NYSE:SXI Q3 2025 Earnings Call Transcript

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Operator | Conference Call Moderator:

Good morning ladies and gentlemen and welcome to the Standex International Fiscal 3rd Quarter 2025 Financial Results Conference Call. At this time, all lines are in a listen-only mode. Following the presentation, we will conduct a question and answer session. If at any time during this call you require immediate assistance, please press star 0 for the operator. This call is being recorded on Friday, May 2, 2025. I would now like to turn the conference over to Christopher Howe. Please go ahead.

Christopher Howe | Investor Relations Representative:

Thank you, Operator, and good morning. Please note that the presentation accompanying management's remarks can be found on the investor relations portion of the company's website at www.standex.com. Please refer to Standex's safe harbor statement on slide two. Matters that Standex management will discuss on today's conference call include predictions, estimates, expectations, and other forward-looking statements. These statements are subject to risks and uncertainties that could cause actual results to differ materially. You should refer to Standex's most recent annual report on Form 10-K, as well as other SEC filings and public announcements, for a detailed list of risk factors. In addition, I'd like to remind you that today's discussion will include references to the non-GAAP measures of EBIT, which is earnings before interest and taxes, adjusted EBIT, EBITDA, which is earnings before interest, taxes, depreciation, and amortization, adjusted EBITDA, EBITDA margin, and adjusted EBITDA margin. We will also refer to other non-GAAP measures, including adjusted net income, adjusted operating income, adjusted net income from continuing operations, adjusted earnings per share, adjusted operating margin, free operating cash flow, and pro forma net debt to EBITDA. Adjusted measures exclude the impact of restructuring, purchase accounting, amortization from acquired intangible assets, acquisition-related expenses, and one-time items. These non-GAAP financial measures are intended to serve as a complement to results provided in accordance with accounting principles generally accepted in the United States. Standex believes that such information provides an additional measurement and consistent historical comparison of the company's financial performance. On the call today is Standex's Chairman, President, and Chief Executive Officer, David Dunbar, and Chief Financial Officer and Treasurer, Adamir Sarcevic.

David Dunbar | Chairman, President and Chief Executive Officer:

