ALLIENT INC.

THIRD QUARTER FISCAL YEAR 2024
EARNINGS RESULTS CONFERENCE CALL TRANSCRIPT

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Presentation

Operator

Good day, and welcome to the Allient Third Quarter Fiscal Year 2024 Financial Results Conference Call. All participants will be in listen-only mode. After today's presentation, there will be an opportunity to ask questions. Please note that this event is being recorded.

I would now like to turn the conference over to Craig Mychajluk. Thank you. Please go ahead

Craig Mychajluk
Investor Relations

Thank you. Good morning, everyone. We certainly appreciate your time today as well as your interest in Allient. Joining me on the call are Dick Warzala, our Chairman, President and CEO, and Jim Michaud, our Chief Financial Officer. Dick and Jim are going to review our third quarter 2024 results and provide an update on the company's strategic progress and outlook, after which we'll open the line for Q&A.

Everyone listening to this call should have a copy of the financial results that were released yesterday after the market closed. If not, you can find it on our website at allient.com along with the slides that accompany today's discussion.

If you're reviewing those slides, please turn to slide 2 for the safe harbor statement. As you are aware, we may make forward-looking statements on this call during the formal discussion as well as during the Q&A. These statements apply to future events that are subject to risks and uncertainties as well as other factors that could cause actual results to differ materially from what is stated on today's call. These risks and uncertainties and other factors are discussed in the earnings release as well as with other documents filed by the company with the Securities and Exchange Commission. You can find these documents on our website or at sec.gov.

I want to point out as well that during today's call, we will discuss some non-GAAP measures, which we believe will be useful in evaluating our performance. You should not consider the presentation of this additional information in isolation or as a substitute for results prepared in accordance with GAAP. We have provided reconciliations of non-GAAP to comparable GAAP measures in the tables accompanying the earnings release as well as the slides.

With that, please turn to slide 3 and I'll turn it over to Dick to begin. Dick?

Richard Warzala
Chairman, President & CEO, Allient, Inc.

Thank you, Craig, and welcome, everyone. As expected, our year-over-year performance reflects a softer top line with revenue coming in for the quarter at $125 million. This decline has been broadly evident across most of our served markets with industrial automation and our vehicle markets being impacted the most.

This ongoing inventory rebalancing and customer utilization of excess inventory in the channel is reflected in our year-over-year revenue decline. While market rebalancing is not something we can control, our internal focus on reducing cost is within our control and we are unwavering in our efforts to realign our organization to be closer to our customers and to ensure we emerge in a much stronger position in the future.

As reflected in our current quarter results, we have made significant strides in driving sequential margin improvements and with a strong and continued commitment we are confident we will continue to improve the cost side of our business in the months and quarters ahead.

Our gross margin improved by 150 basis points sequentially to 31.4%. Operating margin rose by 170 basis points to 5.3%, and adjusted EBITDA margin climbed by 130 basis points to 11.5%. This sequential improvement highlights the effectiveness of our operational efficiency strategies.

We also continued to generate solid cash flow, adding $12 million from operations during the quarter and ended the period with more than $37 million in cash. Additionally, we reduced debt by $5.5 million in the third quarter and more recently amended our credit agreement, as Jim will highlight later in the presentation.

Our Simplify to Accelerate NOW actions are driving measurable results, as noted on slide 4. We are advancing our goal to streamline operations and generate sustainable cost reductions. To-date, we expect this initiative to yield $10 million in annualized savings with the first $5 million implemented late in the second quarter and the remaining $5 million currently in progress.

This has contributed to our recent margin improvements and is supporting our profitability. Jim will further discuss the restructuring charges related to these actions. The program has focused on refining our organizational structure and as I mentioned, to be closer to our customers, reducing redundancies and optimizing production processes, which has contributed to early operational efficiencies.

Additionally, by simplifying our operations we are enhancing agility. This means faster time to market, improved customer service and stronger competitive positioning across our key industries.

Looking forward, we are actively identifying further cost rationalization opportunities to ensure continued alignment with both market conditions and customer needs as we head into 2025. These ongoing efforts will position Allient to emerge from today's macroeconomic environment with stronger earnings power, greater operational flexibility and the capacity to capitalize on future growth.

With that, let me turn it over to Jim for a more in-depth review of the financials.

