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<<Rob Mason, Analyst, Baird>>

I'm Rob Mason, the Senior Analyst at Baird that covers the advanced industrial technology sector. Very happy to have Ralliant here with us. We're going to open with Tami Newcombe. He's going to make a few opening comments. Tami is the CEO of Ralliant. We also have Neill Reynolds, the CFO, with us on stage. And then we'll take your questions as you have them. You can send those up via the iPad. You can also just raise your hand, and we'll work those into the conversation.

So very happy to have Tami here with us, and I'll turn it over to you.

<<Tami Newcombe, President and Chief Executive Officer>>

Thank you, Rob. Welcome. Glad to be here. We are Ralliant, and I am the President and CEO, Tami Newcombe. Last week was a big milestone for Ralliant as we had our earnings call for our first quarter as a public company as an independent public company and I applaud the team. We did a lot in that quarter. We spun from our former company. So we had to land the spin, a number of new hires, especially in our corporate functions, as well as standing up new processes and systems and still delivered at or above our metrics that we had guided for the quarter.

So I'm an old sports player. I know that that's just one, just one quarter on the scoreboard, but proud of the team for posting that first one. This begins our journey to become a company that's built to last, one that's going to endure for decades to come. We spun about five months ago. It was June 30. And as I stand here today, I'm even more excited about the opportunity that we have in front of us. And I'll give you three reasons for that.

First, my leadership team. The presidents that run our businesses were handpicked over my eight years at the former company, so lots of stability in those businesses. Our newest president is almost three years into the business. They were picked for their depth of knowledge in those industries and also the rigor with which they go after that business and their knowledge of the business system, which was born back at Danaher, and we have now refined as the Ralliant Business System.

Number two, what gets me excited? We introduced our profitable growth strategy at our Investor Day, and we talked about our growth vectors. And I have even more conviction over the last five months that these growth vectors are places where we'll see long-term secular trends and give us the opportunity to drive above-market growth. Third is just the discipline. And Neill has joined us recently as the Chief Financial Officer, and he's remarked a number of times about the discipline that's in this business.

The leaders that I hired externally, they come from a variety of backgrounds. We've got depth in industrials, healthcare, defense systems, consumer, enterprise systems, all have worked in scaled enterprise businesses as well as emerging start-ups. So, great leadership team, great growth vectors and the operating rigor that we bring with us. My commitment continues to our employees, to our owners and to our customers to build a company that's here to last.

I'm going to jump to our first slide here. So we're going to start with Slide 4. So let's just talk a little bit about our customer base. Our customers are the world's largest industrial and technology companies, two emerging start-ups, about 90,000 customers around the globe. When we walk into those thresholds at those companies, we're going to talk to the engineers, the scientists and the innovators that are on the forefront of the next breakthroughs, the next breakthroughs that are happening in the electric power grid, in fuel cells, in defense technologies and electronics.

When I think about what really makes Ralliant different, it's around precision. Precision where precision matters. Precision is hard to engineer. We often build our own components, our own ASICs to deliver that type of precision. We have patents in our manufacturing process, how we build for precision. Our sales organization and our channel is very technical, very application-oriented, so that we can work with those personas I spoke of. And we service all of these products around the globe, either in service centers for our precision instruments or in our MRO business in our sensors. But that is truly what makes us different, combined with the Ralliant Business System.

Our business is diversified. You see here the diversity by end markets, end markets that are driven by different market drivers, which gives us that diversity. We're also diversified geographically, about half the business is in the U.S., half the business is outside the U.S. And then you see our flagship brands. These are the brands that our customers know. If you talk to our customers, they've been working with these brands for decades. They often refer to them the brand almost like Kleenex. They know these brands and they know what they do well. I mentioned our customer base, 90,000 strong, and last year we were $2 billion with 7,000 employees around the globe.

We report and operate as two segments. Our sensors and safety systems segment is 60% of our business. And here, you will see our deep expertise in defense safety systems. So think in defense, anything that flies or is submerged, and the higher you go into the atmosphere, the harsher the conditions and the more the quality and reliability matters. In our sensors in the industrial space, they're in very niche applications where we have domain expertise and strong competitive moats. And in our business called the Qualitrol business, this is where we build critical sensors that go in the infrastructure of the electric grid.

