

ULBI Earnings Call Transcript

Date: 2025-11-18

Quarter: 3

Operator: Good day, and thank you for standing by. Welcome to the Ultralife Corporation Third Quarter 2025 Results Call. [Operator Instructions] I would now like to hand the conference over to your first speaker today, Jody Burfening. Please go ahead.

Jody Burfening: Thank you, Latanya, and good morning, everyone, and thank you for joining us this morning for Ultralife Corporation's Earnings Conference Call for the Third Quarter of fiscal 2025. With us on today's call are Mike Manna, Ultralife's President and CEO; and Philip Fain, Ultralife's Chief Financial Officer. The earnings press release was issued earlier this morning. And if anyone has not yet received a copy, I invite you to visit the company's website, www.ultralifecorp.com, where you'll find the release under Investor News in the Investor Relations section. Before turning the call over to management, I would like to remind everyone that some statements made during this conference call contain forward-looking statements based on current expectations. Actual results could differ materially from those projected as a result of various risks and uncertainties. The potential risks and uncertainties that could cause actual results to differ materially include uncertain global economic conditions, reductions in revenue from key customers, delays or reductions in U.S. and foreign military spending, acceptance of new products on a global basis, disruptions or delays in our supply of raw materials and components due to business conditions, global conflicts, weather or other factors not under the company's control. The company cautions investors not to place undue reliance on forward-looking statements, which reflect the company's analysis only as of today's date. The company undertakes no obligation to publicly update forward-looking statements to reflect subsequent events or circumstances. Further information on these factors and other factors that could affect Ultralife's financial results is included in the company's filings with the Securities and Exchange Commission, including the latest report on Form 10-K. In addition, on today's call, management will refer to certain non-GAAP financial measures that management considers to be useful and differ from GAAP. These non-GAAP measures should be considered supplemental to corresponding GAAP figures. With that, I would now like to turn the call over to Mike. Good morning, Mike.

Michael Manna: Thank you, Jody. Good morning. Welcome to our call on Ultralife's Q3 operating results. Earlier this morning, we reported Q3 sales of \$43.4 million with an operating loss of \$1 million, including a onetime adjustment of \$1.1 million for various costs related to the final services transition of Electrochem and the planned closure of our Calgary location, which resulted in a GAAP net loss of \$0.07. In Q3, we saw revenue growth year-over-year, but faced several challenges with gross margin, primarily due to incoming supply chain quality issues, which affected product mix and line efficiencies in our Battery & Energy business. Our Communications business continues to weigh on earnings as new products are launched and sell-through gains momentum. Our overarching strategy of diversification through M&A; and new product development remains critical to stabilizing and improving the profitability as many of our existing products service components or accessories within our customer systems, giving us limited control over order timing, volume and mix. As we've grown through M&A;, periodically, we need to review our infrastructure and align it properly to serve our customers in a cost-effective manner. With that said -- with that in mind, we have decided to close our Calgary location which is a smaller facility supporting oil and gas battery packs acquired with the Excel acquisition, with production being relocated to our Houston facility. Additionally, we are progressing through a

company-wide rebranding initiative with the first phase targeted for completion in Q4. This effort will emphasize the Ultralife brand as our unified market identity, enabling more cohesive marketing efforts, stronger brand equity and reduced redundancy. Ultimately, this alignment will enhance our global position as a leading critical power provider. With that said, because of the investment in new products and our M&A activity, we continue to see large opportunities develop on both sides of our business with favorable discussions with various partners and customers. With our leveraged business model and reduced facility count, we can add significant revenue with minimal increase to overall costs. I will now turn it over to Phil to talk through the detailed numbers.

