NYSE:SXI Q4 2025 Earnings Call Transcript

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Operator | Conference Operator:

Good morning, ladies and gentlemen, and welcome to the Standex International Fiscal Fourth 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 zero for the operator. This call is being recorded on Friday, August 1, 2025. I would now like to turn the conference over to Christopher Howe, Director of Investor Relations. Please go ahead.

Christopher Howe | Director of Investor Relations:

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 .standex.com. Please refer to Standex's Safe Harbor Statement on slide 2. The 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-Gap Measures of EVIT, which is earnings before interest and taxes, Adjusted EVIT, EVITDA, which is earnings before interest, taxes, depreciation, and amortization, Adjusted EVITDA, EVITDA margin, and Adjusted EVITDA margin. We will also refer to other non-GAP measures, including adjusted net income, adjusted operating income, adjusted net income from continuing operations, adjusted earnings per share, adjusted operating margin, pre-operating cash flow, and pro forma net debt to EVITDA. Adjusted measures exclude the impact of restructuring, purchase accounting, amortization from acquired intangible assets, acquisition-related expenses, and one-time items. These non-GAP financial measures are intended to serve as a complement to results provided in accordance with accounting principles generally accepted in the United States. Sandex believes that such information provides an additional measurement and consistent historical comparison of the company's financial performance. On the call today is Sandex's Chairman, President, and Chief Executive Officer, David Dunbar, and Chief Financial Officer and Treasurer, Adimir Sarcic.

David Dunbar | Chairman, President, and Chief Executive Officer:

Thank you, Chris. Good morning and welcome to our fiscal fourth quarter 2025 conference call. Fiscal year 2025 was a turning point for Sandex. We are a different company than we were even a year ago. We've been laying the groundwork for years and our growth drivers have now crossed a threshold. They are scaling. They have reached an inflection point and are beginning to move the needle in a meaningful way. I'm very excited to share with you what we are seeing and how it is shaping our outlook. I would like to thank our business and corporate teams for navigating this past year and achieving a record profit generation in fiscal 2025. Now let's look at the results beginning on slide three, key messages. In the fourth quarter, sales increased .2% with contributions from acquisitions partially offset by a slight organic decline. Electronics grew slightly on an organic basis with the book to bill ratio above one and organic orders up 16% year on year. This represents the first quarter of organic growth since 2023 and signals strong momentum into 2026. Our fiscal fourth quarter sales into fast growth markets increased to 28% of total company sales. New product sales added approximately .8% to sales ahead of our goal, 2%. Our grid technologies business continues to perform