Thank you, Chris. Good morning, and welcome to our fiscal third quarter 2025 conference call. Following strong operating performance in the fiscal second quarter, we achieved several new records in our fiscal third quarter. These achievements include record sales since the divestiture of the refrigeration business in April 2020, record adjusted gross margin of 42.3%, and record adjusted operating margin of 19.4%. Our growth engine continues to develop with sales into fast-growing end markets representing a greater percentage of total sales. I am also encouraged that new product sales are increasing above our projections and have added approximately 3% to our sales year-to-date. Once again, our teams have demonstrated their ability to navigate through difficult market conditions and deliver strong operating margins with price and productivity actions. Now, if everyone can turn to slide three, key messages. In the third quarter, sales increased 17.2% with contributions from acquisitions partially offset by organic decline. Electronics book-to-bill was 0.98, indicating that markets are stable. And electronics organic bookings were up more than 10% year-on-year. Sales from the Ameren Narayan Group were greater than $33 million, with book-to-bill of 1.04. The Ameren Narayan Group continues to perform ahead of our expectations. In the quarter, we made significant progress in planning expansions in India, Europe, and the USA. In all regions, customer commitments extend years into the future and give us confidence to expand our existing facilities in India and the United States. At the request of the largest European electrical equipment OEMs, we are beginning work on a greenfield site in Europe and expect to be shipping product from that location by the end of our first quarter, 2026, less than six months from now. Our fiscal third quarter sales into fast growth markets increased to 29% of total company sales. Sales into fast-growth markets were primarily driven by electrical grid, commercialization of space, defense applications, and renewable energy. New product sales totaled $13.4 million in the fiscal third quarter, which doubled year on year, contributing approximately 3% to top-line sales, ahead of our goal of 2%. I am especially pleased that we continue to demonstrate resilient operating performance from the execution of our price and productivity initiatives and from inorganic investments. As a result, we achieved record-adjusted QRIS margin of 42.3%, up 140 basis points sequentially, and 230 basis points year-on-year, and record-adjusted operating margin of 19.4%, up 70 basis points sequentially, and up 280 basis points year-on-year. The integration of Ameren, Norion, and McStarlight are progressing well. On a sequential basis, in fiscal fourth quarter 2025, we expect slightly to moderately higher revenue, driven by the impact of recent acquisitions, higher sales into fast growth end markets, and realization of pricing initiatives. We expect slightly to moderately higher adjusted operating margin due to higher revenue and realization of productivity actions, partially offset by tariff costs and targeted investments in selling, marketing, and R&D. With three new products just released in the fiscal third quarter, we have released 13 products year-to-date, achieving our previously communicated target for over a dozen products in the fiscal year. Sales from new products are tracking ahead of expectations and are expected to contribute over 200 basis points of incremental growth. Now, if everyone could turn to slide four, tariff and inflation updates. Before we discuss our fiscal third quarter in more detail, I would like to address the recent tariff announcements and how we are navigating their impact. Our customer intimacy business model requires that our plants are near customers, limiting exposure to tariff and trade disruptions. We have in-region, four-region operations, and greater than 85% of our products are manufactured and sold within the same region. This serves as a natural buffer to any impact tariffs may have on economic activity. In addition, most of our customer relationships are based on a deep value proposition and long-term partnership that typically only gets stronger during turbulent times, positioning us well for the long term. To put another lens on this, imports of material inputs to U.S. operations are a relatively small percentage of total cost of goods sold. Approximately 6% of our cost of goods sold are due to imports of materials to U.S. operations from China. Approximately 4% are from India, and approximately 3% are from other countries. We have started implementing additional productivity actions and select price increases and working to optimize our supply chain to mitigate the impact of tariffs. An intangible benefit of this uncertain economic environment is that our management teams around the world are coming together, as they did in COVID, to simultaneously protect margins and support strategic priorities, and strengthen collaboration across the enterprise, a demonstration of our growing and strong culture. We plan to continue to invest in our key growth priorities and in new product development as we work with customers on their next-generation product platforms. We came out of the COVID downturn a much stronger company, and I anticipate the same results during this disruption. We are confident in our agility, resilience, and business-by-business execution over the short and long term to continue to deliver for our shareholders. Now, if everyone can turn to slide five, highlighting our recent acquisition. In early February, Standex acquired McStarlight, a leading provider of complex sheet metal aerospace components, for $56.5 million in cash. With facilities in Harbor City, California, McStarlight designs and manufactures cold deep draw and bulge formed aviation components, including single piece lip skins, nozzles, complex metal assemblies, and tooling to support production hardware. We have admired McStarlight for many years, and this represented an ideal bolt-on acquisition for engineering technologies. The integration has been seamless since its customer base, product line, and technologies are highly complementary to our SpinCraft business. We are excited about our expanded product breadth and forming capabilities in commercial aviation, space, and defense applications. With the addition of McStarlight, the addressable market within engineering technologies expands by greater than $300 million. McStarlight enables expansion into wide-body, military, and MRO Lipskin segments and into space and defense sectors. Likewise, it expands SpinCraft's Lipskin addressable market by three times and doubles addressable missile solutions while providing opportunities to cross-sell solutions to existing space customers. I will now turn the call over to Ademir to discuss our financial performance in greater detail.

Adamir Sarcevic | Chief Financial Officer and Treasurer:

