NYSE:ROG Q3 2026 Earnings Call Transcript

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Diego | Conference Operator:

Good afternoon. My name is Diego and I will be your conference operator today. At this time, I would like to welcome everyone to the Rogers Corporation Third Quarter 2026 Earnings Conference Call. I will now turn the call over to your host, 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 Third Quarter 2026 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 subject to many uncertainties that exist in Rogers operations and environment. These uncertainties include economic conditions, market demand, and competitive factors. Such factors could cause actual results to differ materially from any forward-looking statement made today. Please turn to slide three. The discussion 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 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 El-Haj, President and CEO, and Laura Russell, Senior Vice President and CFO. I will now turn the call over to Ali.

Ali El-Haj | President and CEO:

Thanks, Steve, and thank you everyone for joining us today. I will begin on slide four. We delivered another quarter of meaningful year-over-year improvement in our financial performance with higher sales across all end markets and stronger profitability and cash flow generation. Sales were $236 million, up 9% from the prior year. Adjusted EPS increased 54% to $1.39, the highest score on the earnings since 2022. adjusted EBITDA increased by 28% to $48 million or greater than 20% of sales. This result is the highest EBITDA margin achieved in the last five years. Over the past several quarters, we have intensified our focus on deepening customer relationships, improving the speed of execution, and implementing a more efficient operating structure. These results highlight the progress we are making. We also continue to advance our growth strategy. In our core markets, we secured new design wins during the quarter, and the growth outlook remains positive. Across our high growth opportunities, we made progress in several key areas. Customer engagement and technical validation activities for our data center solutions continued, while our thermal runaway protection and EMI shielding programs achieved important internal milestones. Looking to the fourth quarter, we expect continued meaningful year-over-year improvement. This includes approximately 9% revenue growth, 12% adjusted EPS growth, and a 16% increase in adjusted EBITDA. Then is slide five. At 34% of third quarter sales, industrial is our largest end market. Revenue improved slightly compared to a prior year with higher sales into renewable energy and other applications. Sales increased modestly in all regions. Automotive represented 24% of Q3 sales and increased at a high single digit rate year over year. Growth was driven by improved demand for ADAS applications and stronger sales into both ICE and electric vehicle platforms. Electronics and communications accounted for 20% of sales in the quarter and continued to deliver strong growth. Performance was driven by higher sales of laminate circuit materials for wireless infrastructure, which offset lower smartphone sales. Aerospace and defense represented 15% of the Q3

sales and grew at mid single digit rate. The increase reflected higher sales into both defense and commercial aerospace applications. Overall, the breadth of the quarter's performance is encouraging. Sales increased across all end markets, reflecting a combination of improved demand, new program activities, and continued execution against our commercial priorities. Turning to slide six. We remain focused on accelerating growth by strengthening our position in core markets and applying our proven capabilities to high growth adjacent opportunities. Within our core markets, we secured a number of new design awards in Q3. I will highlight a few. In aerospace and defense, our laminate material was designed into a drone detection system. Rogers Brand, proven reliability and localized support were deciding factors in the award decision. In automotive, our elastomeric materials were designed into a battery pack application with a leading ED manufacturer. In addition, our ceramic AMB substrates were selected to be used in multiple electric vehicle models with a global auto OEM. The combination of our technology and technical service capabilities were key factors in our decisions. In data centers, a major end user selected our silicon materials to safeguard sensitive components within the server tray. The materials combined high compressibility with superior noise and vibration isolation to help enable reliable performance. Also in both AAS and EMS, we secured meaningful design wins for energy storage system applications. These wins reinforce the value of our differentiated solutions and deep customer relationships. They also support our objective of achieving sustainable growth across the core portfolio. This growth will naturally lead to expected improvement in factory utilization levels, including for our ceramic business. In high growth adjacencies, the development and customer testing of our signal integrity and chip cooling solutions for data center application is continuing. We continue to see strong pace and focus from customers sampling our laminate circuit materials for high speed digital applications. Customer feedback remained positive on the performance of our materials to address rapidly emerging signal integrity challenges. Our microchannel cooler solutions provide an improved cooling technology to address rising AI chip power density. Working with our lead customers, we have developed and tested multiple generations of prototypes with the results continuing to validate the differentiated performance of our solutions. These programs leverage capabilities where Rogers has established technical expertise and are designed to address increasingly demand requirements in AI data centers. We completed benchmarking testing for our thermal runaway protection solution and our beginning customer sampling. This milestone moves us closer to commercializing a differentiated battery safety solution that combines our material expertise with deep application knowledge. We are also advancing our EMI shielding technology. We have identified priority customers and applications and are developing solutions tailored to their requirements with initial customer sampling targeted for early 2027. Across these opportunities, our approach remains disciplined. We are prioritizing applications where our capabilities provide a clear customer benefit, and we are working closely with customers to advance qualification and commercialization. I will now turn it to Laura to discuss our third quarter's financial performance and current quarter outlook.