ahead of our expectations. To support strong global demand for electrical equipment, we are expanding Amron-Norion capacity with lean projects and additional shifts in the core facility. I am also excited to announce that in the quarter we established a site in Croatia to serve European customers. We expect to be shipping products from Croatia within four months. Operating performance was very strong in the quarter. We achieved record adjusted operating margin of 20.6%, up 120 basis points sequentially and up 350 basis points year on year. This operating performance, along with our cash generation and cash repatriation, enabled us to lower our net leverage ratio to 2.6%. Following record profitability in fiscal 2024, we again achieved record milestones in adjusted gross margin, adjusted operating income, and adjusted earnings per share. In fiscal year 2026, barring any unforeseen economic, global trade, or tariff related disruptions, we expect revenue to grow by over $100 million with continued adjusted operating margin expansion. This will primarily be driven by mid to high single digit organic growth in electronics, double digit organic growth in engineering technologies, and the contribution from recent acquisition. In fiscal year 2026, we expect new product sales to contribute approximately 300 basis points of incremental sales growth, and we anticipate releasing more than 15 new products. Sales from fast growth markets are expected to grow approximately 45% year on year and exceed $265 million. On a year on year basis, in fiscal first quarter 2026, we expect significantly higher revenue, comprise of contributions from recent acquisitions and organic growth, and significant operating margin expansion. On a sequential basis, we expect slightly lower revenue as the impact of recent acquisitions, higher sales in the fast growth and markets, and realization of pricing initiatives are more than offset by projects timing in engineering technologies and the impact of seasonality in Europe within electronics and in grading. We expect slightly lower adjusted operating margin due to lower sales and less favorable product mix. Please turn to slide four. Our growth drivers have reached an inflection point. There are four sources of growth that will help deliver above market increases in 2026. In fact, they will deliver growth even without a general market pickup. First is new product sales. As you know, we began ramping our R&D spending in 2020. New products began to be released in 2023, accelerating to 16 product releases in 2025. Sales of new products increased from $38 million to $55 million in FY 2025, exceeding our internal expectations. We expect their sales to continue to ramp and to be joined by more than 15 new products to be released in 2026, giving us confidence that incremental new product sales will add about 3% to our sales in 2026. New products, once released, take time to reach full commercial impact. In our customer intimacy business model, success depends not only on product innovation, but on deep collaboration with our customers. Our products are often designed into our customers' own systems, which require internal approvals, engineering validation, and their own development timeline. This results in a natural delay between product release and peak revenue. But once adoption begins, momentum builds and endures. Products introduced in prior years continue to ramp, even as we launch additional new offers. This layered effect creates a compounding engine of organic growth that is both durable and scalable. It has taken a while to get this momentum, but we are building a long-term new product capability in this company. And as a -to-be engineer, I think it is beautiful to watch. The second source of above-market growth is our presence in end markets with long-term secular tailwinds and above-average growth. This has been a focus for some time, and our two acquisitions in FY25 increased our presence in electrical grid, space, and defense markets, ramping our total fast-growth market sales to $184 million. All of these businesses are expanding capacity to serve our customers, and we expect sales to grow to greater than $265 million in fiscal 2026. This is also beautiful to watch. A third source of momentum is the support we are giving to recent acquisitions to maintain their growth rate. We are now bringing up a new site in Croatia for Amron Neurion, and are positioned with McStarlight to win new applications that the combined StandX-McStarlight capability is better positioned to win. Last but not least is success at the blocking and tackling of winning new awards in our business through commercial excellence. Two noteworthy areas stand out. Engineering technologies have been awarded applications on next-generation missile programs, which are moving to production. Engraving has successfully expanded into niche production of parts, requiring our proprietary know-how. Based on the above, you can see that the incremental contribution from new products, sales into fast-growth markets, successful acquisition integration, and new program wins lead us to a fiscal year 2020 outlook of over $100 million in incremental sales. I will now turn the call over to Adamir to discuss our financial performance in greater detail.

Adimir Sarcic | Chief Financial Officer and Treasurer:

Thank you, David, and good morning, everyone. Let's turn to slide five, World Quarter 2025 Summary. On a consolidated basis, total revenue increased approximately .2% year on year to $222 million. This reflected .4% benefit from recent acquisitions and .2% benefit from foreign currency, partially offset by organic revenue decline of 1.4%. World Quarter 2025 Adjusted Operating Margin increased 350 basis points year on year to a record 20.6%. In the fiscal World Quarter, Adjusted Operating Income increased .8% on .2% consolidated revenue increase year on year. Adjusted Earnings Per Share increased .6% year on year to a record $2.28. Next cash provided by operating activities was $33.4 million in the fourth quarter of 2025 compared to $28.7 million a year ago. Capital Expenditures were $8.6 million compared to $6.5 million a year ago. As a result, we generated fiscal fourth quarter brief cash flow of $24.9 million compared to $22.2 million a year ago. Now, please turn to slide six and I will begin to discuss our segment performance and outlook beginning with electronics. Segment Revenue of $115.2 million increased .2% year on year driven by 41% benefit from acquisitions, organic growth of .3% and .9% benefit from foreign currency. Adjusted Operating Margin of .5% in fiscal fourth quarter 2025 increased 640 basis points year on year due to contribution from recent Ameran Orion Group acquisition, pricing and productivity initiatives and product mix. Our book to bill in fiscal fourth quarter was 1.03 with orders of approximately $118 million or increase of $10 million sequentially. Orders in electronics core business were up sequentially with a continued increase in demand in defense, power magnetic application and the electrical grid and market. Since our products are custom in nature, our bookings take longer to convert into revenue but with stronger margins. Our expansion plans for Ameran Orion in Houston and India are well underway to support additional demand. We increased capacity by adding second shifts across facilities. In addition, we began commissioning Greenfield site in Croatia to serve our customers in Europe and support growing power requirements for data centers and grid expansion and upgrades in the region. We expect first shipments of the Croatia site in the next three to four months. Excluding recent Ameran Orion Group acquisition, our new business opportunity funnel increased approximately 27% year on year to $125 million. Sequentially, in fiscal first quarter 2026, we expect slightly lower revenue reflecting contribution from Ameran Orion Group acquisition, higher sales in the fast food and markets and price realization more than offset by the impact of seasonality in Europe. Although we anticipate slightly lower revenue sequentially, we are expecting significant revenue growth and adjusted operating margin expansion along with organic growth on a year on year basis. We expect slightly lower adjusted operating margins sequentially driven by product mix and continuous strategic growth investment. Please turn to slide seven for discussion of the engineering technologies and scientific segments. Engineering technologies revenue increased .8% to $32 million driven by 25% benefit from recent Max Starlight acquisition, organic growth of .9% and .9% benefit from foreign currency. Organic growth was due to growth in sales from new products. Adjusted operating margin of .4% decreased 250 basis points year on year due to product mix. Sequentially, we expect slightly lower revenue and adjusted operating margin due to project timing. Scientific revenue increased .3% to $17.9 million due to .1% benefit from recent acquisition partially offset by an organic decline of .9% primarily due to lower demand from academic and research institutions that were impacted by NIH funding cuts. Adjusted operating margin of .3% decreased 530 basis points year on year due to organic decline and unfavorable product mix as a result of the acquisition. Sequentially, we expect slightly higher revenue and similar adjusted operating margins. Now, turn to slide 8 for discussion of the engraving and specialty solutions segment. Engraving revenue increased .6% to $33 million driven by .2% benefit from foreign currency partially offset by organic decline of 0.6%. Adjusted operating margin of .2% in fiscal four quarter 2025 increased 190 basis points year on year due to realization of previously announced productivity initiatives and restructuring actions. In our next fiscal quarter on a sequential basis, we expect similar revenue and slightly higher adjusted operating margin due to seasonality affecting Europe offset by slightly improved demand in North America and Asia and realization of previously announced restructuring actions. In addition, in the fiscal first quarter, our engraving business secured the source from a major OEM in North America to supply soft-trimmed parts for a calendar year 2026 program. Specialty solutions segment revenue of 23.9 million decreased .2% year on year primarily due to general market softness. Operating margin of .6% decreased 360 basis points year on year. Sequentially, we expect similar revenue and slightly higher operating margin. Next, please turn to slide nine for a summary of Stundex's

