

Ralliant Corporation NYSE:RAL

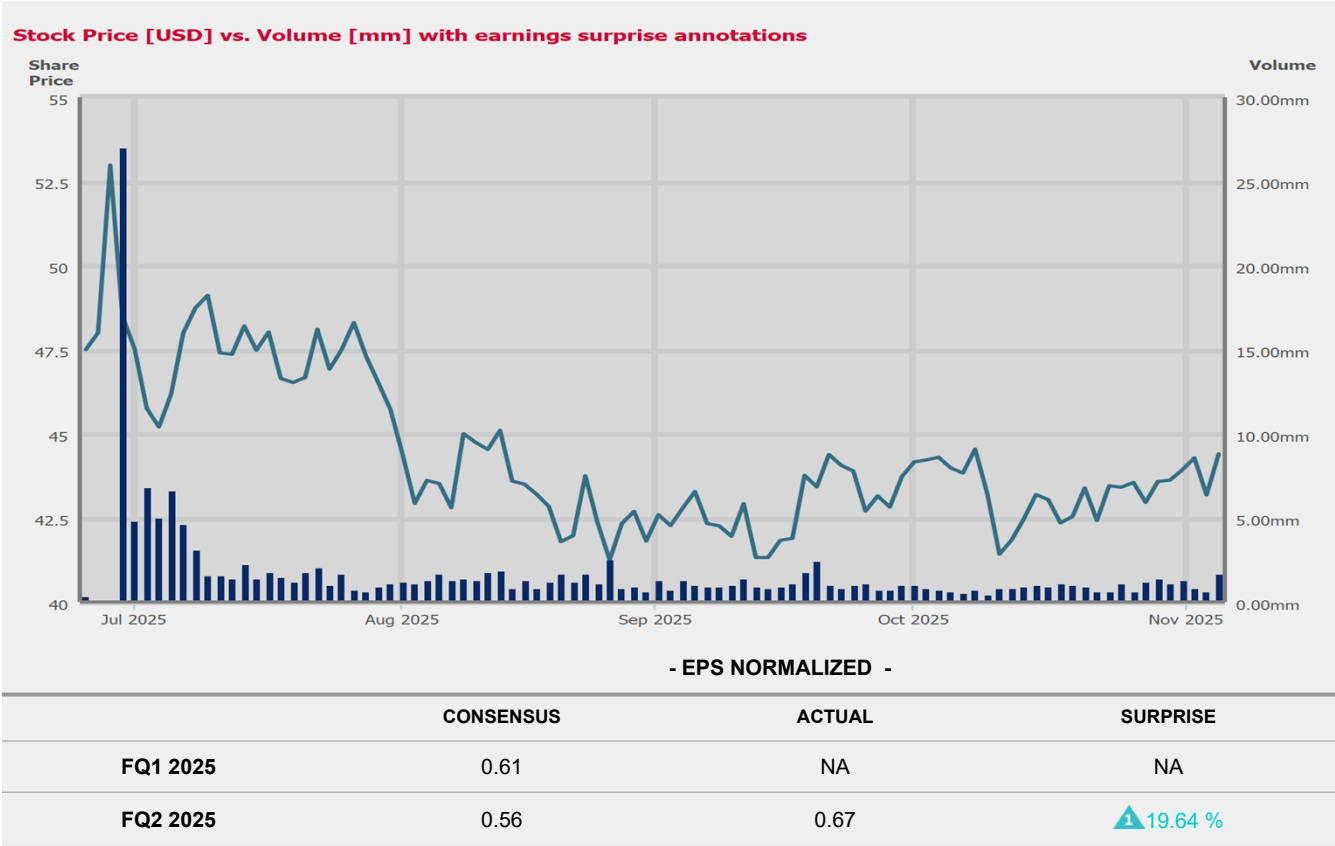
FQ3 2025 Earnings Call Transcripts

Thursday, November 6, 2025 1:30 PM GMT

S&P Global Market Intelligence Estimates

	-FQ2 2025-			-FQ3 2025-	-FY 2025-	-FY 2026-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	0.56	NA	NA	0.57	2.64	NA
Revenue (mm)	501.60	NA	NA	521.06	2049.10	NA

Currency: USD  
Consensus as of Nov-06-2025 2:50 PM GMT



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# Call Participants

## EXECUTIVES

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*Senior VP & CFO*

**Tamara S. Newcombe**

*President, CEO & Director*

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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 Third Quarter 2025 Earnings Results Conference Call. [Operator Instructions]

I would now like to turn the call over to 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 Third Quarter 2025 Earnings Call. I'm Nathan McCurren, Vice President of Investor Relations. Today, we'll walk through our third quarter 2025 results, highlight key operational progress and provide an outlook for the fourth quarter.