Thank you, David, and good morning, everyone. Let's turn to slide six, third quarter 2025 summary. On a consolidated basis, total revenue increased approximately 17.2% year-on-year to $207.8 million. This reflected a 26.3% benefit from recent acquisitions, partially offset by an organic revenue decline of 8.1% and 1% impact from point exchange. Third quarter 2025, adjusted operating margin increased 280 basis points year-on-year to a record 19.4%. In the fiscal third quarter, adjusted operating income increased 37.3% on 17.2% consolidated revenue increase year-on-year. Adjusted earnings per share increased 3.7% year-on-year to $1.95. NAP cash provided by operating activities was $9.6 million in the third quarter of fiscal 2025 compared to $24.4 million a year ago. Capital expenditures were $6.1 million compared to $5.2 million a year ago. As a result, we generated fiscal third quarter free cash flow of $3.5 million compared to $19.3 million a year ago. Our fiscal third quarter cash flow was impacted by one-time transaction-related payments, certain annual tax payments, and longer customer credit terms related to recent acquisitions that affected cash conversion in the quarter. Now please turn to slide seven, and I will begin to discuss our segment performance and outlook, beginning with electronics. Segment revenue of $111.3 million increased 38.4% year-on-year, as 48.1% benefit from acquisitions was partially offset by an organic decline of 8.9% and 0.8% impact from foreign currency. Adjusted operating margin of 29.8% in fiscal third quarter 2025 increased 760 basis points year-on-year, as the contribution from recent AMRA and Orion Group acquisition to the activity initiatives and product mix were partially offset by lower core volume. Excluding recent AMRA and Orion Group acquisition, our new business opportunity funnel increased approximately 50% year-on-year to $117 million. Further progress of our operational and commercial excellence initiatives throughout commercial expansion in India increased activity in the test and measurement end market supported by AI and data center expansion, and higher activity and demand in mill arrow end market. Our book to bill in fiscal third quarter was 0.98, with orders of approximately 109 million, driven by stable orders in core businesses and contribution from Ameren Orion Group acquisition, which had a book to bill of 1.04. Organic bookings increased over 10% year on year. Since our products are customized in nature, Our bookings take longer to convert into revenue, but with stronger margins. As David mentioned, our expansion plans for Emra and Orion within the U.S. and India are well underway to support additional demand. In addition, we are working on our greenfield site in Europe that should be operational within six months. Sequentially, in fiscal four quarter 2025, we expect slightly higher revenue and similar to slightly higher adjusted operating margin driven by the Emra and Orion group acquisition higher sales into fast growth and markets, and price realization, partially offset by higher tariff costs and continuous strategic growth investments. Please turn to slide 8 for a discussion of the engraving and scientific segments. Engraving revenue decreased 15.7% to $30.6 million, driven by organic decline of 12.6% and a 3.1% impact from foreign currencies. Adjusted operating margin of 11.2% in fiscal third quarter 2025 decreased 720 basis points year-on-year due to low revenue. In our next fiscal quarter, on a sequential basis, we expect slightly higher revenue and moderately higher adjusted operating margin due to more favorable project timing in Asia, slightly improved demand in North America and Europe, and realization of previously announced restructuring actions. To address the continued softness in end markets served by this segment, Our previously announced structuring options are underway and are projected to yield over $4 million in annualized savings once fully implemented. Scientific revenue increased 8.1% to $18.3 million due to 16.1% benefit from recent acquisition, partially offset by an organic decline of 8%, primarily due to lower demand from academic and research institutions that were impacted by NIH funding cuts. Adjusted operating margin of 22.6 percent decreased 780 basis points year-on-year due to organic decline and product mix as a result of the acquisition. Sequentially, we expect slightly lower revenue and adjusted operating margin due to soft demand from academic and research institutions affected by NIH funding cuts and higher tariff costs. To counteract the impact of higher tariff costs, we plan to implement pricing and productivity initiatives while continuing to optimize our supply chain to alternate sources. Now turn to slide nine for discussion of engineering technologies and specialty solution segments. Engineering technologies revenue increased 36.2% to 27.4 million, driven by 26.3% benefit from recent McStarlight acquisition and organic growth of 9.9%. This strong organic growth was due to more favorable project timing in the space and market and growth in sales from new products. Adjusted operating margin of 18.6% increased 110 basis points year-on-year due to contribution from recent acquisition and higher volume.

Sequentially, we expect similar to slightly higher revenue and similar adjusted operating margin. Specialty solution segments revenue of 20.2 million decreased 13.9% year-on-year, primarily due to general market softness. Operating margin of 16.2 percent decreased 370 basis points year-on-year. Sequentially, we expect moderately higher revenue and operating margin. Next, please turn to slide 10 for a summary of Standex's liquidity statistics and the capitalization structure. Our current available liquidity is approximately $170 million. At the end of the third quarter, Standex had net debt of $470.4 million compared to $10 million at the end of fiscal third quarter 2024. Our leverage ratio per our bank credit agreement currently stands at 2.8. In fiscal fourth quarter 2025, with the addition of Max Starlight, we expect interest expense to be approximately $9 million. Stanis' long-term debt at the end of fiscal third quarter 2025 was $580.2 million. Cash and cash equivalents totaled $109.8 million. We declared our 243rd quarterly consecutive cash dividend of $0.32 per share in an approximately 6.7% increase year-on-year. In fiscal 2025, we expect capital expenditures to be between $25 and $30 million. Relative to our debt leverage, we will continue to focus on paying down debt and anticipate that our leverage ratio will further improve at the end of the fourth quarter and will continue to decline through 2026 as we announce the acquisition of Hammer & Ryan Group. I will now turn the call over to David for concluding remarks.

