

Ralliant Corporation NYSE:RAL

FQ4 2025 Earnings Call Transcripts

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S&P Global Market Intelligence Estimates

	-FQ4 2025-			-FQ1 2026-	-FY 2025-			-FY 2026-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS
EPS Normalized	0.66	0.69	▲4.55	0.51	2.67	2.69	▲0.75	2.70
Revenue (mm)	545.43	554.60	▲1.68	511.13	2059.07	2068.80	▲0.47	2167.62

Currency: USD
Consensus as of Feb-05-2026 4:10 PM GMT

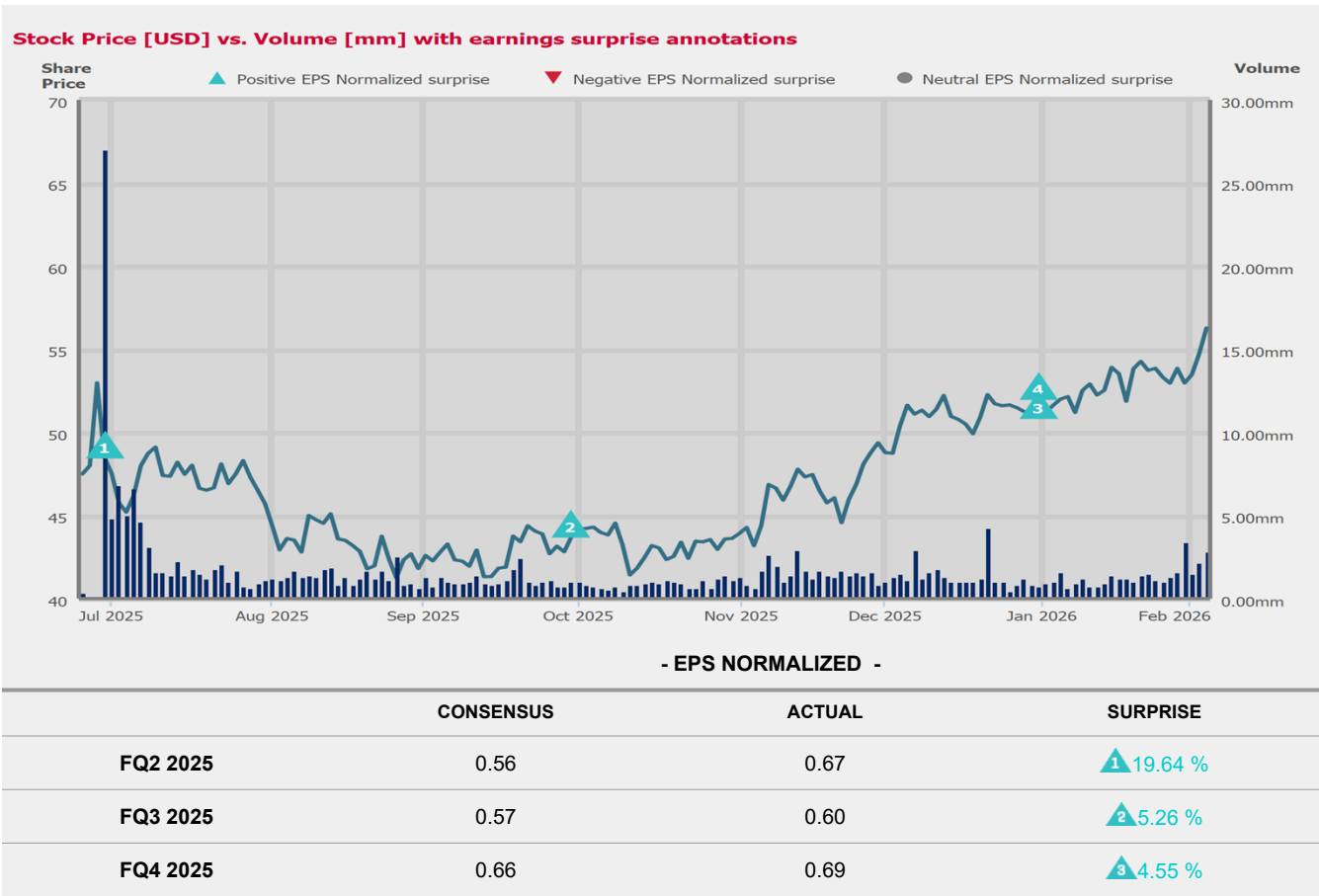


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Call Participants

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Tamara S. Newcombe

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Presentation

Operator

Hello. My name is Donna, and I will be your conference facilitator this morning. At this time, I would like to welcome everyone to Ralliant Corporation's Fourth Quarter and Full Year 2025 Earnings Results Conference Call. [Operator Instructions] I would now like to turn the call over to Mr. Nathan McCurren, Vice President of Investor Relations. Mr. McCurren, you may begin your conference.

Nathan McCurren

Vice President of Investor Relations

Thank you, Donna. Good morning, everyone, and thank you for joining Ralliant's Fourth Quarter and Full Year 2025 Earnings Call. I'm Nathan McCurren, Vice President of Investor Relations. Today, we'll walk through our results, highlight key operational progress and provide our outlook for the first quarter and full year 2026.

I'm joined today by Tammy Newcombe, our President and Chief Executive Officer; and Neill Reynolds, our Chief Financial Officer. Our earnings release issued yesterday and today's presentation can be accessed on the Investors section of our website at ralliant.com.

Please note that we'll be discussing certain non-GAAP financial measures on today's call. A reconciliation of these items to U.S. GAAP can be found in the appendix to our presentation. During today's call and unless otherwise stated, we're comparing our fourth quarter 2025 results to the same period in 2024.

During the call, we will make forward-looking statements, including statements regarding events or developments that we expect or anticipate will or may occur in the future. These forward-looking statements are subject to a number of risks and uncertainties, and actual results might differ materially from any forward-looking statements we make today. Information regarding these risks and uncertainties is available in our information statement filed with the SEC on May 28, 2025, our quarterly report on Form 10-Q filed with the SEC on November 6, 2025, and our annual report on Form 10-K for the year ended December 31, 2025, to be filed later with the SEC.

