NYSE:ROG Q4 2025 Earnings Call Transcript

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Kevin | Conference Operator:

Good afternoon. My name is Kevin, and I'll be your conference operator today. At this time, I'd like to welcome everyone to the Rogers Corporation Fourth Quarter 2025 Earnings Conference Call. I will now turn the call over to Mr. Steve Haymore, Senior Director of Investor Relations. Mr. Haymore, you may begin.

Steve Haymore | Senior Director of Investor Relations:

Good afternoon, and welcome to the Rogers Corporation Fourth Quarter 2025 Earnings Conference Call. The slides for today's call can be found in the investor section of our website, along with the news release that was issued earlier today. Please turn to slide two. Before we begin, I would like to note that statements in this conference call that are not strictly historical are forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 and should be considered as subject to the many uncertainties that exist in Roger's operations and environment. These uncertainties include economic conditions, market demands, and competitive factors. Such factors could cause actual results to differ materially from those in any forward-looking statement made today. Please turn to slide three. The discussions during this conference call will also reference certain financial measures that were not prepared in accordance with U.S. generally accepted accounting principles. A reconciliation of those non-GAAP financial measures to the most directly comparable GAAP financial measures can be found in the slide deck for today's call. With me today are Ali Alhaj, interim president and CEO, and Laura Russell, senior vice president and CFO. I will now turn the call over to Ali.

Ali Alhaj | Interim President and CEO:

Thanks, Steve, and thank you, everyone, for joining us this afternoon. I'll begin on slide four. We finished 2025 with another quarter of solid performance. Q4 sales of $202 million approached the high end of the guidance adjusted EPS of 89 cents per share and adjusted EBITDA margins of 17.1%. Both exceeded the top end of guidance compared to the fourth quarter of 2024 sales improved 5% and adjusted EBITDA margins increased 500 basis points. We also generated significant free cash flow in the fourth quarter, and continue to return capital to shareholders with $14 million in share repurchase. The stronger finish to 2025 resulted from gradual end market improvements and implementing critical structural changes. With a simplified operating model and a leaner cost profile, Rogers is in a stronger position entering the new year. In 2026, the priority will remain on improving Rogers' multi-year growth outlook and continue to drive profitability initiatives. The organization has a clear understanding of the critical objectives for this year, and we have the right team and capabilities to deliver. Our Q1 guidance incorporates significant year-over-year improvements with sales growth of 5% and a 530 basis points increase in adjusted EBITDA margins. Laura will cover both the fourth quarter results and Q1 outlook in greater detail. Slide five. Total sales increased by 5% versus the fourth quarter of 2024, led by higher industrial, ADAS, and renewable energy end markets. Industrial sales remain our largest segment and ended the year at 27% of total revenue. Q4 industrial sales increased at a high single digit rate year over year, driven by market recovery and winning additional business from traditional customers. For the full year, sales improved at a mid single digit rate. Aerospace and defense sales were 16% of revenue. Despite a slight decline in Q4 compared to the same period last year, For the full year, the segment grew at a high single digit rate. The growth for the year was driven by both strong defense and commercial aerospace demands. EV, HEV sales remained at 14% of revenue. Q4 sales were lower year over year as decline in EMS