David Dunbar | Chairman, President and Chief Executive Officer:

Thank you, Adamir. Please turn to slide 11. I'm very proud of our team for their continued operational execution and for the success of our recent acquisitions, both of which helped us achieve record-adjusted operating margin for a second consecutive quarter. Sales into fast-growth end markets are well on track for our fiscal year 2025 expectation of approximately $170 million. This was primarily driven by growth in data center demand and grid modernization and expansion. Outside of the electrical grid, we are seeing growth in commercialization of space, defense applications, and renewable energy and markets. To support our future growth, we continue to invest in new product development and new applications across markets with growth potential. We have released 13 new products here today, and new products are now expected to contribute over 200 basis points of incremental growth this fiscal year. While we cannot predict the impact of new tariffs on global trade and economic growth, our regional presence strong customer relationships, and our disciplined approach to pricing and productivity actions position us well to manage through the current and short-term challenges. Most of our supply chain is strategically located to service regional demand, with China imports to the U.S. representing approximately 6% of the cost of goods sold. We plan to continue to invest in our key strategic priorities while implementing additional productivity actions and select price increases and working to optimize our supply chain to mitigate the impact of tariffs. We remain on track to achieve our fiscal 2028 long-term targets of sales of greater than $1.15 billion, adjusted operating margin of greater than 23%, and ROIC of greater than 15.5%. We remain confident in our ability to pay down debt and reduce our net leverage ratio. We will now open the line for questions.

Operator | Conference Call Moderator:

Thank you. And ladies and gentlemen, we will now begin the question and answer session. To ask a question, you may press the star followed by the number one on your cell phone keypad. If you're using a speakerphone, please pick up your handset before pressing any keys. To withdraw your question, you may press the star followed by the number two. With that, our first question comes from the line of Chris Moore with CJS Securities. Please go ahead.

Chris Moore | Analyst, CJS Securities:

Hey, good morning, guys. Thanks for taking a couple. All right. Morning. Good morning. Maybe we'll start with So 6% of COGS imported from China. Is that mostly scientific and hydraulics?

David Dunbar | Chairman, President and Chief Executive Officer:

Yeah, so it's split in about three parts almost equally. About one-third of that goes into electronics, one-third into specialty, and the remaining third into scientific.

Chris Moore | Analyst, CJS Securities:

Got it. And I guess the... The two primary, you know, one is looking for alternative sources and two is, you know, pricing. Is pricing power, you have a little more pricing power in, you know, in one of those splits or how do you look at that?

David Dunbar | Chairman, President and Chief Executive Officer:

Yeah, it is. That's a great question because it is very business by business. So within electronics and specialty, we think because of the, I guess, the significance of the bill of materials, the relationship with customers and, the overall value proposition, we're confident we cover the China tariffs with price productivity actions working with customers. Scientific's a little bit different. Now you have to assume what will happen with tariffs. If the China tariffs stay where they're at right now, 145% on China, we think we can, scientific can cover about 70% of that incremental tariff with price and productivity. and then longer term would have to look at some changes in supply chain and product design. It would take about a year to make up the rest of that.

Chris Moore | Analyst, CJS Securities:

Got it. Very helpful. All right. So it doesn't look like Q4 will show any organic growth. I guess on just the puts and takes for organic growth in fiscal 26 is obviously you've Invisibility isn't where you'd like it to be at this point, but is that more of a back half conversation or just any thoughts there at this stage?

Adamir Sarcevic | Chief Financial Officer and Treasurer:

Well, hey, good morning, Chris. It's Adam here. I think if you look at electronics specifically, we are very pleased with the order intake rates in a core business we are seeing over the last couple of quarters. And obviously, Amaran Orion has been a phenomenal acquisition for us, albeit it's not organic yet. So as we enter FY26, we do, again, you know, assuming current economic environment and, you know, no significant changes, we do believe we're going to start seeing organic growth, you know, and electronics is our engine. You know, as far as the other businesses, you know, engineering technology group, very robust order book, you know, very strong end markets. We feel very, very confident that they will continue to show organic growth. And then engraving, frankly, is coming from a very low starting point at this stage with the auto market in North America being an all-time low. So there's a possibility, and we feel that we'll be able to turn the tide there as well. Scientific remains a little bit of a challenge because of what David just described. And that specialty has been, you know, we feel pretty good about specialty as far as the organic growth is concerned as well. So...

David Dunbar | Chairman, President and Chief Executive Officer:

Well, I guess another way to look at it, because you mentioned both the Q4, the upcoming quarter, and the rest of the year. If you just zoom out a little bit and think about what's driving growth long-term in the portfolio, those things that we're confident in that we know we can control. So the fast growth markets, Ameren Orion alone, if it continues its growth, will add about $20 million of sales to the company over a year. That's over two points of growth. Our new products are running ahead of what we had said earlier this year, contributing just over about 200 basis points of growth. So that's 400 basis points from all the investments and movements we've made in the last few years to focus more on organic growth. And now we have to make assumptions about underlying market. If you assume no recession, and say we return to say 2.5% GDP, On top of that, we typically get about a point of price in quote-unquote normal times. So you add those all up, making assumptions about the end market that fell out of bookend or both expectations.