Philip A. Fain: Thank you, Mike, and good morning, everyone. Earlier this morning, we released our third quarter results for the quarter ended September 30, 2025. We filed our Form 10-Q with the SEC yesterday and have updated our investor presentation in the Investor Relations section of our website. As noted in our November 7th press release, we requested an extension to file our Form 10-Q with the SEC to allow for the completion of our accounting close for Electrochem. The service agreement under which Electrochem's former parent maintain their books and records concluded in the third quarter, and we have now transitioned Electrochem to Ultralife's information systems. A summary of our third quarter results follows. Consolidated revenues totaled \$43.4 million compared to \$35.7 million for the third quarter of 2024. Revenues from our Battery & Energy Products segment were \$39.9 million compared to \$32.5 million last year. Excluding third-party sales for Electrochem, which we acquired on October 31, 2024, sales for the segment increased 1.9% year-over-year. Government Defense sales for the 2025 quarter increased 19%, reflecting strong demand from the U.S.-based global prime. This growth was partially offset by a 5.7% decrease in commercial sales resulting from declines of 13.3% in oil and gas sales due to macroeconomic and geopolitical factors and 10.4% in medical battery sales due to the timing of orders. The sales split between commercial and government defense for our battery business was 70%-30%, almost identical to 69%-31% reported for the 2024 quarter, and the domestic to international split was 72%-28% compared to 56%-44% for the 2024 period, reflecting our acquisition of Electrochem and the heightened domestic shipments of our government defense products. Revenues from our Communications Systems segment of \$3.4 million increased to 8.2% from the \$3.2 million we reported last year. On a consolidated basis, the commercial to government defense sales split was 65%-35%, almost identical to 63%-37% for the 2024 third quarter. Our total backlog exiting the third quarter was \$90.1 million, a 6.5% increase over the \$84.5 million exiting the second quarter. The replenishment rate remains diverse in nature with commercial customers comprising approximately 55% of the backlog and government defense customers comprising the remaining 45%. Our consolidated gross profit was \$9.6 million, an increase of 10.8% over the \$8.7 million for the 2024 period. As a percentage of total revenues, consolidated gross margin was 22.2%, a 210 basis point decline from the 24.3% reported for last year's third quarter. Gross profit for our Battery & Energy Products business was \$8.8 million compared to \$8 million last year, an increase of 9.6%. Gross margin was 22.1% compared to 24.7% last year. The year-over-year reduction resulted from manufacturing inefficiencies, primarily due to quality issues associated with key incoming raw materials and components that disrupted our operations and to a lesser extent, sales mix, reflecting the declines in generally higher-margin medical and oil and gas sales. For our Communications Systems segment, gross profit was \$0.8 million compared to \$0.6 million for the year earlier period. Gross margin was 23.3% compared to 20% last year. Operating expenses were \$10.6 million, an increase of \$2.4 million or 29.4% from the year earlier quarter. The year-over-year increase is comprised of \$1.3 million related to the inclusion of Electrochem and \$1.1 million of nonrecurring costs. The onetime costs include a \$0.5 million provision to close our Calgary facility, costs related to our transition of Electrochem to Ultralife information systems and litigation costs for our cyber insurance claim. We anticipate annual savings from our closure of Calgary of approximately \$0.8 million throughout 2026. As a percentage of revenues, operating expenses were 24.4% compared to 22.9% for last year's third quarter. Excluding the onetime costs, operating expenses were 21.9% of revenues for the third quarter of 2025. Operating loss was \$1.0 million compared to operating income of \$0.5 million last year, reflecting the decline in Battery & Energy Products gross margin due in large part to quality issues on incoming materials, the onetime nonrecurring costs totaling \$1.1 million and Communication Systems delayed sales orders. Other expense reported below operating income was \$0.8 million for the quarter compared to \$0.2

million for the year earlier period, primarily resulting from the increase in interest expense on the acquisition debt and the impact of foreign currency fluctuations. Our resulting tax benefit for the third quarter was \$0.5 million compared to a provision of \$0.1 million for the 2024 quarter computed on a GAAP basis at statutory rates. Net loss was \$1.2 million or \$0.07 per share on a GAAP fully diluted basis. This compares to net income of \$0.3 million or \$0.02 per share for the 2024 quarter. Adjusted EBITDA, defined as EBITDA, including noncash stock-based compensation expense and onetime acquisition and other costs not reflected of our ongoing operations was \$2.0 million or 4.7% of sales compared to \$1.9 million or 5.4% for the prior year quarter. Adjusted EBITDA on a TTM basis is \$15.5 million or 8.3% of sales. Turning to our balance sheet. We ended the third quarter with working capital of \$66.9 million and a current ratio of 3.0 compared to \$67.9 million and 3.3 for 2024 year-end. Our liquidity remains solid. In the first 9 months of 2025, we have reduced our debt principal by \$4.1 million, which already exceeds the \$2.8 million amortization required for the full year under our debt agreement. While we do not have any draws on the \$30 million revolver portion of our debt agreement and no present plans to do so, our balance sheet provides the borrowing base capacity for this amount. In closing, we have initiated several actions, which Mike will cover, which position us to improve our gross margins, reduce redundant facilities, consolidate operations, diversify our supply chain and better promote our Ultralife brand on a global basis. These actions better position us to more fully realize the profitability leverage associated with our increasing sales funnel. I will now turn it back to Mike.

