

VPG Earnings Call Transcript

Date: 2025-11-04

Quarter: 3

Operator: Hello, everyone, and thank you for joining the VPG Third Quarter 2025 Earnings Call. My name is Claire, and I will be coordinating your call today. [Operator Instructions] I will now hand over to Steve Cantor from VPG to begin. Please go ahead.

Steve Cantor: Thank you, operator, and good morning, everyone. Welcome to VPG's Third Quarter 2025 Earnings Conference Call. Our Q3 press release and accompanying slides have been posted on our website at vpgsensors.com. An audio recording of today's call will be available on the Internet for a limited time and can also be accessed on the VPG website. Today's remarks are governed by the safe harbor provisions of the 1995 Private Securities Litigation Reform Act. Our actual results may vary from forward-looking statements. For a discussion of the risks associated with VPG's operations, we encourage you to refer to our SEC filings, especially the Form 10-K for the year ended December 31, 2024, and our other recent SEC filings. On the call today are Ziv Shoshani, CEO and President; and Bill Clancy, CFO. I'll now turn the call to Ziv for some prepared remarks. Please refer to Slide 3 of the quarterly presentation. Ziv?

Ziv Shoshani: Thank you, Steve. I will begin with some commentary on our results and trends for the third quarter. Bill will then provide financial details about the quarter and our outlook for the fourth quarter of 2025. Moving to Slide 3. Beginning with revenue, third quarter revenue of \$79.7 million grew 6.1% from the second quarter and was up 5.3% from the prior year. Total bookings of \$79.7 million were at similar levels with the second quarter, reflecting mixed but stable global trends. Strong double-digit growth in Sensors offset lower orders for Weighing Solutions and Measurement Systems sequentially. Our consolidated book-to-bill was 1.0, marking the fourth sequential quarter with a book-to-bill of 1.0 or higher. Our Sensors and Measurement Systems segment reported a book-to-bill of 1.07 and 1.04, respectively. Our adjusted gross margin of 40.5% reflected improved in the Sensors segment and another record quarter for Weighing Solutions segment. However, consolidated gross margin included a significant impact from unfavorable FX and product mix, which offset the effect of the higher sequential revenue. We achieved an adjusted operating margin of 6.2%, which improved compared to both Q2 and the prior year. We continue to make progress with our long-term business development and cost optimization initiatives. This translated into a solid cash generation with \$9.2 million in adjusted EBITDA and \$7.4 million in adjusted free cash flow. We successfully mitigated the impact of tariff cost to a price adjustments to our customers and do not believe tariffs impacted demand. Moving to Slide 4. Beginning with our Sensors segment, third quarter revenue increased 19.1% sequentially, reflecting higher sales of precision resistors in the Test and Measurement and AMS and higher sales of strain gages in the General Industrial market. Sensor bookings rose 13.5% sequentially, reaching the highest level in 12 quarters and resulted in a book-to-bill of 1.07. The bookings growth was driven by demand from precision resistors for semiconductor test and AMS applications. We expect this momentum to continue in the fourth quarter as some distributors replenish inventories for AMS applications. Regarding humanoid robots, we are optimistic about the long-term potential for VPG in the emerging markets. While humanoid robots market is still in its infancy and initial real-world deployment of this robot is expected in 2026, we believe we are in a good position in high-performance niches for our sensor technology. We received \$1.8 million in orders from July to October related to our two current humanoid developer customers. This included prototype orders of