James Michaud
CFO & Senior Vice President, Allient, Inc.

Thank you, Dick. And good morning, everyone. Starting on slide 5, second quarter revenue of $125 million was down year-over-year by 14%. The impact of foreign currency exchange rate fluctuations was nominally favorable by $600,000.

In the vehicle markets, we saw a 38% decline, largely due to a sharper-than-expected downturn in powersports demand and our efforts to refine our focus on margin enhancing applications. Most other vehicle sub-verticals held relatively steady year-over-year. Industrial markets decreased by 9% despite notable gains in power quality sales to the HVAC and data center sectors along with additional contributions from our recent acquisition. These gains were offset by software demand in industrial automation where our largest customer undertook significant inventory destocking.

Our medical markets also softened. Outside of surgical instrument sales, which were a bright spot, we experienced persistent weakness in medical mobility products, a trend that has continued over the past few years and was further impacted by the bankruptcy of a major customer in this space.

Lastly, in aerospace and defense, sales declined due to program timing. On a positive note, we are actively pursuing several promising opportunities on the defense side which we anticipate will contribute to growth in the near future.

Slide 6 illustrates the shift in our revenue mix across markets over the trailing 12 months with key catalysts driving each change. The industrial sector remained our largest market, contributing 47% of the trailing 12-month sales, marking a 400-basis-point expansion. Over the past year, industrial automation initially benefited from supply chain improvements but has recently slowed as inventory levels reset across the industry.

In the vehicle market, trailing 12-month revenue declined as higher demand in commercial automotive was offset by lower demand in powersports and construction. Both medical and aerospace and defense also saw decreases largely due to the same factors impacting our quarterly performance.

Finally, our distribution channel, a smaller component, represented 4% of total sales over the trailing 12-month period.

As shown on slide 7, gross profit was $39.3 million with a gross margin of 31.4%. Our year-over-year margin chain reflects both top-line softness and an unfavorable mix, including the replacement of higher margin industrial automation sales with lower margin contributions from our recent acquisition.

Looking ahead, we expect our simplification process along with the integration of our recent acquisition of SNC and its added capacity to drive margin improvement over time. The 150-basis-point sequential increase in margin was largely due to a favorable mix despite lower overall sales.

On slide 8, we reported operating income of $6.6 million with an operating margin of 5.3%. In the third quarter, we incurred approximately $0.5 million in restructuring charges, bringing the year-to-date total to $1.9 million. These charges are primarily cash based and are largely tied to severance expenses.

We expect the total cost of reduction efforts to-date to range between $1.9 million and $2.4 million. These actions underscore our commitment to building a stronger, more efficient foundation for sustainable growth.

Operating costs and expenses accounted for 26.1% of revenue, an increase of 160 basis points, with 40 basis points directly attributable to the restructuring. Despite current market challenges, we remain focused on improving profitability.

Sequentially, operating costs and expenses, as a percentage of revenue, improved by 20 basis points following our cost reduction measures at the end of the second quarter, though partially offset by the recent restructuring expenses.

Slide 9 shows the bottom-line results. In the quarter, net income reached $2.1 million, translating to earnings per diluted share of $0.13. Adjusted net income was $5.1 million, or $0.31 per diluted share, which excludes noncash amortization of intangible assets as well as business development, restructuring and realignment costs.

Our effective tax rate for the quarter was 22.6% and we continue to expect our full 2024 tax rate to range from 21% to 23%.

Internally, we use adjusted EBITDA to measure our progress and operational performance. Adjusted EBITDA was $14.4 million, or 11.5% of revenue, and we are targeting further EBITDA margin improvement through ongoing simplification efforts. Sequentially, adjusted EBITDA increased 4% or $0.5 million and rose 130-basis-point as a percentage of revenue.

Let's now focus on cash generation and our balance sheet with slides 10 and 11. Year-to-date cash from operations reached $29.5 million, a 9% improvement over the prior year, driving working capital efficiencies and noncash adjustments that helped offset lower net income.

Capital expenditures for the nine months totaled $6.9 million. While we continue to invest in growth opportunities, we have refined our capital allocation priorities to focus on high potential high value projects. Accordingly, our 2024 capital expenditure forecast has been revised down to a range of $8 million to $11 million from the previous $11 million to $13 million.