I'm joined today by Tami 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](https://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 third 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, and our quarterly reports on Form 10-Q filed with the SEC on August 11, 2025, and to be filed on November 6, 2025.

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

## Tamara S. Newcombe

*President, CEO & Director*

Thank you, Nathan. Good morning. Welcome to Ralliant's Third Quarter Earnings Call, our first reporting period as an independent public company. The team approached the post-spin separation with discipline and focus, stepping into new roles and implementing refined processes, all while delivering quarterly results that were at or above the high end of our guidance ranges.

On today's call, I'll start with a brief overview of Ralliant and a high-level look at our financial performance. Next, I'll invite Neill to share a deeper insight into our Q3 results, the Q4 outlook, and discuss considerations as we move into 2026. Then I'll be back to showcase progress on our profitable growth strategy, leveraging the Ralliant Business System.

Slide 4 highlights what makes Ralliant different. We stand at the forefront of precision, driving safety and breakthrough performance through advanced technologies that perform in demanding environments. Our solutions help ensure reliability, safety and efficiency when failure is not an option. We continue partnering with our customers to unlock advancements that will change the world and have an impact for years to come. We develop and manufacture precision solutions globally across diverse end markets. Our portfolio of trusted brands has earned our customers' confidence by delivering precise instruments, sensors and safety solutions that enable faster customer innovation.

As electrification, digitization and AI accelerate the demand for high-performance, data-driven equipment, we meet these needs by serving customers in critical markets such as utilities, defense and electronics. What truly sets us apart is our people-first culture ingrained in decades of precision expertise and the Ralliant Business System. This has enabled us to solve our customers' toughest challenges in the many applications that we serve, earning customer trust and positioning us well for future growth.

With that, let me provide the key takeaways from the quarter on Slide 6. First, all our financial results were at or above the high end of guidance ranges we provided last quarter, demonstrating our commitment to delivering results while executing our long-term strategic priorities. Second, we are delivering high growth in the Utilities and Defense end markets and sequential improvement in Test & Measurement and Industrial Manufacturing.

Third, we are executing our levers to drive growth and innovation. This was demonstrated in the quarter as Tektronix launched two new high-performance precision instruments architected to be scalable platforms that will accelerate our new products road map. Fourth, we delivered significant free cash flow with a conversion rate above our long-term expectation of greater than 95%. And last, we progressed on our cost savings program that we announced last quarter to deliver \$9 million to \$11 million in annualized savings by the end of 2026.

Drilling down into our Q3 financial results on Slide 7. Our revenue was above the high end of our guidance range. We continued to deliver sequential improvement with 5% growth over Q2. This was driven by secular demand in several end markets and improved shipment execution, particularly in defense. We expanded adjusted EBITDA margins by 60 basis points sequentially to 20.4%, reaching the low end of our long-term through-cycle target range that we communicated at Investor Day in June.

Turning to Slide 8. Our growth has improved each quarter throughout the year across most regions. North America turned positive with 3% year-over-year revenue growth, driven by exposure to our growing Defense and Utilities end markets. We also delivered sequential improvement with green shoots in Industrial Manufacturing and Test & Measurement. While Western Europe experienced a 6% decline, largely driven by customer cautiousness, we remain actively engaged with customers and partners across the region.

China is also down 6% year-over-year as we continue to see cautious demand amid geopolitical headwinds. China macro leading indicators have shown signs of recovery, but we expect continued pressure driven by export controls, tariffs and an uncertain environment. China was a significant driver of Test & Measurement growth for Ralliant from 2021 through 2023, but selling conditions have changed. In 2024, we executed a restructuring of the team in China. Since then, we've been investing to capture new opportunities in other markets such as India and Southeast Asia.

While there are still puts and takes within each region, our teams are focused on strengthening relationships and positioning ourselves strategically so that when spending resumes, we are ready to capture growth opportunities and accelerate momentum.

I'll now invite Neill to go over our financial results and provide some insights on expectations for the balance of the year.

**Neill P. Reynolds**  
*Senior VP & CFO*

Thank you, Tami. Please turn to Slide 10. During Q3, we generated \$529 million in revenue, roughly flat year-over-year as growing demand in Sensors & Safety Systems and pricing actions across the business were offset by cautious customer investment in Test & Measurement. Notably, we achieved a 5% sequential increase in revenue, driven mostly by higher shipments on a growing backlog in Defense and a seasonal step-up in Test & Measurement. Adjusted EBITDA margin declined year-over-year, driven by lower Test & Measurement volume and a step-up in operating expenses. Our adjusted operating costs were \$170 million, consistent with the expectations we laid out on our second quarter earnings call. Adjusted EBITDA margin increased 60 basis points sequentially, driven by a 200 basis point increase in adjusted gross margin, primarily due to operating leverage on higher revenue, partially offset by an increase in operating expenses.

