

# BRC Earnings Call Transcript

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**Quarter: 1**

Operator: Good day, and thank you for standing by. Welcome to the Q1 2026 Brady Corporation Earnings Conference Call. [Operator Instructions] Please be advised that today's conference is being recorded. I would now like to hand the conference over to your speaker today, Ann Thornton, CFO. Please go ahead.

Ann Thornton: Thank you. Good morning, and welcome to the Brady Corporation Fiscal 2026 First Quarter Earnings Conference Call. The slides for this morning's call are located on our website at [www.bradycorp.com/investors](http://www.bradycorp.com/investors). We will begin our prepared remarks on Slide #3. Please note that during this call, we may make comments about forward-looking information. Words such as expect, will, may, believe, forecast and anticipate are just a few examples of words identifying a forward-looking statement. It's important to note that forward-looking information is subject to various risk factors and uncertainties, which could significantly impact expected results. Risk factors were noted in our news release this morning and in Brady's fiscal 2025 Form 10-K, which was filed with the SEC in September. Also, please note that this teleconference is copyrighted by Brady Corporation and may not be rebroadcast without the consent of Brady. We will be recording this call and broadcasting it on the Internet. As such, your participation in the Q&A session will constitute your consent to being recorded. I'll now turn the call over to Brady's President and Chief Executive Officer, Russell Shaller. Russell?

Russell Shaller: Thank you, Ann, and thanks, everyone, for joining us today. This morning, we released our fiscal 2026 first quarter financial results. We had a good start to the year with organic sales growth of 2.8% and adjusted earnings per share growth of 8%. Our Americas and Asia region reported strong organic sales growth of 4.7%, and our Europe and Australia region reported a significant improvement in adjusted segment profit of 15%. This was a direct result of the actions we took to streamline our cost structure in the region last year. Our team executed well, and we have started the year on a positive note. Before we go into Brady's financial details, I want to talk a bit about our connected products. Brady has spent the last several years building out a marking and tracing solution that is uniquely easy to use for our customers. As an example is our fantastic new app called BradyScan, which is available in Android and Apple versions. It is an industrial barcode scanning app that consolidates the entire scanning workflow and communicate seamlessly with our printers. You can instantly generate scannable barcodes with both image to barcode and speech-to-barcode technology. A built-in security check monitors for malicious QR codes and error correction automatically repairs damaged QR codes, resulting in maximum readability. You can scan and input barcode values directly into Google sheet with no download or export required. And every barcode scan is automatically geotagged, allowing for complete traceability with location accuracy. Our goal with this app is to make barcode reading, barcode generation and barcode printing an entirely seamless experience for our users, making track and trace easier than ever before. With this software, our customers can use their phone to create barcodes, instantly send those barcodes to a Brady printer, print them on our high-performance adhesive labels and create a time and location stamp with our geolocator. This is one of the many steps we are taking to integrate our lasers, readers and printers into a single easy-to-use platform. Now I'll turn it over to Ann to provide more details on our financial results. Ann?

Ann Thornton: Thank you, Russell. We had a good start to the year. Organic sales grew 2.8% in the quarter, which was led by our Americas and Asia region with organic growth of 4.7% in the quarter. We