sales more than offset growth in the AS segment. The decrease in EMS sales resulted from a higher concentration of customers in regions where EV demand has been challenging. Total full year sales ended well below the prior year with decline in both business units. We are continuing our efforts to grow in this market with our Keramik China expansion and the ongoing strategy to adapt to changes in the EV battery market and technology. ADAS sales increased year over year and for the full year grew at a double digit rate. Sales continued to benefit from increasing adoption of ADAS solution and higher level of vehicle autonomy. Lastly, portable electronic sales were lower both in Q4 year over year and for the full year primarily as a result of a product in AES business reaching end of life. Turning to slide six, we are already seeing results from the structural and organizational changes implemented during the second half of 2025 with enhanced customer relationships and improved service levels. We have revised our KPIs, targets, and objectives to ensure organizational alignment, focus on growth, and customer service. These changes have brought on an increased intensity in new product development efforts and will accelerate new product introductions, enabling design wins. We are confident that our talented team will continue to drive significant improvements in innovation and growth. In addition, we are seeing the results of actions taken to improve profitability. We realized $25 million in cost and operating expenses improvement in 2025, with another $20 million of annualized savings expected to be complete by the end of 2026. This included an 8% reduction in full-year operating expenses compared to the prior year. Lastly, through cost containment efforts and working capital management, we generated $71 million of free cash flow, repurchased shares totaling $52 million, and ended the year with $197 million of net cash. Next on slide seven and turning our attention to 2026. Returning to top line growth is Raja's highest priority this year. To achieve this objective, we remain committed to fully leveraging our global footprint to increase our competitiveness and grow share in all regions. With our customer-centric organization, we are intently focused on securing design wins to drive growth and further diversify our end markets. Our design win efforts are targeting both new and existing market segments. We have identified data centers as a significant potential new market for Rogers and secured some initial design wins in the EMS business during the fourth quarter. While these wins are an important start, We are pursuing much larger opportunities by leveraging our strength in thermal management and signal integrity technologies. We believe that our technical solutions in these areas are unique and provide compelling value for our customers. We expect at least one of these design awards decisions to be made later this year. Prioritizing and accelerating the pace of new product introduction in new and adjacent markets will be a critical enabler for our growth. Improving profitability will remain a key objective in 2026 with the restructuring of the ceramic Germany operations on track. We plan to keep 2026 adjusted operating expenses in line with 2025. As we execute on these priorities, we expect to grow full year adjusted EBITDA compared to 2025. Lastly, we will maintain a disciplined capital allocation strategy as we focus on improving returns to our shareholders. Capital expenditures are expected to be comparable to 2025 as we continue to invest in our facilities and operating structure. M&A will be an area of increased emphasis in 2026 with any potential targets requiring the right strategic fit and financial profile. The level of share repurchase activity will be subject to these other investment priorities. I will now turn it over to Laura to discuss our Q4 financial performance and Q126 outlook.