We also fully offset the cost of tariffs in the third quarter, ahead of our year-end goal. As a reminder, we expect the pricing countermeasures to continue to be a small gross margin percentage headwind, but we now expect this to be closer to 50 basis points on a run rate basis given additional countermeasures we executed this quarter. Adjusted EPS was \$0.60, in line with the top end of our guidance range of \$0.54 to \$0.60. This is a reduction year-over-year, driven by lower adjusted EBITDA and the addition of \$16 million of interest expense this quarter following the spin-off.

Looking at the results, please note that adjusted EBITDA and EPS contain several non-GAAP adjustments. There are two unique items this quarter I would like to shed more light on. First, we are making a \$22 million non-GAAP adjustment related to a stock-based compensation modification, which is a spin-related mark-to-market expense associated with Ralliant team members who transitioned from Fortive. This was a onetime noncash expense due to the equity conversion at the time of spin. For our normal practice, we are not adjusting for stock-based compensation expense from new equity granted in the period. Second, we are making a non-GAAP adjustment to exclude a \$12 million favorable noncash discrete tax item related to a reduction in the German corporate tax rate.

Now turning to cash. We generated \$127 million in free cash flow, representing a conversion rate of 185% in the quarter. Over the trailing 12 months, our free cash flow conversion rate has averaged 124%, significantly exceeding our long-term target of over 95%, underscoring our focus on operational efficiency and working capital management.

On Slides 11 and 12, I'll provide more color on our end markets and segment performance, starting with our larger segment. In Sensors & Safety Systems, Q3 revenue grew 11% year-over-year and 5% sequentially. Higher volume was led by increased

demand in Defense and Utilities. Defense & Space revenue grew 18% year-over-year. We saw higher shipment levels in the quarter and backlog continues to grow. Utilities revenue grew 11% year-over-year, driven by the continued investment in power grid modernization and expansion. We also had pockets of growth in industrial manufacturing, which grew 9% year-over-year in the quarter after delivering stable revenue for the preceding 6 quarters. Adjusted EBITDA margin for Sensors & Safety Systems was relatively flat as positive volume leverage was offset by higher post-spin employee costs.

Moving to Test & Measurement. Demand continued to stabilize, which combined with a typical seasonal step-up generated 6% of sequential revenue growth. Year-over-year revenue declined 14% as customers remained cautious with capital investment, and we compare against some large projects in the prior year period. We have seen momentum start to build in the communications market with Q3 representing the highest revenue and order quarter for the year. Revenue declined over 30% year-over-year as we are lapping about \$15 million of projects from a customer in the third quarter of last year. Sequentially, revenue grew 6%, primarily driven by military and government customers.

Diversified Electronics revenue declined year-over-year, most pronounced in China and Western Europe. Semiconductors revenue grew both year-over-year and sequentially as we work through backlog. Orders remain at low levels as power CapEx remains largely on hold for many customers. We are seeing semi customers defer R&D lab investments while they focus on AI infrastructure investments and maintenance CapEx. Adjusted EBITDA margin in the segment grew 480 basis points sequentially with strong incremental margins on revenue growth and disciplined cost management. Year-over-year adjusted EBITDA margin declined about 10 percentage points, driven by volume decline and the higher post-spin employee costs.

Turning to our balance sheet on Slide 13. We ended the quarter with \$264 million in cash and cash equivalents as well as \$1.15 billion in term loan debt, resulting in 1.9x net leverage. Our cash balance increased \$65 million versus Q2, including the expected payments to Fortive and tax authorities. We have paid \$57 million of approximately \$90 million for Fortive commitments related to the spin-off and expect the remaining roughly \$35 million to be paid during Q4.

Turning to capital allocation on Slide 14. Our priorities remain intact. First, invest organically in the business; second, return capital through dividends and share buybacks; and lastly, executing selective tuck-in acquisitions focused on our high-growth vectors. Our commitment to organic reinvestment was demonstrated with our new product launches in the quarter. As we look ahead, we see meaningful opportunity to continue to invest in growth and anticipate ramping CapEx from approximately 2% currently to between 2% and 3% of revenue in 2026. We remain focused on deploying capital on high-return opportunities.

Last week, our Board of Directors authorized a quarterly cash dividend of \$0.05 per share. We also have a \$200 million share repurchase authorization in place. 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.