also reported strong growth in our adjusted pretax income as well as our adjusted diluted earnings per share in the quarter, while funding a significant increase in R&D.; And we finished the quarter in a net cash position, which continues to give us the ability to invest in both organic opportunities and strategic acquisitions in the future. Slide #4 details our quarterly sales trends. Organic sales were up 2.8%. Acquisitions added 3.2%, and foreign currency translation increased sales by 1.5% for total sales growth of 7.5% in the quarter. Turning to Slide #5. This details our quarterly gross margin trending. Our gross profit margin was 51.5% this quarter compared to 50.3% in the first quarter of last year. In last year's first quarter, we closed on the acquisition of Gravotech, which requires purchase accounting adjustments to recognize the fair value of inventory acquired. These adjustments reduced last year's reported gross profit margin by 110 basis points in the quarter. So without this acquisition-related adjustment, gross profit margin was 51.4% last year. Our gross profit margin continues to be strong as we realize the benefits from our sales growth coming from our engineered products. Turning to Slide #6, you'll find our SG&A; expense trending. SG&A; was \$117.6 million this quarter compared to \$111.8 million in the first quarter of last year. As a percent of sales, SG&A; was 29% compared to 29.7% last Q1. If you exclude amortization expense from each of the periods presented as well as other nonrecurring acquisition-related costs incurred in last year's first quarter, and SG&A; was 27.7% of sales in the first quarter compared to 28.3% of sales in last year's first quarter, which is a decline of 60 basis points. We continue to invest in growth through acquisitions and to our sales -- or excuse me, through additions to our sales force as well as selected geographic expansion in Southeast Asia, which we're more than funding with efficiencies throughout our SG&A; support functions. Slide #7 details the trending of our investments in research and development. We continue to increase our investment in R&D; within both our organic business as well as our acquisitions from last year. R&D; expense was \$23.3 million or 5.7% of sales this quarter, which was an increase from \$18.9 million or 5% of sales last year. We funded a 23% increase in R&D; in the quarter and still grew the bottom line. We've proven over time that our best ROI comes from our engineered products. Russell just discussed our new app, BradyScan, and we have a very exciting lineup of products set to launch this year. Turning to Slide #8. This shows the trending of our pretax earnings. Pretax earnings on a GAAP basis increased 16.5% from \$58.8 million to \$68.5 million in the quarter. If you exclude amortization from both periods and exclude other acquisition-related charges we incurred in last year's Q1, pretax earnings increased to 7.6% from \$68.6 million to \$73.8 million. Slide #9 details the trending of our net earnings and EPS. Our net income increased 15.3% in the quarter from \$46.8 million to \$53.9 million. Excluding amortization from both periods as well as the other acquisition-related charges from last year, our net income increased 7.1% from \$54.2 million to \$58 million. GAAP diluted earnings per share was \$1.13 compared to \$0.97 per share last year. Excluding amortization from both periods and the acquisition-related charges from last year, our adjusted diluted earnings per share improved from \$1.21 per share from \$1.12 per share last year, which was an increase of 8%. We had another strong earnings quarter resulting from our organic sales growth and the cost reduction actions that we took last year in selected parts of our business. Slide #10 details our cash generation. Operating cash flow increased 42.5% to \$33.4 million in the first quarter of this year compared to \$23.4 million in the first quarter of last year. And free cash flow increased 38.8% to \$22.4 million in Q1 of this year compared to \$16.1 million in last year's Q1. We're constantly focused on making the best cash-based decisions throughout our organization, which gives us the ability to invest in our business and return funds to our shareholders through share buybacks and dividends. Turning to Slide #11, you'll find the impact that our historical cash generation has had on our balance sheet. As of October 31, we were in a net cash position of \$66.8 million. Our approach to capital allocation is consistent, which is to fund organic sales growth and efficiency opportunities. This includes investing in new product development, sales generating resources, capability-enhancing CapEx and automation-focused CapEx. We have the ability to invest throughout the economic cycle so that we're always positioned to drive future sales growth and profit improvements. And we're focused on consistently increasing our dividends. In September, we announced our 40th consecutive year of annual dividend increases, which was an incredible milestone and is a streak that we're very proud of. From here, we're disciplined and opportunistic for both acquisitions and share buybacks. We're focused on identifying acquisitions with clear synergies to Brady, and we have the ability to fund our organic business, our dividend, M&A; opportunities and

share buybacks. We repurchased 55,000 shares for \$4.1 million in the first quarter, which was an average price of \$73.69 per share. Slide #12 outlines our fiscal 2026 guidance. We are increasing the bottom end of our full year fiscal 2026 previously announced adjusted diluted EPS guidance range from \$4.85 per share to \$5.15 per share to -- with the new range of \$4.90 per share to \$5.15 per share, so a \$0.05 increase to the bottom end. Our GAAP EPS guidance range was updated to reflect acquisition-related amortization as well as to increase the bottom end also by \$0.05, which we now expect to range from \$4.57 per share to \$4.82 per share. Our adjusted diluted EPS guidance range represents a range of growth of between 6.5% to 12% over 2025. We expect organic sales growth in the low single-digit percentages for the full year ending July 31, 2026. Other elements of our fiscal year 2026 guidance include an income tax rate of approximately 21%, depreciation and amortization expense of approximately \$44 million and capital expenditures of approximately \$40 million. Potential risks to our guidance, among others, include potential strengthening of the U.S. dollar, inflationary pressures that were unable to offset in a timely enough manner or an overall slowdown in economic activity. Now I'll turn it back over to Russell to cover our regional results and to provide some closing thoughts before Q&A.; Russell?