Chris Moore | Analyst, CJS Securities:

Got it. That's very helpful. Maybe just the last one on Amer and Narayan. The planned expansion, it sounds like you said about six months before you start selling in Europe, right? Is there a significant investment required to begin there, or just kind of what the primary kind of milestones are over the next two quarters?

David Dunbar | Chairman, President and Chief Executive Officer:

Yeah, thank you for that question. We're very excited about this. Europe is actually the biggest end market for their products. It's over a $2 billion market, whereas America is about $1.5 billion. And they have served European OEMs out of India. And I think we announced even at the acquisition, those OEMs have been asking them to create a footprint in Europe. So the last quarter, we've made several trips to Europe. We're progressing rapidly. And this will go in stages. So the initial stages, the investment will not be significant. We just, you know, we obviously need a building. We'll start stocking and doing some testing and then gradually add equipment. So in the first year or two, maybe a million, $2 million of investment. And then as it grows, we will, you know, we'll expand it from there.

Adamir Sarcevic | Chief Financial Officer and Treasurer:

Yeah, Chris, it's not a very high capital investment required for us to get it started. So there should be a lot of cash outflows there.

Chris Moore | Analyst, CJS Securities:

Perfect. All right, guys. Thanks. I'll leave it there.

William Blair | Analyst (on Ross Perrin-Blackweed’s line):

Thank you.

Operator | Conference Call Moderator:

And your next question comes from the line of Matt Crandall with Roth Capital. Please go ahead.

Matt Crandall | Analyst, Roth Capital:

Hey, guys. Good morning. Maybe just continuing on with the electronics questioning. So Amer and Orion, the order trend looks pretty encouraging. Just wanted to see if maybe you could unpack the end markets that are driving strength for them between data centers and the electrical grid infrastructure expansion. And then could you talk about capacity utilization there right now? It sounds like I would imagine we're running quite high, given that we're going to be adding a plant in Europe. And so what does capacity utilization look like right now? Is there a hit to margins as you kind of ramp the new plant in Europe? Maybe just talk about the transition there over the next couple of quarters.

David Dunbar | Chairman, President and Chief Executive Officer:

Yeah. So first of all, the sources of growth are more or less what they were when we announced the acquisition. You've got grid modernization in all parts of the world. There's expansion of electrical capacity just to support economic growth and living standards. Data centers and – and artificial intelligence are driving investments. So we're not seeing any change in that momentum. Our relationships are with the large electrical equipment OEMs. They still have demand that goes out several years. So we see no change in those drivers for the growth. Our capacity, we still have capacity in our current plants, and we're probably running, I don't know, 60%, 70% capacity. We recently added second shifts in India and in Texas. But we also announced in the script we will expand in India. We'll add footprint. We'll expand in the U.S. We'll add footprint. And we have the Greenfield site coming in Europe. We have good visibility to the demand from customers. And so that capacity will come online in time to meet that demand.

Adamir Sarcevic | Chief Financial Officer and Treasurer:

Yeah, and Matt, if I can add this, from a margin standpoint, we don't anticipate that the margins in Europe will be any different than the margins of the consolidated group as they stand today.

Matt Crandall | Analyst, Roth Capital:

Okay, very clear. I appreciate that. And then maybe just on the core order book in electronics, I think you guys mentioned kind of flash in terms of order trend quarter over quarter. What does that mean for sort of when we inflect to the positive in terms of organic growth in the electronics segment? How soon could that come? What would that look like over the next couple of quarters?

Adamir Sarcevic | Chief Financial Officer and Treasurer:

Yeah, I mean, you know, and the other thing that I just want to mention, Matt, you know, we are about 10% up organically on orders in electronics if you look at the year-on-year. So, you know, we are kind of at that reflection point now, to be quite honest with you. And as we move into the next fiscal year, which would be, you know, our fiscal first quarter, FY26 next quarter, you know, we feel we are turning the corner and we should start showing organic growth.

Matt Crandall | Analyst, Roth Capital:

Okay, great. And then maybe just the last one, if I could. Thinking about the sort of the overall deposition here, what are your thoughts on sort of leverage and where we'd be willing to take it if we found an attractive acquisition over the next few quarters? Or I guess should we think about sort of leverage as coming down over the next few quarters? And we're driving cash to deliver the balance sheet with the macro uncertainty that we're dealing with. Just wanted to hear your thoughts on that front.