Michael Manna: Thank you, Phil, for the detailed review of the Q3 2025 results. As mentioned in our last call, our priorities remain clear for 2025. First, completion of the Electrochem transition, which over the last few quarters has been completed in full. We continue to expand vertical integration opportunities enabled by the acquisition of Electrochem, allowing us to incorporate Electrochem cells into existing pack assemblies and broaden our addressable market in areas such as pipeline inspection, seismic telemetry and sonobuoys. We are qualifying cells with several oil and gas customers to enable transition of their battery packs to utilize Electrochem cells and expect to see benefit of these efforts in 2026. Secondly, we remain focused on strengthening our sales opportunity pipeline to drive growth through 2026 and beyond, while continuing to strategically diversify our business and customer base. Our efforts are aimed not only at expanding the overall size of the funnel, but also prioritizing opportunities that can generate consistent, repeatable annual revenue. We have been reviewing our multiple brands and market initiatives and have started a company-wide branding alignment. We currently have a complex and confusing number of brands and trade names for a company of our size. This effort will reduce the redundant cost of supporting and justifying multiple brands and trade names, short messaging both internally and externally to customers that we are a global critical power provider of energy and RF products. Third, we are intensifying our efforts at improving and stabilizing gross margin through pricing, material cost deflation and lean productivity projects in both the Battery and Energy and Communications businesses. As we enter Q4, we have an external expertise to drive targeted lean exercises and process improvements at our Newark location to increase gross margin. We are closing our Calgary location which is focused on providing production -- are focused on providing production centers of excellence with all the necessary systems to support our customers and prepare for expected growth. Switching to development projects. We continue to invest in products on both sides of the business to drive revenue and opportunities for organic growth. The Communication System business is expanding the ruggedized server case portfolio to service new programs and server variants, which will provide greater opportunity to expand the market share in the ruggedized computing environment. We completed an initial design for the latest next-gen communication and control solution, utilizing our ruggedized server expertise and HPE's line of exceptional servers for AI and edge computing. Several military programs are using this solution now for possible fielding as components to the broader readiness initiatives. We showcased our new amplifier and Crescent server products at the Defense Security Equipment International Show in September, which is one of the UK and EU largest defense trade shows, where we met with multiple OEM and governmental representatives. We have sample amplifiers out with specific partners for trials currently with expected orders inbound and production shipments starting in 2026. Crescent server continues to evolve, and we have received critical feedback and direction to fully develop this tip of the spear compute capability for forward field applications with initial production expected in 2026.

Meanwhile, we are finalizing the design of our next high-performance amplifier, targeting advanced radio platforms with the latest high-speed waveforms utilized by the U.S. and Armed Forces. We have preproduction parts in-house for bench testing and final validation and expect to have preproduction units for evaluation in Q1 2026. Lastly, on the communications side of the business, we received an initial PO from an international customer for prototype electronic warfare amplifiers. This is our first project, leveraging our amplification expertise to counter electronics in the battlefield. On the Battery and Energy side of the business, we have a great deal of activity across several products with new business being the key focus. But first, I will mention we received the BA-53 battery award in Q3 for \$5.2 million, which will be delivered throughout 2026, our first sizable award for this product in over 4 years. On the new business side, I will start with the conformal wearable battery, where we have now begun shipping production quantities. We've quoted multiple large volume opportunities, mainly for international customers with expected awards for 2026 deliveries. We've passed 2 critical quality audits in our China location, the most important one being for our high-capacity thionyl chloride D cell with an opportunity in the metering space. Testing continues to go well, and we expect UL testing and validation testing to complete in Q4 with initial production volume commitments to come soon after. On the 123A side of our business, we have received a follow-on PEO from a major illumination company, which will begin deliveries in Q4 and throughout the first half of 2026. We're working on several new products for battery packs utilizing our XR123A cells, which offer a 30% increase in energy density over the standard 123A cell. As mentioned earlier, we established initial production capabilities for our thin cell technology to support customers in the medical wearable sector in various item tracking applications. The sales pipeline continues to strengthen with several projects now in the qualification phase. We are investing additional development effort in this product line with the unique cell designs that further reduce the thickness of the product while reducing manufacturing complexity with an eye on large-scale automation as we expect thin wearable sensors will continue to proliferate. We have expanded our family of X5 medical car products with the release of our latest product, a portable power bank that provides power to pole-mounted equipment or any other item that requires extended run time utilizing USB-C, mostly targeting tablet and portable computers. Production validation and certification are finishing up, and we have samples out to key partners in support of product quotations. Investing in new product development is essential to diversifying and strengthening our product portfolio, driving future growth and building our legacy of delivering critical power solutions. Our priorities remain converting long-term development product, development efforts into revenue, advancing vertical integration where possible and maintaining a strong focus on the operational efficiency initiatives. I continue to focus on the long-term projects and future of the business. And although we've had a challenging 2025, I'm confident we are making the right moves to stabilize and grow the business over the long term. As we go through the end of the year, we will enter 2026 with the Electrochem transition completed, the largest number of new products for sale ever in our Communication Systems business, multiple large opportunities for both sides of the business, a reduced North American facility count, unified back-office systems across most of North America and a strong brand architecture evolution underway. I believe we are well positioned for future growth with overall reduced operational costs. We'll go back to the operator for questions.

Operator: [Operator Instructions] And I am showing no questions at this time. I would now like to hand the call to Mike for closing remarks.

Michael Manna: All right. Well, thanks, everyone, for listening to today's call. We look forward to talking to you again next time during the Q4 2025 earnings call. Bye now.

Operator: And this concludes today's program. Thank you for participating. You may now disconnect.