have a close eye on the impact and continue to proactively take steps to mitigate risk. This isn't new work. It's an effort we've been advancing for some time. In this quarter alone, we continue the ongoing strategic qualification of alternative suppliers in different regions and the proactive repositioning of our supply chain to reduce exposures. Based on this, executed supplier transitions of certain key components categories. We continue this discipline approach across as the trade environment evolves, all aimed at making our operation more resilient and our customer commitments more reliable. These are not one-time actions. They reflect a sustained commitment to running a leaner, more agile organization. Collectively, The levers we are pulling across the organization, diversified revenue streams, disciplined operations, and market-driven innovation work together to reduce vulnerability and create opportunity. This approach allows us to manage risk while capitalizing on new opportunities. Importantly, it positions the company to convert pipeline and backlog momentum into measurable performance gains without compromising margin or operational integrity. In closing, I would categorize Q1 2026 as a quarter of meaningful progress made during a period when customers and markets were still settling into the new year. We are executing with discipline while preparing to capture the opportunities ahead. Our diversified portfolio, operational focus, and innovation mindset create a unique platform for growth, reducing vulnerability, and delivering shareholder value. We are confident in our ability to deliver results and unlock the full potential of our business across all segments. I will now turn the call over to

Peter to walk you through the financial results. Peter?

Peter Yin | Chief Financial Officer:

Thank you, Ray, and good afternoon, everyone. As Rob mentioned, we're pleased with our first quarter results. First quarter sales were relatively flat at $19 million compared to $19.2 million year over year. As expected, sales were down 16% from $22.7 million on a sequential basis, reflecting our seasonally slow first quarter. Our gross profit margin increased 250 basis points to 32.3% from 29.8% year over year. This improvement reflected our team's strong execution to drive price realization and operational efficiencies while also focusing on cost control. As a result of this, we see improved operating income, consolidated net loss, non-GAAP net income, and adjusted EBITDA. First quarter operating income was $177,000, up from the $56,000 we reported last year. First quarter consolidated net loss was $50,000 or 0 cents per diluted share and our non-GAAP net income was $659,000 or 6 cents per diluted share. This compares to a net loss of $245,000 or 2 cents per diluted share and a non-GAAP net income of $397,000 or 4 cents per diluted share in Q1 of 2025. First quarter adjusted EBITDA was $1.1 million, or 5.6% of net sales, compared to adjusted EBITDA of $867,000, or 4.5% of net sales in Q1 2025. We continue our focus on delivering adjusted EBITDA of 10% or greater as a percentage of net sales. Moving to the balance sheet, as of January 31, 2026, our balance sheet remains healthy with a total of $5.1 million of cash and cash equivalents and working capital of $14.6 million. Our current ratio was approximately 1.8 to 1, with current assets of $33 million and current liabilities of $18.4 million. As of January 31, 2026, We had borrowed $7.1 million from our revolving credit facility. We continue to manage our working capital to strengthen our liquidity and overall capital position. Our net debt was reduced by $4.8 million compared to Q1 2025 and down $744,000 compared to our Q4 2025. Our inventory remained relatively consistent at $13.8 million compared to $13.7 million last year. reflecting a prudent approach to inventory management that balances discipline with customer demand. Moving on to our backlog, as of January 31, our backlog stood at $14.4 million on bookings of $17.9 million. As of today, our backlog currently stands at $18.6 million. While we are pleased with the increase since quarter end, as I've mentioned before, our backlog is a snapshot in time, and it can vary based on when orders are received and when orders are fulfilled. We view backlog as a general gauge of health. We know that it can swing significantly between reporting periods and therefore may not accurately indicate our near-term sales outlook. Overall, we are excited to start fiscal 2026 with an upbeat quarter that builds upon the operational momentum that we achieved in fiscal 2025. We are heads down on execution and we believe we are well positioned for the periods ahead. With that, I'll open the call to your questions. Operator?

Tom | Conference Call Operator:

Thank you. Ladies and gentlemen, the floor is now open for questions. If you would like to join the queue to ask a question at this time, please press star 1 on your telephone keypad. We do ask, if listening on speakerphone this afternoon, that you pick up your handset while asking your question to provide optimal sound quality. Once again, please press star 1 on your keypad at this time if you wish to join the queue to ask a question. Please hold a moment while we poll for questions. And the first question today is coming from Josh Nichols from B. Reilly Securities. Josh, your line is live. Please go ahead.

Matthew | Analyst, B. Riley Securities:

Hi, this is Matthew. I'm for Josh. Thanks for taking my questions. I guess to start off, you know, coming off a breakout fiscal 25 revenue of 24%, you ended the year with a double digit EBITDA margin. I'm wondering, like, how are you thinking about the full year growth trajectory for fiscal 26 and where do you see the most meaningful drivers?