With that, I'd like to turn the call over to Tammy.

Tamara S. Newcombe

President, CEO & Director

Thank you, Nathan. Good morning, everyone. Thank you for joining us for Ralliant's Fourth Quarter and Full Year 2025 Earnings Call. Before we get into the numbers, I want to take a moment to recognize our teams for the incredible work they have done to establish Ralliant as a stand-alone public company and position us well for the future. That progress sets the stage for today's discussion.

I'll start with a high-level overview of our financial performance, share how we're building on our momentum and discuss where we're investing for growth. I'll then turn it over to Neill to walk through the details of our results and outlook before I come back to close and, of course, open it up for questions.

Let's turn to the key takeaways from the quarter on Slide 5. 2025 was a pivotal year. We sharpened our long-term strategy, ramped innovation across the portfolio and strengthened our culture to inspire growth and execution. In the fourth quarter, we exceeded our revenue guidance with stable to improving trends across most of our end markets. Adjusted EBITDA and adjusted EPS were both at or above the high end of our guidance ranges, another clear demonstration of our operating discipline. We delivered strong free cash flow with a conversion above our long-term target. As we look ahead to 2026, we are well positioned with secular growth drivers, a healthy balance sheet and clear strategic priorities guiding where we invest to create long-term value.

Drilling down into our Q4 financial results on Slide 6. Revenue was \$555 million, a 1% improvement year-over-year. Consistent with our expectations to start the year, we showed sequential improvement every quarter with 5% sequential growth in Q4. The Sensors & Safety Systems segment grew year-over-year across all end markets. A record quarter of revenue in our Defense and Space end market was driven by replenishment of missile programs. The utilities market continues to benefit from secular tailwinds and multiyear CapEx cycle focused on energy grid expansion. Industrial manufacturing, while uneven, is improving as customers gain more confidence in their markets.

In Test & Measurement, revenue sequentially improved again this quarter. Improvement was led by communications for data centers, defense and research. Diversified Electronics has shown early signs of broad-based improvement with health signals from our

distributor network. And our semiconductor revenue remains variable, dependent on customer-specific exposure. Adjusted EBITDA margin of 20.8% and adjusted EPS of \$0.69 reflects revenue slightly above expectations and disciplined operational execution. We also generated robust free cash flow, finishing the year at a 117% conversion rate. We continue to have a healthy balance sheet with net leverage of 1.9x adjusted EBITDA, in line with our target leverage range.

Next, turning to Slide 7. The chart shows our revenue growth improvement over the course of the year. Let me discuss that by region. North America has trended positively with improvement across nearly all end markets. Western Europe saw a notable improvement, particularly in Test & Measurement, returning to year-over-year growth in the fourth quarter. China macro leading indicators have shown signs of recovery, but we expect continued pressure from export controls in an uncertain environment. Rest of World was our best-performing region in the year with outsized growth in Q4, primarily driven by customer wins in Korea, the Middle East and Africa. This sequential revenue improvement is fueled by secular tailwinds in several of our core markets.

On Slide 8, I will outline our 2025 end market mix and revenue growth. The final column reiterates the market growth expectations we shared at our June Investor Day. I'll start with the Sensors and Safety Systems segment, which is approximately 60% of our overall business. Industrial manufacturing is our largest end market and where millions of precision sensors are embedded in critical customer workflows and solutions. Despite uneven conditions, we saw selective areas of strength during the year, led by North America. We expect a gradual global recovery consistent with our Investor Day expectations.

The Defense and space market is poised to outperform long-term market growth expectations this year. We are well positioned to win future contracts as a key supplier on critical missile defense programs. The utilities market is supported by durable infrastructure investment in grid modernization and reliability, reinforcing growth above our long-term expectations.

Shifting now to Test & Measurement segment, which is about 40% of our revenue. Our largest end market is diversified Electronics, representing approximately half the segment, and it is showing broad-based stabilization. Early indicators include improving quote activity and a healthy distributor inventory levels, which we expect to further develop in 2026. The communications market has continued to improve sequentially as customers increase investment in our new high-performance oscilloscope platform and probing technologies that support research, data center and aerospace and defense applications. Global semiconductor customer spending, while improving primarily in AI-related applications remains uneven. In 2025, results benefited from a large customer project that completed its production cycle in the third quarter and is not expected to repeat this year. Excluding that dynamic, we are seeing pockets of improvement in the semi market as we enter the year.

To win across these end markets, we are committed to executing our profitable growth strategy, which I will cover on Slide 9. There are 3 pillars to our strategy. First, operating discipline through RBS Everywhere. The Ralliant Business System is the foundation of how we run the company. It makes work visible, creates shared language and reinforces accountability. We are enhancing our RBS toolkit with AI to accelerate learning and execution. Second, our stronghold positions. We continue to deepen our leadership positions in target markets where we have an expansive customer installed base and long-standing loyalty. Third is winning growth vectors. We are expanding our presence in attractive markets such as defense, energy and electronics to contribute to higher long-term growth across the portfolio.

Slide 10 highlights our competitive differentiation and how we are partnering with our customers across these winning growth vectors. In the Defense Technologies growth vector, PacSci EMC achieved record revenue in the fourth quarter with continued backlog build, highlighting the strong demand in defense programs where we are an embedded supplier. Using RBS augmented by AI, we are reducing turnaround times on customer proposals, strengthening our supply chains, automating and expanding our production.

In the grid modernization growth vector, Qualitrol was selected by one of the world's largest cloud providers as a global standard to make its data center assets more reliable, visible and resilient. This reflects both the capability of our technology and the growing need for deeper visibility into the health of critical assets. Our condition-based monitoring solutions combine sensors, data aggregators, monitoring software and analytics into a fully integrated solution that enables customers to detect and manage early warning signals before affecting operations.