Before I turn the call back to Tami, I want to review our outlook for Q4 2025 as well as provide some color on the seasonality of both segments to help you understand Ralliant better. I'm now on Slide 15. For the fourth quarter of 2025, we expect revenue of \$535 million to \$550 million, a continued gradual improvement with consistent shipment delivery in Sensors & Safety Systems and a typical small seasonal step-up in Test & Measurement. We expect adjusted EBITDA margin of 20% to 21%, in line with Q3 and adjusted EPS of \$0.62 to \$0.68. Free cash flow can naturally fluctuate based on the timing of certain payments. Following this outsized quarter, we expect free cash flow to be down sequentially in Q4. For the full year, we expect our conversion rate to remain above our long-term target of over 95%.

Turning to Slide 16. To help you with your planning, as we look ahead to 2026, I want to provide color on the historical seasonality of our business and outline some of the important timing factors in 2025 given our midyear spin. Let me touch on our normal seasonality. As we start to look ahead to go from what is typically our highest revenue quarter of the year in Q4 to what is typically our lowest revenue quarter of the year in Q1. Over the past 10 years, the seasonal sequential revenue step down from Q4 to Q1 has been in the mid- to high single-digit percentage range. Given our operating leverage, particularly in our more seasonal Test & Measurement business, this typically results in a roughly 2 percentage point to 3 percentage point sequential decrease in EBITDA margin.

We have also included on Slide 16, items from 2025 to keep in mind that will impact our comparisons next year, including the impact of tariffs, spin-related costs, interest expense and our cost savings program. We will provide more details on our expectations for Q1 on our fourth quarter earnings call in the new year, but we hope this color is helpful as we continue to learn more about Ralliant.

With that, I'll turn the call back to Tami to talk through an update on our profitable growth strategy.

**Tamara S. Newcombe**  
*President, CEO & Director*

Thank you, Neill. I'll continue with Slide 18. Our profitable growth strategy is anchored in three pillars that are designed to deliver enduring value. The first pillar is RBS everywhere. RBS is our engine for innovation, scale and profitability, and we have embedded its processes and tools across the enterprise to drive disciplined execution and increase customer-centric innovation. The second pillar is stronghold positions. We are committed to delivering sustained customer value through differentiated services, robust product road maps and global channel reach. This quarter, we expanded our footprint with strategic wins, including one of the world's largest motor producers, a leading steel supplier and a global pioneer in direct air capture technologies. These customer partnerships reinforce our ability to perform reliably in demanding environments and critical applications. The third pillar is winning growth vectors, where we are investing to capture secular growth trends, specifically across defense technologies, grid modernization and electrification.

I want to highlight where we're focusing our efforts and how our portfolio investments align with long-term demand trends and shareholder value creation. Starting with defense technologies. We expect the super cycle of investment in defense programs to continue with global annual defense spending projected to increase from \$1.8 trillion last year to \$3 trillion by 2030. Our defense customers have been awarded multiyear contracts on many critical programs that include our PacSci EMC safety systems.

Our backlog, which is now over 2x our annual revenue, has continued to build throughout this year as customer demand has outpaced shipments. We continue scaling production of these essential solutions to support the U.S. and its allies. To serve this surge in demand, we are leveraging RBS to increase the production capacity within our existing manufacturing footprint and future expansion is a key area for organic investment.

Shifting to power grid modernization. Utility companies are investing in both expansion and upgrade as they face significant increases in power demand with aging infrastructure. Expansion investments are needed to support power demand growth, which is expected over the next 5 years to be 6x higher than the prior 20-year average. Upgrade investments are needed as over 70% of power transformers in the U.S. are more than 25 years old. We are capitalizing on this customer demand with sensors and analytics solutions for the power grid critical assets like generators, transformers and substations, resulting in 14% revenue growth in our Utilities end market year-to-date.

Our last growth vector is electrification. As the world becomes more electrified, we help customers innovate and enable much of the supporting infrastructure. A great example of this in Q3 is our growth in data center applications where Gems Setra provides sensors for both liquid and air cooling systems. In a fast-moving data center market, RBS enabled the Gems Setra team to respond quickly to evolving customer requirements and numerous product iterations, leading to an accelerated production ramp of a new pressure sensor for liquid cooling. While data center applications are a smaller part of our portfolio today, they drove the sequential growth in our Industrial Manufacturing end market in the quarter.

Now turning to Slides 20 and 21 and the two new Test & Measurement launches. The DPO7000 sets a new benchmark by combining ultra-low noise, high ENOB or effective number of bits, and unprecedented throughput with a scalable architecture. This enables engineers to capture and analyze signals that were previously invisible. This level of precision performance is critical for next-generation technologies like AI, robotics, quantum systems and ultrafast serial communications.