Laura Russell | Senior Vice President and CFO:

Thank you, Ali. Starting on slide A, I'll begin with a summary of our fourth quarter financials. Q4 sales and gross margin were near the high end of our guidance for the quarter and adjusted earnings exceeded the top end of our range. Fourth quarter sales increased 5% compared to the prior year period. AES Q4 revenues increased by 14.6% versus Q4 2024 from higher sales in the EVHEV, ADAS, renewable energy and industrial markets. EMS sales declined by 6.7% over the same period due to lower EVHEV sales, which were concentrated in regions experiencing demand challenges. The decline was partially offset by higher industrial sales. Adjusted earnings per share of 89 cents in Q4 were nearly double the prior year period due to higher sales and significant improvements in operating expenses. Turning to slide 9, Q4 adjusted EBITDA was $34.4 million compared to $23.3 million in Q4 2024. Adjusted EBITDA margin of 17.1%, improved 500 basis points year over year. The improvement in EBITDA was a result of higher sales, improved product mix, and the benefits realized from our profitability improvement initiative over the past year. In particular, adjusted operating expense, excluding stock-based compensation, decreased by 6.3 million over this timeframe. Offsetting these improvements was a 1.7 million increase in underutilization costs, which is primarily related to the start of production for our Keramic China facility. Continuing to slide 10, I'll discuss cash utilisation for the quarter. Cash at the end of Q4 was £197 million, an increase of £29.2 million from the end of the third quarter. Cash provided by operations was £46.9 million, an increase from the prior quarter due to improved working capital management, particularly from a continued focus on managing inventories. Uses of cash in the quarter included share repurchases of 14.3 million and capital expenditures of 4.7 million. For the full year, capital expenditures were 30 million and at the low end of our guided range. As Ali discussed, we expect 2026 capital expenditures to be in a compatible range to last year. We are gazing 30 to 40 million for the full year The turning capital to shareholders will continue in 2026 with a level of buyback subject to other capital needs, including potential M&A transactions. Following our purchases in Q4, we have approximately 52 million remaining on our existing share repurchase program. Next, on slide 11, I'll review our guidance for the first quarter. Overall, we anticipate significant year-over-year improvement in Q1 2026 sales, margin and profitability, underscoring the impact of last year's initiative. Beginning with sales, we expect Q1 revenues to be between 193 and 208 million. The midpoint of the range is a 5% increase in sales year-over-year. The guidance reflects similar market conditions to the fourth quarter, with expected year-over-year improvement mainly in industrial sales. We are guiding gross margin in the range of 30.5% to 32.5%. The midpoint of the range is 160 basis points higher than the prior year, due to higher volumes and cost structure improvements. We expect adjusted operating expenses to decrease more than 5% compared to the first quarter of 2025, and increase slightly from fourth quarter levels, primarily a certain compensation cost reset in the new fiscal year. Adjusted EBITDA is anticipated to range from 27 to 35 million. This equates to 15.5% EBITDA margin at the midpoint of the range, which would be 530 basis points improvement versus the first quarter of 2025. Adjusted EPS is forecasted to range from 45 cents to 85 cents. The 65 cent midpoint compares to adjusted EPS of 27 cents in Q1 of 2025. Excluded from adjusted EPS are restructuring costs related to the ceramic actions in Germany. At the end of 2025, we incurred 5.4 million of associated restructuring charges relative to our total estimated range of 12 to 20 million. The remaining restructuring costs associated with this action will be incurred from Q1 to Q3 of 2026. The programme is still anticipated to deliver 13 million of annual run rate savings. Lastly, we project our non-GAAP full-year tax rate to be approximately 32%. The higher expected tax rate is mainly due to certain lost jurisdictions where no tax benefits can be realized. I will now turn the call back over to Ali.

Ali Alhaj | Interim President and CEO:

Thanks, Laura. In summary, we had another quarter of solid execution. We delivered Q4 results that were above the midpoint of guidance for the quarter and generated significant free cash flow. We enter 2026 with a clear objective to achieve top line growth, further improve profitability, and deploy capital effectively. That concludes our prepared remarks. I will now turn the call back to the operator for questions.

Kevin | Conference Operator:

Thank you. We'll now be conducting a question and answer session. If you'd like to be placed into question queue, please press star one on your telephone keypad We ask you to please ask one question and one follow-up, then return to the queue. If you'd like to remove yourself from the queue, please press star two. Once again, that's star one to be placed in the question queue. One moment, please, while we poll for questions. Our first question today is coming from Daniel Moore from CJS Securities. Your line is now live.

Daniel Moore | Analyst, CJS Securities:

Thank you. Good afternoon, Ali. Good afternoon, Laura. Congrats on a solid end to the year. Maybe start with the guidance. Q1 pointing to mid-single-digit growth. I think you said that's kind of more of the same versus trends in Q4, improvement industrial, just your outlook near-term for ADAS, you know, any improvement in renewables and or defense. And I know you don't give fully your guide, but mid-single-digit growth, kind of the reasonable thought process, you know, kind of for the near-to-mid-term.

Ali Alhaj | Interim President and CEO:

Yeah, thanks for the question. Again, our expectation for Q1, we still see a stronger and continued growth in the industrial section, the industrial sector of the business. However, we see some softening still remain and uncertainly on the automotive side, on the EV side. And as you know, portable electronics tend to be a little softer in Q1 than we experienced in the last two quarters. So that's probably what what's keeping the guidance the way it is for now. And as I mentioned prior to this, Q1, Q2, and 26, we expected to see some uncertainty here due to macroeconomics in general in those two sectors, the auto sector, specifically the EV and the portable electronics. But other than that, everything else, we really see some growth from high single digits to mid-single digits Got it.