liquidity statistics and capitalization structure. Our current available liquidity is approximately $280 million. At the end of the four quarter, Stundex had net debt of $448 million compared to net cash of $5.3 million at the end of fiscal quarter 2024. Our net leverage ratio currently stands at $2.6. We paid down our debt by approximately $27 million during the fiscal four quarter 2025. In the fiscal first quarter, 2026, we expect interest expense to be approximately $9 million. Stundex's long-term debt at the end of fiscal four quarter 2025 was $552.5 million. Cash and cash equivalents totaled $1 of $4.5 million. We declared our 244th quarterly consecutive cash dividend of $0.32 per share and approximately .7% increase year on year. In fiscal 2026, we expect capital expenditures to be between $33 and $38 million. Relative to our debt leverage, we will continue to focus on paying down debt and anticipate that our leverage ratio will further decline through fiscal year 2026. 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 10. I want to describe the emotions in the company. There is an energy here and you can feel the shift. After years of building, refining, and preparing, the results are starting to show. There's pride in seeing our efforts take hold and excitement in knowing this is just the beginning. The engine we've built is ready and now we're starting to see what it can really do. 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 third consecutive quarter. We achieved record profit generation again in fiscal year 2025, driven by contribution from recent acquisitions, higher sales into fast growth end markets, and strong operational execution. Both adjusted gross margin and adjusted operating margin expanded by more than 200 basis points, while adjusted earnings per share increased approximately 6% to a record $7.98. Through debt pay down and profit generation, our net leverage ratio was reduced to 2.6 at the end of the fiscal year. In fiscal year 2025, sales into fast growth end markets were approximately $184 million, exceeding 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 and defense applications. In fiscal year 2026, we expect sales into fast growth markets to grow by approximately 45% and exceed $265 million. To support our future growth, we continue to invest in new product development and new applications across markets with growth potential. We launched 16 new products in fiscal year 2025 and plan to launch more than 15 in fiscal year 2026, which are expected to contribute over 300 basis points of incremental growth. In fiscal year 2026, we expect to grow revenue by over $100 million with continued adjusted operating margin expansion. Growth will be primarily driven by mid to high single digit organic growth in electronics, double digit organic growth in engineering technologies, and the contribution from recent acquisitions. We are well positioned in this fluid economic environment due to regional presence, strong customer relationships, and disciplined approach to pricing and productivity action. We remain on track to achieve our fiscal 2028 long-term targets of sales of greater than $1.15 billion and adjusted operating margin of greater than 23%. We are targeting ROIC of 12.5%, which has been adjusted for recent acquisition. We will now open the line for questions.