Russell Shaller: Thanks, Ann. Slide 13 details the financial results of our Americas and Asia region. Sales were \$268.9 million this quarter, which were up 9.6% from Q1 last year. Organic sales growth was 4.7% and acquisitions added the remaining 4.9% of our growth. We saw growth in most of our major product lines with significant growth of nearly 19% in the Wire Identification product line. Wire ID has been leading our organic sales growth company-wide for the last 3 years, with data centers being a key end market. Our high-performance adhesive materials are ideal for the critical labeling requirements in data centers. Our Asia business performed well with total organic sales growth of 11.9%, which was led by our business in Japan. We saw growth throughout the region, including China, where we grew slightly by 0.8%, which means that our business outside of China combined for nearly 20% growth in the quarter. Asia also contributed a significant amount of growth in segment profit in the Americas and Asia region in the quarter, which was a result of both organic sales growth and the cost reduction actions that we took in China last year. Our reported segment profit in Americas and Asia region increased 9% to \$59.9 million and segment profit as a percentage of sales was 22.3%. If you exclude the impact of amortization in both the current quarter and last year's Q1 as well as our other nonrecurring acquisition-related expenses last year, segment profit increased 6.3%. Similar to past years, we are increasing our investment in R&D, which is the driving factor of our organic sales growth, both now and in the future. We are experiencing a tariff headwind in the U.S. compared to last year's Q1. While we continue to take steps to reduce their impact, last quarter, we projected net incremental expense of between \$8 million and \$12 million for fiscal 2026. As of the end of Q1, we are now projecting full year impact to be at the low end of this range, so approximately \$8 million. Slide 14 details the financial results of Europe and Australia region. Sales were \$136.4 million this quarter. Organic sales declined 0.8% and foreign currency translation added 4.3% for total growth of 3.5% in the region this quarter. Both Europe and Australia continue to operate in challenging macro conditions for industrial manufacturers, yet we nearly returned to organic sales growth in the quarter. Sales declined in our People Identification and Safety and Facility Identification product lines, but we saw growth in our Wire ID products in the quarter. Organic sales in Europe declined 0.9% and increased slightly by 0.3% in Australia. Despite the 0.8% decline in organic sales, we reported a significant improvement in segment profit in the region. Our reported segment profit in Europe and Australia increased 42.8% in the quarter to \$18.7 million, and segment profit as a percentage of sales was 13.7%. If you exclude the impact of amortization in both the current quarter and last year's Q1 as well as other nonrecurring acquisition-related expenses last year, segment profit increased 15% compared to the prior year. We took several actions last year to reduce our cost structure in both Europe and Australia, and we're seeing this payback in our profit results this year. We started the year with some solid momentum. We're growing organic sales mid-single digits in America and Asia, and we're nearly returned to growth in Europe and Australia. Even with the subdued global macroeconomic environment for industrial companies, I am super excited about the business we acquired and over the past year as well as fantastic technology that we are adding to our portfolio, such as the BradyScan app that I truly believe the addition of our direct part marking product line and the ease-of-use features we are adding

throughout our product portfolio enables us to help our customers improve their productivity. With that, I'd like to turn it over for Q&A.; Operator, would you please provide instructions to our listeners?

Operator: [Operator Instructions] Our first question comes from Steve Ferazani with Sidoti.

Steve Ferazani: I appreciate the detail on the call. Russell, I was a little bit surprised on the strength of the gross margin better than it was in the second half, sort of flat versus if you adjust the year ago quarter, but the year ago quarter didn't include tariff impacts. So I'm trying to figure out, one, is it getting better compared to 3 and 4Q because you're more effectively offsetting with price? Or was it just a particularly strong mix quarter? If you can help us out a little more detail on the gross margin?

Russell Shaller: Yes. The biggest impact was both price and working on our supply chain and moving things around a little bit. As a truly global manufacturer, we do have some ability to move things around and to look at which companies -- countries, excuse me, we should be producing and sourcing from. So I think like any good manufacturer, you do what you can to offset macroeconomic effects, and that's basically what we're doing. I'm happy to say we were projecting \$8 million to \$12 million. I think through a lot of efforts from a lot of people at Brady, we're headed towards the very low end of that range. And that was also contributed to why we bumped the bottom end of our guidance up \$0.05.

Steve Ferazani: Got it. That's helpful. The higher R&D; we've seen over the last couple of quarters, is this a more reasonable run rate? And is that primarily because of the acquisitions you've made? Or you just feel like there's better returns that can be made from some of these product investments?