If I shift to the test and measurement segment, it's about 40% of our business. This is the business that we build and sell precision instruments used by electronics engineers to build the next level of electronics from materials to semiconductor chips to the chips that go on the boards that need to be tested. Those boards go into systems in the whole product realization flow. We provide instruments, software and services for that market space.

Our growth strategy. I talked about the Ralliant Business System a couple of times. This Ralliant Business System is used from where most people remember its roots, which is in lean manufacturing to how we drive innovation. We had two platform launches from our Tektronix business this last quarter. And both of them are state-of-the-art high-performance systems that came to market through a lot of customer VOC and driven by customers in our RBS toolkit.

Our stronghold positions, this is where we have critical sensors in industrial applications. These are off-spined niche markets where we add a lot of value not only in the product, but in our domain expertise of serving that market. I used an example in our earnings call around liquid cooling for data centers. We have a particular sensor that is ideal in that application in a place that we're seeing some growth. But in stronghold positions, we are committed. That is our installed base. We are committed to roadmaps and continuing to strengthen our MRO business.

And then our winning growth vectors, I'm going to dive into each of these fairly quickly. In defense, we're seeing a surge in demand for our defense business. And maybe a little bit later as I speak with Rob, we can dive in deeper on some of the signals there, but even stronger signals than we talked about five months ago. In our power grid business, these are – where we play is we surround the critical assets in the grid with sensors and with analytics solutions that help our customers with maintenance and predictive troubleshooting in the space. Our next growth vector is around electrification. And anything that touches electronics is a place that we serve with our precision instruments and our sensors.

I'll close out by just talking and reiterating that we developed the value creation that we feel strongly about. We're still committed to. As we step into this new business, we want to drive outsized growth. We wanted to continue to deliver the strong profits that we did as a segment and now as a public company. That includes driving outsized free cash flow and continuing to be disciplined about our capital allocation.

Thank you. And I'll turn it to questions now.

<<Rob Mason, Analyst, Baird>>

Perfect. Again, if you have any questions, send those up to the iPad or just raise your hand, we'll work those in.

Tami, maybe just to touch on, to start something you mentioned at the beginning, obviously you're fresh off your separation from Fortive to spend itself. Sometimes I think investors don't fully appreciate all the work that goes into that.

<<Tami Newcombe, President and Chief Executive Officer>>

Yeah.

<<Rob Mason, Analyst, Baird>>

And it’s not just, it’s not done on the spin date, it’s beyond that. So just maybe talk about where you think you are in that process, building out the internal structure that you need and maybe when you can be beyond that.

<<Tami Newcombe, President and Chief Executive Officer>>

Yeah. I would start with a reminder that the company we spun from was a spin. So there was a lot of embedded knowledge on how to do a spin. And we were the second spin that our former company did. So process to do the spin was well-worn and understood. If anybody had been following, we were supposed to spin at the end of this year and actually pulled it forward two quarters and spun six months early. So we really felt like we were ready to become a public company.

That said, there is a lot of lift and shift in systems and processes that we’re refining to be Ralliant. And for our size and our employee base, we also have to – we’ve very, very small TSAs. The TSAs are mostly linked to the services business that we carved out because this was a segment. So that’s another piece that makes it pretty simple is this was a segment that we just shifted to a public company with the exception of about $100 million in services that we left with one of the other businesses. So we’ve got some TSAs to wind down, we’ve got a little bit of – we’ve got some money still to pay back to the parent company, but I would say we’re in a really good place from the spin standpoint.

<<Rob Mason, Analyst, Baird>>

Very good. Maybe just dive right into some of the businesses. Start with your larger segment anyway, the Sensors & Safety segment. The opportunity set there high level. As you mentioned, you kind of two main markets, defense tech and grid modernization. In the marketplace today, how and these business have been around quite some time inside this ownership. So how are they evolving to meet kind of the growth opportunities that you just outlined there? It sounds like they’re accelerating, because for people that have followed this Fortive or even going back to Danaher, we didn’t hear a lot about these, we certainly didn’t hear a lot about the growth vectors within those businesses.

So just kind of bring us up to date and what’s most positive, I think, as you look forward here.