Operator | Conference Operator:

Thank you, ladies and gentlemen. We will now begin the question and answer session. Should you have a question, please press star followed by the one on your touchtone phone. You will hear a prompt that your hand has been raised. Should you wish to decline from the polling process, please press star followed by the two. If you are using a speakerphone, please lift the handset before pressing any keys. Your first question comes from Michael with DA Davidson. Your line is now open.

Michael | Analyst, DA Davidson:

Yes. Hello. Good morning. Thank you for taking my question.

David Dunbar | Chairman, President, and Chief Executive Officer:

Morning.

Michael | Analyst, DA Davidson:

Morning. So I want to maybe first talk about the $100 million or more revenue increase in fiscal 26. As I try to break down some of the numbers here, looking at Amerenamec Starlight, that's $1.5 billion plus of just annualizing those businesses. And they are growing organically, so it could be even higher than that. You've got the new products, which as you said, three points, probably $20 million, $30 million. You have the other fast growth products as well. So I'm just kind of curious that $100 million of revenue is here. I don't want to say it's in the bag, but maybe could there be any sources of upside or is that number a very conservative estimate just based on those areas? Then there's also the organic growth and the other businesses. Just some thoughts as to if there any room for upsides of that $100 million and any concerns you might have on areas that might be more of a challenge in 2026 as well.

David Dunbar | Chairman, President, and Chief Executive Officer:

Yeah, Mike, your math is good there. The way we look at it is the full year impact of those acquisitions will bring something over $60 million. The new products just over $20 million. The underlying growth in the fast growth markets, and remember the fast growth is largely driven by defense, commercialization of space, grid technologies, electrical equipment, OEMs. These are customer commitments that will drive this year. There's about another $38 million there. So if you just stop right there, we've made no assumptions about an overall market growth that would affect the core business and the other businesses. So we've said over $100 million, and if you just add those things up, you could comfortably say $100 to $130 or even more for 2026.

Michael | Analyst, DA Davidson:

Got it. Thanks. I also want to turn to electronics and your EV business as well. EV business has kind of been in the headlines. EV broadly has been just some OEMs showing sales decline in recent quarters. You've got US policies pointing towards a tougher environment for the EV market as well. Can you comment on how your EV business is doing, whether that's going to still you think be a positive for electronics in 2026?

David Dunbar | Chairman, President, and Chief Executive Officer:

Yeah, you know, we still count EVs in our fast growth markets because I think over time the prospects are good, A, because there will be a shift to EV electrical vehicles and our content per vehicle is higher. Although with the growth in defense and grid, it's a smaller piece of our fast growth markets. In 25, our EV sales did dip a little bit from 25, from 24. I guess, yeah, just slightly dip from 24. As you recall, our position in EVs is largely with the European brands, with their higher end models, and with new model introductions, we anticipate a nice growth in EVs in 2026.

Michael | Analyst, DA Davidson:

Got it. Maybe one last one for me, turning to the Amaran business in Croatia. You said it'll be open in the next four months. I just want to get a sense as to the ramp up run rate there and how fully booked that facility already is and whether that will be a kind of a, in the same sense, in four quarters from now, you'll have some great growth in fiscal 27 as that also ramps up. I'm just kind of curious as to how the cadence might turn out. Yeah,

David Dunbar | Chairman, President, and Chief Executive Officer:

we're starting, we have customer commitments through this year and we'll ship a single digit millions probably in fiscal 26. But as we look over three years, we think that'll grow, that can go to 30 million plus. There's vast opportunity in Europe. So we want to get in the market, get the customers there to visit. They've got to go through their certification and approval process. Once they do that, we anticipate there's some more upside. We may need another site. I don't know. But as a starting point, this will get us, you know, 10, 20, 30 million dollars in three years.

Michael | Analyst, DA Davidson:

Okay. Thanks for the color. I appreciate it. I'll pass it along.

Operator | Conference Operator:

Thank you, Mike. Your next question comes from Ross Sparren Black with William Blair. Your line is now open.

Ross Sparren Black | Analyst, William Blair:

Hey, good morning, gentlemen. Good

Adimir Sarcic | Chief Financial Officer and Treasurer:

morning.

Ross Sparren Black | Analyst, William Blair:

Hey, guys. Just starting off with electronics. Just get a sense of where the kind of run rate demand is. Looks like there is some good core organic order growth in the quarter. Maybe just speak to, you know, what's driving that and kind of assumptions going into, you know, FY26 here.