Daniel Moore | Analyst, CJS Securities:

Very helpful, Ali. And then as a follow-up, you know, you talked about data centers. Just elaborate on key applications there, presumably, you know, managing heat. You know, and you mentioned, I think, one new opportunity potentially in 2026. Can you give a little bit more color there? That would be really helpful. Thank you.

Ali Alhaj | Interim President and CEO:

Yeah, as mentioned in the earlier remarks, this became our focus over the last, I would say, two to three quarters, and we're going to continue this effort. We believe we have a very strong opportunity coming up in the thermal management side. Also in the signal integrity technology, we're working on some opportunities there. Both of these, we really see strong momentum. We're working with Brand name OEMs, we cannot unfortunately give you more details on this except to say, you know, larger brand name OEMs actively qualifying these technologies. And we anticipate to be able to share more information and more details hopefully later on in 2026 with revenue impact sometimes in 27, maybe even in 26.

Laura Russell | Senior Vice President and CFO:

I think the other thing we could add to that, Dan, is there is some smaller revenues for other applications in that segment, in that space. I think Ali may have previously mentioned that we've already captured a design more on the EMS side from a technology perspective that sells directly into data sensors from an application perspective.

Ali Alhaj | Interim President and CEO:

Yeah, that's growing. That's really growing nicely revenue-wise. It's still smaller pieces of the pie, but we, you know, again, I think it's not as much. The impact is that newer technologies will be a lot more significant than the current business in this field.

Daniel Moore | Analyst, CJS Securities:

I'll follow up and circle back with the follow-ups. Thank you.

Kevin | Conference Operator:

Thank you. Next question is coming from Craig Ellis from B-Riley Securities. Your line is now live.

Craig Ellis | Analyst, B. Riley Securities:

Yeah, thanks for taking the question. And Ali and Laura, congratulations on getting nice COGS and cost and working capital execution in the business. Nice to see. I wanted to follow up with some of Daniel's questions regarding your number one priority for this year, Ali, improving multi-year growth. So data center makes a lot of sense given the capabilities the company has and and the way voltages are rocketing higher there. And so it would seem that you'd have a lot you could do. My question is broader than data center and looking at what your ambitions are beyond that sleeve of industrial with the portfolio this year. Could you just talk about any specific initiatives that have been in play the last few quarters that you would expect to convert either to new design wins this year, new opportunities this year, and beyond data center, when would we see the revenue benefit of those initiatives?

Ali Alhaj | Interim President and CEO:

That's a loaded question, but we'll try to answer it as much as we can to the extent of our ability here. I think the growth target is really across the board for all business segments. It's not just data center or one technology versus the other. We have initiated here certain targets, identified certain opportunities in certain end markets where we're going after both in the EMS and the AS side of the businesses. We realized some wins with existing customers, so we're expanding some market share there, especially on the EMS side. Some of the businesses with the current technologies will grow as the end markets continue to grow, whether it's automotive in the ADAS sector, for example. The adoption of some of those applications will continue to grow that business. But we also started sometime last year development in a newer industry. technologies that's really not a me-too type product for applications like the newer battery technology for EV and renewables, which will help us generate not just additional revenue, but really penetrate in the market in applications that are not there today that will help us grow that business in the double-digit rate type. On the automotive side, we're also trying to go directly engage with OEMs. So we're designing ourselves in with some of these products directly with OEMs. Obviously, working with our partners, the PCs, the converters, and some of the module makers to make sure we're designed in in conjunction with them. We think this type of approach to the market is going to help us expand and go the top line a lot faster rate than we have done in the past.

Craig Ellis | Analyst, B. Riley Securities:

That sounds good. My follow-up question was on another 2026 priority and the ambition for profitability improvement. And the question is with significant momentum in this area given what I think was 30 million in initiatives that's largely been executed and then the 13 million I believe of ceramic related initiatives in 2026 with, I think that's starting to benefit Chris March in the back half of the year. Are there new additional initiatives that you're planning for 26 or is it executing on those two objectives and realizing and holding those gains? Thank you.