In the power electronics growth vector, Tektronix has partnered with an AI robotics company that brings humanoids to life. This requires the validation of electronics that turn intelligence into motion, helping AI to move from software algorithms into real-time control of motors, actuators and sensors. In effect, translating digital intelligence into precise physical action where performance, safety and reliability are essential. These customer wins demonstrate that our technology innovation and RBS are clear differentiators to expand our presence in our winning growth vectors.

On Slide 11, I'll share our investments that support our profitable growth strategy. As we shared at our last Investor Day and have since reiterated, our top capital allocation priority is organic investment to enhance our long-term growth. We mentioned last quarter that we expect CapEx to be 2% to 3% of revenue in 2026, up from about 2% historically as we invest in more growth CapEx.

We've also taken growth investment into account in our incremental EBITDA margins that Neill will discuss shortly. This investment is focused on commercial, innovation and manufacturing. First, I'll begin with commercial execution. Our competitive advantage is rooted in decades of domain expertise with over 90,000 customers. To better serve and reach these customers, we are investing in sales resources and augmenting with AI and a digital platform.

Second, we are investing in innovation acceleration to shorten development cycle times, increasing the velocity of new products. We're deploying platform architectures that enable faster product refresh cycles and serve adjacent applications with less engineering investment. We are also innovating with new business models that have the potential to expand customer lifetime value.

Third, we're investing in manufacturing agility. Following multiyear outsized growth with our defense and utilities customers, we've begun to selectively expand our footprint to increase capacity while we continue to leverage RBS to drive productivity in our existing footprint.

Next, I'll turn it over to Neill to go over our financial results and provide guidance and insights on Q1 and the full year of 2026.

Neill P. Reynolds
Senior VP & CFO

Thank you, Tammy. Good morning, everyone. Please turn to Slide 13. During Q4, we generated \$555 million in revenue, up 1% year-over-year and flat on an organic basis. Healthy demand across the Sensors and Safety Systems segment, coupled with enterprise-wide pricing actions were mostly offset by lower Test and Measurement volume.

Before I go through the remainder of the results, I want to briefly address the \$1.4 billion noncash goodwill impairment that we recorded during the fourth quarter in connection with our annual goodwill impairment testing. As previously discussed, the EA Elektro-Automatik business, which was acquired in January 2024 as part of Fortive, has experienced electric vehicle demand headwinds and is now trending below previous expectations. As a reminder, EA was purchased for EUR 1.6 billion or the equivalent of approximately USD 1.7 billion at that time. When you consider FX movement since the time of the acquisition, the carrying value for EA included in the Test & Measurement segment was approximately USD 1.8 billion immediately prior to the impairment. Due to the slower-than-anticipated progression and recent reduction in industry forecasts of future EV adoption, we have revised our long-term revenue and operating profit expectations lower as part of our annual long-range planning process, which is leveraged in our standard goodwill impairment testing actions. The noncash charge has been excluded from the adjusted results presented in the press release and presentation published yesterday, which I will now discuss.

Adjusted EBITDA margin in the fourth quarter was 20.8%. As expected, this was a year-over-year decline due to lower Test & Measurement volume and a step-up in operating expenses, primarily related to stand-alone public company costs and higher employee costs such as health care. Sequentially, adjusted EBITDA margin increased 40 basis points, driven by higher revenue and our cost savings program, partially offset by an increase in operating expenses. Our cost savings program is on track to achieve \$9 million to \$11 million run rate of annualized savings by the end of 2026. In the fourth quarter, we delivered \$1 million of savings or an approximate \$4 million annual run rate.

Adjusted diluted EPS was \$0.69, a 15% sequential increase, driven mostly by operating leverage on higher revenue and lower-than-expected tax expenses. This was a year-over-year decline as expected, driven by lower adjusted EBITDA and an increase in interest expense, which was not incurred prior to separation. Our free cash flow for the quarter was \$92 million, driven by disciplined capital expenditures and net working capital management, leading to a conversion rate of 117% over the trailing 12 months, which remains above our long-term target of greater than 95%.

On Slides 14 and 15, I'll provide more color on our segment performance and end market trends. In Sensors and Safety Systems, Q4 revenue grew by 6% year-over-year and 3% sequentially. All end markets within the segment had mid-single-digit or better revenue growth. Defense and Space revenue increased 5% year-over-year, driven by robust demand and an increase in shipments while backlog continues to grow. Utilities grew 6% year-over-year, driven by secular growth in grid modernization and expansion driven by electrification and data center demand. Industrial Manufacturing was up 6% year-over-year as we continue to see pockets of growth. We're seeing ongoing positive activity in North America and saw improvement in Western Europe throughout the year. Adjusted EBITDA margin for Sensors and Safety Systems was 28%, a 280 basis point step down, primarily due to higher employee costs.

Turning now to Test & Measurement. Revenue for T&M was \$217 million, a decline of 6% year-over-year. Sequentially, revenue grew 7%. Diversified Electronics, which represents roughly half of T&M, declined year-over-year, primarily due to more cautious customer CapEx spending in 2025. However, we saw revenue stabilize and start to gradually improve, leading to 10% sequential growth in the quarter. Communications grew 29% year-over-year and 36% sequentially.

In semi, as Tammy mentioned, we have worked through backlog on a product line related to a large customer project, which we do not expect to repeat in 2026. More broadly in semi, orders have been stable to improving throughout the year. Test & Measurement adjusted EBITDA margin grew 200 basis points sequentially with strong incremental margins and disciplined cost management. Year-over-year adjusted EBITDA margin declined by 310 basis points amid lower volume and higher employee costs.

Turning to our balance sheet and cash flow highlights on Slide 16. We ended the quarter with \$319 million in cash and cash equivalents, net of payments to Fortive of \$34 million related to the separation. Despite these cash obligations, we kept our net leverage at 1.9x adjusted EBITDA.