At the same time, we launched the MP5000 series modular precision test system, which expands the Tektronix portfolio into the validation workflow by bringing new levels of flexibility to automated testing. Its modular design empowers engineers to add or reconfigure testing modules in minutes, offering a platform that will evolve with the needs of our customers. Last week, Tektronix hosted nearly 100 customers and partners for hands-on demonstrations. The positive feedback was tremendous. During the event, I heard firsthand from our customers and partners the value of these solutions to innovate more efficiently and confidently. We expect to continue to fuel innovation with a focus on high-return organic investments aligned with our growth vectors.

Before I close our prepared remarks, I want to review our key takeaways for the quarter. They're on Slide 22. We executed our profitable growth strategy in Q3, and we will continue to execute against our three strategic priorities, driving strong cash generation and free cash flow conversion while investing organically. We are capitalizing on secular growth trends, focusing on innovation and strategically allocating resources while navigating ongoing macro and tariff dynamics. We are executing our plans to drive profitable growth through our proven RBS playbook with powerful examples in the launch of two new breakthrough products and the progress on our cost savings program to enable both growth and efficiency.

The team remains energized to achieve our goals for 2025, and we will build on our momentum in 2026 as we execute our clear profitable growth strategy to maximize shareholder value as a stand-alone company. Now I'd like to open up the mic for your 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 just wanted to understand, first off, how sort of demand -- the cadence of demand in recent weeks and months, any notable changes there? And sort of allied to that, when we're thinking about the low single-digit, I think, sequential sales increase you've guided for the fourth quarter, trying to understand if there's any particular difference in that sequential move between the two segments.

### Tamara S. Newcombe

*President, CEO & Director*

Julian, good to hear your voice this morning. You were with us at Investor Day. And as I look back on the last 5 months, I have to say post spin, I continue to be more positive, the signals we're getting across the business. We've got this unprecedented opportunity in Utility and Defense. And we're seeing stabilization to some modest growth across the rest of the business.

Specifically to your question around demand, maybe how I look at the business, we've got some project business or backlog business that it's all about execution. That's predominantly in our Defense business. But we do have project business in Utilities and in the T&M space. The rest of the business is more of a book and turn. And as we look at orders, we look at orders weekly. We have continued to see orders keep up with our revenue, it's about a 1:1 book-to-bill if you look on an annual basis this year. So orders are keeping up.

Sales funnels, healthy, good strength in North America when it comes to sales funnels. And then we also -- we're really close with our channel partners. That's about 50% of our business. So we get sell-through or point-of-sale reports as well as inventory levels and quota activity, many of them give us. And those are trending in a positive direction. And just the activity. I mean, the launch of the new products, last quarter, we were talking about some new products at Qualitrol. This quarter, we're talking about two industry-leading platform announcements at Tektronix. Lots of good customer activity across the business. So I'm enthusiastic about the opportunity we have here in front of us.

### Neill P. Reynolds

*Senior VP & CFO*

Yes. Julian, let me just add to that. This is Neill. I think if you look across both the kind of sequential 2Q to 3Q and the guide in 3Q to 4Q, underlying that is predominantly volume. We've seen a little bit of the pricing impact from the tariffs that was largely baked in, in Q2. So that kind of 5% or so sequential revenue improvement we saw from 2Q to 3Q was predominantly volume-based, and we're kind of seeing that as well into 4Q as well. Of course, there's some seasonality step-up that we'll see going into 4Q. Tami kind of hit on. But underlying that, I think, is solid kind of volume and shipments that's kind of underlying that step-up.

### Julian Mitchell

*Barclays Bank PLC, Research Division*

That's good to hear. And then just turning to the margin side of things. I just wondered sort of two sides to it. One is sequentially, shouldn't we see a slight increase in margins in Q4 of the increase in volumes? And then when we're looking year-on-year at the Sensors segment, margins are flat despite double-digit sales growth. When should we see kind of operating leverage pick up there?

### Tamara S. Newcombe

*President, CEO & Director*

Yes. Julian, just at a high level, we're still committed to the margins, the adjusted EBITDA ranges that we gave you during Investor Day. And as you know, those were different by segment. And in the Test & Measurement segment, very much tied to volume. So our focus is really around growth there. And Neill, if you'd like to make up?

### Neill P. Reynolds

*Senior VP & CFO*



Yes. So I think if you think about the margin profile going forward, particularly, I think you're asking about stepping up into Q4 and even beyond that. So from a Test & Measurement perspective, we saw a nice improvement in incrementals. As you went from 2Q to 3Q, that step-up in margin was substantial with nice incrementals on it. Sensors & Safety Systems, a little less so, although still at that kind of high end of the margin range in terms of where that business is targeted.

As you move into 4Q, we'll see a step up as well. And I think you'll see some margin expansion in Test & Measurement again based on the volume. So there is some volume sensitivity there. As you move over to the Sensors & Safety Systems side, a couple of components there to unpack. The first is on the defense front for those products, those products run at the lower kind of end of the range if you think about Sensors & Safety Systems. That kind of average margin runs lower than the average of the Sensors & Safety Systems segment.