<<Tami Newcombe, President and Chief Executive Officer>>

Yeah. So these are exciting businesses. They’re really strong, profitable businesses. And if I think about the Defense space, you can look back over the last 65 years and there has been two times in the, in the 65 years where defense spend has gone on for a 10-year period or more. We believe where we sit today, that that is what we’re in the middle of right now. We’re about three years in. It’s our PACSci EMC business. We’re on many of the critical and core defense programs that there is a lot of activity right now on additional spend over the coming years and we have a great backlog there. We’ve got almost twice our annual revenues already in backlog established for ‘26, ‘27 and for ‘28.

So, we feel really good about that business. We're working on capacity and throughput; we're working on strategic supply chain.

If I shift over to a business that plays in the power electric grid a couple data points there in the U.S. almost 70% of the infrastructure in our grid is over 25 years old. So even if we didn't add any more power to the electric grid, there's still an enormous opportunity to upgrade the infrastructure that's out there. And we ride parallel to transformer sales. So there's about a two-year wait list right now to get a transformer any place in the world. So that's one part of the business.

The other part of the business because transformers are backed up, there's a lot of retrofits and refurbishment going on. When that happens, we also have an opportunity to upgrade those critical sensors that monitor those assets and add more sophisticated software and analytics. We announced a quarter ago an AI driven analytics package that allows customers to say, well if this sensor, this sensor and this sensor read these numbers, that typically means in our 50 years of data that this is about to happen and give predictive maintenance guidance.

So, exciting. Both places, exciting opportunity.

<<Rob Mason, Analyst, Baird>>

Yes, for sure. If we just go back to the defense tech PACSci business. If you think about obviously we're exposed to broader defense spending, but are there two or three barometers that we should look at maybe externally to get a sense as to where your business is headed? You talked about you're more positive than you were five months ago. What areas should we be focused on that are discrete growth drivers for that business?

<<Tami Newcombe, President and Chief Executive Officer>>

Yes, specific to that business we get good signals from customers. So customers tend to give us orders with three-year visibility. So when I talk about the backlog we have, that's the first place where I'd say that visibility is helpful in the business. The other is the quoting activity that we've seen. And there is 12 core military programs that have been deemed critical for replenishment. And some are calling this a demand surge that we're going to be going through. We haven't seen those orders yet, but we're seeing a lot of the activity happening and the quoting activity and we will get visibility. Those won't be 2026, that'll be '27, '28, '29 as we start to see that demand.

So, we get long term signals in that business, which is super helpful for planning capacity.

<<Rob Mason, Analyst, Baird>>

Yeah. And maybe what are – what does the decision tree look like when you're assessing when and how much capacity to add in a business that's as long cycle as this?

<<Tami Newcombe, President and Chief Executive Officer>>

Yeah, well, we've been able to double the capacity of the footprint that we have. As part of our strategic plan process, we look three years in a cycle. So think of it as a rolling three years, we're always looking at where the business is going. Do we have the capacity? The Ralliant Business System, the toolkit has really allowed us to drive the throughput in the current existing facility. We do believe as we get into the latter half of 2026 that there's some opportunity to establish some centers of excellence, specifically around electronics. Electronics, the company you think about energetic materials that they do like very precision timed explosives, but the electronics is really a capability that's critical for this business. So we're talking about a center of excellence around electronics. And then probably by 2027 and into 2028, we'll need to expand the footprint.

<<Neill Reynolds, Chief Financial Officer>>

And Rob, let me just add to that a little bit. So when we think about the investments we're going to make from a capital deployment perspective, we talked about focusing first on organic growth; giving cash back to shareholders, number two; and then maybe some tuck in M&A along the way as number three. So this really aligns well to kind of that organic investment strategy. In fact, we talked about taking our CapEx rate up from 2% of revenue to between 2% and 3% of revenue as you get into 2026 to support some of the opportunities that Tami is talking about here, both in defense and utilities as well.

So we're going to continue to look at where do we have these long-term growth drivers, where do we have great signals from our customers around where that long-term growth opportunity is and then the returns from an organic perspective are very, very solid, very, very good.

So we feel like we're in the right position. It's consistent with how we think about our capital deployment as well.

<<Rob Mason, Analyst, Baird>>

Can capacity expansion in this business come via inorganic means?