David Dunbar | Chairman, President, and Chief Executive Officer:

Yeah, just a couple of things. We mentioned in the script that orders year on year are up 16 percent. In the core business, that's about 12 million dollars. Of that 12, about 10 is from OEMs. So this is OEMs as they've designed our products into their next generation products. So that that will convert over the next three, six, nine months. The other two million goes into distribution. That's a quicker conversion. A lot of it comes from Asia. We're seeing some pick up in North America. Europe's still relatively stable, I would say. But, you know, across your general industry in terms of end market outlook.

Ross Sparren Black | Analyst, William Blair:

OK, is the expectation this is kind of a new run rate for that segment? I mean, it's been a couple of down years. So like there should be some restocking. Yeah, we think this is. Yes.

David Dunbar | Chairman, President, and Chief Executive Officer:

We do. Absolutely. And Adam, you mentioned that our new application funnel is growing. It's at a record high in large part. That's because the management team now in this last year has put in place more disciplined commercial excellence processes to track opportunities to fill the funnel. So we do think this is sustainable and this momentum will build.

Ross Sparren Black | Analyst, William Blair:

OK, and then we put a finer point on the AMRIN with the capacity unlock. I mean, strong growth, but there should be maybe a sequential step up at some point as Europe comes online. Yep. Any loose targets you get there out there? Kind of a base case or, you know, full case on how that could play out. In

David Dunbar | Chairman, President, and Chief Executive Officer:

some ways, it's embedded in that in the fast growing number. But if you think about capacity, so we've said the Croatia site, I think they're just answering to Mike said in three years, it could be 30 million. A couple of years after that, maybe 60 plus in India and Texas, as you know, we've added second shifts with lean. We're also freeing up some capacity so they can so that continues to support their 20 plus percent growth that they were experiencing before we acquired them. And they continue now in North America. We are also looking at an aggressive expansion in our in our presence in Houston. And depending on where trade and tariffs go to, we'll also look at a Mexico site potentially, depending on where trade and tariffs come in at the request of our North American electrical OEMs. And that would be a step up in capacity as well. So I can't put numbers on it. But if you if you continue to expect a 15, 20 percent growth in Amman, Narayan, I think that's reasonable. And we will add the capacity to support that.

Ross Sparren Black | Analyst, William Blair:

Yeah, I guess my point is,

spk00:

you know,

Ross Sparren Black | Analyst, William Blair:

almost two thirds of businesses in North America and you guys have done a lot of work there. I mean, 15 percent seems like that would be very low bar. Yeah. Are you are you getting good pull through and traction on the capacity that's been added in North America thus far?

David Dunbar | Chairman, President, and Chief Executive Officer:

Yeah, yeah, absolutely. We were we are every capacity we were selling and we have we have long term customer commitments to drive future capacity ads. I'm not sure if I'm answering your question.

Ross Sparren Black | Analyst, William Blair:

We think offline. I'll jump back in.

Operator | Conference Operator:

Your next question comes from Chris Moore with CJF Securities. Your line is now open.

Chris Moore | Analyst, CJF Securities:

Hey, good morning, guys. Congrats on a nice quarter and encouraging organic growth discussion. So maybe start with with engraving. Just is the restructuring done there?

David Dunbar | Chairman, President, and Chief Executive Officer:

You know, the engraving business, we work on tools and we need to be close to tool shops because tools are expensive and that shipped a lot. The evolution of toolmakers around the world is kind of shifting. They're in different places now than they were before. And with certain with third, what's the number 30 some sites now around the world, it's likely that there will be this ongoing process to make sure our footprint matches toolmakers. So I think in the coming years, there probably will be some continued restructuring more to align with with where that end market is. With engraving in general, the way we think about it is this last year, we think demand kind of bottomed out. It was a very tough year for for the auto OEMs and their new platform releases. Many of them were delayed, kind of waiting for clarity of industrial policy, especially in America. We think that our outlook now shows some some growth from that. But more importantly, the business to also scramble to find some new opportunities. And Adam here mentioned these kind of differentiated parts that we're making based on our kind of proprietary processes with soft trim. So we think there's a growth opportunity in engraving. So the markets start to stabilize, come up and we've got some some growth on top of that.

Adimir Sarcic | Chief Financial Officer and Treasurer:

Yeah, and Chris, if I can just add, you know, there was a lot of heavy lifting and engraving due to respect to eliminating some of the some of the unprofitable sites, so to speak. And most of the heavy lifting is done. So to David's point, there's a little bit of work left to do, but majority of the restructuring actions for engraving have been completed.