Before turning to guidance, I want to remind everyone of our capital allocation priorities on Slide 17. Our top priority remains organic reinvestment. As Tammy mentioned, we are focused on investing in commercial, innovation and manufacturing. Our next priority is returning capital to shareholders. Last week, our Board of Directors authorized our next quarterly cash dividend of \$0.05 per share. We also have a \$200 million share repurchase authorization fully remaining. We continue to actively monitor the M&A landscape and build our funnel of potential tuck-in acquisitions. We are committed to balancing these capital allocation priorities against our target cash balances and our long-term net leverage target of 1.5 to 2x adjusted EBITDA.

And now turning to our outlook for the first quarter and full year 2026 on Slide 18. For the first quarter of 2026, we expect revenue of \$508 million to \$522 million or 5% to 8% year-over-year growth, including about 2 percentage points of FX favorability. The sequential step down from Q4 is in line with typical seasonality. As a reminder, Q4 is typically our highest revenue quarter, while Q1 is typically our lowest revenue quarter each year. We expect adjusted EBITDA margin of 17% to 18%. The step down year-over-year is mostly due to higher operating expenses and investments in our growth strategy, partially offset by the benefit of operating leverage on higher revenue. Sequentially, this represents a 330 basis point decline at the midpoint, driven by the seasonal step down in revenue, a small increase in costs as incentive compensation resets to target levels as well as the initiation of organic investments.

I'll note that our tariff assumptions are based on policy announcements as of January 30. With current policies, we expect to continue to fully offset the cost of known tariffs throughout the year. Adjusted EPS is expected to be \$0.46 to \$0.52 per share in the quarter. For the full year, we expect revenue of \$2.1 billion to \$2.2 billion, adjusted EBITDA margin of 18% to 20% and adjusted EPS of \$2.22 to \$2.42 per share. I will note that we have included tables in the appendix of our presentation that show full year 2025 results for your comparison.

This revenue range represents year-over-year growth of 2% to 6% on track with our long-term organic revenue growth target of approximately 3%. Consistent with typical seasonality, we expect to see sequential quarterly increases in revenue throughout the year. Adjusted EBITDA margin of 18% to 20% reflects a 50 to 250 basis point decline year-over-year on a reported basis. Following the spin, we have had structural changes to our operating costs. Given the midyear timing of our spin last year, I want to give a little color to help with year-over-year comparisons for modeling purposes.

In the second half of 2025, we had a ramp in operating expenses, as we have discussed. These are now included in our run rate. And as such, we will be lapping lower pre-spin costs through the first half of 2026. This equates to an approximately 250 basis point year-over-year headwind for the full year of 2026. Excluding this headwind, we expect a 40% to 45% incremental adjusted EBITDA margin in 2026 on a like-for-like basis. This is above our long-term target of 30% to 35% incremental margin and is driven by strong operating leverage on revenue growth and continuing to ramp our cost savings program. I will note, this includes the investment in our growth strategy that Tammy walked you through. We expect to continue to generate strong free cash flow with conversion remaining over 95% on a trailing 12-month basis throughout the year, inclusive of a CapEx at 2% to 3% of revenue.

With that, I'll turn it back to Tammy to reinforce our key takeaways for the quarter.

Tamara S. Newcombe
President, CEO & Director

Thank you, Neill. Let me wrap our prepared remarks on Slide 20. 2025 was a pivotal year as we became a stand-alone public company and charted our course for outperformance. From the announcement of our separation in September 2024 to creating our leadership team and Board of Directors to fulfilling our public company commitments, the team has stayed focused on ensuring we meet our customers' needs and create shareholder value. We completed our separation earlier than anticipated and immediately launched

a focused cost savings program aimed at offsetting post-spin dis-synergies. We established a quarterly dividend and our Board authorized \$200 million of share repurchases, reinforcing our commitment to returning capital to shareholders.

During this time, we delivered on our financial commitments despite a year with a dynamic macro backdrop. We set guidance as a public company and delivered our first 2 quarters as a stand-alone enterprise with all metrics at or above the high end of our guidance ranges. We have confidence as we enter the year with the separation behind us, strong secular tailwinds at our back and strategic clarity on growth investments.

As I wrap, a big shout out to our approximately 7,000 employees around the globe for their ownership and grit to win as one team. Operator, please open the line for questions.

Question and Answer

Operator

[Operator Instructions] Our first question is coming from Julian Mitchell of Barclays.

Julian Mitchell

Barclays Bank PLC, Research Division

Maybe I wondered if you could flesh out the segment cost growth and how you see that playing out? And what the main focus points are?

Tamara S. Newcombe

President, CEO & Director

Thank you very much, Julian. I'll address your question. In context of the targets that we set at spin, which was our Investor Day in June as well as our growth strategy and to start, we remain confident in the targets that we shared at Investor Day. And just as a reminder, through cycle, we talked about revenue growth of 3% to 5%, 3% of that organic and then low 20s to mid-20s on adjusted EBITDA. That remains our target. And this year, our first capital allocation priority was around executing our growth strategy and investing in that organic growth. So as you heard in the prepared remarks, we're -- we're fueling some of that across innovation, manufacturing and commercial. And then as I look out on the horizon and the annual guidance that we gave, we gave a range of year-over-year growth. And if you think about the midpoint of that range, think about our Sensors and Safety Systems, a little bit on the higher end of that range, and they have the stronger adjusted EBITDA margins, also where we're going to do most of the growth investments and then think about our Test & Measurement a little below that expectation, which puts them in the -- we talked about Test & Measurement mid-teens to the low 20s from an adjusted EBITDA. It would put them in the low end of that range.

So that's what we're seeing over the next 12 months and wanted to give that guidance to everyone.

Julian Mitchell

Barclays Bank PLC, Research Division

That's very helpful. And just to try and understand how much reinvestment or top-up is sort of contemplated here. You have the step-up to standup costs you talked about in midyear. Now we have the step-up on the segment costs. Maybe just flesh out kind of what you learned and why we're hearing about this now.