So as we grow that business, there will be a little bit of a margin headwind as we grow that. However, the other side of the business runs at very healthy margins, and the pickup we saw in industrial should help. But as you think about growing the business, step up in T&M, we'll see continued fall through there, maybe offset by a little margin mix related to the Defense products as you move into Q4.

### **Operator**

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

**Deane Michael Dray**  
*RBC Capital Markets, Research Division*

I want to first congratulate you all on the debut. That was first quarter, check the box. And I especially appreciate the slides, a lot of good details, and you've shared a lot of insights about the business and trends and mix. And so it's -- yes, we knew this business when it was part of Fortive, but we didn't have that detailed lens that you're providing now. So just, first of all, thank you for that.

And secondly, I just want to drill down on the Defense business because we don't see typically growth of 18% in an industrial type of business. So just kind of frame for us how that breaks out into, is it programs? Is there any kind of MRO to it? And what does the shutdown mean for the business over the near term?

**Tamara S. Newcombe**  
*President, CEO & Director*

Thank you, Deane. The Defense business, we're specifically talking about our PacSci EMC business. And if you look back over the last 65 years, there's only been two other times in history where you've seen Defense spend be positive up into the right for a 10-year period. And we're about 4 years into this cycle and all the signals that we're getting, the increase in Defense budgets to \$3 trillion by 2030, which is about a 40% growth rate. The focus on these core programs, there's 12 core programs that have been identified as critical. And the PacSci EMC Safety Systems plays in the majority of those programs, gives us a lot of confidence that this business has more years to run here, probably out through 2030.

As we work with the customers in that space, they give us good visibility. You heard me say earlier that we've got visibility to about twice the backlog that we did or we will do this year, so our annual revenues. And they give us good visibility not only to the backlog, but when they need the supply. So we're partnering very close with these customers that we have. There's been a lot of activity. You can -- it's public information. There's a demand surge on these 12 programs. We've started to see quoting activity, which is very positive and expect some of those orders would start to build as we go into the future here.

**Neill P. Reynolds**  
*Senior VP & CFO*

I'll just add on to that one. So we have seen very significant backlog build as you think about this year, and we do anticipate seeing further backlog growth as we move forward in the business. And we continue to work with customers on that, as Tami has said. As you look at going forward, you mentioned taking the CapEx rate up from roughly 2% to 2% to 3%, and we're going to invest in a couple of areas. And one of them is in Defense. And we're going to continue to expand capacity there to support the increase in the backlog and the orders and the timing that we worked out with the customer. So I think more to come there, but clearly, we're seeing strong signals and proof points from a backlog perspective that show we're going to see some solid growth in this business out into the future.

**Deane Michael Dray**  
*RBC Capital Markets, Research Division*

Great. That's good to hear. And just as a follow-up, Tami, more of a holistic question for you. I'd be interested in hearing your perspective of how integrated, coordinated, optimized is the organization today because it is brand new. Are there some operating inefficiencies still? And just maybe if you can give it a scale of 1 to 10, 10 is your humming, a 100%. I know that's continuous improvement. But just where do you fit on that spectrum? And for Neill, just very specifically, that \$35 million that's due to Fortive. Are those shared services? I didn't -- I don't recall how much shared services there are and what's the ramp down there.

**Neill P. Reynolds**  
*Senior VP & CFO*

Let me just hit that last one quickly for you. Those are payments that we returned to Fortive. One is just based on the amount of cash that we generated out of spin. It was somewhat of a reverse working capital dollar, so to speak. So we paid that back already. The other is related to the split of entities and payments back in tax jurisdictions that's required as part of the spin. So we paid out \$57 million of that so far. We anticipate the total of both of those being \$90 million. So another \$35 million to go, primarily based on the jurisdictional cost related to the spin and the split.

**Tamara S. Newcombe**  
*President, CEO & Director*

Going back to your question, Deane, around the optimization piece. We announced last quarter a cost-out program that we -- the team executed very quickly. It's going to take some time for the savings to roll in. Some of it's closing some sites, so that takes a little bit, goes into next year. So that's one piece of it.

The second is just who we are, our culture. We're at steep and continuous improvement, operating rigor, discipline. We are always looking for those opportunities, whether it's a save to invest or it's an opportunity just to add to the profits that we deliver. So that's -- again, it's who we are, it's what we look for every week in the business is where can we optimize the businesses.

**Operator**

The next question is coming from Joe Giordano of Cowen.

**Joseph Craig Giordano**  
*TD Cowen, Research Division*

Can you touch on market share within Tektronix? I know that's been an area of focus with investors. And then clearly, you're launching some new products here. Just how has that trended? And are some of the -- are you looking to push more into validation now like strategically?