Rob Dawson | Chief Executive Officer:

Yeah, thanks for the question. So I think, I mean, as I tried to share in my comments. I think we expect the trajectory of growth to be similar sort of quarter to quarter movement as we had last year. It's important to know last year our first quarter was actually a few hundred thousand dollars larger than our second quarter. So I think this year we expect to be more sequential sort of in the growth that we have and sort of our normal trajectory starting with Q1, which is always seasonally an interesting quarter to navigate. So we expect to accelerate through the year. The backlog increase is obviously a nice sign to show the support of that, that it's not just words, but we're actually seeing the orders and the items that have been in our pipeline for some time starting to print through as actual orders and going into our system with timing and expected timeframe for shipment. So we expect to accelerate in Q2 versus Q1, and then we think it's going to continue going from there, similar to what we saw last year. The drivers of that really are across the various product lines. Our diversity, I think, is starting to not just print through, as Ray talked about in some detail, but it really helps to smooth out the interesting periods where there may not be projects in one market that are seasonally driven or CapEx driven. We're starting to see that get a little more consistent throughout the year. And I think with that, The product lines that are coming from different customers in different markets give us a lot of comfort that sort of the Pistons can all be running on at different speeds and paces, but it'll start to smooth out those results and make them predictable and much easier to manage the supply chain and give us some visibility, certainly as we get into the later part of the year.

Matthew | Analyst, B. Riley Securities:

Excellent info. Thank you. And gross margin came in especially strong this quarter. I'm wondering how durable are the factors driving that improvement and how should we see that flowing throughout the rest of the year?

Rob Dawson | Chief Executive Officer:

Yeah, great question on gross margin. I think the big thing for us is sales compared to last year's first quarter We're roughly flat, down a little bit, not surprising. But with that, our margins went up almost three full points, which is great to see. And I think there was a lot of questions on the last earnings call about how sustainable the 30 plus margins are. We feel pretty good about those and our ability to stay there. I think the things that have gotten us consistently above those numbers are Above that 30% level, it really are things like being good at pricing for the value that we believe we're providing to our customers. The mix of products a lot of times helps us. Just some of our items have a higher value maybe than the historical, more fragmented product lines that we're selling. And then lastly, I think it's just, look, the higher the sales number, the better those margins are going to be. We have a pretty simple P&L when you break it down with a lot of operating leverage below the line. That's largely driven by what happens on the top line and then the gross margins that go along with it based on pricing and mix and just overall efficiency of building things.

Matthew | Analyst, B. Riley Securities:

Got it. And you mentioned the backlog, how it bounced. post quarter, it's sitting around 18.6 million today. And that's mainly a timing thing based on contracts. But I'm wondering if you can kind of give us an idea on the composition of that backlog and what's driving most of that replenishment, especially after the quarter.

Rob Dawson | Chief Executive Officer:

Yeah, so sure. The backlog usually has a pretty healthy mix of different items in it. I think the increase that we've seen is especially healthy You have four different pretty significant product lines across several customers. So we're seeing it in our integrated systems and our custom cabling, which are the two areas that we expect sort of larger percentage growth than what we get out of our interconnect products. Those are largely distribution-friendly on the interconnect side, and we expect growth there. But a lot of times, those aren't project-based and things that are going to show up in sort of a backlog increase. They may come and go in a short period of time. So the increases we've seen, you've got some small cell in there. You've got some DAC thermal cooling. You have some custom cabling in the aerospace market. You have some custom cabling in the industrial market where we continue to see some great blue chip customers ordering from us that have been with us for years. So it's a good, healthy mix, I think, across the different product lines that drove that increase in backlog.

Matthew | Analyst, B. Riley Securities:

Great. I guess just one last question, mainly regarding DAC thermal cooling. I'm wondering if there's an update on how that's progressing in terms of customer interest in the NEMA 4 product.

Rob Dawson | Chief Executive Officer:

Yeah, thanks for that. So the DAC thermal cooling product is one that, you know, we've seen significant growth. We saw significant growth in 25 compared to prior years. We continue to see that trajectory increase and we're seeing a lot of interest. I think we're starting to see customers making installations and trials to see how well it works in their various systems. A lot of cases, these are edge data center applications. The system is performing great, whether that's the NEMA 4 or some of the other versions. We're basically producing exactly what we say we're going to do. Significant savings and the equipment runs flawlessly without having to use air conditioning all the time, which is expensive and high maintenance as well. So we're seeing some early stages of newer applications in cable and edge data centers coming. that are new markets for us, they're new customers for us. I expect that will be a meaningful part of our growth, not only later this year, but into subsequent years.

Matthew | Analyst, B. Riley Securities:

Got it. Great. That was it for me. Thanks for taking my questions.

Tom | Conference Call Operator:

Thanks, Matt. Thank you. And as a reminder, if anyone would wish to ask a question at this time, you may press star one on your keypad to join the queue. Once again, that'll be star one to join the queue to ask a question. And there are no further questions in queue at this time. I would now like to turn the floor back to Rob Dawson for closing remarks.

Rob Dawson | Chief Executive Officer:

Thank you, Tom. Appreciate it. I was hoping for a lot more questions because I have a lot of other answers, but I'll save those for the next call. I want to thank everyone for participating in today's call. We appreciate your support and look forward to sharing our progress on our Q2 earnings call in June. Have a great day.

Tom | Conference Call Operator:

Thank you. This does conclude today's conference call. You may disconnect at this time and have a wonderful day. Thank you once again for your participation.