Neill P. Reynolds

Senior VP & CFO

Yes. So thanks, Julian, this is Neill. A couple of things on that. So if you go back and see kind of where we landed, obviously, we've only spun 2 quarters ago. We're gaining more experience bringing the company. And that's actually one of the reasons we wanted to give the full year guide to everyone here to help with modeling purpose to really kind of catch that investment as we start to look forward. As you think about the investment, more geared towards Sensors and Safety Systems, where we think about higher growth rates over time, thinking about utilities, thinking about defense and areas where we feel we've got really nice tailwinds. So we'll continue to invest in those and look to increase the growth rates and I think get very nice returns on that.

Narrowing that down to being a bit more specific, baked into that guidance for '26 is about -- at a company level, about 50 to 100 basis points of reinvestment back into the business, and it's incorporated into the margin numbers that we talked about.

Operator

The next question is coming from Deane Dray of RBC Capital Markets.

Deane Michael Dray

RBC Capital Markets, Research Division

It was hoping to get some clarification on this 250 basis points headwind. How does that spread across the quarters? Is it front-end loaded? Or should we -- are you expecting -- does that get spread evenly across the year?

Neill P. Reynolds

Senior VP & CFO

Yes. So great question. I'll hit that. So I think if you look at the cost structure of the business, there's obviously lots of puts and takes, number of days in the quarter can change things in terms of what we see. So you can see a little bit of lumpiness there. I think what we're trying to say here is previously, I think back in the 2Q call, we talked about a run rate to leverage about \$170 million a quarter. What we're saying now is that's about \$175 million a quarter. So that gets you closer to \$700 million or so of OpEx for the year when you think about 2025. And then as we move into 2026, I would only think about a modest increase as we're thinking about some of the reinvestment. We obviously leverage RBS everywhere. The teams are working on productivity programs related to operating expenses and our cost of sales on a regular basis. So I wouldn't see it stepping up much further from here. But I think that's -- I think the \$175 million a quarter, which gets you closer to the \$700 million, that includes our corporate stand-up costs as well. That's a better, I think, jump-off point as to how we think about leaving '25 and going to '26. That would translate to the 250 bps.

Deane Michael Dray
RBC Capital Markets, Research Division

Got it. And then just in terms of putting the impairment in context, I mean that's a sizable write-off for the investment in EA. Can you just take us through any other implications in the business? Are there other Test & Measurement businesses vulnerable here? It's just -- the magnitude of the write-off was really surprising given how recently the business had been acquired.

Neill P. Reynolds
Senior VP & CFO

Yes. And this is -- we went through this in the prepared remarks. So this was primarily related to EA. I would read into other parts of Test & Measurement as a kind of a general statement. So looking at the write-down, we obviously spun 2 quarters ago, as I mentioned earlier. We've had some time to evaluate the strategy, evaluate the business. We've been working through that, obviously, and we saw some of the areas we've refined and we're looking forward in terms of advancing forward into 2026. But what changed recently there was we saw the reduction in the EV subsidies in the U.S. I think to a certain extent, that also translated to some pretty significant write-downs with some large OEMs as it relates to EVs. And that just triggered us to reevaluate our own forecast. As we went through our forecast, as we went through our strategy, and we went through the impairment procedures towards the end of the year, which we do every year, it just became clear that we needed to take an impairment and execute that write-down.

Tamara S. Newcombe
President, CEO & Director

Deane, I think the second part of your question. The business fits nicely, folds nicely into the T&M business. It's still a best-in-class technology, measurement technology. It's got a standout engineering team, an advanced manufacturing facility that we're taking advantage of and expect the business at the new levels to be additive to 2026 for us. And nothing else in that test and measurement portfolio that would be -- that we'd have any other issues with.

Operator

The next question is coming from Ian Zaffino of Oppenheimer.

Ian Alton Zaffino
Oppenheimer & Co. Inc., Research Division

Just trying to get a little bit more color on T&M and how to think about it throughout the year. We're seeing sequential growth kind of still down year-over-year, but maybe give us color on what to expect over the next few quarters or so from that. And maybe you could do it by, call it, subcategory, whether it's Europe or communications or diversified electronics. Just any kind of color you could give there would be certainly helpful.

Tamara S. Newcombe
President, CEO & Director

Yes. Thank you very much, Ian. In the Test & Measurement, you saw it's 40% of our overall business, that segment. You saw Q4 down 6%. But what's positive in there is if you look at diversified electronics, it's about 50% of that segment. And we do testing for electronics. So a lift in semiconductor globally will help the diversified electronics space. Predominantly, our go-to-market there is through our distribution partners. And we've seen sequential improvement in that business, about a 10% improvement quarter-over-quarter as we're coming into this year. So the positive part is our partners are seeing good quote activity, we are also very normalized inventory levels, and we're seeing good point of sale. So that's a really good signal for us in this business that have diversified electronics, which is 50% is strong.

The next piece of the business, which you saw is communications. We know those customers. We're working with those customers every single day, predominantly your aerospace and defense customers, your hyperscalers and great growth in Q4. I think it was up 29%. This is also where the new products that were launched by Tektronix in Q4 play. They take some time. These are very high-end expensive instruments. So you go through a pretty long sale cycle here, but we start to see traction in North America in that business.

The third piece of the business, it's the smallest piece of the business, it think it's 9%, 10%. It's our -- it's the pure semiconductor players. And in that business, we're lapping a large customer project. So we'll have some headwinds this year, although underlying semiconductor is doing well.

Ian Alton Zaffino
Oppenheimer & Co. Inc., Research Division

Okay. And then maybe you could talk a little bit about how to expect -- or how we should think about or how you're thinking about M&A going forward? And I know you took kind of this write-down, but -- and I think you're focused more internally. But how are you thinking of kind of M&A this year? And anything you want to add to? Or are we just kind of going to sit back for right now?