Inventory turns declined to 2.7 since year end and day sales outstanding increased to 61 days. Managing inventory remains a top priority, though we continue to navigate the effects of extended lead times from orders placed up to a year ago.

Due to prior long lead times, we are still receiving inventory for products ordered before the recent softening in sales, which has led to elevated stock levels. We are actively working through this inventory to align with current demand conditions.

Total debt at approximately $231 million was up from year-end 2023 due to the SNC acquisition. Though we paid down $5.5 million in the quarter, net debt at about $194 million represents a net debt-to-capitalization ratio of 41.6%.

As Dick mentioned, we amended our 2024 credit facilities, adding flexibility in our financial planning through the fiscal 2025. The amendments included less restrictive covenants and expanded EBITDA add backs. With these updates, our leverage ratio stood at 3.32.

Additionally, we entered into a new interest rate swap hedging $50 million of debt over a three-year term, helping protect against potential interest rate volatility. These adjustments combined with the new interest rate swap reinforce our ability to execute our Simplify to Accelerate NOW strategy with financial discipline and effective interest rate management.

Our primary financial goals remain focused on strengthening cash conversion and reducing debt.

With that, if you advance to slide 12, I will now turn the call back over to Dick.

Richard Warzala
Chairman, President & CEO, Allient, Inc.

Thank you, Jim. Our third quarter order rates reflected some anticipated challenges with orders down sequentially as customers adjust inventory levels and shift the timelines of certain active projects. We believe the shift was influenced by ongoing higher interest rates, political uncertainties and the election cycle which are impacting customer purchasing decisions.

Additionally, the $31 million defense order received in Q3 last year will cover approximately 18 months of demand and is reflected in the year-over-year comparison. Despite these factors, our diversified portfolio remains resilient

with solutions aligned with key macro trends like artificial intelligence and data center growth, electrification, energy conservation and automation.

Importantly, while some orders have been delayed, cancellations have been minimal and are being managed appropriately. We do expect a moderated pace of orders to persist in most markets into 2025 with some exceptions reflecting the very positive impacts in the growth-oriented macro trends, most notably the data center expansion as we previously mentioned.

Our backlog has declined as a result of the recent order softness and improved supply chain conditions, which over the last year has enabled a reduction in lead times for many of our supplied products. In the meantime, we are actively implementing cost savings initiatives and remain confident in our strategy and long-term potential.

Our outlook is outlined on slide 13. Looking ahead, we are continuing to drive cost savings through our Simplify to Accelerate NOW program with $10 million of annualized savings in process to-date, and we are identifying further opportunities as we move into 2025.

For the fourth quarter, we anticipate a revenue run rate slightly below our Q3 level given the impact from typical year-end seasonality and continued inventory rebalancing at some customers.

While we expect softer demand to persist through the first half of 2025 in most markets, our focus on operational efficiency and cost management positions us to navigate these headwinds effectively. We are also prioritizing cash generation and debt reduction, aiming to reinforce our financial flexibility.

As we approach mid-2025, we expect uncertainties to decrease, supported by normalized inventories, potential stabilization in interest rates and a more consistent order flow. These improvements should allow us to return to stronger revenue levels and improved operating margins as we look to capitalize on the future growth opportunities available to our company.

With that operator, let's open the line for questions.

Question and Answer

Operator

Thank you. We will now begin the question-and-answer session. [Operator Instructions] Our first question comes from Greg Palm from Craig-Hallum Capital Group. Please go ahead.

Gregory William Palm

If you look back on the comments then and where we are now, is there anything that surprised you one way or the other or is everything kind of playing out as expected?

Richard S. Warzala

I think it's playing out as expected Greg. It's the numbers and internally the operational improvements that we've identified, and the actions taken by our team that are accelerating performance and they're beginning to generate some excitement internally. So, I think they're playing out as we expected.

Gregory William Palm

Are you able to quantify the amount of the impact from inventory reductions? What I'm getting at is, all else equal, no change in sort of the macro backdrop. What's a normalized level of revenue look like when you're through the destocking?

Richard S. Warzala

If we just take one of our major customers -- I think Jim mentioned our largest customer, which has had the greatest impact on us because of inventory restocking, channel rationalization and so forth. From our run rates that we're seeing right now in third quarter and what we expect here through the fourth quarter, and early into next year, there's an opportunity for us to see a couple million dollar a month improvement in run rates.

