NASDAQ:RFIL Q3 2026 Earnings Call Transcript

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Holly | Conference Call Operator:

Greetings. Welcome to the RF Industries Third 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. Please note this conference is being recorded. I will now like to turn the conference over to your host, Donnie Case, Investor Relations for RF Industries. You may begin.

Donnie Case | Investor Relations, RF Industries:

Thank you, Holly, and good morning, everyone. Joining me today are Rob Dawson, Chief Executive Officer, Ray Bibisi, President and Chief Operating Officer, and Peter Yin, Senior Vice President and Chief Financial Officer. Before we begin, please note that today's discussion contains forward-looking statements under federal securities laws. Forward-looking statements are identified by the words such as will, be, intend, believe, expect, anticipate, or other comparable words and phrases. Actual results may differ materially due to risk and uncertainties described in RF Industries' filings with the FCC, including reports on Form 10-K and 10-Q. The company undertakes no obligation to update forward-looking statements except as required by law. During the call, management will also discuss certain non-GAAP financial measures, including adjusted EBITDA, non-GAAP net income, and non-GAAP earnings per share. Reconciliations to the most direct comparable GAAP measures are included in today's earnings release, as well as the company's SEC filings. And with that, I'll turn the call over to Rob.

Rob Dawson | Chief Executive Officer:

Thank you, Donnie. Good morning, everyone. I'm on the East Coast today, so I appreciate you tuning in for something a little different with us. Morning call today, so good morning. As I said several times over the years, we like to communicate exactly what we're going to do as part of our long-term strategy, and then we execute. Fiscal year 2026 is unfolding as we anticipated and communicated to you. Our third quarter results continue to demonstrate the earnings power we've been building across RF Industries. We delivered record high quarterly revenue of $24 million, up 21% year over year and 16% sequentially. We don't spend a lot of time talking about records while we're working hard on the business, but I think this deserves some acknowledgement. $24 million in sales is a new high watermark for RFI. And of course, our goal now is to break that record. Great work by the team. With quarterly revenue above $20 million and increasing, our results are benefiting from the operating leverage we have long discussed. driving increased margins and allowing more dollars to flow through to the bottom line and producing significantly stronger profitability across the income statement. In Q3, we delivered profits that in many cases set a new standard for RFI performance. Operating income was $1.8 million. Non-GAAP net income was $2.2 million, or 19 cents per diluted share, and adjusted EBITDA was $2.7 million, or 11.1% of sales, above our 10% goal. combined with a gross profit margin of 35.6%, exceeding our 30% gross margin objective in six of the last seven quarters. We believe these results reinforce that our transition toward higher value solutions is creating a stronger, more profitable business. This is especially evident as our higher value integrated systems and custom cabling solutions continue to gain traction. These offerings carry more engineering content, address larger project scopes, and deepen our customer relationships. And in the third quarter, they made a significant contribution to our results. While our business mix can vary each quarter based on shipments and pipeline conversion, we believe the underlying strength and growing diversity in our business will carry forward. As

customers increasingly seek fewer, more capable partners, we have expanded our offering to deliver turnkey solutions that span design, product fulfillment and site installation management. Ray will discuss this in more detail and share some of the behind-the-scenes execution that continues to strengthen our value proposition and business opportunities. Our strategy to diversify RFIs and markets and customer base is working. Today, our solutions support applications across aerospace, edge data centers, AI infrastructure, industrial manufacturing, medical imaging, transportation, and public safety, many of which are rapidly growing markets. Our business platform is now broader, more resilient, and has multiple avenues for growth. In closing, we're very excited about the future. Going forward, we remain focused on disciplined execution, serving our customers, and building durable, long-term value for shareholders. As I mentioned on our Q2 call, we expected a strong second half, and with one quarter to go, we're on target to achieve exactly that. With what we know today, we expect sales in our current fiscal fourth quarter to be roughly the same or above our Q3 sales level. I want to thank the entire RF Industries team for their continued hard work and commitment. And as always, we appreciate the trust and partnership of our customers and the support of our shareholders. Now I'll turn the call over to Ray to expand on our operational and go-to-market progress.