Laura Russell | Senior Vice President and CFO:

Thank you, Ali, and good afternoon, everyone. As Ali mentioned, we delivered strong year over year improvement in the third quarter with higher sales across all major end markets and meaningful expansion and profitability. We also generated strong cash flow, further strengthening our balance sheet and increasing our strategic flexibility. Beginning on slide seven, I'll review our third quarter financial results. Third quarter sales were $236.1 million, increasing 9% from the prior year period and including a 2.4 million benefit from foreign currency translation. EES sales increased 13.5% year over year with improvement across all end markets and particular strength in electronics and communication. EMS sales increased 4.3% versus the prior year driven by higher sales in the automotive and aerospace and defence end markets. Gross margin was 34.2%, up 70 basis points year over year. The improvement was the result of higher volume and mix, partially offset by increases in commodity costs. Adjusted EPS was $1.39 and exceeded the high end of our guidance range. The 54% year-over-year increase in adjusted EPS resulted from strong sales, improved margins and favourability in the tax rate as we continue to improve business performance across all jurisdictions. Turning to slide 8, third quarter adjusted EBITs increased by 28% to £47.7 million from £37.2 million in the prior year quarter. Adjusted EBITDA margin of 20.2% of sales expanded 300 basis points to its

highest level since 2021. The largest contributor to the increase was higher sales and improved product mix, which added approximately 11 million versus the prior year. Lower adjusted operating expenses also contributed to the improvement. These benefits were partially offset by higher year-over-year costs associated with the new Keramic China facility. We achieved meaningful operational improvement savings compared to the prior year, although these were offset by higher commodity costs. We continue to evaluate pricing adjustments depending on market conditions. Overall, the significant improvement in the quarter resulted from higher volume and favourable together with continued discipline across their cost structure. Continuing to slide nine, I'll discuss cash utilization for the quarter. Cash and short-term investments at September 30th were 236.4 million, increasing 25 million from the end of the second quarter. Cash provided by operating activities was 41.4 million compared to 24.4 million in the second quarter, and free cash flow was 35.4 million. The increase in cash was driven primarily by adjusted EBITDA of 47.7 million, partially offset by 6 million in capital expenditures, a 3.6 million increase in working capital, and 4.6 million of cash taxes paid. We repurchased 9.3 million of shares during the quarter. We will continue to balance returning capital to shareholders with investments in organic growth and other strategic priorities. Our strong cash position and balance sheet provide us with increased strategic flexibility as we evaluate opportunities to support long-term growth and shareholder value creation. Next on slide 10, I'll discuss our guidance for the fourth quarter. From a top line perspective, we continue to see positive momentum with sales expected to increase 9% year over year at the midpoint of our guidance. Consistent with normal seasonality and customers' end of year operating patterns, sales are forecasted to decline sequentially. We are guiding Q4 revenues to be between 215 and 225 million. The guidance includes an expectation for year-over-year growth in aerospace and defence and industrial end markets. We're guiding growth margin in the range of 32.5% to 33.5%. The midpoint of the range is 150 basis points higher than the prior year. We are realising improved margins due to higher volumes and our cost structure improvement action, although higher commodity costs will continue to be a headwind versus Q4 of 2025. We expect Q4 adjusted operating expenses to increase modestly year over year, while improving by more than 100 basis points as a percent of sales. Adjusted EPS is forecasted to range from $0.90 to $1.10. The dollar midpoint compares to adjusted EPS of $0.89 in Q4 of 2025. The increase versus the prior year is a result of the expected increase in sales and gross margin, partially offset by higher tax. Adjusted EBITDA is anticipated to range from $37 to $43 million. This equates to a 16% increase versus the fourth quarter of 2025 at the midpoint of the range. Lastly, we project our non-GAAP full-year tax rate to be approximately 31%. In summary, our fourth quarter outlook reflects continued year-over-year improvement in sales, adjusted EPS and adjusted EBITDA margin as we execute our commercial and operating initiatives. and we'll now turn the call back over to Ali.