Russell Shaller: So certainly, the 5%, 7% or so that we're at right now is due to the acquisitions. And over time, probably the next couple of quarters, we'll decide if there's overlapping R&D; efforts, there's probably some at the margin. I would consider 5.5%, give or take, kind of the situation we should be in for the next few quarters. So there will be a little bit of a streamlining of that effort, not really significant. We did have some onetime events in R&D.; But as you point out or as I point out in the call, R&D; continues to be the absolute best investment we can make organically. And I don't really have a per se target on where it should be, but we can say directionally 5.5% for the next year or so.

Steve Ferazani: Okay. That's helpful. When you're thinking about the cost-out actions you took last year, did we see most of it this quarter, that the plant consolidation and some of the workforce reductions? Have we seen the full benefit? Or is there more to come?

Russell Shaller: I would say there's probably 80% plus you've seen in Q1. There's still some more things that we're going to get. We certainly don't need to and won't take any additional restructuring charges. We have nothing anticipated at this point. But again, like everybody that's managing their company, we continue to look for ways to improve our efficiency and drive a little bit more to the bottom line. So I'm going to say 80% done, still a little bit more to go.

Steve Ferazani: Excellent. And if I could just ask briefly on cash conversion. It was better than it was the year ago quarter. Typically, Q1 is your lowest, but are you expecting you can get cash conversion back closer to 100% this year? Or is that a little bit too much of a reach?

Ann Thornton: That's a reasonable target, Steve. And good observation on your part that usually it is a little bit lower for us in Q1. That's just due to timing of annual incentive payments and things like that. But we're definitely pleased with the improvement in Q1. We expected that to come. Last year was a little bit more suppressed than we would typically see in Q1. A lot of that was due to timing and our cash conversion kind of normalized out a little bit more toward the end of the year. So that's a reasonable expectation to see that cash conversion level improve this year.

Steve Ferazani: If the inventory line still seems pretty high, is that because of the acquisitions or the consolidation or a few things?

Ann Thornton: A few things, honestly, there's a little bit due to the acquisitions, but they're not overly very large either. So we made some decisions a few years ago to stock more of our absolute highest running products. It's like that's a few years some changes in our supply chain. We did move production of several printer lines as planned quite a while ago in Asia that also requires higher. So a little bit of everything kind of around the edges that's causing that increase in inventory. And we're always looking for opportunities to work on those levels, but we would -- and we would expect it to probably not increase too terribly much from here and kind of normalize working capital to more of a neutral level.

Russell Shaller: I would say, if I could add one more piece of color. A lot of the traditional Brady businesses, the signage and the identification products are very quick conversion cycle from the time

we get an order to -- through manufacturing and selling it. And so you don't need to have as much inventory as, say, a laser or a reader, which is really a finished good. So all things equal, we absolutely will be in a higher inventory position than what traditional Brady would have been, not a lot higher because that's still a small percentage of our sales, but that is going to add a couple of points to our overall inventory.

Operator: Our next question comes from Keith Housum with Northcoast Research.

Keith Housum: Russell, I noticed your guide for the Australia and -- I'm sorry, Europe and Australia segment suggests perhaps low single-digit growth by year-end, but you guys had a slight decline this quarter. Anything that you're seeing out there that gives you further confidence that that segment will be able to turn it around based on some of the challenges they have in the macro environment as we see today?

Russell Shaller: Yes. So I'm basing this on what I read in a lot of economists that have said that the calendar year of 2026 is supposed to be better than the calendar year of 2025. Frankly, we really haven't seen much. It hasn't gotten any worse over the last several quarters, but we haven't seen what euphemistically are called green shoots. The services sector, which we don't participate in, seems to be doing a little bit better in Spain and some of the vacation countries. But if you look at core manufacturing in Germany, France and the U.K., just not seeing a lot of movement. Not getting worse, not getting better, but we -- if we're going to turn the corner, it's at least 1 or 2 quarters out from now.

Keith Housum: Great. And in terms of BradyScan, first off, congratulations. I know it's been on your list of things to get done for a while now. Is it out now? And I guess, perhaps any color you can provide in terms of who you think the target audience will be for that? Is it your entire base? Or is there a certain segment? And then finally, how many of your products will be linked to or be able to benefit from BradyScan?