Ray Bibisi | President and Chief Operating Officer:

Thank you, Rob, and good morning, everyone. I want 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 our commercial results. In this quarter, I am pleased to say the results speak for themselves. As Rob highlighted, we delivered, and delivered big. Q3 revenue came in at $24 million, exceeding expectations. But what I'm most proud of is not just the number, it's how we got there. May, June, July, three consistent months, no slow start, no late quarter heroics, just steady, disciplined execution from day one to the last. That is what we have been building toward, and in Q3 we delivered it. If Q1 and Q2 showed you the direction we were headed, Q3 showed you what this team is capable of. Our year-to-date revenue was solid, and I feel the momentum behind our team's determination to win. Regarding bookings, Q3 was another strong quarter following the record-setting Q2 bookings. Importantly, our year-to-date bookings are ahead of our year-to-date sales, reflecting continued strong demand across our end market. and our backlog heading into Q4 gives us line of sight for the balance of the year. We've been saying diversification would be our strength and Q3 reinforced it. This quarter, every segment contributed meaningful to our results and the contribution balance across the portfolio was improved. Custom cabling continued to lead and deliver. Interconnect stepped up from Q2, and integrated systems continued to gain traction, demonstrating that the work that we have been doing across that segment is showing up in the results. This balance matters. We are a company where every segment contributes, every function executes, and the whole is greater than the sum of its parts. And our team's performance in Q3 is evidence of that. Our customer base continues to broaden as well. This quarter, we saw meaningful contributions from customers across aerospace and defense, telecommunications, industrial, and distribution channels, with several new contributors emerging across our end markets. That breadth is what a healthy, diversified business looks like, and I believe we are just getting started. Turning to engineering and product management. This quarter, we made a significant and deliberate organizational move that I believe will be a meaningful driver of performance in quarters ahead. We unified our engineering and product line management teams under a single integrated structure within our interconnect and integrated system segments. When people who design our products and the people accountable for the commercial success sit on the same team, decisions get made faster, trade-offs get resolved sooner, and there is a clear ownership behind every product line. This is not just an organizational change, it's a direct commitment to our innovation trajectory and our ability to compete and win. Built to deliver faster product launches, clearer accountability, stronger execution on complex programs, and better solutions for our customers. all designed to ensure our engineering efforts translate into measurable revenue impact. Our product roadmap is not developed in isolation. It is directly linked to our market diversification strategy. When engineering, product management, and sales are aligned around the same growth priorities, product development becomes a direct driver of market expansion. That

alignment is what we believe will make RF Industries the trusted partner of choice across the markets that we serve. We believe that our operations team and processes are also key differentiators for us. This quarter, there were no dramatic changes and that is exactly the point. They are now firing on all cylinders. Our teams continue to execute against the same operational priorities we have outlined and the results continue to show up. Our U.S.-based manufacturing footprint combined with a deliberate diversified supply chain gives us the flexibility to respond quickly to changing demand as well as managing our ever-shifting tariff and geopolitical landscape. Built to scale, built to deliver. That remains the operational foundation of this business. Before I turn to our strategic levers, I want to highlight an area of growing focus for us. artificial intelligence. This quarter, we continue to make meaningful strides in developing AI as a business enablement tool, not simply for administrative efficiencies, but at the front lines of our business. Our initial focus has been on sales and customer facing functions, where AI is helping our teams work smarter, respond faster, and engage more effectively with customers and prospects. This is just the beginning. Our roadmap will extend AI into engineering, operations, and supply chain in quarters ahead. We believe this will be a meaningful, competitive differentiator, and we are committed to this initiative as we work faster and smarter to win. When I step back and look at what we're building, diversified revenue streams, disciplined operations, and the culture of innovation, it all connects. These aren't independent efforts. They work together to reduce vulnerability, create opportunity and convert our pipeline and backlog into real performance gains. And importantly, we are doing it without compromising our margins or operational integrity. I will categorize Q3 as a quarter where it all came together and we did it with consistency. The revenue growth is real. The bookings are strong. The backlog gives us visibility. and perhaps most importantly, every segment, every function, every person showed up. I want to take a moment to recognize the RF Industries team. You delivered. This quarter belongs to all of you. And to our customers, thank you for your continued trust. I will now turn the call over to Peter to walk through our financial results. Peter?