Ali El-Haj | President and CEO:

Thanks, Laura. In summary, we delivered strong year-over-year improvement in the third quarter with growth across all end markets, adjusted EBITDA margin above 20% and adjusted EPS region a multi-year peak. We remain focused on sustaining this financial progress while accelerating growth. Our strategy is centered on leveraging Roger's proven capabilities and Deep Customer Relationships to grow in core markets and advance high potential adjacent opportunities. With disciplined execution and a healthy balance sheet, we believe we are well positioned to translate these opportunities into stronger earnings and shareholder returns. That concludes our prepared remarks and I will now turn the call back to the operator for questions.

Diego | Conference Operator:

Thank you. and at this time we will be conducting a question and answer session. Please limit yourselves to one question and one follow-up question. You may re-enter the queue to ask any additional questions. To ask a question, press star 1 on your telephone keypad. A confirmation tone will indicate that 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 pull for questions. And your first question comes from Daniel Moore with

CJS Securities. Please state your question.

Daniel Moore | Analyst, CJS Securities:

Thanks. Good afternoon, Ali. Good afternoon, Laura. Congrats on obviously a very solid quarter. Great to see top line growth, you know, high single digits approaching 10%. Still actually a touch below the midpoint of the guidance. So wondering if there were areas where, you know, or pockets of sales that were maybe pushed out to some degree. Wondering, you know, if the quarter could have potentially come in You know, even stronger. You know, maybe just talk to those areas that weren't, you know, quite as strong in terms of organic growth in the quarter.

Laura Russell | Senior Vice President and CFO:

He's on his Laura. I'll start and then we can pass to Ali if there's any additional comments. And so, yes, you're right. There was a slight miss to the midpoint of the guide, a couple of million dollars there. As with every quarter, you know, we work to balance our supply against the demand that we're seeing. and, you know, with everything, there are some constraints, generally speaking, in the market at the moment, which we, like probably many other vendors, had faced. So what I would suggest is, yes, there was some push-out occurred in a couple of spaces. In other areas where we did have supply with the strong demand that we have, we worked to mitigate and managed accordingly. What I would also point to is what you can see is in the guidance for the fourth quarter, and we're seeing consistent strength in the demand in the order book. And you can see at the midpoint of the guidance there that's also going to be up about 9% on a year-over-year basis. So generally speaking, yes, there were pockets of supply limitations. We worked to balance it and we're continuing to execute solid growth, you know, in the third quarter of what we posted and in our guidance at the midpoint for Q4.

Daniel Moore | Analyst, CJS Securities:

Now that's really helpful, Laura, and the margin improvement even more impressive, you know, given those constraints. Maybe follow up for me, just elaborate, really good color on the new design wins in the quarter. Is there anything you can say in terms of either size of the opportunities or timing of when you might expect some of those to start generating, you know, meaningful revenue and what a ramp looks like? Any color on those would be great. Thanks again.

Ali El-Haj | President and CEO:

Yeah, thanks, Dan and Sally. Both, actually two of the opportunities that we've mentioned, they are material, so they are sizable, and we expect revenue from both of these, I believe Q2 and Q3 of 2027. One of them actually started in a slow ramp-up, started in Q4 of this year, and it will continue to ramp up. We expect to see full volumes by Q2 of next year.

Daniel Moore | Analyst, CJS Securities:

All right, we'll start back with any follow-ups. Thank you.

Diego | Conference Operator:

And your next question comes from David Silver with Freedom Capital Markets. Please state your question.

David Silver | Analyst, Freedom Capital Markets:

Yeah, hi. Good afternoon. Thank you. I did want to ask a question about margins overall. and our margin progression overall. And, you know, looking at my quarterly, the quarterly income statements for let's say the first three quarters now of 2026, I'm going to be a little vague here or a little imprecise. But, you know, your revenues have jumped up about 18%. But your overall spending for SG&A and R&D together, looks pretty flat. In other words, you've grown your sales while your fixed costs more or less are flat. And as a result, change in sales over change in EBITDA works out to, again, imprecise, but close to 50%. So is this kind of the standard model or are these assumptions kind of what you're looking at? as we move forward into 2027 and beyond? Or was there one or two issues that might have made the data look unusually flat or the numbers fell in line like they did? In other words, should we just assume You know, flat SG&A and R&D and maybe a 50% incremental type of EBITDA margin on incremental sales going forward. Thank you.

