ALLIENT INC.

THIRD QUARTER 2025 EARNINGS RESULTS CONFERENCE CALL TRANSCRIPT

NOVEMBER 6, 2025

Table of Contents

Presenters and Participants

PRESENTERS

Dick Warzala
Chairman, President & CEO

Jim Michaud
CFO & Senior Vice President

Craig Mychajluk
Investor Relations

PARTICIPANTS

Tomohiko Sano
JPMorgan

Gregory Palm
Craig-Hallum Capital Group

Ted Jackson
Northland Securities

Presentation

Operator

Good day and welcome to the Allient Inc Third Quarter 2025 Financial Results Conference Call. All participants will be in listen only mode. [Operator Instructions] After today's presentation, there will be an opportunity to ask questions. [Operator Instructions]. Please note, this event is being recorded.

I would now like to turn the conference over to Craig Mychajluk, Investor Relations. Please go ahead.

Craig Mychajluk
Investor Relations

Thank you and good morning, everyone. We certainly appreciate your time today as well as your interest in Allient. On the call today are Dick Warzala, Chairman, President and CEO; and Jim Michaud, our Chief Financial Officer. Dick and Jim will review our third quarter 2025 results, provide a strategic operational update and share our outlook. We will then open the line for your questions. As a reminder, our Q3 earnings release and the accompanying slide presentation are available on our website at Allient.com.

If you're following along, please turn to **Slide 2** for our Safe Harbor statement. During today's call, we may make forward looking statements that involve risks and uncertainties. Actual results may differ materially from those indicated. These risks and factors are outlined in our SEC filings and in our Q3 earnings release. We may also discuss certain 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.

So with that, please turn to **Slide 3** and I'll turn it over to Dick to begin. Thank you.

Dick Warzala
Chairman, President & CEO

Allient delivered another strong quarter, underscored by double-digit revenue growth, record gross margin, and continued deleveraging of our balance sheet. These results reflect the combination of healthy demand across key end markets and the tangible benefits of the efficiency initiatives we have put in place through our Simplify to Accelerate NOW program.

On the demand side, we saw notable strength in our Industrial verticals, particularly power quality solutions for data center applications, as well as improving trends in automation. Our defense programs executed well, and the medical market delivered steady growth, even as mobility solutions remained soft. In addition, our vehicle business improved, led by contributions from commercial automotive and construction.

Profitability was another highlight, with gross margin reaching a new record and operating leverage driving meaningful year-over-year improvement. Importantly, these gains were not only a result of volume, but also a reflection of mix shift toward higher-value programs and ongoing cost discipline.

Cash generation and balance sheet strength remain central to our story. Year-to-date, we have delivered significantly higher operating cash flow and further reduced debt, which has lowered our leverage ratio and enhanced financial flexibility. Jim will walk through some temporary impacts to the quarter, but at a high level, our results so far this year demonstrate our ability to convert top-line performance into stronger profitability, robust cash flow, and balance sheet progress.

Stepping back, Q3 was not just about numbers, it was about discipline and execution. The results highlight the resilience of our diversified portfolio, the value of our operational transformation, and our ongoing alignment with long-term secular growth drivers. Together, these elements reinforce the momentum we are building as we move toward year-end and beyond.

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

Jim Michaud
CFO & Senior Vice President

Thank you, Dick, and good morning, everyone. Please turn to **Slide 5**. Q3 revenue increased $13.5 million year-over-year, reaching $138.7 million, reflecting strong industrial market demand along with solid performance in our other core end markets. Foreign exchange contributed $2.3 million in tailwinds with the remainder organic. Sequentially, revenue declined less than 1%, as the second quarter included $3 million to $4 million of customer pull ins related to dissipated supply constraints on components with heavy rare earth content. Sales to US customers accounted for 57% of Q3 revenue with Europe, Canada and Asia-Pacific representing the balance.