Tamara S. Newcombe
President, CEO & Director

Yes, Ian, M&A is very tied to how we think about our innovation. We've got a really nice RBS process around looking at markets and doing market work. So we are continually active in markets that are adjacent or tuck-ins that will fold nicely into our business. So we continue doing all the work, as we said, and we remain confident in our strategy around tuck-ins, and the first place we're looking is where we're seeing growth, those structural markets that we expect to grow for the next 5, 7 years.

Neill P. Reynolds
Senior VP & CFO

And let me just add to that. I think from a capital allocation perspective, as we think about the -- we talked about organic investments, we talked about returning cash to shareholders. We talked about the tuck-in M&A and Tammy talked about. But I think, first and foremost, we're going to be disciplined capital allocators, as we think about this going forward. So we're taking -- like anything we want to be disciplined, we want to have drive excellence in terms of how we manage this. And that's really what we're focused on right now, ensuring that we find the right targets and as that time comes and we get the right returns on them as well.

Operator

Our next question is coming from Joseph Giordano of TD Cowen.

Unknown Analyst

This is Chris on for Joe. Can you comment on order activity in the quarter for Test & Measurement and how orders trended sequentially? And maybe also the book-to-bill for the segment and overall?

Tamara S. Newcombe
President, CEO & Director

Yes. Thank you very much, Chris. We like the positive signals that we're seeing in the Test & Measurement business. Think about a 1:1 book-to-bill in the products piece of that business. We monitor our sales funnel. So our direct sellers spend a lot of time with semiconductor customers and those large communications customers that are predominantly aerospace and defense. And we've seen sales funnels build, we need to see that convert into orders to see the momentum continue throughout the quarters.

We've also seen strength in our distribution partners and that's 50% of the overall T&M business. It's how we get scale and reach to every single place around the globe that's involved in electronics design and our partners are giving us good signals. Our partners are saying quoting activity is up. They've got normalized inventory levels, and we should see that continue and need to see that continue.

Unknown Analyst

Great. And could you help us better understand the level and the nature of the corporate costs embedded in the guidance and the fiscal outlook. Specifically, how large the level of the corporate costs and the cadence as we move through the year. And should we expect that to scale with volume? Or are they largely fixed at this point?

Neill P. Reynolds
Senior VP & CFO

Yes. So first of all, let me just take you back to -- we've talked about some of the costs as we ramp throughout the year. I think the last update we gave was kind of ramping up to about \$170 million a quarter in 2025, which is inclusive of corporate costs annually at \$50 million to \$55 million. And I think the corporate costs in totality, I think have kind of landed where we kind of anticipated last year. Although I would say other costs as it relates to segments, so we have plus 7,000 employees around the world, how we have health insurance and other things that support them, there's business insurance and other items that support them. I think it's really -- we're talking about getting a hold on those things that are embedded into the segments that support the operating teams that are out there right now.

So as we think about OpEx going into next year, like I said, I think the jump-off point is kind of -- think about it on a run rate basis at \$175 million a quarter. I think that will come up a little bit modestly, maybe \$700 million to \$720 million, something along those lines as you get into the guidance range into next year. Just a modest step-up as we look into '26. But as you look at the framework for our margins into next year, I think Tammy hit on it earlier. I think it's the -- if you look at the 2 segments between Test & Measurement and you look at Sensors and Safety Systems. Right now, Test & Measurement with that growth, maybe just below the midpoint of the overall revenue guidance is at the low end of our longer-term range of that kind of mid-teens to low 20s with the lower end of that range. And as we get more volume in there, that's really the way to drive margin as we think about executing in 2026 and beyond.

Nathan McCurren

Vice President of Investor Relations

And Chris, maybe -- this is Nathan McCurren. I just wanted to jump in and add quickly. The -- Neill is talking \$175 million of adjusted OpEx. So just to be clear, that excludes amortization. And so we averaged about \$175 million in the second half of the year, which is what we're saying is really more the kind of run rate entering 2026.

Operator

Our next question is coming from Piyush Avasthy of Citi.

Piyush Avasthy

Citigroup Inc., Research Division

Maybe like one clarification on margin performance in the Sensor and Safety segment in 4Q. I think revenues were up sequentially from 3Q to 4Q, but margins came down. Can you elaborate a bit on that? Like if there is a different mix in the quarter, like is there any competitive or cost pressure or anything that was unique to the quarter? Or is it just like higher investments? And I think -- maybe I missed it, but like can you also frame how you're thinking of margin in '26 for the segment in the construct of your 18% to 20% margin?

Tamara S. Newcombe

President, CEO & Director

Thank you very much, Piyush. If you look at Q4, I called out our Defense & Space business, specifically, PacSci EMC had a record revenue quarter in Q4. And that growth, which is the real positive, comes at a different margin profile.

Neill P. Reynolds

Senior VP & CFO

And then as you look into -- Yes. Sorry, you have a question?

Piyush Avasthy

Citigroup Inc., Research Division

No, go ahead.

Neill P. Reynolds

Senior VP & CFO

Yes. So this construct as you think about going out into 2026. So we talked about the 2% to 6% growth overall as you think about 2026, Test & Measurement being maybe just below the midpoint of that, but Sensors and Safety Systems being above the midpoint. So solid growth year, defense and utilities going into next year. And then the margin structure, we talked about low long-term targets of kind of high 20s as you go into 2026 for Sensors and Safety Systems. We're also seeing a lot of strength in defense, as Tammy mentioned, which is at lower margins than the segment average. So that will mix that down a little bit. If you add a little bit of the

organic investment, probably mid- to high 20s is kind of the framework we're thinking about now. But we also see some really nice growth tailwind in that business.