Laura Russell | Senior Vice President and CFO:

David, let me start and we can build on my response. So I think, you know, we are actually being very intentional in managing our investments in our OPEX and in our factories and our fleets. around service and the demand and the potential opportunities that we have in managing the investments accordingly. So the OPEX levels that we're currently posting are intentional. There isn't anything there that we are underinvested in relative to the opportunity. But what we indicated and guided when we presented an investor day last month is the fact that we will anticipate in absolute terms, some growth in those investments as we chase the significant opportunities that we believe we have exposure to both organically or primarily organically from the OPEX perspective. So we will do that. You started your question on the margins base. What I would say there is you can see as we're leveraging the factory footprint that we have in servicing our customers in regions, You can see that we are benefiting from the scale and the utilization benefits through the fleet and the margin as we're balancing mix against that utilization. So generally speaking, yes, I would say you're going to see the fall through as we continue to execute our growth objectives and continue to modulate and manage our investments and our investment profile. and aligned with our levels of confidence and security around the top line expansion.

David Silver | Analyst, Freedom Capital Markets:

Okay, great. Thank you very much for that. Next question I had maybe for Ali and thank you very much for all the qualitative color around new business wins. I was hoping to maybe just drill down a little bit more. But is it your view that the level of new business wins is, you know, sufficient to kind of meet or exceed those targets that you laid out at your recent investor day? In other words, the gross trajectory up to, let's say, mid-2027 or so when some newer opportunities are supposed to, you know, go begin commercial sales. but just maybe a little bit of color on whether the pace of new business wins that you cited in your remarks are consistent with what we saw a few weeks ago. Thank you.

Ali El-Haj | President and CEO:

Thanks, David. I think the simple answer will be yes, they are consistent. As a matter of fact, we are probably ahead of schedule in wins and securing more new business. And the growth that we're projecting right now is ahead of the average that we indicated. We indicated organic growth about 5% per year during our investor day. And now we're, you know, it's all about 9% in Q3, 9% in Q4. And we expect that growth to continue in

2027.

David Silver | Analyst, Freedom Capital Markets:

Okay, great. Thank you. I'm going to get back in queue.

Diego | Conference Operator:

Your next question comes from Rebecca Zamsky with B. Reilly Securities. Please state your question.

Rebecca Zamsky | Analyst, B. Riley Securities:

Hello. Yes, this is Rebecca. I'm for Craig Ellis. So, at the analyst day a few weeks ago, the team identified three factors that contribute to gross margins, which I believe were volume and absorption, are differentiated pricing and continued cost and operational improvements. Could you update us on the progression of those three parts?

Laura Russell | Senior Vice President and CFO:

Yeah, I'll start, Rebecca. So yes, you're right in terms of the three critical drivers of our gross margin expansion. So as Ali just said to David, we're seeing positive traction in our design activity. and the volume, in fact, we're seeing on the design that already won an in-volume production. So that is giving us some favourable indications about the first lever of that margin expansion because it's going to be predicated on the volume that will allow us to improve our utilisation through the factory. Secondly, you've heard us talk about structural cost improvements that we had undertaken over the last probably 24 months in sizing the factories and ensuring that the factories were supplying our customers where the customer demand was. And we've concluded on those restructuring activities. So that's the 45 million you've heard of reference historically. It's basically effectively largely done. Absent 13 million of the 45 isn't fully crystallising in the 2026 results. But as we exit the year, it's all fully achieved. In addition to that, we continue to focus on operational excellence initiatives to ensure that we're optimising our yields, minimising our input costs and getting our maximum throughput and productivity of our factories. Those initiatives are going well. You've heard Ali say historically that we're not yet fully concluded. There's still room and opportunity there, but that remains a continued focus. from our global operations teams on a week-to-week, day-to-day basis. And then thirdly, you mentioned the pricing. What we're talking about there is not pricing, but differentiated solutions within the opportunities that we're chasing. So that is key in a strategic initiative, and those programs are progressing.

Rebecca Zamsky | Analyst, B. Riley Securities:

Thank you. That was incredibly helpful.

Laura Russell | Senior Vice President and CFO:

You're welcome.

Diego | Conference Operator:

Thank you, and your next question comes from Danielle Moore with CGS Securities. Please state your question.

Daniel Moore | Analyst, CJS Securities:

Thank you again. Maybe one on capital allocation and one on the longer term, but cash flow obviously really strong. Cash continues to build despite increasing share repurchases. Do you expect to continue to be more aggressive in terms of buybacks at or near current levels and in a similar vein maybe just talk to the M&A pipeline and whether you see opportunities that could come together over the next two, three, four quarters.

Laura Russell | Senior Vice President and CFO:

Yeah, Dan, so I'll start again. So yes, you saw $9 million of share repurchases last quarter. Yes, we'll be opportunistic there. We'll evaluate what's in the funnel and the current pricing and do what we deem appropriate for and then value to our shareholders and as we shared on Investor Day in prior calls, we are much more active in our M&A funnel and our activities there these days and I think Ali will probably talk about evaluation and what's happening.