Adamir Sarcevic | Chief Financial Officer and Treasurer:

Yeah, so Matt, our leverage as it stands today is about, per our bank facilities, about 2.8. If you kind of annualize our fourth quarter EBITDA, it's less than that. It's about 2.5, 2.6. Obviously, our priority is to pay down debt. And we also have a lot of very exciting organic initiatives that David has just been talking about, specifically in electronics and some other businesses. So our priority would be to invest in organic growth and the things we know the best and we control. And then at the same time, obviously work down to pay down the debt and take the leverage down. And we think we're going to make a dent in leverage this quarter. We're going to continue to work at RFY26 and We are a very good cash-generating company, and we'll continue to focus on both organic growth, investments, as well as paying down the debt.

David Dunbar | Chairman, President and Chief Executive Officer:

Yeah, let me add something. From a philosophical standpoint, I guess we're about as high in leverage as we'd like to be. We are still in the market. A lot of the acquisitions that we make are based on years and years of relationship building. So we continue to do that, and in the next year or so, we'll be at a leverage point we could consider.

William Blair | Analyst (on Ross Perrin-Blackweed’s line):

Okay, got it. Thanks, guys. Appreciate it.

Operator | Conference Call Moderator:

And your next question comes from the line of Mike Sischke with DAD Winston. Please go ahead.

Mike Sischke | Analyst, DAD Winston:

Good morning. Thanks for taking my questions here. So leverage at 2.8 sounds like it's coming down. That's certainly good to hear. Besides just, you know, rolling in Amran Narayan and the McStarlow EBITDA into the numbers that you implied, Adamir. Do you have any other levers that you're looking to pull on the debt side? I mean, I wasn't sure if you needed to or could liquidate any working capital in the near term or if you even have to. Just curious as to how you feel about other parts of your balance sheet at the current time.

Adamir Sarcevic | Chief Financial Officer and Treasurer:

Yeah, now look, we certainly have some opportunities in our working capital metrics. As an example, some of the businesses we recently acquired generally have longer credit terms with some of their customers. Those credit terms are sometimes over 90 days. So obviously we will be working with our new acquisitions as well as the customers to try to improve those terms and get them a little bit more balanced, if you will. So we clearly have opportunity on receivables. We'll obviously continue to manage inventory as well. So, yeah, I mean, there's clearly an opportunity to get more operating cash flow in the upcoming quarters, and we plan to do that.

Mike Sischke | Analyst, DAD Winston:

Great. I also wanted to circle back to some of your answers and comments on tariffs from earlier. Given that Scientific is, at this point, such a small part of the overall company, and the China part of it is even smaller, of course, and the other things that you mentioned in the other segments, Does it feel like the total potential impact from the tariffs that you're seeing today, if anything changing going forward, is pretty de minimis? And would you agree with the thought that maybe the efforts you have to take to mitigate it through pressing and productivity is relatively minor and doesn't seem all that challenging? At this point, this just doesn't sound like you're in any kind of concern or huge panic here at all.

Adamir Sarcevic | Chief Financial Officer and Treasurer:

Yeah, I think that's a fair way to summarize it, Mike. But obviously, you know, it's our fiduciary duty to do the best we can to continue maintaining good relationships with suppliers, with customers, and obviously to protect our margins. But yeah, I mean, in a grand scheme of things, it's not Again, as David said, we are in the region, for the region, for the most part, in terms of our supply chain as well as customer relationships. So, yeah, the impact for us is certainly not significant.

David Dunbar | Chairman, President and Chief Executive Officer:

You laid it out pretty clearly earlier that of that 6%, there's about 10 million, 10 million, 10 million. Just the 10 million is scientific. That's going to require some work. So it's not to minimize the work that they have to do. So in that business, there's plenty of work, but they've got a line of sight to actions to do. To contain that, as I described earlier.

Adamir Sarcevic | Chief Financial Officer and Treasurer:

It's our job to worry, Mike, right?

David Dunbar | Chairman, President and Chief Executive Officer:

But no, you're right. Overall impact at a corporate level, de minimis. Yes, that's correct.

William Blair | Analyst (on Ross Perrin-Blackweed’s line):

Okay, great.

Mike Sischke | Analyst, DAD Winston:

And I want to turn to some of your comments you made on the new products that are kind of in the process of rolling out from fiscal 2025. But, you know, at this point, fiscal 2026 starts in just two weeks. months from now. Can you maybe just share with us some of your plans for new products during 2026? Could it be on the same order of magnitude as 2025? And also, is there a tailwind from stuff that got introduced during 2025 that still has to lap in 2026 or has ongoing adoption that will be beyond just small organic growth next year?