**Tamara S. Newcombe**  
*President, CEO & Director*

Yes, Joe, there's -- overall, in the Test & Measurement space, Tektronix is a top 5 player in that space. When you talk about our market share, there's different ways that people look at it. They look at it by product realization workflow from R&D to validation to production, or there's different end market looks that you can take. And depending on which way you look at it, there's places we play. And when we play, we're a strong player. And there's places we've made the conscious choice not to play.

The two announcements that we made, I call them both products and platforms because they're announced as a new product. One of them squarely in the R&D space, that's a DPO7000 product. And the feedback from engineers that I was with last week is just outstanding on the low noise floor and the amount of visibility. They're seeing signals that they once were invisible. So it's a terrific product. It also has a scalable architecture where we can upgrade that. That's why I also call it a platform because you'll see some velocity here as we introduce higher levels of bandwidth in that product.

And then the second product, which you alluded to, which is the MP5000 platform. It takes us into the validation space with a product that is custom-built for validation. So customers certainly have taken our bench instruments, particularly the Keithley branded instruments, power supplies, SMUs and use them in validation in the past. But this is a scalable architecture, meaning modules on the back that -- you can stack these things fairly too high, and really designed for validation and even into production. So yes, this is an adjacency and an opportunity for Tektronix to really expand the portfolio.

**Joseph Craig Giordano**  
*TD Cowen, Research Division*

Interesting. And then just shifting over to Golden Dome, you mentioned. Can you talk about what the opportunity is there for you guys and kind of what you're supplying into something like that?

**Tamara S. Newcombe**  
*President, CEO & Director*

So in the Defense business where we play, I mentioned some of the critical core programs that have -- we've been a part of for a decade or more. Those programs will also be instrumental in the Golden Dome project. So these are existing programs, not new starts, but programs that PacSci EMC already has safety systems and content on that would be deployed for that particular application.

**Joseph Craig Giordano**  
*TD Cowen, Research Division*

Got it. And if I could just sneak one last one on margins. Like how should we think about Test & Measurement's exit margin kind of informing us into next year as like a run rate? I know there's like 4Q to 1Q dynamics. But if we think about 4Q exit rate in context of like what a full year next year might look like, can you kind of talk us through there? And where is like EA Elektro kind of fit into that now?

**Neill P. Reynolds**  
*Senior VP & CFO*

Yes. So from a T&M perspective, as I mentioned earlier, we saw some nice improvement from 2Q to 3Q. We saw a pretty nice step-up. And as you know, it's very volume sensitive. So we did see a nice pickup in the margins. I'd expect to see another nice pickup similarly into Q4 for that business, if that's helpful. And then as we mentioned, seasonally, we'll start to see a step down just as the natural seasonality moves into Q1. But I think that's kind of the baseline you want to think about for an exit rate. And the way that we think about it is, look, we've got to drive through cycles here to hit our long-term margin goals. And at this level of revenue, we're at the low end of that range overall. From a Test & Measurement perspective, we'll see a step up. And then in Q1, we'll see kind of a bit of a step down seasonally, but we continue to drive improvement as we work through the year.

**Operator**

The next question is coming from Amit Daryanani of Evercore ISI.

**Amit Jawaharlaz Daryanani**  
*Evercore ISI Institutional Equities, Research Division*

Yes. I guess, a lot of questions have been asked. I'll ask a couple of just housekeeping ones. On the Test & Measurement side, can you just talk about when do you expect that business to stabilize from a revenue perspective? Is it the back half of '26? And how much visibility do you have from a backlog or wins basis to know that business will stabilize?

**Tamara S. Newcombe**  
*President, CEO & Director*

Amit, on the Test & Measurement, pretty similar across all of our businesses, how we look at it. And there are parts of that business, the Test & Measurement business, where we get long projects, whether it's on -- it's mostly the systems business. But the majority of it is book and turn. So it's important that we watch our orders rates on a weekly basis. Our sales funnels and our sales funnels have been healthy, so as our channels and our activities. And if you go through this year, Q1 was our lowest revenue quarter of the year. And each quarter, we have seen sequential improvement in that business. Really North America probably being the strongest, Europe and China kind of still bouncing along the bottom, but that's how we have looked at that business.

**Neill P. Reynolds**  
*Senior VP & CFO*

The second thing I'd add to that as well is as we think about the business, I think it largely -- we feel it's largely stabilized with the sequential growth that we've been seeing. The comps are going to change as we move into Q1. We talked about a little bit of a step down there, but the comps are going to be better as well. So I think as you move into next year, I think we feel like we'll be in a good position despite some of that seasonality come into that quarter.