Breaking down performance by market, Industrial market revenue advanced 20%, led by strong demand for power quality solutions in data centers, as well as improving industrial automation trends which more than offset softness in oil and gas. Medical grew 6%, with surgical instruments offsetting weaker mobility solutions. Vehicle sales were up 6%, supported by commercial, automotive and construction. Aerospace and Defense revenue was up 2% as scheduled defense and space program deliveries continued. We did experience some short-term shipment delays linked to customer validations during our Dothan facility transition, but overall demand remains intact and positions us well as validations complete. Distribution channel sales were down 6%, though they represent a smaller share of our overall mix.

Turning to **Slide 6**, here we show the composition of our revenue over the trailing 12 months, along with the year-over-year change in each market and the key drivers of that change.

As you can see, our Industrial market is our largest vertical at 48% of total revenue, supported by continued strength in data center applications. While industrial automation is still working through the tail end of destocking, we are seeing healthier order flow, which has helped offset softer demand in oil and gas applications.

Aerospace and Defense increased to 15% of revenue, reflecting both timing of defense and space program deliveries, as well as strong execution on our growth initiatives in this sector. Demand remains solid, and our pipeline in defense continues to provide visibility into sustained growth.

Medical accounted for 15% of revenue, led by higher demand for surgical instruments. This growth was partially offset by softness in certain pump-related products and mobility solutions. Overall, the medical sector continues to represent a steady contributor.

Vehicle represented 17% of revenue compared with 22% in the prior year. The year-over-year decline primarily reflects reduced demand in powersports and select truck applications. That said, within the quarter, we did see strength from commercial automotive helping to partially balance the softness in recreational markets.

Overall, this slide reinforces that our revenue base is better aligned with higher value margin accretive opportunities. We are deliberately positioning the company towards markets with strong secular growth drivers while also managing through areas experiencing softness.

Turning to **Slide 7**, gross profit reached $46.2 million, with gross margin expanding to a record 33.3%, up 190 basis points year-over-year and 10 basis points sequentially. This marks our fifth consecutive quarter of margin expansion. Drivers included mix improvement, higher volumes and disciplined lean manufacturing execution.

On **Slide 8**, operating income increased sharply to $12.2 million, or 8.8% of revenue, reflecting the continued scalability of our business model. This represents an improvement of 350 basis points year-over-year and 40 basis points sequentially. Operating leverage was a key driver, as operating expenses declined to 24.5% of revenue, a 160-basis point improvement versus last year, even as we continued to invest in strategic initiatives. This demonstrates the effectiveness of our cost discipline and the structural benefits we are capturing.

Our Simplify to Accelerate NOW program continues to play a central role in driving these results. We delivered $10 million in annualized savings in 2024, and we remain on track to achieve an additional $6 million to $7 million in 2025. These savings are being realized through footprint optimization, accelerated product development and lean manufacturing disciplines.

Importantly, we are already beginning to see margin tailwinds from the Dothan Fabrication Center of Excellence, with the full benefit expected to phase in during the latter part of 2025. We did record $800,000 in realignment costs during the third quarter to support this transformation, but these actions are positioning us for sustained efficiency and margin improvement moving forward.

Slide 9 shows our bottom-line performance. Net income more than tripled year-over-year to $6.5 million, or $0.39 per diluted share. Adjusted net income was $9.9 million, or $0.59 per share. Our effective income tax rate was 22.2% for the third quarter of 2025, and we continue to expect our full year rate to land between 21% and 23%.

Adjusted EBITDA increased to $20.3 million, or 14.6% of revenue, driven by strong conversion on higher volumes and a more favorable mix. This represents margin expansion of 310 basis points year-over-year and 20 basis points sequentially.

Turning to **Slide 10**. Year-to-date, operating cash flow was $43.1 million, up 46% from last year. This reflects both stronger profit generation and disciplined working capital execution.

Our free cash flow this past quarter was impacted by approximately $5 million of temporary inventory build, largely tied to rare earth magnets and to ensure continuity during the Dothan transition. In addition, we experienced a modest increase in days sales outstanding, which rose to 61 days, reflecting sales mix, and we also had the timing impact of certain insurance premium payments. Despite these temporary factors, our underlying cash generation remains very strong.