David Dunbar | Chairman, President and Chief Executive Officer:

Yeah, those are great questions. I think we've talked before that because of our business model and our products are sold to OEMs who are incorporating that into their next generation platforms, it typically takes about three years for any application, any new opportunity we win to ramp to full volume. So that's true of new products as well as just the applications of existing products. So everything released this year will continue to ramp in the coming years. We also have a pipeline, and we would expect order magnitude, the same number of products to be released in FY26 as in FY25.

William Blair | Analyst (on Ross Perrin-Blackweed's line):

Outstanding. I'll pass it along. Thank you.

Operator | Conference Call Moderator:

And your next question comes from the line of Ross Perrin-Blackweed. William Blair, please go ahead.

William Blair | Analyst (on Ross Perrin-Blackweed's line):

Good morning, gentlemen. Hey, Ross. Hey, Ross.

Ross Perrin-Blackweed | Analyst:

Hey guys, kicking off with Core Electronics. Can you maybe just update us on where we are with the broader restocking phase and what's underwriting confidence for return to growth in 2026 on the organic side, just again for the core business?

David Dunbar | Chairman, President and Chief Executive Officer:

Yeah, so if you look at the underlying business, We're seeing strength in Asia. North America is ticking up. Europe remains soft. Most of the stocking, destocking impact was in Asia and China for us, and that is a few quarters ago. We said it was bottoming out. That's picking up.

Ross Perrin-Blackweed | Analyst:

Okay. Well, then maybe just help us size the automotive and general industrial exposure again. Just trying to think about the ebb and flow of China picking up with North America and Western Europe getting a little weaker there. at least on the auto side.

David Dunbar | Chairman, President and Chief Executive Officer:

What's the question? You mean auto? The exposure.

Ross Perrin-Blackweed | Analyst:

Yeah, and general industrial, because those were both noted as being weaker again this quarter.

David Dunbar | Chairman, President and Chief Executive Officer:

Historically, just think out loud here, auto's been about 20% of the electronics business. A little lower now just because it's been soft. Yeah, it's been more like 15% in recent quarters. So EVs have been flat. Other combustion engine has declined. It's over about 15% of total electronics.

Ross Perrin-Blackweed | Analyst:

And then just on the scientific side, can you maybe help us frame the risk here from the NHI funding? Based off last quarter, it looks like a couple million, and that probably counts for the next three quarters going forward. And then I believe on the pharmacy side, that's pretty much at trough. Are you seeing any signs of recovery there?

Adamir Sarcevic | Chief Financial Officer and Treasurer:

Yeah, I think, Ross, for the NIH, I think you just sized it pretty well in terms of the potential impact. Yeah, and, you know, for the pharmacies, you know, yeah, you're right. It's kind of at the trough. We are waiting to see if the new capital equipment requests are going to come in. You know, maybe some of that is a little bit impacted now with some of the economic uncertainty, but certainly those units that we placed years ago are due to be replaced. And, you know, we do expect we're going to see some uptick in the near future.

Ross Perrin-Blackweed | Analyst:

I mean, are you having active conversations there? It's two key players, right? Okay. That's good to hear. Maybe just one last one on McStarlight. Can you call out the major programs there? You know, the wide bodies. Is there any Boeing exposure, Airbus, anything we can point to?

David Dunbar | Chairman, President and Chief Executive Officer:

Yeah, both. Boeing and Airbus. They're on the wide body programs of both those players.

Ross Perrin-Blackweed | Analyst:

All right. I mean, is this primarily sole sourced, single sourced for what they offer?

William Blair | Analyst (on Ross Perrin-Blackweed’s line):

Yeah. Yes. Awesome. All right. Thank you, guys. Thanks, Rod.

Operator | Conference Call Moderator:

And your next question comes from the line of Gary Pristapino with Barrington Research. Please go ahead.

Gary Pristapino | Analyst, Barrington Research:

Hi. Good morning, all. A couple of questions here. In the guidance that you gave us for Q4, In terms of the organic decline, is it going to be very similar to the organic decline in sales that you saw in Q3?

Adamir Sarcevic | Chief Financial Officer and Treasurer:

Hey, good morning, Gary. No, it will not, because we do believe electronics will, which is, again, our engine, will do better than they have done in Q3. So we should see some improvement there. You know, the only one that I would, you know, point to that might be a little soft, you know, from kind of a comparison would be obviously Santa Fe for the reasons we just spoke about. But, yeah, we do expect that, yeah.