Peter Yin | Senior Vice President and Chief Financial Officer:

Thank you, Ray. And good morning, everyone. As you heard from Rob, we hit some historic highs in our fiscal third quarter. Sales increased 21% year over year and 16% sequentially to a record $24 million. Gross profit increased 27% to $8.5 million and gross profit margin expanded 160 basis points to 35.6% from 34% in the prior year period. This improvement reflected our team's strong execution in driving new business, realizing the benefits of our higher value offerings, and maintaining disciplined cost control. We have long believed our business carries significant operating leverage, and our Q3 results provided further evidence of that leverage. Third quarter operating income was $1.8 million compared to $720,000 in the prior year quarter. operating margin improved to 7.3% from 3.6% last year. Consolidated net income was $1.4 million or $0.12 per diluted share. On a non-GAAP basis, net income was $2.2 million or $0.19 per diluted share. This compares with consolidated net income of $392,000 or $0.04 per diluted share. and non-GAAP net income of $1.1 million or 10 cents per diluted share in the third quarter of fiscal 2025. Third quarter adjusted EBITDA was $2.7 million compared with adjusted EBITDA of $1.6 million in the prior year quarter, representing an increase of approximately 71%. Adjusted EBITDA as a percentage of sales improved to 11.1% from 7.9% last year, exceeding our long-stated long-term goal of 10%. Turning to our year-to-date results, for the first nine months, sales increased 10% to $63.6 million. Gross profit increased 19%. to $21.9 million with gross profit margin expanding to 34.5% from 31.8% in the prior year period. Operating income increased to $3 million from $882,000 and adjusted EBITDA increased 61% to $5.7 million from $3.5 million. Moving on to the balance sheet. As of July 31, 2026, we had $4.5 million of cash and cash equivalent, working capital of $18.3 million, and a current ratio of approximately 2.0 to 1, with current assets of $36.4 million and current liabilities of $18.1 million. At the end of the third quarter, We had $5.7 million outstanding on our revolving credit facility down from $6.1 million at the end of the second quarter. Cash increased by approximately $1.1 million during the quarter, while revolver borrowings declined by approximately $400,000, resulting in a meaningful improvement in our net debt position. We continue to actively manage working capital to strengthen our liquidity and overall capital position As we continue to generate positive cash flow, we expect to reduce our net debt to level we view as immaterial relative to our balance sheet. Inventory was $13.2 million compared to

$14.4 million at the end of the second quarter and $13.7 million at the beginning of the fiscal year. We continue to monitor inventory levels closely and maintain a prudent approach to inventory management that balances discipline with customer demand. Inventory level may fluctuate from quarter to quarter based on the timing of inventory receipts, expected shipments, and potential customer or supply chain delays. Demand remain healthy during the quarter. Third quarter bookings were $22.5 million, representing a book-to-bill ratio of approximately 0.94 times. And backlog at July 31 was $18.6 million. As of today, backlog stands at $19.8 million. As always, backlog can fluctuate based on order timing and fulfillment. but we believe our current backlog and opportunity pipeline provide a solid foundation as we enter the final quarter of our fiscal year. Overall, our third quarter results reinforce the confidence we have in our business model and demonstrate the operating leverage we are realizing at higher revenue levels. With quarterly sales reaching approximately $24 million, gross profit margin remaining above 35%, and adjusted EBITDA as a percentage of sales exceeding 11%. We delivered another quarter of meaningful improvement in profitability and cash generation. We remain focused on converting our backlog and pipeline into revenue, maintaining disciplined cost management and delivering continued growth and shareholder value. With that, I'll open the call for your questions.

Holly | Conference Call Operator:

Certainly. 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. Your first question for today is from Tyler Burmeister with Lake Street.

Tyler Burmeister | Equity Research Analyst, Lake Street:

Hey, guys. Can you hear me all right? Hey, Tyler. Good morning. Hey, good morning. Congrats on the solid quarter and, you know, continued strong momentum here. Maybe first, I want to ask about the integrated system, the small cell business in particular. You know, did that improve as you expected? And I guess just looking forward is, you some of the disruptions in the first half. Is that completely behind you guys now?

Rob Dawson | Chief Executive Officer:

Yeah, good question. So on the small cell side, that market's been a tough market for a while. Just predictability, I think, of deployments for technology reasons and a variety of other things. I think it started to do what we thought it was going to do during the third quarter. We see it picking up momentum into the fourth and certainly in the next fiscal year. So it's doing what we thought it's behind. And look, the dollars delivered there are behind what we thought they would be at the beginning of the year. But with a little bit of delay, it's now starting to accelerate and we feel really bullish on it as we go into the end of this year and into fiscal 27.

Tyler Burmeister | Equity Research Analyst, Lake Street:

Good, good. Great to hear that. On the DAC systems, now with just a quarter left in your fiscal year, I was wondering if you could maybe bracket what you expect the size of the DAC business to be for you guys this year and any comments about growth expectations for that particular as we head into the next fiscal year would be helpful. Thanks.