Russell Shaller: Yes. So there's 2 parts to it. One is we're being, I think, good friends to the economy in general. So the BradyScan app has a consumer version that has no adware, no bloatware and isn't trying to take your data backhauling it to wherever. So that's a free version for 50 scans or so a month, which I think for most consumers is more than enough. The industrial version actually is going to form part of the backbone of our connected products. Right now, it works seamlessly with our printers and our readers, which I talked about. The next step will get it to engage directly with our lasers and our other marking technology. So it's -- I'm going to say we're about halfway through it. There's still a lot more software that needs to get done. But I love the first iteration. I think it's a very clean and easy-to-use app. Understanding it's really more tailored towards industrial users. We just kind of threw in the consumer users as a nice freebie for some of our customers and friends. But you're encouraged to download it. It's got an Apple version and it's got an Android version. And as of this weekend, it had just gone up, and we only had 5-star reviews. So there you go.

Keith Housum: Congratulations. And then it's been a year since you add Gravotech. You guys added Mecco, hopefully I was saying that right, early this quarter. Any line of sight to revenue synergies coming from the -- I guess, both of the acquisitions and then just the progress you've made over the past year?

Russell Shaller: Yes. So a couple of things. We've absolutely gone through a product road map and decided which businesses focusing on which end markets. With that said, I think they are working in a very tough environment, in fact, more than Brady as a whole because the core segment that we're looking for them to excel at is heavy industrial manufacturing, which is amongst the weakest segments currently out there. So the fact they're doing okay in what I think is a pretty awful environment is good. We really need that to turn around. One of their key customers is the automotive and automotive supply chain, not a great place right now, but it will come back. We're very confident. And we -- more importantly, we're confident in going after midsized manufacturers, which is really kind of the heart of Brady's business. So we feel good, very, very early. Brady makes long-term strategic bets. We have a core thesis that we believe everything is ultimately going to get marked in production. And this is -- ensures that we have that capability over the next 5 to 10 years. So still a work in progress. We feel good initially, but with a lot more to go.

Keith Housum: Great. Appreciate that. And final question for me. Gross margins, another solid quarter for you guys, even with the tariff headwinds. I know you guys are hesitant to suggest that gross margins

can be above that 50% range, but yet you guys have been able to deliver that with the challenges that you've had. And I know you also merging -- a lot of your growth coming from your emerging products. Any more thoughts about gross margins and where they perhaps can go going forward?

Russell Shaller: Yes. So -- and I sound like I'm very repetitive on this because I answered it always the same way. Our engineered products, all things being equal, are probably 60-ish percent gross margin versus our more commodity products are 40-ish. So the more we have engineered products, the more our gross margin will expand. But we don't have a target because all of these products are delivering significant cash flow and return on invested capital. So yes, there's a little bit of help due to our portfolio as it slowly changes. Right now, of course, the offsetting effect has been some tariffs that hasn't helped by any stretch. But I do not have a target. We know we could push pricing higher to expand our gross margins at the expense of demand reduction. So we're really trying to spend most of our time getting more Brady products into more people's hands because even at our gross margins, the money flows through to the bottom line. So we need to keep pushing on growth more than margin expansion. Thank you.

Operator: I'm showing no further questions at this time. I would now like to turn it back to Russell Shaller, CEO, for closing remarks.

Russell Shaller: Thank you for your time today and for your questions. Brady is on a journey to help our customers have a safe and productive workplace. Our visual Safety and Facility Identification portfolio, combined with Brady's productivity solutions help our customers comply with a wide variety of regulations, including the upcoming GS1 standards and new European Union product labeling requirements. Even with a challenging tariff regime and a tough manufacturing macro environment, we are growing sales and increasing profitability. As always, we're keeping our focus on what we can control and continue to move forward with long term consistently in mind. Our increased investment in R&D; is a direct reflection of our view on the long term as our engineered products have proven to be the primary driver of our growth. We pride ourselves on the diversity of our end markets and our R&D; investment gives us the ability to engage with an ever broader set of customers. We do expect to continue to be impacted by incremental tariffs, but we believe that our global manufacturing presence and largely in-country manufacturing as well as our geographic diversification helps us to mitigate some of this effect. We're being creative and we're adapting quickly, and I'm very proud of the team and their tireless efforts in this changing environment. I'm optimistic for the rest of the year and the long term for Brady's ability to continue to deliver improved results for our shareholders. Thank you for your time this morning. Operator, you may disconnect the call.

Operator: This concludes today's conference call. Thank you for participating. You may now disconnect.