Year-to-date, capital expenditures of $5.1 million reflect continued investment in key customer-driven projects. Given project timing and fourth quarter expectations, we have narrowed our full year CapEx forecast to $6.5 million to $8.5 million from the prior $8 million to $10 million range.

Importantly, we are executing well against our three financial priorities for 2025.

Reducing inventory and strengthening working capital management - We've already improved inventory turns to 3 in Q3, up from 2.7 at year end, despite the temporary build this quarter.

Cost discipline - evident in our SG&A leverage and ongoing benefits with Simplify to Accelerate NOW.

Reducing debt - supported by the strong cash flow we've generated.

With that, let's turn to **Slide 11** to review the impact on our balance sheet. Debt declined by $12 million sequentially in Q3, bringing total year-to-date debt reduction to nearly $34 million. Net debt now stands at $150.8 million, and our leverage ratio has improved to 2.1x compared with 3.0x at the end of 2024.

This consistent deleveraging, combined with strong liquidity, provides us with substantial flexibility to continue investing in strategic priorities while also strengthening our financial foundation.

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

Dick Warzala
Chairman, President & CEO

Thank you, Jim. Orders in Q3 totaled $133.1 million, down slightly from Q2, but up significantly from last year. Our book-to-bill ratio of 0.96 reflects the normal seasonal cadence we typically see and, importantly, it also underscores solid underlying demand, particularly in our Industrial and A&D markets, despite the cancellation of the M10 Booker Tank Program by the US Army, which did have a direct impact on Allient.

Our backlog ended the quarter at $231 million, with the majority expected to ship within the next three to nine months, consistent with our historical conversion patterns. This backlog mix, together with our active quoting pipeline, gives us confidence in the resiliency of demand.

As we look ahead, we recognize that the global industrial environment is gradually improving but remains uneven. Policy and tariff risks, supply normalization and cost volatility continue to influence capital deployment across many verticals.

We continue to proactively address tariff-related challenges. Although mitigation efforts are underway, tariffs resulted in a net quarterly impact of approximately $385,000 that we were unable to recover through pricing or other measures. The majority of this impact occurred within our power quality business and mitigation efforts are already underway.

On rare earth supply, even though it appears that we will gain some breathing room, given the agreement that was reached with China, our multipronged strategy, which includes broadening suppliers, qualifying alternative materials and managing inventory dynamically in close collaboration with customers, will continue to be central to our strategic supply chain security initiatives. At the same time, our focus is primarily on advancing strategic initiatives that enhance long term value, driving further margin expansion, maintaining working capital discipline, and investing in technology for higher value solutions. The operational and financial momentum we generated in Q3 provides a strong foundation to carry forward into the balance of the year.

Finally, it's important to remember that secular growth drivers, such as electrification, automation, energy efficiency, digital infrastructure and precision control, continue to underpin our strategy. These themes align directly with Allient's capabilities and position us to deliver sustainable, profitable growth through varying market conditions.

With that operator, please open the line for questions.

Question and Answer

Operator

Yes, thank you. We will now begin the question-and-answer session. [Operator Instructions] At this time, we will pause momentarily to assemble the roster.

And the first question comes from Tomohiko Sano with JPMorgan.

Tomohiko Sano

Good morning. I'd like to ask about the orders and backlog for the first and the book-to-bill ratio remain healthy at 0.96, as you mentioned. How would you view the quality and the visibilities of the current backlog, and are there any areas of concern?

Dick Warzala

I wanted to clarify one thing. We would have been above 1.0, but we did take a cancellation in our backlog for the M10 Booker program cancellation, so that's in there. Without that, we would have been above 1.0. So, that's just a little more clarity on that.

As far as the quality goes, I think we're very pleased with what we're seeing. It's the power quality area. Data centers is coming strong. We're seeing good activity in the defense area. We're seeing industrial picking up and we also see Europe has started to pick up. It's not back to where it was, but it started to pick up in the industrial areas. So, across the board, I think we're fairly encouraged with the quality and the margin potential generation from the backlog we have.