Piyush Avasthy

Citigroup Inc., Research Division

Got you. Helpful. And based on your 1Q and full year guidance, can you comment on your expectations for your major regions, like which regions would you say would have -- you have more visibility or confidence in seeing easier comps across the board, especially in Europe, but any incremental color on the demand trends from a geographic perspective. I think growth in 4Q was primarily driven by Western Europe, while North America was a little flattish. So maybe anything to call out there?

Tamara S. Newcombe

President, CEO & Director

Yes. Thanks, Piyush. The North America and Europe make up 65% of our overall business. And as we've talked about, we have strong secular tailwinds in the defense and utility space. So expecting that to continue into 2026 and certainly baked into the guidance that we gave. Rest of the world, I think it's a sign. We're a very global company, and we have opportunities across the globe that pop up in different regions, predominantly in our Test & Measurement and our utility space. That's been a pretty good mid-single-digit grower for us. And then there's China. And we talked about China as we went through our Investor Day. It's a place that historically, we had seen a lot of growth in the electronics space, and we've resized that and have lowered our expectations. I will say we've seen some green shoots in the sensors and industrial space there where we have a really strong local-for-local strategy. And we've seen strength in the utilities end market in China. But generally, that's where we have lower expectations baked into our guide for the year.

Operator

Our next question is coming from Kevin Wilson of Truist Securities.

Kevin Samuel Wilson

Truist Securities, Inc., Research Division

In Qualitrol, I'm wondering if you could expand on that award with the large cloud provider that you mentioned. I think you mentioned initial orders received in the fourth quarter. I wonder, is this kind of customer win the first of its kind for Qualitrol, which typically sells more to the utilities and OEs? And should we expect more from Qualitrol specific to data centers over and above the general transmission infrastructure Qualitrol sells into?

Tamara S. Newcombe

President, CEO & Director

Yes. Thank you very much for the question, Kevin. A very good observation. So traditionally, the Qualitrol team end customer has been 2 parts. One is directly into the utilities who manage their own health systems, monitoring systems, and into transformer OEMs who sell a full solution into some utilities. So this is a third area that is ramping in their business, which is the hyperscalers that are directly building out their own grid infrastructure for data center. So yes, this is a new customer space, something we've seen coming for a couple of quarters here and wanted to highlight that in the win that we shared.

Kevin Samuel Wilson

Truist Securities, Inc., Research Division

That's helpful. And then maybe sticking on that slide, the Tektronix AI robotics highlight, I thought was also interesting, particularly as it's on the validation side. Any more color on that engagement? And then maybe broadly how do you view the market share opportunity in validation for Tektronix? And maybe if you could provide an update on the customer adoption of the new product and platform introductions in that workflow that you announced last quarter?

Tamara S. Newcombe

President, CEO & Director

Okay. Kevin, there's a lot to unpack in that one. Let me start with the -- I think the win as we spoke of as a customer, it's a broader statement to AI moving into the edge and all of the electronics I mean we're seeing this in our own lives that electronics are popping up in industries that never had electronics before, and that's good for Test & Measurement when you -- you're an electronic Test & Measurement company. So that's -- that's a signal of more to come as whether it's robotics or other electronics go into new end markets.

The platform that you're speaking of, the MP5000 platform that Tektronix launched in Q4 is the first time that Tektronix has a purpose-built solution for automated testing. This platform is one that has been well received, but we also -- it will take some time to ramp because it's a new go-to-market for us with system integrators that tend to build the test systems in the validation space. We have a small share in that space today. Just they take our bench instruments and kind of pull them into validation. We're expecting this to be a nice growth opportunity for us as we go throughout the year and get the adoption on that space.

So it is a -- it is some greenfield for Tektronix and so far, really nice feedback from customers.

Operator

The next question is coming from Rob Jamieson of Vertical Research Partners.

Robert Gregor Jamieson
Vertical Research Partners, LLC

Just wanted to follow up on Deane's question here on EA. A lot of these EV headwinds and everything were -- at least on the CapEx side, were being flagged earlier in the year or even when the new administration came in. So I'm just trying to kind of understand when you went through that process, the revised expectations. What's -- how much of that was the actual reduction in the industry forecast versus EA-specific execution or competitive issues like what's the competitive landscape and high-power electronic load and supply tests? And have you seen any of EA's differentiation holding or eroding?

Neill P. Reynolds
Senior VP & CFO

Yes. So in terms of the timing, as you called out, I think what's changed over the last couple of quarters is, I think the change in the EV subsidies. I think that's translated into other large auto OEMs taking write-downs as well. So I think as we look at that backdrop as end customers for EVs start to make those types of changes as it relates to not just the overall industry backdrop but also the change of the subsidies. It just became more clear as we went through our evaluation at a write-down -- that a write-down was needed.

Tamara S. Newcombe
President, CEO & Director

You could imagine in that space, the customers -- many of the customers -- many of the write-downs are our customers that had ongoing projects or promises of projects that then instantly disappear. So the opportunity in automotive is smaller. However, the technology is applicable to other energy storage spaces, which is where we're directing the EA business now.

Robert Gregor Jamieson
Vertical Research Partners, LLC

Okay. And then I guess you mentioned data center on the Test & Measurement side as well within communications. Can you give us a little bit more on exactly what you're doing in data center, whether that's power or the signal side and then also, what's the sizing within communications for data centers? Is it -- I mean, I assume it's a relatively small piece of that. I guess same question on defense and government, that was called out as being strong communication. But of that bucket, like how big are those 3 areas?

Tamara S. Newcombe
President, CEO & Director

Yes. If you're speaking -- I'll frame it directly in T&M. So let's stay in T&M, because we do have a large defense business in the Sensors and Safety Systems segment. But within T&M, yes, when we talk about communications, I'd say 70%, 80% of that is aerospace and defense. The other piece of that is directly to hyperscalers. But the AI data center, I talk about it as almost a second derivative to raising the tide for all electronics because there's people testing all of the pieces that go into the data center, not only the communications, but the compute, the memory, the storage, and that's part of the ecosystem that ends up in a data center that certainly provides additional electronic Test & Measurement opportunity for us.