approximately \$600,000 from our second humanoid customer in October. This brings the total orders year-to-date to approximately \$3.6 million related to humanoid projects. We are also in the initial discussions with additional developers of humanoid. Moving to Slide 5. Moving to our Weighing Solutions segment. Third quarter sales decreased 6.4% from the second quarter. The decline reflected lower sales in the transportation market as well as in the construction and precision ag equipment markets. Weighing Solutions orders of \$24.5 million were about 10% lower compared to the second quarter, resulting in a book-to-bill of 0.89. Order trends for Weighing Solutions softened but were at stable levels. Moving to Slide 6. Turning to our Measurement Systems segment. Revenue in the third quarter of \$20.6 million increased 7.3% sequentially. The increase reflected higher sales to the steel market of our KELK and DSI products. Third quarter Measurement Systems orders of \$21.4 million decreased 6.9% sequentially, and resulted in a book-to-bill of 1.04. The lower sequential bookings reflected ongoing softness in DTS due to delays related to defense and space government projects. We expect delays in some of these defense projects to continue into the fourth quarter due to the U.S. government shutdown. We were pleased to receive an order from Stoney Brook University for the beta of our new UHTC system. This is the second university which ordered the system. This system designed to perform band testing on nonconductive materials such as ceramics, which are used in critical high-performance applications such as hypersonic missiles in aerospace as well as in avionics, energy and industrial applications. Moving to Slide 7. I'll now provide an update on our strategic priorities for 2025. First, we generated approximately \$26 million in business development orders through the first 9 months of this year, which put us on track to achieve our \$30 million goal for 2025. Second, regarding our cost efficiency goals for 2025, we expect to have in place \$5 million of annualized cost reductions by the end of this year. We also continue to execute our ongoing operational efficiency plans with the sale of a building in July. Third, we also continue to look for attractive M&A opportunities. Our strategic priorities are designed to increase growth and profitability. They reflect several years of focused investments and have built strong foundation to reach our long-term financial goals even on a lower revenue than we originally expected. As VPG enters this next phase, we are expanding our senior leadership team with two new C-suite roles. We have appointed Yair Alcofi to the newly created position of Chief Business and Product Officer, responsible for overseeing sales, marketing, product strategy and business development. Yair brings considerable experience in accelerating growth and profitability from his previous executive leadership roles at leading industrial tech companies, including in the semiconductor test market for KLA-Tencor, among others. We have also appointed Rafi Ouzan to the newly created role of Chief Operating Officer to lead VPG's manufacturing and our operational excellence initiatives. Rafi has more than 30 years of experience in key executive and operational roles for VPG and Vishay Intertechnology, including as Senior Vice President and Head of our Weighing Solutions segment. I want to welcome these two executives to our senior team and look forward to their contributions to delivering business excellence and execution, which are prime strategic trusts for VPG. Yair and Rafi will help drive our focused mainstream global trends, increase the speed of innovation and R&D; and leverage our strong brands. I believe these new positions will enhance and accelerate value to our customers and stockholders and will also allow me to focus on continuing to build a dynamic culture supporting future growth and scalable M&A strategy. In summary, we are pleased with the solid quarter. We see stable, moderately improved business environment. We are making organizational changes that align our reporting segment to accelerate top line growth and strengthen our operational excellence. We are continuing to make progress with our business development initiatives, including supporting our humanoid customers. I will now turn it over to Bill Clancy. Bill?

William Clancy: Thank you, Steve. Referring to Slide 8 and the reconciliation tables of the slide deck, our third quarter 2025 revenues were \$79.7 million. Adjusted gross margin was 40.5% in the third quarter. Compared to 41% in the second quarter, the third quarter gross margin was impacted by \$600,000 of unfavorable foreign exchange and \$800,000 from unfavorable product mix, which offset higher volume and tariff-related net price adjustments. Sequentially by segment, adjusted gross margin for the Sensors of 33.7% increased primarily from volume and tariff-related net price adjustments, partially offset by a decrease in inventories and unfavorable foreign exchange rates. The Weighing Solutions adjusted gross margin of 40.3% increased slightly from the second quarter and reached an

all-time record, primarily reflecting tariff-related net price adjustments and cost reductions, partially offset by lower volume. The gross margin for the Measurement Systems of 51.1% declined from the second quarter due primarily to unfavorable product mix. Moving to Slide 9. Our adjusted operating margin was 6.2% which excluded start-up costs, restructuring costs and purchase accounting adjustments amounting to \$362,000 and the gain on the sale of a building of \$5.5 million. This improved from 4.8% in the second quarter of 2025. Selling, general and administrative expenses for the third quarter was \$27.2 million or 34.2% of revenues, which decreased from \$27.7 million or 36.9% of revenues for the second quarter of 2025. The operational tax rate in the third quarter was 26%. And for the full year of 2025, we are forecasting an operational tax rate of approximately 28%. We reported net earnings of \$7.8 million or \$0.58 per diluted share. Adjusted net earnings for the third quarter was \$3.5 million or \$0.26 per diluted share, compared to \$2.3 million or \$0.17 per diluted share in the second quarter of 2025. Moving to Slide 10. Adjusted EBITDA was \$9.2 million or 11.5% of revenue, compared to \$7.9 million or 10.5% of revenue in the second quarter. CapEx in the third quarter was \$2.2 million. For the full year of 2025, we are forecasting \$10 million for capital expenditures. We increased our adjusted free cash flow to \$7.4 million for the third quarter from \$4.7 million in the second quarter. As of the end of the third quarter, our cash position was \$86.3 million, and our long-term debt was \$20.5 million, giving us a net cash position of \$65.8 million. This reflects the debt paydown of \$11 million from the proceeds of the sale of a building in July. Regarding the outlook, for the fourth fiscal quarter of 2025 at constant third fiscal quarter 2025 exchange rates, we expect net revenues to be in the range of \$75 million to \$81 million. In summary, we grew sales quarter-to-quarter and year-to-date. We continue to improve our operating margin, which reflect our cost reduction and efficiency programs. And we remain excited about the potential of our business development initiatives, particularly in humanoid robotics. With that, let's open the lines for questions. Thank you.

Operator: [Operator Instructions] Our first question comes from John Franzreb from Sidoti.

John Franzreb: Ziv, I guess I'm kind of curious, firstly, about maybe the disconnect that we're seeing in the Weighing Solutions business. And by that, I mean, the book-to-bill has been below 1 for a couple of quarters, but the revenues kind of held up relatively well. Is that becoming a shorter cycle business? Or maybe you could provide some color there?