Chris Moore | Analyst, CJF Securities:

Terrific. Have the competitive dynamics changed much in that business over the last few years?

David Dunbar | Chairman, President, and Chief Executive Officer:

No, it's been more the demand. In fact, the competition, there are fewer competitors now than there were five years ago. Right. Because our competitors are mostly, they're mostly smaller regional competitors. And so depending on what region they're in, it's been tougher sailing for them.

Chris Moore | Analyst, CJF Securities:

Got it. You mentioned and we talked about in the past, the NIH funding on the scientific side. Just any any thoughts there? You know how significant that is?

Adimir Sarcic | Chief Financial Officer and Treasurer:

Yeah, Chris, about third of our sales incentives go through a channel that it's either, you know, it's affected by NIH funding. And obviously that has impacted our order rates over the last over the last couple of quarters. But in the outlook that we are giving, we are not assuming any pickup or any significant changes in the in the demand from those type of that type of end market or that type of a channel. So, you know, we are more focused around, you know, new products, you know, exploring some additional selling opportunities. And if the NIH funding comes back, there will be an upside to the guy that we gave for 26.

Chris Moore | Analyst, CJF Securities:

Great. Maybe just my last one. Bigger picture. I mean, if rates come down 50 to 100 basis points, does that have much of an impact anywhere?

Adimir Sarcic | Chief Financial Officer and Treasurer:

Yeah, of course. And now that repayment. Yes, it does. So we obviously watching that watching that closely. But look, you know, our objective is to continue paying down our debt. You know, net leverage is now at about 2.6 and we take with the operating cash flow that we generate in this company that we can get that leverage down to about two, assuming current portfolio businesses, you know, by the end of this fiscal year. So even with this type of interest rates.

Chris Moore | Analyst, CJF Securities:

Got it. And I was thinking more from a product standpoint, but perfect. I will leave it there. Thanks, guys.

Operator | Conference Operator:

Your next question comes from Matt Coranda with Roth Capital. Your line is now open.

Matt Coranda | Analyst, Roth Capital:

Hey, guys. Good morning. Just on ETG was curious with mixed starlight. Is that a creative operating margins in the segment? And then are you guys factoring in revenue synergies in the organic growth commentary for this year for ETG?

Adimir Sarcic | Chief Financial Officer and Treasurer:

It is it is similar margins as our core business with an ETG as far as mixed starlight is concerned. And yes, there are some revenue synergies.

David Dunbar | Chairman, President, and Chief Executive Officer:

Now, we've actually discovered some pretty exciting energy opportunities that our capabilities plus their capabilities allow us to design new parts with an efficiency that neither of us could do in the past. That that position as well for future opportunities. Now, those take a while to convert, but longer term, we think that opens up a little higher growth rate for both businesses.

Matt Coranda | Analyst, Roth Capital:

OK,

David Dunbar | Chairman, President, and Chief Executive Officer:

that's

Matt Coranda | Analyst, Roth Capital:

helpful. And then maybe just I know it's dynamic, but just given the tariff announcements yesterday, Is there any way to just help us understand if any of those actions would be impactful to the business? I'd assume maybe the India announcement might be meaningful, but and then with regard to copper, any exposure on some of the new announcements there?

David Dunbar | Chairman, President, and Chief Executive Officer:

Yeah, so let me just a broad statement. We went to Adam and I were talking about that this morning, but we have learned to love uncertainty in this company. If you go back five years, the most dramatic inflation we ever saw with rhodium inflation and we put in place practices to handle those disruptions that come from those unexpected rapid increases in cost with price with pricing practices. We redesigned a product or product line. And through that whole period, we only delivered higher margins. The inflation, the post covid inflation disrupt every part of our business kind of drove that same discipline through all the rest of our businesses. Now, if you look back six months, the last couple of quarters, we've lived in an uncertain trade and tariff environment. And look at the margins we just posted. Our businesses have done a great job identifying how best to deal with that in the short term. Several of our businesses are looking at their sourcing strategies, making sure that any exposure we have is being dealt dealt with with identifying, bringing on some new lines. So from a from a cultural standpoint, we think a highly uncertain environment kind of favors us because we demonstrated we're nimble and agile. The reason announcements may all turn it over to Adam here to look at the actual numbers and what the potential impact is.