Operator

Our next question is coming from Scott Graham of Seaport Research Partners.

Scott Graham
Seaport Research Partners

I'm just hoping for additional color on the projected margin decline in '26. I know you're investing in growth vectors. I know EA is part of that. But the delta does suggest underinvestment from prior. And I guess, I'm just wondering which businesses are you investing in most. Again, I understand the growth vectors, but which businesses maybe do you need to kind of get to a baseline to support their growth because of what appears to be prior under investment.

Tamara S. Newcombe
President, CEO & Director

Yes. We -- and if you look at the annual guide, we had a range on the adjusted EBITDA, 18% to 20% in that range. And if you think about the Sensors and Safety Systems, that will contribute to the higher end and Test & Measurement at the volume in our guide would be more towards the low end part of that. The investments across commercial manufacturing and innovation. I'll start with the most obvious, which is manufacturing. We've had tremendous growth in defense and utilities over several year period. And we're starting to plant the seeds to expand our manufacturing footprint. In this particular year, those investments will be in increased shifts, RBS productivity in the footprint we have, but starting to stand up second lines in by equipment so that by '27 and '28, we expand that capacity.

So that's squarely in the Sensors and Safety Systems as well as where we're fueling some of those sales resources we talked about to get after the growth and to extend our reach. Now the people part of that will be smaller because we're augmenting that with AI and with digital. And then last is platforms. And we've had some recent launches from our Qualitrol business around arc detection, leveraging AI to get more intelligence to those operators who have to keep the electric grid up. We're going to fuel that with some platform investments in innovation. So predominantly in the sensors and safety systems is where you're going to see those growth investments.

Scott Graham
Seaport Research Partners

Very good. Diversified Electronics, down 13%. I know you indicated that's up 10% sequentially. And maybe you could just tease out how much of that up 10% is seasonal and maybe a comment on January for the company.

Tamara S. Newcombe
President, CEO & Director

The up seasonal. So when I look at the -- or the diversified electronics business, predominantly through our distribution channels. And what we're seeing is healthy sell-through, which is what we refer to as point of sale with inventory levels at a point where we're seeing that come back through higher quoting activity, which are all good signals in the diversified electronics space.

Scott Graham
Seaport Research Partners

And so the sequential -- the up 10% sequentially, that was not seasonal, do you think?

Tamara S. Newcombe
President, CEO & Director

There is definitely some seasonal piece to the Test & Measurement business, but the 10% sequential -- it's a broader sequential. It's improved as we've gone throughout the year. The Test & Measurement like the overall business has sequentially improved every quarter since Q1. Now that business tends to have a step down in Q1, which we factored into our guide, but I still think the signs there are very good.

Operator

Our next question is coming from Chris Snyder of Morgan Stanley.

Christopher M. Snyder
Morgan Stanley, Research Division

And I apologize, I joined a little bit late, but I'm not sure if this question has been asked. I understand, obviously, that there's margin headwinds into 2026. But I guess when we specifically look at the Q4 to Q1 kind of sequential progression, I think at the midpoint, you guys are guiding it down about 330 basis points which seems steeper than normal. So is that sequential -- is that all just the higher investment that you guys are making in Sensors and Safety? Is it some of the mix headwinds that are continuing in Sensors and Safety? Just kind of why is that stepping down so sharply?

Neill P. Reynolds
Senior VP & CFO

Yes, Chris, great question. This is Neill. So let me take a shot at that. So as you look at the transition from 1Q -- sorry, 4Q into 1Q, we've discussed previously, and I think we laid this out last quarter, that we anticipated from a guide, I think gave you 20% to 21% EBITDA for the company going out of Q4, about a 200 to 300 basis point decline going into Q1. So that would get us close to 18%. And we're guiding just a little bit below that. So I think what we have here is maybe a little lower, but consistent with how we talked about it in terms of seasonality in the business.

As it relates to why is it a bit higher, I think from just a natural perspective, it's going down a bit. We're also seeing a few things like conversation true-ups as you get into the start of the year. We are going to see a small initiation for some of these organic investments. So I would think about that outside of Q1 for the most part, think about healthcare costs being a little bit inflationary. So I think outside of the kind of midpoint of what we thought about, there's a couple of pieces that are driving a slight increase versus what we had said. But I think otherwise, more or less in line.

Christopher M. Snyder
Morgan Stanley, Research Division

I appreciate that. And then on some of the investments that you guys are making into the businesses, -- when do you think that will have a positive impact on top line? Is there some of that benefit that's included in the '26 sales guide? Or do you think those benefits will more so pay off in '27 and beyond?

Tamara S. Newcombe
President, CEO & Director

Yes. We have embedded the goodness in those investments into the guide for 2026. And there's always room to overdrive especially on sales resources if they can come online faster but predominantly, that investment will be in 2027, will pay off in 2027.

Operator

Ladies and gentlemen, this brings us to the end of the question-and-answer session. I'd like to turn the floor back over to Ms. Newcombe for closing comments.

Tamara S. Newcombe
President, CEO & Director

Thank you for your questions and for being with us today. I'd like to wrap up the call with a few closing remarks. While public for only a short time, over the last several years, we've undertaken deliberate actions to create a sustained streamlined portfolio with world-class leaders. One of our greatest strengths is the passion and commitment of our employees to win as one team. We're executing against our growth strategy by leveraging RBS to compete across businesses with stronghold positions and in secular high-growth vectors. We expect RBS to continue to serve as a competitive advantage, enabling customer innovation and operating efficiencies, ultimately enabling us to perform with financial discipline. Our teams have demonstrated operating rigor with the ability to profitably evolve our portfolio and deliver in any environment. We are resolute in our commitment to supporting our customers, inspiring employees and delivering for our shareholders. Thank you for joining us today. I hope you have a great one.

Operator

Ladies and gentlemen, this concludes today's event. You may disconnect your lines or log off the webcast at this time, and enjoy the rest of your day.

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