<<Neill Reynolds, Chief Financial Officer>>

Look, like I said, there is three levels to this. If you look at number one from an organic investment, we just kind of talked about that. Returning capital to shareholders will certainly be kind of number two. And then there can be tuck in opportunities along the way and that will play a role. I think about how we think about expanding these businesses over time. We're going to start out with that organic investment and we have something like this, I think, in front of us that has this really nice setup from a growth vector perspective, has multi-year kind of legs to it. That just provides a great opportunity for us to get really nice returns off of the organic investment.

<<Tami Newcombe, President and Chief Executive Officer>>

Yeah, I would put it in priority order if we did tuck-ins or inorganic, the priority is growth. If we got a manufacturing facility with it, then that would be an added benefit.

<<Rob Mason, Analyst, Baird>>

Yeah.

<<Tami Newcombe, President and Chief Executive Officer>>

But right now our thinking is that we would, we would expand.

<<Rob Mason, Analyst, Baird>>

Yeah, okay. Just to the utility business quick question there. I mean to some degree I guess transformer production can be a gating factor, I guess. How are you trying to work around that? And then what's your opportunity to add to your dollar content, within the installed base as you think about retrofits?

<<Tami Newcombe, President and Chief Executive Officer>>

Yes. Two great questions. We play about 50/50 in new builds and refurb and retrofit. So the nice part about if the transformers can't keep up coming off the line new, there's a lot of work going on, on retrofits and refurb that we take advantage of, about 50% of the business. And the way that you can think about the Qualitrol business is they have the highest number of sensors that would go on one of these assets.

So what they've built out is a bronze, silver, and gold package solution, which is pre-tested. It takes work off the customer. Because normally, the customer would get these individual sensors. They'd have to put them together, light them up, read the data, figure out what's going on. What we've started to move to, and this is about two years ago, is solutions.

So you can say, I want the bronze package, silver package, gold package. Not only does it come with pre-tested sensors, it also brings you that analytics and that software that give you the answers to the problems you may be facing. So that's how that business is evolving from an individual sensor product business into a solution software and analytics business.

<<Rob Mason, Analyst, Baird>>

Yeah. Again, if there's any questions, I'll pause here. If there's any questions, we'll keep moving. There's one there in front, yeah.

Q&A

<Q>: Just some of the end markets you're talking about between kind of defense, electrical grid, data centers, obviously, these are quite healthy growth markets, kind of high single-digit level digital markets. You talked, I think, on the slide with kind of 3% to 5% as the targets. Are there parts of the portfolio then that are growing below that? And is there a path to maybe get those higher such that the whole company growth rate can move higher over time?

<A – Tami Newcombe>: Yeah. I would start with I spent 30 years in sales. My team knows that we're seeking the growth pockets – the profitable growth pockets that we can go drive growth beyond those numbers. I think it was prudent to spin out. Our track record from 2019 to 2024 was total growth 3.5%. We gave a range of 3% to 5% to show the stretch in there. But there's certainly parts of the business that are growing faster than that. Defense is one we've talked about. That's been high single-digit type growth here over the last couple of years.

And similarly with power grid, we've seen some green shoots in industrial, especially in North America. We're starting to see some green shoots. And test and measurement, I've been talking about this since Q2, and it's played out the way we guided, which is Q1 would be our lowest quarter of the year. In each quarter, we've gotten incrementally better from a revenue standpoint and sequential growth. Now our year-over-year is still negative, but sequentially we've improved as we've gone through each quarter of the year. And I think there's going to continue to be a modest recovery in the test and measurement space.

<Q – Rob Mason>: That's a good segue into test and measurement. That's where we were headed next. As you think about drivers and catalysts behind trying to get some growth to return in test and measurement, you talked about a couple of new products. I think maybe we're reluctant to think any single new product can be that impactful, but these seem like kind of significant new launches for you. How should we put those into context in terms of near, intermediate term contributions? And does it open up any new markets, market up, served addressable market for you as you launch these?

<A – Tami Newcombe>: Yeah. I'll separate the two products. We think in test and measurement about the engineer, the product realization workflow, which starts usually in materials lab, R&D type lab environment. Then those products go into a validation phase where you do 24-hour, seven days a week sort of testing on them before they get launched into the production space, where Tektronix has a very strong footprint. Probably 40% of the available market there is in the R&D space.

And the platform that was just announced, I call it both a product and a platform because it is a product. It's a product that we've introduced for the R&D space, state-of-the-art, lowest noise in the industry. So electronic engineers are seeing signals for the very first time, signals they did not know exist, they're able to see. That's positive. We will get refreshed there. Some of our existing footprint will refresh. We'll also take some share there. We'll expand in that space.