Laura Russell | Senior Vice President and CFO:

So let me start with that, Craig. So you're largely correct in saying, you know, the initiatives we've already announced are already in flight and much of those savings are already seeing the fall through to the P&L. Where we're not fully concluded is, as you correctly stated, with the ceramic restructuring activity specific to operations in Germany as we respond to the demands that we're seeing for that business. We will see the benefit of that in the second half of 2026. And as I said in my prepared comments, the benefits we still anticipate to be in the range of 13 million annually and the cost of that programme still forecast in the range of what we committed as part of the restructuring. Now, what I would say is, you know, if I think about the business and the opportunity to optimise our financial performance, We've undertaken substantial restructuring to position ourselves positively, but really what's going to drive a substantial transition and shift is what Ali's talking about with regards to our top line expansions and the innovation and the technologies that are really going to allow us to differentiate ourselves from a market perspective and continue to command pricing in accordance to that. And what will complement that will be our continual management of the business, which is supported by the operating structure that's been implemented and the monthly reviews that ensure that we're very nimble in responding to current demand and capacity requirements and investing in accordance to that. I think just finally to round that out, we did mention the restructuring, the impact that had on our operating expense. You saw that that dropped from 210 million in 2024 to 194 and 25. That restructuring we're largely through, but we'll continue to monitor our levels of investment in accordance with the opportunities as we see them present themselves.

Craig Ellis | Analyst, B. Riley Securities:

That's really helpful, Laura. And if I can sneak in one related follow-up. Ollie, is there anything you can share with us on how significantly you'll be able to load up the new ceramic facility in China as it gets going in the back half of the year?

Ali Alhaj | Interim President and CEO:

Yeah, I mean, Craig, you know, we're still, to be honest, disappointed that it's going slower than we expected it to. But it is moving. I think the customers are still there and they're interested in buying from the China facility and move some of the products or source the China facility. What we're trying to do here is balance between aggressively going after the market and therefore we don't want to pay the price again. Let's put it this way. So we're trying to be diligent and be careful about not participating in a price erosion type for the market. We still anticipate the plans to be there. So our plans did not change. It just shifted from a time perspective. So we still see growth in that facility in Q2, Q3, Q4, but again, really slower than we expected. We expected to see better situation with M in Q1. We're not there yet.

Craig Ellis | Analyst, B. Riley Securities:

I understand. Thanks, Heli. Thanks, Laura. Good luck. Thank you.

Ali Alhaj | Interim President and CEO:

Thank you.

Kevin | Conference Operator:

Thank you. As a reminder, that's star one to be placed into question Q. Our next question is coming from David Silver from Freedom Capital Markets. Your line is now live.

David Silver | Analyst, Freedom Capital Markets:

Yeah. Hi. Thank you. I'm going to go back, and I'm hoping you can just level set me on the pace and the total of the cost savings. So my belief was, I guess, at the end of this year, you were expecting a run rate of 32%. And then there was the $13 million additional that was cited related to Germany. And then I believe you're using a number of $30 million, and I'm just trying to kind of separate what was, you know, mentioned last quarter versus what might be additional, you know, as of December 31st. Thank you.

Laura Russell | Senior Vice President and CFO:

No problem. Let me start, David, and see if I can address your question. So you're right insofar as saying $25 million was the run rate for the initiative that we had announced previously. What you're also right in saying is the full year benefit of those initiatives is $32 million. But the difference between that $25 and the $32 is is the full year benefit, some of which we haven't yet seen realized in 2025. So I've got an incremental 7 million that will hit the P&L in 2026 for those initiatives that deliver 25 million of savings in 2025. In addition to that, the ceramic restructuring in Germany that we announced in the middle of last year hasn't yet delivered savings to the P&L. We're in the middle of that process. And as a result of that, we won't see the savings materialize into the financials for that until the second half of 26. So that 13 million we've not yet seen. And in addition, we've got another 7 million that hasn't yet hit the P&L. But 25 million is there. And I would share with you that about 70% of the 25 we did realize in 2025. The savings for that is in the expense category with the residual being in our gross margin and our COG.