Ali El-Haj | President and CEO:

Yeah, we have a couple of opportunities, Dan, that we're looking at right now as we speak. We anticipate some, at least one, maybe both of these opportunities are actionable within the next two quarters or so. So we're active. We're evaluating the things, again, based on the criteria that we established in Investor Day, and we continue to do that. And we expect, like I said, some actionable announcement probably within the next couple of quarters or so.

Laura Russell | Senior Vice President and CFO:

And consistent with what we've said, Dan, that would be something that was strategic as capability that we and a number of others that we don't have and that has a favourable financial contribution, at least over the mid to long term. So everything goes through appropriate diligence.

Daniel Moore | Analyst, CJS Securities:

Excellent. Maybe just one more, and this is a bigger picture, kind of longer term, but just hoping to dig into a little bit more on the long term goals. Looking at the three major opportunities, growth opportunities, data centers, battery tech, EMI shielding. Collectively, we're looking, I think, at $100 million of revenue by 2028, growing to $450 by 2030. Just talk to your expectations regarding the relative size of each of those and how we're thinking about sort of the relative cadence of RAMP. I know it's fluid, but I'm wondering if you could maybe delineate at all. between what's sort of near term and what's larger in terms of magnitude of the opportunity over the timeframe. Thank you again for all the color.

Ali El-Haj | President and CEO:

Yeah, as you know, we're being vague about detailing the opportunities, but clearly data center is our largest of the three, that's for sure. But from a product standpoint of view, if you look at the two, whether it's high-speed digital or cooling, these are the two that we are the largest of the data center opportunities. So data center within the three is the largest. High speed and cooling will be the largest two opportunities within the data center itself. So without quantifying this and putting dollars, obviously we do have detailed internally here what our expectations are and we're working toward those expectations. Our elastomeric materials also will participate. As a matter of fact, one of the opportunities that we've mentioned that we already obtained a design win and we're currently launching that. It's for a data center and it's one of the elastomer materials that we supply today. It's one of our silicones here. So that's the expectation. Automotive probably would be the second within that, within the three. And then when it comes to EMR shielding, obviously that goes across all product lines, including data centers, automotive, and electronics. So from a timing standpoint of view, again, our expectations remain the same. Second half of next year with Q3, Q4, where some of these products will launch. Again, we'll go through a ramp up phase. 28, still we're confident in the numbers that we presented at investor day that we will hit those numbers. And 2030, our objective internally is to beat those numbers. That gives you probably an idea about our confidence level here.

Diego | Conference Operator:

Really helpful. Appreciate the color again. Thank you. And your next question comes from David Silver with Freedom Capital Markets. Please state your question.

David Silver | Analyst, Freedom Capital Markets:

Thank you very much, Dan. Touched on a couple of points in general that I was going to follow up on. I'd like to ask Ali about maybe the tone or the optimism of your customers. In other words, I think of your company as a solutions provider, but you're still reliant on customers wanting to move forward on new investments and new platforms, et cetera. Just in the last few weeks, I mean, I would just say equity markets and some high growth sub-sectors have been quite volatile and interest rates remain elevated compared to a couple years ago. How would you say the engagement is with customers relative to when we last heard from you at the Investor Day? Has there been any you know dampening or caution incremental caution from your key you know customers or is there any change on the collaboration schedules or you know from your perspective is it still pretty much you know business as usual you know despite let's say the financial market volatility that a lot of those companies operate in. Thank you.

Ali El-Haj | President and CEO:

Yeah actually Thanks for the question. Actually, it's the opposite in our case here. We see the momentum is picking up. More activities are ongoing, actually. We see more intensity in those activities. We're providing more samples. Customers are building more products for testing and evaluation. And as I mentioned on the prepared remarks, we're on third generation, second and third generation designs. and many more. And we're going to continue to do that. And we're going to continue to do that. So we don't really see a slowdown. Again, because we, exactly what you said, we are providing solutions to customer needs today. They need those type of solutions and we're providing those solutions. So now we don't see any impact from the macroeconomics that we see out there today. I think our forecast and our expectations remain the same.

David Silver | Analyst, Freedom Capital Markets:

Okay, great. stop there, but thank you very much for all the color. Appreciate it.

Ali El-Haj | President and CEO:

Anytime.

Diego | Conference Operator:

Thank you, and thank you everyone for your questions. That concludes today's conference. You may disconnect your lines at this time. Thank you all for your participation.