Gary Pristapino | Analyst, Barrington Research:

No, you know, when you say sequentially up, and I'm just, you know, back of the envelope, you know, Amron, let's say you bought it, it had $100 million of revenues, you had $25 there. McStarlight, about $8 million, that's $33. So... I'm just trying to get an idea of when you're talking about the changes you're seeing or contemplating or the growth you're contemplating, just what we have to work off there. So we really shouldn't be looking at about an 8% organic decline in Q4 as we saw in Q3. No, no, no. Okay, that's good to hear. I just want to ask, in terms of fast growth markets, Were your sales last quarter about $26 million? I think I went back and looked at that, and you were about $60 million this year. Is that kind of correct, or this quarter?

David Dunbar | Chairman, President and Chief Executive Officer:

Yeah, that's right. About $60 million this quarter. The $26 you quoted, what period were you referring to?

Gary Pristapino | Analyst, Barrington Research:

I was looking at last year's Q3.

David Dunbar | Chairman, President and Chief Executive Officer:

Yeah, yeah, that's right. Yeah, and you recall this last quarter, we kind of bridged – kind of a recasting. We have an old number, new number, because the Ameron and Orion sales are all into fast growth. So we're including that in the 60, of course.

Gary Pristapino | Analyst, Barrington Research:

Right. So the guess, phrase the question this way, given that Ameron had a pretty good margin profile, how has that changed the margin profile, adjusted operating margin profile of your sales in the fast growth markets? You know, is it, could you give us an idea of the magnitude or the basis point increase year over year?

David Dunbar | Chairman, President and Chief Executive Officer:

Let's see. Well, yes, that's a great question. Our margins into fast growth markets have always been higher than our average margins. They tend to be newer products. There's a great value proposition. The Amaranth and Orion margins still are higher than that average. So it's about half of our – it probably has a couple hundred basis points to our fast growth margins.

Gary Pristapino | Analyst, Barrington Research:

Okay, a couple of hundred basis points. So as this grows, it's going to become very accretive. Yeah, yeah, yeah. Okay, and then lastly, one of the things you mentioned was the tariffs. You can offset some of this with price increases, and I realize this is rather de minimis relative to other companies, but have you informed your customers that you're going to increase prices as of yet? And I just want to get what's kind of been their reaction to that.

David Dunbar | Chairman, President and Chief Executive Officer:

It runs across the board. I mean, all the spectrum of reactions. But there are hundreds or thousands of discussions going on with customers and many of our businesses about price increases. So I don't know. I guess the bottom line is what we conveyed earlier. We think we can cover to the extent we can cover the tariffs. The one challenge is going to be in the scientific business based on the competitive nature of that market and their ability to get price. In all the other businesses, a combination of price and productivity will cover tariffs.

Adamir Sarcevic | Chief Financial Officer and Treasurer:

Yeah, Gary, we're not just approaching this purely from a price standpoint. We're looking at productivity, sourcing savings as well. And the way we're approaching this with our customers, we're kind of all in this together, and we're going to come up with the best optimal solution for us as well as for our customers. So it's a combination really of three things, pricing, productivity, and sources of supply.

Gary Pristapino | Analyst, Barrington Research:

Well, let me ask you this. With your existing sources right now, we're coming from, say, China and India, can you go back to them and say, hey, you guys got to share some of this burden? I mean, is what you're getting out of China, is that coming out of mainland China or Taiwan?

David Dunbar | Chairman, President and Chief Executive Officer:

Well, the 6% we quoted is mainland China. And so we have, there again, you've had discussions with all the suppliers. Some of them have participated a bit, I guess, with others. Others have not. It just depends on the business and the supplier. Right.

Gary Pristapino | Analyst, Barrington Research:

Okay, that's it.

David Dunbar | Chairman, President and Chief Executive Officer:

Thank you very much.

Gary Pristapino | Analyst, Barrington Research:

Thank you, Gary.

Operator | Conference Call Moderator:

And we hand over to questions at this time. I would like to turn it back to David Dunbar for closing remarks.

David Dunbar | Chairman, President and Chief Executive Officer:

All right, I want to thank everybody for joining us for this call. We always enjoy reporting on our progress at StandX. And finally, again, I want to thank our terrific employees. for their hard work, continued support of our strategic objectives, and delivering another solid quarter. And thank you to the shareholders for your continued support and contributions. We look forward to speaking with you again in our fiscal fourth quarter 2025 call.

Operator | Conference Call Moderator:

Thank you, presenters. And ladies and gentlemen, this concludes today's conference call. Thank you all for participating. You may now disconnect.