David Silver | Analyst, Freedom Capital Markets:

Okay, thank you for that detail. Much appreciated. So then my next question, which one did I want to ask here? Sorry. Okay. I wanted to go back to the press release, and in particular, Ali, you're quoted as saying, you know, you have an enhanced innovation strategy. So, you know, you have talked quite a bit about different business opportunities and qualification processes, but I'm just kind of scratching my head and I'm wondering when you say an enhanced innovation strategy, does that refer to, you know, an enlarged selling effort? Does that refer to increased R&D? I mean, what, you know, what qualitatively, what's included in your comment about an enhanced innovation strategy, you know, in service of improving long-term growth prospects? Thank you.

Ali Alhaj | Interim President and CEO:

I think it's both. It's really enhanced selling process, but more importantly, we've identified and the team is working on distinct three different projects that we will differentiate it to the business. There really be differentiation from what the market today has, what's available on the market today, and those products, we believe they are unique. that will solve problems that exist today and for future issues that's facing, whether it's in data center applications or in communication applications or EV battery applications and new technologies. So we've identified those areas and we're developing products as we speak. Some of these products are in qualification process, as mentioned, for these applications. These applications, as you know, they're very high growth applications. And for us today, in some cases, we're not really participating in any material type way. We think those will be differentiated so that business going forward will allow us to have the growth rate that we want to do within Rogers. That's what I meant by enhanced. It is very specific, targeted for certain applications, and also differentiating. It's not a me-type technology, it's a me-type product. And within our capabilities and our expertise.

David Silver | Analyst, Freedom Capital Markets:

Okay. Thank you for that. And then last one for me. This is kind of a question related to tariffs, I guess, but more second or third order effects. So, in other words, last April, you know, your company had to respond, you know, in short order to a one wave of tariff announcements. You know, this time it's seemingly from our administration here. It's more targeted. But on the other hand, we're also hearing stories about, you know, offshore partners deciding to trade with each other as opposed to maybe, you know, a U.S.-based supplier that might, you know, encounter some incremental difficulties. From your perspective, has there been any signs that your key OEM customers in offshore locations or headquartered in offshore locations, is there any change in the way you're doing business with them or are they diversifying away or adding non-US based suppliers in certain cases? In other words, How is the environment for doing business now, you know, with the lingering or more targeted, you know, tariff-related announcements? How does that affect your day-to-day, you know, strategies and your ability to pursue new business?

Ali Alhaj | Interim President and CEO:

I think that the fact that Rogers is a global company and having manufacturing facilities globally really kind of neutralize that issue completely. So we're able to respond to our customers, whether they're in Asia or North America or Europe, because we're locally manufacturing all their needs, or in most cases, all their needs. We have seen some OEMs who are trying to shift again to buying locally. And that's for us actually, it's been a benefit. And we anticipate that to continue to be beneficial for us because we'll be able to respond to these needs. Again, just because of the way we are today, we've got the global capabilities, local capabilities on a global basis. So we can supply Asia from Asia. We can supply North America from North America. And in Europe, we can supply most of the products from within Europe. And we were looking to enhance our capability in additional manufacturing in the European continent within the next 12 months or so.

David Silver | Analyst, Freedom Capital Markets:

Very good. Thank you very much.

Kevin | Conference Operator:

Thank you. As a reminder, that's star one to be placed in the question queue. A confirmation tone will indicate your line is in the question queue. One moment, please, while we poll for further questions. Once again, if you'd like to ask a question at this time, please press star one under telephone keypad. A confirmation tone will indicate your line is in the question queue. One moment, please, while we poll for further questions. Ladies and gentlemen, we've reached the end of our question and answer session, and that does conclude today's teleconference and webcast. You may disconnect your lines at this time and have a wonderful day. We thank you for your participation today.