Adimir Sarcic | Chief Financial Officer and Treasurer:

Yeah, so Matt, you know, I, you know, about four percent of our cogs comes from India. It's mostly within our electronic segment. You know, and again, to David's point between pricing, productivity, alternative sourcing, we feel pretty good. We got we got it covered.

Matt Coranda | Analyst, Roth Capital:

OK, all right. Super clear. Maybe just last one. The longer term target on sales, if we use just sort of an implied kegger off of sort of the maybe the low end of your guidance for fiscal 26, it still would imply sort of a low double digit sales kegger to get to the 28 target. Is that sort of how you think about it? And maybe just how much of that comes organically versus through acquisition in your.

David Dunbar | Chairman, President, and Chief Executive Officer:

Yeah, let me walk. Yeah, let me walk through kind of a high level bridge. We looked at this in a number of different ways. If you just anchor it on twenty twenty five, you're just finished seven ninety. Our new products were fifty five, fifty five million this coming year. We expect them to grow about 40 percent and we're just getting started with new products. So we anticipate about 30 percent growth annually in the new products. Fast growth market was one hundred eighty five last year, we're going to see sixty five and we're anticipating about 20 percent growth there in twenty eight. So those numbers that puts new products at 130 fast growth at three eighty. If you anticipate that the core, the remaining core business, which is about five fifty, will grow about three percent a year. That adds another 50 or so million that puts us at one just shy of the one point one five. In addition to that, we think there's an opportunity for a little pick up in the scientific markets. These additional defense opportunities we mentioned provide upside and these engraving wins that we described also provide. So there's maybe 30, 40 million dollars of go get in the next three years, but we've got the opportunities to to achieve them.

Unknown Participant | Participant:

Super helpful alternative. Thanks.

Operator | Conference Operator:

Your next question comes from Gary Presto Pino with Barrington Research. Your line is now open.

Gary Presto Pino | Analyst, Barrington Research:

Hi, good morning all. Hey, just want to get an idea with new product sales. I would assume the majority of those are targeted to your fast growth markets. Is that kind of a correct assumption?

David Dunbar | Chairman, President, and Chief Executive Officer:

Yeah, there is overlap in there. So engineering technologies has is a big contributor there. They've developed new products to expand their their participation in space. And that's those new products are all in fast growth. We've got fast growth in some of our other core businesses, while some of our other businesses, scientific and federal that are just in general industry. So there is some overlap in fast growth. So I'd say about 30 percent, 30 percent of new products going to fast growth.

Gary Presto Pino | Analyst, Barrington Research:

OK, so 30 percent new products into

Unknown Participant | Participant:

fast growth. And then as we as

Gary Presto Pino | Analyst, Barrington Research:

you scale the fast growth markets and grow the sales, as you expect to, is can you give us some idea of relative to your adjusted operating margin that you generated this year? What kind of incremental margin increases do you get from growing that sales into these faster growth markets? I mean, I assume they've got to have a higher higher margin profile.

David Dunbar | Chairman, President, and Chief Executive Officer:

Yeah, they do. Just think through the businesses in there. It is higher than the average. So we mix up with every growth in fast growth markets in terms of how many basis points of gross margin. It's got to be three, four hundred basis points higher.

Adimir Sarcic | Chief Financial Officer and Treasurer:

Yeah. Yeah. I mean, I think if you look at our projections, then we say we're going to get to over 23 percent adjusted operating margin by FY 28. If you just assume and it's true that our margins when we do sales into fast growth and markets are higher, you can do back of the envelope calculation and see just on the higher volume. We're going to comfortably get there. And then obviously we're going to have pricing and productivity actions on top of that.

Gary Presto Pino | Analyst, Barrington Research:

So. OK, and then getting back to new products, what do you say you generate? You put out 16 this year.

David Dunbar | Chairman, President, and Chief Executive Officer:

In the quarter. So it was 55 in the year. Fifty five in the year. Oh, sorry. Sixty six. Sixteen new six. Yeah. Sixteen new products were released and the sales of products released in the last couple of years that are still new was fifty five.

Gary Presto Pino | Analyst, Barrington Research:

So. OK, I just want to get an idea. Was there was there anything that that really drove the boat there as far as growth or. In any of those categories that you put out,

David Dunbar | Chairman, President, and Chief Executive Officer:

put

Gary Presto Pino | Analyst, Barrington Research:

out

David Dunbar | Chairman, President, and Chief Executive Officer:

the biggest numbers in the year with engineering technology sales into commercialization of space. These are these are new products for them that expanded their share of wallet and their content on those vehicles. OK,

Gary Presto Pino | Analyst, Barrington Research:

and then just lastly, how would you the acquisition pipeline? I know you're always active there. You know, would you have the appetite to do another acquisition this year? This fiscal year, the opportunity came up.