Tomohiko Sano

Thank you, and a follow up on the margin side and, especially, the Simplify to Accelerate NOW initiatives. Could you elaborate on the progress and the future potential of the initiatives for 2026? Are there further cost savings or margin opportunities ahead?

Dick Warzala

Yes, absolutely. Some of the actions that were taking in the last year, and this year were pretty low hanging fruit, and we have validated that the actions that we're taking did result in real cost savings. The major action we've taken this year is in our Dothan facility, which had final assembly integration test operations, also some machining, and so forth.

It was co-mingled between many different markets and different types of products, so the major effort that we undertook this year was to transfer the production from Dothan into two other facilities, one in Reynosa, Mexico, and in Tulsa, Oklahoma, which better aligned with the markets and the products that are being produced. In Dothan, what we will retain is, we have a strong capability in the machining areas. So, this is where you hear us talk about the transition of Dothan into a fabrication center of excellence. That'll be underway in the beginning of the year after the transfer, and the transfer is fully expected to be complete by the end of this year and moving out throughout next year.

There's plenty of opportunity for us for cost optimization when we look at the components that we have been buying or purchasing and actually evaluating some of the business we have and looking at better strategic sourcing. Again, I would look at that opportunity as we really begin to move that fabrication center forward. That's where we will see some fairly significant cost savings and potential for us to grow our business in other areas as well.

We have some good opportunities that we're working with, and they were contingent upon us continuing to expand for high precision motion applications, and Dothan will give us an opportunity to do that. I also want to stress that, while we say fabrication, we're talking about additive manufacturing as well as just machining and not just machining operations. So, that's why, in the past, you would have heard us say Machining Center of Excellence, because that's what they do, but we do believe that there's definite value to be added from our fabrication.

In addition to that, we are setting guidelines and working hard with all of our operations, Tomo. We had to untangle some of our businesses. Which, when I say that, the focus was on: what were the investments necessary, what's the design cycle time, what's the lead and cycle time for design wins and types of products being produced? That caused some inefficiencies in the process. So, we're doing that, we're much better aligned and we're close to completing these efforts. We’re much better aligned on the vertical markets that we're servicing, as well as the production processes that are much more consistent within each. Which then allows us to go back and really address areas where we feel we have some significant improvement opportunities. So, that's another area that'll be unfolding in the next year or so with definitely some cost savings; although, I don't think we've quantified that exactly yet.

In addition to that and I’d say the more importantly, is the front end. Looking at business opportunities that provide us better margin capabilities or potential and not getting seduced into some other activities where the value looks high, but the true bottom-line value is not as great. It costs a lot from a capital investment standpoint. So, we're very focused on the front end. We’re making sure that we're focused on the right markets that can meet our margin goals; not get diverted by others that look like great opportunities but are underlain with long term efforts and a lot of capital investment, and sometimes not as good a return. But there’s plenty going on.

Tomohiko Sano

Thank you, Dick. Congrats on the quarter.

Operator

Thank you. The next question comes of Greg Palm with Craig-Hallum Capital Group.

Greg Palm

Good morning. Congrats as well from me. I think, from a segment level, Industrial certainly stood out and I know you called out stronger data center activity, so maybe you can just remind us exactly what you're selling into that market.

Is there something going on that's causing the step up in demand there? I think last quarter you mentioned you're doing a facility expansion, so just wanted to get a little bit more color on that market specifically.

Dick Warzala

Sure. You're exactly right there, Greg. What's going on in that area is really that some of the uptick that we've seen is in the data center solutions, and the data center solutions around our power quality equipment. We are expanding our primary facility for producing that product, and we expect that to come online in early, let's say, second quarter of next year. But we still continue to see or have seen a significant demand uptick, and we don't see it slowing down anytime soon, so that is one of the big drivers.

Also, fortunately for us, that is a margin accretive product line for us. In Industrial, the automation side, we talked in the past about that. A couple of years ago, we had a banner year. We thought it was based on issues with supply chain, and when demand freed up, we delivered at a very high rate. In fact, we said we had a $46 million headwind going into last year. If we could average the three years out, we would see the band coming back to a normalized level, and we've actually seen that again this year.

