

# ELTK Earnings Call Transcript

**Date: 2025-11-18**

**Quarter: 3**

Operator: Ladies and gentlemen, thank you for standing by. Welcome to the Eltek Ltd. 2025 Third Quarter Financial Results Conference Call. [Operator Instructions] As a reminder, this conference is being recorded. Before I turn the call over to Mr. Eli Yaffe, Chief Executive Officer; and Ron Freund, Chief Financial Officer, I'd like to remind you that we'll be referring to forward-looking information in today's presentation and in the Q&A.; By its nature, information contains forecasts, assumptions and expectations about future outcomes, which are subject to risks and uncertainties outlined here and discussed more fully in Eltek's public disclosure filings. These forward-looking statements are projections and reflect the current beliefs and expectations of the company. Actual events or results may differ materially. We'll also be referring to non-GAAP measures. Eltek undertakes no obligation to publicly release revisions to such forward-looking statements to reflect events or circumstances occurring subsequent to this date. I will now turn the call over to Mr. Eli Yaffe. Mr. Yaffe, please go ahead.

Eli Yaffe: Thank you. Good morning. Thank you for joining us for the third quarter fiscal year 2025 earnings call. With me is Ron Freund, our Chief Financial Officer. We will begin by providing you with an overview of our business and a summary of the principal factors that affected our results during the third quarter followed by the details of our financial results. After our prepared remarks, we will be happy to answer any of your questions. By now, everyone should have access to our press release, which was released earlier today. The release will be also available on our website. We ended the third quarter with sales of \$13.3 million and sales for the first 9 months totaled \$38.6 million. Gross profit for the quarter was \$1.6 million with breakeven operating income and net loss of \$0.2 million. Our results were affected by the sharp depreciation of the U.S. dollar against the Israeli shekel, which increased our reported NIS-denominated expenses and reduced gross profits. The total impact of the currency erosion on the operation profit was approximately \$800,000 compared to the third quarter of 2024. At the end of the second quarter, we updated our pricing model to reflect the currency trends. We expect to see the positive impact of the revised pricing beginning in the coming quarters as the new quotation issued after the end of Q2 2025 to take effect. Our bottom line was further impacted by approximately \$0.0 million in financial expenses, primarily reflected the continued depreciation of the U.S. dollar against the shekel. This effect was mainly related to the U.S. dollar-denominated assets, including cash and cash equivalents, short-term deposits and trade receivables net of trade payables. On the operational front, we continue to experience some instability in our production processes. This is primarily related to the ramp-up of a new equipment installed over the past year as well as the integration of the newly recruited engineers and production staff, who are still gaining experience with these systems. As we have mentioned in previous calls, we are in a mindset of transitional period as we absorb significant additional capacity and technology upgrades. In addition to the foreign exchange impact, the key contributor to the operational results in this quarter were: higher depreciation expenses resulting from the purchase of new machine that become operational during this year; increased raw material consumption, driven by fluctuation of process instability during the rebound phase; higher energy costs, reflecting peak summer rates. We expect these effects to gradually be modest as the new line stabilize, process mature and the expand team reached full proficiency. From the market perspective, demand for the products remains strong, led by defense sector, which represents 63% of

the quarterly sales, alongside 9% for the industrial and 6% from the medical customers. Rigid flex products accounts for 66% of the quarterly sales and 65% of the first 9 months of this year. We are seeing the entry of several new foreign competitors into our market. While this trend may limit price increase in certain segments, Eltek technological leadership, longstanding customer relationship and specification in high-end complex PCB solution position us well to maintain and, in some cases, expand our competitive advantage. Delivery time across the industry remain extended, reflecting strong global demand and constrained manufacturing capacity. Pricing dynamics also affect by segments. In low volume, high complexity production, competition remains limited, allowing for greater pricing flexibility. In mid- to high-volume production, we are seeing increased competition from new entrants. We are also facing pressure from several large Israeli customers to extend credit terms, which has increased working capital requirement and financial expenses. Encouragingly, the recent improvement in the regional security has positive effect logistics, shorter raw material delivery times now allowed us to gradually reduce inventory level and partially offset the higher working capital requirements. Our production capacity expansion program is progressing well. We're finishing the construction and the preparation of the new production hall, which will house the new coating line. Finally, our RRP project continues to progress according to plan. We are preparing to go live during 2026. The system will be replaced and integrate all company platform, including production satellite system, providing a modern data-driven work environment with greater operational visibility, control and efficiency across all business functions. I will now turn the call over to Ron Freund, our CFO, to discuss our financial results.

Ron Freund: Thank you, Eli. I would like to draw your attention to the financial statements for the third quarter of 2025. During this call, I will also discuss certain non-GAAP financial measures. Eltek uses EBITDA as a non-GAAP financial performance measurement. Please see our earnings release for the definition and the reasons for its use. I will now go over the highlights of the 2025 third quarter. All numbers mentioned are in U.S. dollars. Revenues for the third quarter of 2025 were \$13.3 million compared to \$13.5 million in the third quarter of 2024. Gross profit for Q3 2025 totaled \$1.6 million compared to \$3.5 million in 2024. Operating profit for the third quarter of 2025 was \$50,000 compared to \$1.9 million in the same period last year. We recorded financial expenses of \$0.3 million in Q3 2025 compared to financial income of \$0.3 million in Q3 2024, mainly driven by changes in the shekel exchange rate relative to the U.S. dollar, net of interest earnings on our cash reserves. Net loss for Q3 2025 was \$0.2 million or \$0.03 per share compared to net income of \$1.7 million or \$0.25 per share in Q3 2024. EBITDA amounted to \$0.6 million in Q3 2025 compared to \$2.3 million in the prior year period. In the third quarter of 2025, we generated positive cash flow from operating activities of \$2 million compared to \$1.6 million in Q3 2024. As of September 30, 2025, our cash balances totaled \$11.6 million. We are now ready to answer your questions.