Rob Dawson | Chief Executive Officer:

Sure. Yeah, well, we don't give specific dollars by product line. Generally, I think if you go back a couple of years ago, our DAC business was relatively immaterial against our total sales. And we've seen significant growth where it's now in the millions of dollars per quarter being delivered. So our expectation is to be north of 10 million in sales and accelerating. I think we view that, as we've said for several quarters, as one of the big driving growth engines. It's sticky. We're getting connected with our customers. We're performing well. We're starting to show more customers there outside of the traditional telecom space and wireless where we've existed for years. We're starting to spread out into other markets as we've talked about in prior calls. So I think that's another one that we feel very, very strong about and think it has not just short-term opportunity but long-term growth with current and new customers both.

Tyler Burmeister | Equity Research Analyst, Lake Street:

Great, great. I appreciate that color. Maybe just one last one from me. The aerospace, large aerospace customer, I guess, you know, seems to continue to be very strong there. Just want to make sure, you know, as we think about next year, you know, that strength and that No potential pockets of weakness that we should be thinking about as we head into next year. And then kind of second on that, you know, that one large customer, has your success there led to any further conversations with potentially other customers that you could expand that aerospace business in as well?

Rob Dawson | Chief Executive Officer:

Sure. Yeah, I mean, I'll take the first part of that first and then we'll go into the other piece. So I think we feel very strongly about the relationship we have with that customer. I think our team, you know, the majority of that work, if not all, is being performed in Long Island by our team there. They're doing a great job. And I think that, you know, it's design work, it's engineering, it's technical involvement. I think that makes it a very connected relationship where we don't see reasons why that would have pockets of weakness. There can always be timing of order placement and fulfillment on those. But I think with what we know today, as long as we keep performing, we expect that that's a long-term relationship and that the team is doing a great job there. So on the second piece of it, we always find when we get wins in new markets or new product areas, immediately, that's the tip of the spear to go after other opportunities and try to break in. And so that's worked across all of our product lines at different times. And I think the the experience and the relationship that we have there with that aerospace customer and The design work and expertise just makes us that much stronger. So certainly it's allowing us to have different communications with new customers and share the story. One success tends to breed more. And I think that's how you grow a small company into a bigger company is you get some wins and then you leverage that. And that's what we're in the throes of right now and hope to be able to share some successes in coming quarters.

Tyler Burmeister | Equity Research Analyst, Lake Street:

That sounds great. That sounds great. Well, I appreciate the color. Thanks, guys.

Matthew Moss | Equity Research Analyst, B. Riley:

Thanks, Tyler. Appreciate it.

Holly | Conference Call Operator:

Your next question is from Matthew Moss with B. Riley.

Matthew Moss | Equity Research Analyst, B. Riley:

Good morning. Thanks for taking my questions. Let's start off. So, good morning. There was a wireless carrier that was about back to like 17% of sales this quarter. Do you think that's the outdoor build season kicking in the way you talked about? And do you see that level of carrier activity something that carries into the fourth quarter? How should we think about that?

Rob Dawson | Chief Executive Officer:

Yeah, I think it's interesting. We see, if you look at our top five to ten customers, there's some movement within those, certainly top three and even beyond, where depending on project timing of some of the bigger spend, they move around depending on who's the first, second, third, as far as largest customers. In this case, I think what makes us very comfortable with continuation of meaningful contribution of dollars from this customer and many of our big ones is that they're not just buying one product line from us. And so it starts to make it much healthier when you're selling four or five different critical items into customer need and different applications and different markets, different budgets that are where the spend is coming from. So while it's not always easy to predict exactly which customer is going to have a higher spend in a given 90-day window of time, I think annually we see our customers growing with us because we are, you know, getting into more applications and more markets and more locations and, you know, budget opportunities, which does give us comfort to your point of, you know, seeing continuation into Q4 and into, you know, fiscal 27.

Matthew Moss | Equity Research Analyst, B. Riley:

You got it. And as for DAC trials and the NEMA 4 opportunities, I'm wondering, like, when does that start to show up as a real revenue contributor and what the timeline looks like there if there's any update?