Gregory William Palm

And that's one specific customer?

Richard S. Warzala

That's one specific customer, but it's been more than that on an annualized basis. I do think that we're going to start to see some improvement and blending some optimism into that, although we do feel that there is a definite low level decrease that will continue for the next couple quarters.

Gregory William Palm

Understood.

Richard S. Warzala

To add to that, we see some momentum coming. I want to make sure that we get it out there in front of everybody because we're quite excited about it. The artificial intelligence and data center expansion we play a role in will lead to some pretty significant opportunities rolling forward.

So it's been pretty solid for us. That's in our power quality side of our business here. We also see some increased demands coming in the future, which is one of the real bright spots we have going forward. So artificial intelligence and data center construction is certainly a big upside for us.

Gregory William Palm

Since you brought it up, what are your sales into that end market specifically? And, can you talk about what your growth rates have been or what your growth rates may be? What kind of visibility levels? Obviously, there's a lot of excitement in that area.

Richard S. Warzala

Well, we haven't broken that out in the past, so I guess I would hesitate to do that right now, but I can tell you that it has an impact on us. We're talking about exponential growth, and it's in the millions or on a percentage basis in the high single-digits or low double-digits.

Gregory William Palm

Got it. Okay. If I could just shift gears a little bit and talk about the cost cutting program or just to simplify, to accelerate now, in terms of what kind of benefits you're seeing, not to the P&L, but internally with the excitement. And then, in terms of the P&L impact specifically. So there's another $5 million that flows through Q4. It sounds like maybe there's even more still yet to come. Is that the right way to think about it?

Richard S. Warzala

I love the question because we tend to always look at it from a cost standpoint, cost realization or the reduction in cost realization that we'll see in our numbers. I would say to you that even more exciting is the restructuring that we're doing, which is aligning us much more closely with our customers. Internally, we're making organization changes with a greater focus on vertical markets that we feel have significant opportunities for growth.

So, yes, the cost reductions are in place. There's more to come and we're continuously working on those and we do have great excitement about those. But even more so, the potential to get us realigned and refocused and hold people accountable, respond to our customers faster, more closely aligned to our markets and customers is the real opportunity here. And that's top line growth that will generate.

It's focused on top-line growth, particularly on better margin opportunities that will generate significant growth in the future. That's the real excitement to come.

Gregory William Palm

Are you seeing any tangible signs of that yet or is it mostly something that's still yet to come in terms of the top line?

Richard S. Warzala

I'll tell you that tangible opportunities are what we can measure right now to determine if we're engaging in high-value activities that could drive growth. And the answer is yes.

Some of these opportunities can be converted in the short term, but the majority are still focused on the longer term in our target markets. So, yes, I believe we'll see some uptick, and we have some opportunities, but primarily as we get integrated into new programs and leverage the full technology and product base of the company. For example, I think defense is a good case in point.

If you go back to a year ago when we launched Allient, we discussed the pillars of technology—motion, controls, and power—and we emphasized that the tip of the house represents our vertical market access. Just recently, at AUSA, we introduced our company as Allient Defense. This really resonated with our customers during several meetings, both inside and outside of our booth, and it clearly demonstrated the value we can bring. There were a lot of "aha" moments because we hold a unique position in offering integrated, compact, and lightweight solutions to the marketplace.

Electrification, integration of solutions, and lightweighting technologies attracted considerable attention and I believe opened up significant opportunities. While some of these will generate lower levels of revenue in the short term, the longer-term potential is very significant. That's just one example.

This is now happening across all operations to bring us closer to our customers and markets. I'll tell you that we are far more selective now than we were in the past about which opportunities we pursue. We've learned a lot, and we ensure that we're targeting the right markets and customers.

The rationalization taking place right now will, I believe, be healthy and beneficial for us in the future. That's where the excitement lies. And that's an example of it

Gregory William Palm

Yeah. Okay. That's really helpful. I'm going to leave it there. Congrats on the improved results here, and best of luck going forward.

Richard S. Warzala

Thank you, Greg.

Operator

Thank you. [Operator Instructions] The next question comes from Ted Jackson from Northland Securities. Please go ahead.

Ted Jackson

Thank you. Good morning.

Richard S. Warzala

Morning, Ted.