Operator: [Operator Instructions] The first question is from Mark Sharogradsky Kepler.

Mark Sharogradsky: It's pretty low quarter for you. So I wanted to understand because last quarter, you said that your all operational issues was almost behind you. So how, again, you speak about the operating issues? And then when we will see the improvement of your pricing lift due to USD depreciation?

Eli Yaffe: Thank you, Mark. What we report last quarter was about the end of the construction and the dust and the erosion and the wall break and everything that is already behind us as we reported. Now the instability is due to engineering and manpower, the operator itself of the machine. So it's 2 different issues. Regarding -- what was your second question?

Mark Sharogradsky: Regarding when we will see the effect of price increases due to the lower USD?

Eli Yaffe: Usually, it takes 6 to 9 months until quotation is mature and translated to profits.

Mark Sharogradsky: I understand. And when you think you will be behind your operational difficulties?

Eli Yaffe: It's tough to say because it depends upon the absorption rate of the employees and the absorption rate of the engineering forces, which is gained from day to day. It's hard to say and hard to predict when it's going to be ended. But of course, it's our goal to reduce this period to as short as possible.

Mark Sharogradsky: Okay. I have one more question. You guided for '26, '27 gross margin in the middle term. When approximately we'll be able to reach those gross margins?

Ron Freund: So Mark, as we reported in the past, we expect to complete the integration of the new

coating line scheduled to arrive soon by the mid of 2026. And this line is expected to streamline our core manufacturing processes and expand our production capacity. We hope also to stabilize our production processes by that time and improve our gross margin. As we have noted in the past, each additional dollar of revenue contributes meaningfully to our gross profit and of course, to net income. So therefore, increasing our sales volume is expected to have a significant positive impact on this profitability.

Mark Sharogradsky: Yes, because this quarter was pretty okay on the revenue. But again, I don't understand why all time we have these operational difficulties.

Ron Freund: So I think that you should take a look at, first of all, the dollar influence, which is unpredicted and we cannot change it. But except for that, as Eli said before, our production processes are still not enough stable, and we suffer from increased raw material consumption. It is not that production stopped or do we have a problem with the machine. The efficiency is not as we wanted to be and slow. As we move forward, people gain more knowledge in exactly how to work with the new machines. And we hope that it will take us by the end -- by the middle of 2026 to solve also these problems. We are not satisfied with the result as you are, but that's the situation.

Operator: The next question is from Ran Su.

Unknown Analyst: I wanted to ask 3 questions. First of all is, can you elaborate more about the negative impact, as you said, from new competition? Second, about the price pressure you said you felt this quarter? And third question is, can we assume the negative impact from currency and foreign exchange to U.S. dollars will continue this quarter?

Eli Yaffe: Regarding your first question, the competition starts from not in Israel, competition from abroad, from the Far East, but not China. And they start to penetrate more and more to the defense sector. What was your second question?

Unknown Analyst: About the price pressure you said you felt this quarter?

Eli Yaffe: That's, of course, limited our possibility to increase the price to any level that we would like because they are in the entry level and they put some pressure mainly in the high-volume production to be in the entry level and reduce the price. I think all in the...

Unknown Analyst: Is it something sustainable?

Eli Yaffe: In the volume, there is less competition right now.

Unknown Analyst: Is it something you see as sustainable competition from the new entry?

Eli Yaffe: The new entry is going to stay. It's going to stay. The question is, what's going to be the price level? And it's hard to forecast. But right now, the entry-level pricing is hurting us. That's on high-volume production. On low volume production, there is less competition. And we have more flexibility in the pricing, as I said before. What was your third question?

Ron Freund: It was in regards to the U.S. dollar erosion. So as I hope you understand, we are getting hit by the erosion of the U.S. dollar in finance expenses, but also in the operating income. So as long as the dollar keeps to be eroded, we are going to have additional financing expenses and also our denominated expenses -- NIS-denominated expenses are going to be in a higher level. As we said previously, we hope that the new pricing will let us to cover these extra dollar expenses. But I think that you ask for the next quarter, the fourth quarter, I think that as long as the dollar is -- the exchange rate is less than it was at the end of the third quarter, then you should expect finance expenses and also operating income to be affected by it.

Unknown Analyst: So as I understand, we should feel like compounded pressure both from the top line because of the new entry and from the foreign exchange in the fourth quarter?

Eli Yaffe: The new entry guys will give us a limit to the new quotations that we can send.

Operator: There are no further questions at this time. Before I ask Mr. Yaffe to go ahead with his closing statement, I would like to remind the participants that a replay of this call will be available tomorrow on our website.

Eli Yaffe: In closing, I would like to thank the company employees and the management teams to their hard work during this time and to thank our customers and our investors for their continued support.

Operator: This concludes the Eltek Ltd. 2025 Third Quarter Financial Results Conference Call. Thank you for your participation. You may go ahead and disconnect.