Ziv Shoshani: Sure, absolutely. Regarding Weighing Solutions. The Weighing Solutions business relies on a few pillars. First, we have the OEM business, which is encompass -- which consists of precision ag and construction. Those large companies, given the interest rates and the environment, do see a significant slowdown. On the other hand, the general industrial or the general -- sorry, the general weighing business, that's the other piece is very much linked to the industrial sector, which is also fairly stable. On the -- regarding the on-board weighing, the main driver there is the European economy, which is improving, but we have, to an extent, the seasonal effect for Q3. Regarding the overall bookings for this segment, we see a fairly stable environment, but still the larger companies do not see a significant upside from demand. And what we mainly see is the replenishment of the pipeline -- of the queue in the pipeline.

John Franzreb: And the record gross margin of 40.3%, is that a sustainable number on an annualized basis? I get there should be some seasonality in Q4. But how should we think about that going forward into 2026?

Ziv Shoshani: There are significant cost reduction initiatives in this segment as we continue to streamline our manufacturing from other parts of the world to India. So given the continuous operational excellence, I would say, initiatives at a similar revenue level, this gross margin is sustainable.

John Franzreb: That's excellent to hear. And just sticking on the cost savings topic, you expect \$5 million to be realized by the end of the year, and I assume that's on an annualized basis. But what's the year-to-date, how much of that \$5 million has been realized?

Ziv Shoshani: We do expect to meet the \$5 million by the end of the year, and you are correct, this is an annualized number. And by now, we already reached \$4 million.

John Franzreb: And you touched on the -- No, I heard you. And on the humanoid robotics topic, you mentioned that you expect more shipments in 2026. Can you give us a sense of what kind of ramp that you expect to see? And will you need to add any manufacturing square footage to meet that demand?

Ziv Shoshani: Absolutely. As I indicated, year-to-date, we have received \$3.6 million of orders from two

humanoid suppliers -- customers. One, we are ahead with the design and the other, we are in the prototype levels. Already now, there are some discussions regarding higher volume production, and there are discussions between us and our customers regarding VPG capability to support higher volume manufacturing. At this point in time, and unfortunately, I cannot get to specifics, but there are discussions. We don't know what is the ramp-up time and how quickly they are going to ramp up, but they are preparing for a higher volume application. And when time comes, they will -- we will continue to have this conversation and to be prepared to support our customers.

Operator: Our next question comes from Josh Nichols from B. Riley.

Josh Nichols: Good to see the orders from the two humanoid customers. You mentioned briefly on the call that you're in discussions with other potential customers as well. Do you think there's opportunities to bring at least one new customer into the fold over the next couple of quarters? Or where are you in those early additional customer discussions today?

Ziv Shoshani: We are in the engineering dialogue providing or discussing a certain solution or a certain sensing solution to their humanoid. I would say that we don't have such a visibility to know exactly when they would approve the design even with some of the earlier discussions. Our customers have continued to change the design. They didn't freeze the design. It took them quite some time. So it's hard to tell. But I think that the main thing is that our customers do see and believe that VPG can provide value added when it comes to those sensing solutions. And this is why they approach us, and this is why they are ready to -- or they would like to work with us for their applications. So those are definitely good signs, but it's very hard to know exactly where we are in the design stage given their, I would say, proprietary process.

Josh Nichols: Fair enough. And again, for these new business development initiatives, \$26 million for the first 9 months on track to hit \$30 million. Does that imply some additional expected humanoid orders in the fourth quarter? Or is that coming from other new areas of the business like ceramics overall?

Ziv Shoshani: The \$26 million are coming from very different applications, humanoid is part of them. We have also -- as you indicated, the ceramics, we have also some other designs for semiconductor back-end testing for, I would say, fiber optics. It comes from many, many different new applications across the complete company, across all the divisions.

Josh Nichols: And then last question for me. I think you mentioned there was a little bit of softness related specifically for defense associated with like the U.S. government shutdown and that's likely to continue into 4Q. Any way you could quantify the impact to 3Q or what type of impact do you expect that to have to 4Q based on the guidance that you kind of laid out?

Ziv Shoshani: Sure, absolutely. We believe that given the U.S. government shutdown, the effect is going to be mainly on our Measurement Systems division, I would say, more specifically on the -- for DTS product line, where we know that we -- I mean, there is a challenge having discussions or placing orders or shipping. So I would say that I would be a little bit more cautious to put a number, but it definitely will be -- this -- the effect will be at least in the hundreds of thousands of dollars, if not more. But that's really the kind of the ballpark.

Operator: [Operator Instructions] We currently have no further questions. So I'll hand back to Steve Cantor for closing remarks.

Steve Cantor: Before we conclude, I want to note that VPG will be presenting at the Three Part Advisors IDEAS Conference later this month, and the Sidoti Virtual Conference in December, and you can contact me for more details. And with that, we thank you for joining our call, and we look forward to updating you next quarter.

Operator: This concludes today's call. Thank you all for joining. You may now disconnect your lines.