David Dunbar | Chairman, President, and Chief Executive Officer:

You were always working the pipeline and a lot of the deals we do are the result of years of relationship building. So we're out there doing that. And. You know, with with with the projection of our deleverage. So now at the end of this quarter with two point six, we anticipate just with normal course with operating cash flows and things by the end of this year will be a two. So we're rapidly developing the powder to be able to do something.

Unknown Participant | Participant:

OK, thank you.

Operator | Conference Operator:

Ladies and gentlemen, as a reminder, should you have a question, please press star one. Your next question comes from Ross Farron Black with William Blair. Your line is now open.

Unknown Participant | Participant:

Hey, Ross. Why is it open? He's on mute. There we go. Can you hear me?

Ross Sparren Black | Analyst, William Blair:

Yeah, we have. On that, on the scientific margins, you know, decent squids and uptake with some tougher shipping rates. Can you just give us a sense of what played out there in the quarter and kind of expectations looking forward to 2026 as we think about R&D as well?

Adimir Sarcic | Chief Financial Officer and Treasurer:

Yeah. So, you know, from a scientific standpoint, you're right. You know, the shipping, the shipping rates, you know, you know, are generally generally OK. You know, the acquisition we have in the scientific space is actually at a lower margin than our core business. So that's impacting our segment margin, if you will, a little bit. You know, but we do expect as we get into the fiscal 26 with the combination of pricing, productivity

actions, we're going to be able to offset and alternative sourcing, by the way, in this segment, we're going to be able to offset the tariff pressure we got coming in because scientific is the business that sources some of its base products out of China. So, you know, we do expect scientific margins to hold.

Ross Sparren Black | Analyst, William Blair:

OK, and then just one more point on free cash. Kind of a tough year. Can you maybe just speak to your ability to maybe get some more turns on the working capital and get that conversion back above 100 percent?

Adimir Sarcic | Chief Financial Officer and Treasurer:

Yeah. Yeah, Ross. Great. Great question. Yeah. And, you know, if you look at our cash flow creation in the last fiscal year, you know, we were we were significantly impacted to by one time transaction related costs. You know, when you do three deals in a year and, you know, you have to do the payments to the bankers and the lawyers, et cetera, that adds up to be a pretty sizable number. And on top of that, you know, the acquisitions that we did, you know, have credit terms with the customers that are much longer than the credit terms that, you know, we we generally had in our core businesses. So our DSO has actually increased versus what we had prior to the acquisitions. So we are working on and, you know, frankly, some of the structure around collections is, you know, in some of those businesses, not as robust as we had the standard. So we are working to putting our process into place around the receivables and collections. And we think we're going to make a very good dent and progress in collections and receivables and working capital this fiscal year. So we expect conversion of cash to be much, much better this year than last year.

Ross Sparren Black | Analyst, William Blair:

All right. So can we hold you to a mean reversion back to 60 on the DSOs?

Adimir Sarcic | Chief Financial Officer and Treasurer:

You can. You can. That's a nice going to put it on the spot. Yeah, you can hold us that we're going to, you know, we're going to drive back to that low 60 number right now. We are about 69, 70 in terms of the DSO. And our goal is over the over this fiscal year to drive that as close to 60 as we can.

Ross Sparren Black | Analyst, William Blair:

OK, fantastic. Good.

Unknown Participant | Participant:

That's on the spot.

Operator | Conference Operator:

I know for the questions at this time, I will now turn the call over to David Dunbar, CEO for closing remarks.

David Dunbar | Chairman, President, and Chief Executive Officer:

All right. Thank you. Before we wrap, I want to send a special thank you to Tom Hanson, who is retiring from our board after 12 years. Tom has been a valuable board member and made many contributions to the company. I also want to welcome Andy Nemeth, the CEO of Patrick Industries, who is our newest board member. We look forward to working together. Finally, and as always, I want to thank everybody for joining us for the call. We enjoy reporting on our progress at StandX. Thank you also to our employees and shareholders for your continued support and contributions. I'm excited for the company's potential in fiscal year 2026 and look forward to speaking with you again in our fiscal first quarter 2026 call.

Operator | Conference Operator:

Ladies and gentlemen, this concludes your conference call for today. We thank you for participating and ask that you please disconnect your lines.