Each quarter, we've seen a nice step up in our run rates, and we're getting close. We're not quite there yet, but we're getting close to where we think the normalized run rate should be. Again, fortunately, it's in the higher-end controls area where our margins are accretive as well.

The other industrial market that we're seeing some improvement, as I mentioned, is Europe, Europe has been down and down quite significantly, and the impact on us from a couple of our businesses is about 25% reduction. We're not back, but we're chipping back a little bit here and we have some runway to go there to get back to where we were and hopefully beyond. But they're starting to see some positive signs; although, I do think that will be a slower ramp up into next year.

Our defense side has good opportunities and we're working on many new opportunities certainly in the drone space applications where we have the significant manufacturing capability that we've had for years that we're unleashing to make sure that we support the opportunities that are coming our way. We're well positioned, whether it's the lower cost disposable drone or up to the highest end, highest performing drones, the requirements in the market. There's a lot of activity going on in that space and we're addressing it as fast as we can, and we're pretty encouraged that we're well positioned to take advantage of that.

Add on top of that, munitions. Some orders for munitions have been released and it's our turn to see those orders come through, but there's definitely some encouraging signs that the volume will increase there as well. Medical was good, too. I would have to say, the medical instrumentation, surgical side of it, has been positive as well. So, signs are good.

In conversation with Tomo, we talked about a lot of the activities we're doing to improve our cost structure, improve efficiencies. Now, with, I think, your question, you're talking about where the growth opportunities are and some of the activities that we're addressing and facing today.

Greg Palm

When might we see more of an uptick or a step up in the drone space specifically? And then, maybe, you can just confirm, since you mentioned defense overall as a segment, what was the bookings impact on that M10 program?

Dick Warzala

The bookings impact for this year was about $5 million that we had to take a hit on, and the longer-term impact for us was a backlog of shipments averaging around $7 million a year for a number of years forward. A lot of work was done on that. We're reviewing cost right now and there are certainly cancellations coming. We don't know if there will be another outlet for the M10 Booker tank, but right now, the way it seems is that it is going to wind down. They're just completing an order already in production and canceling the rest, but $5 million in this quarter.

So, as I mentioned, it would have been a positive book-to-bill ratio. As far as the drone, when you see it, I think it's like anything else. You have to go through the design in cycle time, get it approved. We already have been in drone applications and we're just seeing more, so I would tell you that they'll be stepping up throughout the year next year.

Greg Palm

Okay, perfect. And then, just switching over to profitability, I think it's pretty encouraging that you're generating mid-teens EBITDA margins, back-to-back really good quarters. I'm guessing you're not going to tell us where that can eventually land, but it seems like there's still a pretty big chunk of your business that's operating well below normalized revenue levels or at least revenue levels from a few years ago. So, as volumes continue to come back, I'm guessing you'll start or continue to see additional operating leverage. Is that a fair statement?

Dick Warzala

Yes, that's definitely a fair statement. Look at the foundation we have built, what we call technology units and how we regroup the companies into business units and in getting very specific in setting targets. all have to contribute, and all have to improve. That's the key. I think the bulk of the work, in order to have clarity and line of sight on what could be accomplished there, is coming into place now. So, I feel comfortable that it's going to drive improvements and continued improvements in all areas, and that's our goal anyways. So, definitely some opportunities there.

Greg Palm

Okay. All right. Well, keep it up. Thanks. I'll hop back in the queue.

Operator

[Operator Instructions] The next question comes from Ted Jackson with Northland Securities.

Ted Jackson

Thanks very much. Good morning. I have a few questions for you, just a few cleanup items and then some bigger ones. The whole thing with the M10 Booker tank, which is a disappointment, will there be anything that you have to write down in future periods because of that?

Dick Warzala

No, there's full recovery of cost, and we're working through that right now. But no, we will not have to write anything down.