Ted Jackson

So, I got a few questions. I'm going to start on the industrial side, Dick. And, I don't know if anyone else did, but I mean, if you listen to this ted talk about Rockwell. Rockwell reported this morning. And, basically, with regards to the industrial automation and kind of the things that are, I would say, relevant to Allient. They don't look for a very good quarter in the next quarter, but then they're expecting that business to grow sequentially through the remainder of their fiscal '25.

And so, taking that as a backdrop, when you look at your business and you're getting through this, normalization of you would in terms of inventory within that channel, not saying Rockwell, but just the industrial channel. Is Rockwell a good kind of bogey to think about with the backdrop of that portion of your industrial business, that perhaps the next quarter will again be lackluster, but then from there we'll start to see a build off of that?

Richard S. Warzala

Yeah. So, I think it's very clear to everyone that they're our largest customer. So, in the conversation.

Ted Jackson

Trying to be polite.

Richard S. Warzala

Yes, I know you are, and I appreciate it. But I really appreciate you bringing it up again, because certainly, when you see the impact after Rockwell holds their conference calls and discusses their projections for the future, it directly affects us. And it’s not just one of our operations; it’s multiple products and multiple operations. As they grow and expand, and as their business volume increases, we benefit and grow alongside them.

Ted Jackson

And, over the longer term, you would go along with it. We're going to just talk hypothetically. So, we get through the next quarter and then Rockwell starts showing growth within many of the verticals that apply to you. Would you go hand-in-hand with that? Are you a leading indicator for their growth? Would you trail it? Do you understand what I'm saying? How would I think about it in terms of a timing for them relative to Allient?

Richard S. Warzala

Yeah, well, there are two things. First, Rockwell's business is focused on automation, and they're working on major automation projects. They source products from many different suppliers, in addition to their own product base, and they recognize revenue when those installations are completed. As long as they are recognizing revenue, we'll be pulled along with that process.

However, you need to be cautious. Rockwell reports its business in three segments, and the one that will impact us is the hardware side, particularly the equipment segment. As that grows, we will see growth alongside it.

So, it's the installation of new automation projects that drives this. As those projects are implemented, that's when we'll see the impact on us. But the timing of that is important—Rockwell gets an order, plans for installation, and acquires or builds the products needed for the project. The products are required for the installation before they can recognize revenue, which is the key point I would highlight.

Ted Jackson

Okay, that's helpful.

Richard S. Warzala

I'd also caution you, though, that we don't want to get overexcited, because the inventory adjustments we've seen in the channel, with significant inventory buildup, are worth noting. Hopefully, that situation is beginning to settle down, and we're starting to see a return to normalcy. This will allow us to move towards a more steady-state demand, rather than the sharp fluctuations we've experienced, with the hockey stick demand and the subsequent steep drop-offs.

What we're looking for is steady, ongoing demand that we can plan for and work towards. The numbers I provided earlier, in response to Greg's question, reflect this return to a steady, normal state, not the erratic demand we saw last year.

Ted Jackson

Well, it sounds like from their call that they're expecting that to start in second, third quarter of next year, and calendar year, just so you know. My next question goes in...

Richard S. Warzala

Can I Clarify this note? Second, third quarter of their fiscal year, because yes, okay. Because their fiscal year's ended.

Ted Jackson

No, I'm saying calendar '25. But I want to move over to the vehicle market. So, the other major customer that you have is it within that market and it's in powersports. I mean, I'm not going to get into the names. You can talk to it if you want.

But, there is clearly that business is that market in aggregate. I mean, anyone who participates in that market, no one's expecting to see any kind of really, I mean they're hoping to see it stabilize by the time they exit '25. When I look into the vehicle market and you highlighted your three kind of three areas which were commercial vehicles, powersports and construction. I guess the question I have is, let me step back and reframe the question. Those are kind of the three areas that you brought up that look for commercial vehicles looks like if you look at the data that's being kind of put out there, it looks like it will be down maybe as much as 10% in '25 before it turns around and starts growing as we move into the next cycle, if you would, of environmental regulations. The powersports market looks like it's kind of going nowhere. The construction market, I think most people see it as a near term softness and then seeing it kind of come back around if you would in the second half of the year.

So, my question is, do you agree with all of those types of kind of macro views? What is the mix in your vehicle market between the two, even if you just rank them between the largest to the, this is the biggest segment, the second, the third?