The other product that we introduced is the MP5000. And this is an adjacency for Tektronix. It's in the validation space, a space where our market share is like mid-single digit, 4% to 5%. Sort of happenstance. Engineers tend to take our bench instruments into validation. This product was built with the validation engineer in mind. It's purpose-built for running code and applications for weeks at a time. It's a 1U, like one rack unit, if you think of a rack like in a data center or a lab. It's got hot swappable modules in the back, SMUs and power supplies, and you can make a rack of 32 of these.

Now, that product will be sold into a lot of system integrators to build out test systems. So the ramp on that will be a little bit slower than the places we've always played. But that is opening up an adjacency, opening up a new market, and coming at it in a way that we're approaching it with an open ecosystem, open source code. Engineers can use Python. They can use our test script. They can use any established software in the industry. So we're trying to open up the ability for engineers not to be locked into a single provider, but to use any software tools that they want. But that's definitely an adjacency and a new opportunity for the team.

<Q – Rob Mason>: Yeah. Yeah. That makes a lot of sense on the software layer. Maybe just to wrap on the test and measurement business, one of the challenges I think has been the China market. You talked about some changes in the selling conditions there, I think, on the last call. How do we go forward within China? Are we looking beyond China into India and other regions as maybe some of the talent also moves out of China? How are you managing that?

<A – Tami Newcombe>: Yeah. We have a very strong team in China. Our leader for China is a 20-year established veteran and just been at the forefront of helping us navigate this. As a U.S.-based company, there are companies now that we cannot sell to in China. So it's a smaller served market. We addressed that over a year ago with restructuring and right-sizing the organization. And we have seen it be quite stable.

So last four or five quarters – orders, it has been a little up and down on shipments. But on an order standpoint, it has been very stable. So I think we have got that right. And then we have had some programs on follow the money. And when our customers are leaving China following where they are going, whether it is Southeast Asia or India or back to the U.S., we have got pretty good signals on following that.

<Q – Rob Mason>: Very good. I want to touch real quickly before we run out of time here. Just around the margin profile of the business, two distinct maybe stages that we're in between the two segments.

<A – Tami Newcombe>: Yeah.

<Q – Rob Mason>: Your targets, sensors and safety is already in the zone that you have targeted. Maybe you talk about potential upside to that? And then what needs to happen to bring test and measurement up? Is it just volume to get those within the target range?

<A – Neill Reynolds>: Yeah. So if you look across the two businesses, you're right. So the sensors and safety systems business runs in kind of that high-20s, EBITDA percent level. Test and measurement, we had kind of target maybe mid-teens to low-20s over time. That is through cycle. We're obviously coming through the down part of a cycle and starting to see some stabilization as it returns. So, but the business, as you mentioned, it is volume sensitive. We saw an improvement in margins as you look just from this last quarter, going from 2Q to 3Q.

We saw 400 basis points, 500 basis points of improvement from a margin perspective just on relatively modest growth, 4%, 5% type growth. So, and we anticipate seeing that going forward as well. But it will be driving the volume, driving efficiency, bringing on the new products that Tami's talked about to help drive growth. And I think that puts you in a zone where you start to see us through cycle. We have a lot of confidence we can get into that zone as you look out over time.

One thing we did bring up, Rob, as you think about the businesses, it is volume sensitive. We saw it come up. It'll probably increase again as you go here into the end of the year into Q4. And as you get into Q1, though, as you go out into next year, there is some cyclicality, seasonality that'll start to see it come back down the other way as you get out into next year. And that'll start to see the margins come back and then improve again as you come out over time. But the key here is driving volume, driving competitiveness, as Tami talked about. That should through cycle, improve the margins over time.

<<Rob Mason, Analyst, Baird>>

Excellent. We're out of time. We'll wrap there. But I want to thank Tami and Neill for joining us.

<<Tami Newcombe, President and Chief Executive Officer>>

Thanks Rob.

<<Neill Reynolds, Chief Financial Officer>>

Thank Rob.

<<Rob Mason, Analyst, Baird>>

Thank you. It's good to see you.

<<Tami Newcombe, President and Chief Executive Officer>>

Thank you. You too.