Ted Jackson

Okay. Then, going over to the positive FX impact, within your revenue verticals, where was that?

Jim Michaud

It's in our European euro denominated transactions.

Ted Jackson

But, I mean, was it across any verticals? Was it concentrated into anything in particular, you know, I mean, industrial or other?

Dick Warzala

Geographic.

Ted Jackson

Okay. And then, I don't know if you had discussed this with the prior call, but the orders that got pulled forward from three 3Q into 2Q, in what verticals were those?

Dick Warzala

Our quality primarily... [*break in recording]*

Ted Jackson

Then, in the vehicle market, I know you've worked very, very hard at lowering your exposure within the power sports world, but I'm kind of curious, with regards to that segment, if you could maybe cover the mix of where that revenue comes from these days. You highlighted strength in commercial vehicle and construction. I'm kind of curious, how much of that business now is exposed within powersports? What's the mix for that to construction? How much is commercial vehicle? And then, maybe, some color with regards to construction and commercial vehicle or just sort of where are you providing your solutions?

Dick Warzala

Okay. First, I would say to you, Ted, we haven't, in the past, given the real specifics on the percentages of each in the market, but I will give you some guidance on it. We've said that commercial, automotive, would always be something that we would stress to be below 10% of our annual revenues, and it is below 10% of our annual revenue.

Why do we want to do that? We do like the core unit volume it gives us, the strategic purchasing power. It gives us the ability to apply what we have in the automotive markets into other related vehicle markets, so getting a cost advantage there. I would tell you, though, that our vehicle or our commercial automotive market is performing well. When we started talking about it four or five years ago, there were real challenges there, the book of business that we had acquired and some of the challenges in the market itself through supply chain and price increases and so forth. We worked our way through it, and it is something that's performing. The net differential has been very, very positive for us.

As far as powersports go, we have mentioned that one of our major customers had a two-source. Even the day we bought the company; it was going to have multiple sources. While we were single source for a long time, they had advised us that they were going to be having multiple sources of supply; and therefore, we did lose a portion of that business starting a little over a year ago. So, that business is down, the market's been down, and it is below 10% of our business.

Before, if you were back in the 2013, 2014 timeframe, you would have realized that was maybe 22% to 23% of our business; now, it's below 10% and we think that's healthy. It's not that we want it to be less, it is. There are certainly some things that are going to impact that going forward, the tariffs, the USMCA agreements, North American content that's in vehicles and so forth. So, we have a very robust solution It's the higher end of the performance range and we're applying that in other areas. We like the diversification we're seeing into other markets. Powersports, from where it was in its heyday early on, and when Power steering became a part of every vehicle, we were one of the leaders in that, and we enjoyed higher margins. It's definitely a challenge today in getting automotive like I'll call it.

And then, the rest of it is made up of the other vehicles, when we talk about the large trucks, rail, marine, construction, bus, all of that. It's kind of a combination of all of those agricultural and those are all solid and we are emphasizing that we'd like to see growth in those as well. That's about the best color I can give you with that at this point. I hope that helps.

Ted Jackson

Oh, it's great color, Dick. I appreciate it. If you look at that segment, you said a little over a year ago, you went to dual source but the business is really stabilized. Let's just call it $20 million, $22 million in quarterly revenue, and now that that business is where it is, the headwinds - I'm talking to powersports - are giving away, so I'm wanting to understand the mix of it to see what growth will come.

Our sports market in and of itself is clearly flatlining at this point; and then, you have these other verticals as well, so I want to understand it because the segment is actually poised probably to start performing better.

I had another question I want to ask you really quick. Give me a second. I lost my train of thought. I'll step out of line, because it just completely went out of my mind. If I think about it, I'll punch back in. Thanks.

Operator

Thank you. And that does conclude the question-and-answer session. So, I would like to turn the floor back to management for any closing comments.

Dick Warzala

Well, thank you, everyone, for joining us on today's call and for your interest in Allient. As always, please feel free to reach out to us at any time and we look forward to talking to you all again after our fourth quarter 2025 results. Have a great day.

Operator

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