I mean, I'll just leave it at that. That would be kind of one. Just to get a better handle in terms of where your exposures are in there to help me kind of think about when that market is going to turn around for you.

Richard S. Warzala

Sure, fair question. At this point in time, we can look at the two markets you mentioned from a vehicle standpoint—automotive and powersports—as being quite similar in their profiles. I would say that the maturation we've seen in the powersports market has led to changes in the channels to market, with very competitive pricing causing prices to come down.

Of course, we feel the impact of this as we supply to that market. However, in aggregate, while our powersports business has declined, our internal automotive business has helped offset some of that decline. The major projects we won in the past, which we've discussed before, have now kicked in, and we are shipping to those. So, there's a balance between the two.

Regarding the margin profiles, although they are getting closer, powersports is still slightly higher, but they are narrowing.

As for the other markets you mentioned, such as construction and agricultural equipment, we've seen the downturns in those sectors as well, but we do expect them to improve as we move into the future. So, I think what you stated is quite accurate.

To summarize, the sum of our business in automotive and powersports is somewhat balanced—one is up, and the other is down—offsetting each other. However, the margin profiles are still different, which continues to impact our bottom line.

Ted Jackson

Okay. And then, my last questions are really just more on accounting side. So, shifting back over to inventory, in some of the comments that you made there, how should we think about inventory in the fourth quarter, given the commentary that you put in the presentation? And then, how would we think about how it trends through for '25?

James A. Michaud

Yeah, I think what you'll see is a continued reduction. The reason I say that is we have an internal initiative focused on managing the balancing act with long lead-time items. I believe this will start to correct itself toward the end of Q4 and into early 2025. That being said, our inventory has decreased organically by $7 million since the end of last year, excluding our recent acquisition. So, I expect we will continue to see significant declines in our inventory, and it remains a main focus for us.

Ted Jackson

Okay, I thought that was kind of in the expectations, but the commentary just gave me pause. And then, my last question and I will get out of line is, on the $50 million debt swap, what's the rate that you got on that swap?

James A. Michaud

3.32.

Ted Jackson

Perfect. Okay, thanks very much and great job in terms of working through a really difficult macro environment. It was a nice quarter.

Richard S. Warzala

Thank you, Ted.

James A. Michaud

Thank you.

Operator

Thank you. The next question comes from Michael McCroskey from Principal Securities. Please go ahead.

Michael McCroskey

Good morning, gentlemen.

Richard S. Warzala

Hello, Michael. How are you?

James A. Michaud

Good morning.

Michael McCroskey

I'm doing fine. Doing fine. You all picked up quite a bit of new coverage and so usually questions get picked up. I'm usually on your quarterlies, but appreciate everything you all are doing before I ask my question. Your all's transparency through this challenge has been consistent with how you all have handled things in the past. And, it's very much appreciated.

Richard S. Warzala

Well, thank you.

Michael McCroskey

I know you don't like giving – when we start getting into future projections, that's always problematic. But in light of the covenant changes, can you give a little more flesh out to what the thought process was, those landing numbers? Can you help a little bit with where those numbers came from, and how you see that progressing through this coming 12 months where that covenant's changed?

James A. Michaud

Yeah, sure. As you can imagine, with the uncertainty following the election cycle, along with the ongoing uncertainty around when the Fed may or may not cut rates, how much they might cut, and the timing of those actions, it's been difficult to predict the return to a normalized ordering pattern from our customers. We've tried to forecast all of that, and I believe it's reflected in the agreement we made in the third quarter.

The goal was to ensure we had flexibility while investing in our reorganization activities and similar initiatives, to make sure we face no challenges as we move forward and continue to manage the headwinds. I think this is reflected in the new covenants.

Michael McCroskey

I assume that you've been working on that. What sort of timeframe did that covenant change start in, if I can ask?

James A. Michaud

It started in the Q4 and then goes to Q4 of next year.

Michael McCroskey

No, I mean, looking back as far as when you started it to negotiate that change. I'm just trying to get an idea.

James A. Michaud

Q2. At the end of Q2.

Michael McCroskey

Okay. Between now and then, especially with that 4.5 number, can you comment as to any change you've seen between now and then as to how wide that number is for you or what you're seeing is that changing? Looks like a pretty wide berth.