Rob Dawson | Chief Executive Officer:

Yeah, so I think on the DAC side, as we mentioned earlier, we're seeing significant growth overall in that solution set and the product line sort of across the board with several different kinds of customers. When we talk about the NEMA 4 and some of the specific different maybe than traditional wireless applications, which is where that's playing out, We expect a much more material contribution from those kinds of customers that are more, I'll call them wireline, edge data center, telecom, traditional telco, edge AI, however you want to bucket that. We kind of look at all those as the same application where it's a small building enclosure or box at the edge of a network that's filled with hot equipment that needs to be cooled. So for us, Well, it's not all NEMA 4. That's one specific product type that meets a certain customer need. We've got to put all those into the same area where those markets and that application for us is proving success and the deployment schedules that we're looking at with customers jointly start to accelerate into fiscal 27. So not a huge material contribution this fiscal year, but I think when we look at, to Ray's comments earlier, we look at levers of growth. That's certainly one of those that we see adding on to the traditional markets that we've been in and performing very well with DAC.

Matthew Moss | Equity Research Analyst, B. Riley:

Got it. And kind of related news, related industry news. I mean, about a month ago, there was a Verizon Google Edge deal. I'm wondering, are deals like that starting to translate into demand for your DAC and Edge products? Or what's the sort of connect there for you guys?

Rob Dawson | Chief Executive Officer:

Yeah, so it's not always a one for one, but I think the directionally anytime you see a deal like that, it's encouraging. It means that sort of the recognition that we've spoken about for several quarters, that there's a lot of demand happening at the edge of the networks. Not everyone can build the hyperscale data center that they may want to, whether that's because it doesn't meet their need or because of one of the things we're experiencing now is local pushback on the builds happening for these. We've believed for a long time that there was going to be this sort of dissemination of technology moving from the core to the edges. We've seen that for years in several different generations of deployments. I think the AI pushback on hyperscale data centers was an unexpected help there, which I think probably helped push some of that spend and helped accelerate that deal. So, I mean, that was a great win, obviously, for Verizon and helpful for Google. I think for us, it's another reason why finding additional ways to cool much more cost-effectively. I mean, that's one of the pushbacks is there's a lot of water, there's a lot of electricity needed for the bigger data centers. We've got a way when you get to the edge of the network that it can be 70% or 80% more cost-effective. That's a great thing in one of the major key reasons why it's not that easy to deploy these sometimes. So we're seeing these deployments accelerate at the edges. We're being included in more discussions across several different customer types, including the kinds involved in this deal. and we feel extremely comfortable that we've got a great solution that should benefit from that kind of increased focus and spend.

Matthew Moss | Equity Research Analyst, B. Riley:

Very informational, thank you. Just one more quick one, kind of similar to the first question I asked about carrier spend. So in terms of like carrier CapEx or OpEx spend and how that, you know, how you expect that to kind of trend over this fourth quarter and I guess fiscal 27, like how should we think about that compared to where it's been at over the past year or so, like in terms of looking over the next 12 months, how should we see that changing at all?

Rob Dawson | Chief Executive Officer:

Yeah, I think from a carrier capex, you know, on the wireless side in particular, you know, all the projections that have been out there for several months say that that spend is going to largely be flat. Does that mean slightly up, slightly down or no change? It really depends on the carrier and what exactly they're working on. I think the The spend that's happening now, though, is very focused on critical items. There was a big run-up years ago around 5G. I think that becomes, as we've said for years, we're less interested in 4G, 5G, 6G. We're more interested in densification and filling in the gaps in the network and better quality. Now there's a big push for including fiber in those discussions as well. To your point, the Verizon deal is a good example of that. So I think we look at the different applications that we're aligned with across our portfolio and feel very comfortable that the capex spend that's happening is more than enough to support our growth, both as we break into new areas of opportunity, as we take share in some cases, and we also have product lines that are more on the OPEX side of things and not necessarily coming out of a bucket of capex spend. So I don't think we don't tie, at least for us, a one-for-one Carrier CapEx to our opportunity. And certainly, you know, this year and last year, there was not a significant increase in Carrier CapEx, yet we're showing an increase across those customers. So I think we feel comfortable that there's enough spend happening for us to perform and do what we're supposed to do as a company and the team is doing a really good job of getting our fair share.

Matthew Moss | Equity Research Analyst, B. Riley:

Great. That was all for me. Thanks. All right. Thanks, Matt.

Holly | Conference Call Operator:

We have reached the end of the question and answer session and I will now turn the call over to Robert for closing remarks.

Rob Dawson | Chief Executive Officer:

Great. Thanks, Holly. And thanks, everyone, for joining today's call and for all the questions. We look forward to reporting our fourth quarter and full year results for fiscal 2026 in a few months. We'll talk to you then. Have a great day.

Holly | Conference Call Operator:

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