James A. Michaud

It is, but as I mentioned earlier, given the uncertainty I've described, it gives us confidence to do what we need to do to manage the headwinds. So, I don't believe anything has changed in that regard.

Richard S. Warzala

Yeah, I think another important point, Michael, which is also in the press release, is that in the previous agreement, if we undertook internal rationalization efforts and incurred one-time costs, we weren't given any credit for those. However, under the new agreement, we now receive credit for up to $4 million on a trailing-month basis.

This is a key aspect of the change because we knew we were facing significant cost reductions, but it was going to require upfront investment to achieve those. Getting credit for those costs is crucial because, under the old agreement, they would not have been recognized and would have counted against us.

To answer your question, I think you're looking for more clarity and granularity on the multiples. If we're going to be hitting the top of those, maybe that's what Jim is asking about.

James A. Michaud

Yeah, I think we have some cushion to ensure that, as we manage the challenges I've mentioned, we won't significantly test those limits. We have the flexibility to manage any costs we incur with our reorganization efforts and similar initiatives.

It's similar to ensuring the timing of our $10 million in savings, which we feel very confident about. So, again, I think the amendment really reflects where we expect things to land, and I believe there is flexibility built into that.

Michael McCroskey

Again, thank you all for your transparency on this.

Richard S. Warzala

Thank you. You're welcome.

Operator

Thank you. The next question comes from Robert Van Voorhis from Vanatoc Capital Management. Please go ahead. Robert, your line is unmuted. Please proceed with your question.

Robert Van Voorhis

Hey, good morning, guys. Sorry about that.

Richard S. Warzala

Morning, Robert.

Robert Van Voorhis

So, I just have a pretty probably uninteresting question and it's pretty quick, but can you just comment on the, I guess you could say, the sustainability of mix this quarter versus last quarter, because I know you called it out in the press release, it has a pretty big impact in terms of gross margin. So, I guess moving forward, how do we think about what normalized mix is? Is it more representative this quarter or is it closer to last quarter? Or just any commentary on that would be helpful.

James A. Michaud

As Dick mentioned, we're really excited about what's happening in the data center space. We expect continued growth in that area, which is a positive for us. Of course, as Dick also mentioned, we are being more selective as we evaluate these opportunities.

So, I would say we're optimistic about what we're seeing for the future. As we've mentioned in several past quarters, enhancing our margin remains a key focus. And that's really about being selective in the projects we take on and the types of projects we pursue.

Robert Van Voorhis

Got it. And then my second question, and I joined the call a little late, so I apologize if I'm repeating any information. But in terms of the second $5 million of cuts from the Simplify program, can you comment as to, were they implemented sort of later in Q3 or the beginning of Q3 or just any commentary on that would be helpful.

James A. Michaud

As we mentioned, the first $5 million was achieved towards the end of Q2. We are now well underway with the incremental $5 million to reach our $10 million goal, with progress made by the end of Q3. So, that's the timeline to keep in mind.

Robert Van Voorhis

Got it. That's helpful. That's all my questions.

Richard S. Warzala

Also, remember, Robert, that there are some offsetting one-time costs that will have an impact. While we will incur these one-time costs, they will be excluded from the adjusted EBITDA.

Robert Van Voorhis

Yeah, got it. Appreciate it.

Operator

Thank you. This concludes our question-and-answer session. I would now like to turn the conference back over to the management for closing comments.

Richard S. Warzala

Thank you, everyone, for joining us on today's call and for your interest in Allient. We will be participating in two upcoming conferences. The Bayer Global Industrial Conference on November 13 in Chicago and then the Raymond James Small Cap Summit on November 18 in California.

As always, please feel free to reach out to us at any time and we look forward to talking with you all again after our fourth quarter 2024 results. Thank you for your participation, and have a great day.

Operator

Thank you. The conference has now concluded. Thank you for attending today's presentation. You may now disconnect.

Note: This transcript has been edited slightly to make it more readable. It is not intended to be a verbatim recreation of the Allient, Inc. (ALNT) financial results teleconference and webcast that occurred on the date noted. Please refer to the webcast version of the call, which is available on the Company's website (allient.com), as well as to information available on the SEC's website (www.sec.gov) before making an investment decision. Please also refer to the opening remarks of this call for ALNT's announcement concerning forward-looking statements that were made during this call.