**Amit Jawaharlaz Daryanani**  
*Evercore ISI Institutional Equities, Research Division*

Got it. And then I thought I heard you folks talk about the semiconductor space and about how customers are deferring R&D spend there to focus on AI. Just any visibility or any perspective from your side in terms of how long is that deferral going to happen? And does that essentially mean that '26 could be a more outsized growth year on that segment as you go forward?

**Tamara S. Newcombe**  
*President, CEO & Director*

Yes. In the semi space, we certainly have close relationships with those customers. They're innovating, whether they're spending or not in a given quarter or a given year. So we stay pretty close to them. You also -- we follow the semiconductor index. And what I'm seeing is a bifurcation in the customers in that space. There's customers that have a lot of CapEx and continue to invest in T&M. And then there's a set of customers that are more cautious.

And I think probably just following earnings, you've seen that play out. But the semi space is one that we will continue to stay close to. The new product announcement, the DPO7000 fits squarely into those technology companies that are doing next-generation electronics design. So an opportunity for us to be back with those customers and really drive activity and funnel.

If -- here we said it's November, it's the time of year that most of our technology companies are setting their budgets for 2026. So as we hit into January, February, there's always -- there's a lot of engineers that have a lot of a laundry list of wants for their electronics labs, and then we'll start to see as we get into the first quarter, how much they open up the spending checkbook and drive some CapEx. So activity level is good, funnels are healthy, we're seeing some early signs, but we've got to get the money flowing.

**Operator**

Our next question is coming from Ian Zaffino of Oppenheimer.

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

I wanted to maybe key in on Industrial Manufacturing as far as the acceleration there. What exactly are you seeing as far as either by region or area or sector? And then is this sustainable? Or how sustainable do you think this is?

**Tamara S. Newcombe**  
*President, CEO & Director*

Yes. In the Industrial Manufacturing end market, which is predominantly our Gems Setra and Hengstler-Dynapar businesses. I would start with where are we seeing the growth opportunities. And that's -- where the teams are focused is where are the pockets of growth. I talked about our Gems Setra business. They're fantastic in pressure and liquid sensing, and they've got a great opportunity here with data center and the equipment build-out that we're seeing.

North America looks pretty healthy. We've seen some good growth in North America, both from opportunity and also what we're hearing from our channel partners. I'd say Western Europe is still weak. We stay close to customers there. We still have good activity, but the results have been weak. And then China is somewhere in the middle. We have a strong local-for-local program in China in Industrial, but it's just kind of bumping along.

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

Okay. And then maybe just as a follow-up, can you just touch upon the M&A environment? What you're kind of seeing there from a willingness from the sellers, maybe the multiples? And then when we talk about tuck-ins, what is sort of the ceiling as far as purchase price to be considered, a tuck-in and any other type of areas that you'd be looking to make these tuck-ins in?

**Tamara S. Newcombe**  
*President, CEO & Director*

Yes. I would -- I'd start with our clear priorities, and we're really focused on executing against the priorities we laid out just a couple of months ago in our Investor Day. And it is about 1% to 2% of our long-term through-cycle growth to come through M&A. Our first priority in these businesses, and we really like where we start with these businesses, is organic investment. And we will be thinking about that for '26, '27.

Our second priority is returning to our shareholders. We've authorized the dividend. We paid 2 quarters in a row here, and we've got authorization for a share buyback. Third in the order there is tuck-in M&A. And I think of that as businesses that will fuel

the businesses that we have. So where in Utilities do we want to make some investments to take advantage of this tremendous unprecedented opportunity that we're seeing in the utility space in both new builds and in where we play in retrofits and refurbishes. So other places there, hardware is what we're good at. That's our core end products. But in the Qualitrol business, we're also starting to deliver and monetize some software and analytics products.

**Operator**

Our next question is coming from Piyush Avasthy of Citi.

**Piyush Avasthy**

*Citigroup Inc., Research Division*

One on Diversified Electronics within your Test & Measurement segment. You mentioned it declined year-over-year. There are a few end markets within that vertical. So if you could drill down a bit more there, if you could touch on trends you're seeing in autos and consumer electronics. And sequentially, are you seeing any signs of stabilization in that vertical? And maybe what's baked in your 4Q guidance for that vertical, that would be helpful.

**Tamara S. Newcombe**

*President, CEO & Director*

Yes. Piyush, on the -- you're exactly right on the Diversified Electronics and some of the bigger movers in there. That's in there -- from an auto standpoint, the biggest play is our product line. It's now part of Tektronix, which is the EA product line. And we've pretty much stabilized there from a run rate standpoint, maybe seeing some modest improvement in our smaller deals. Where the opportunity is, it's really as automotive and the battery specifically has shifted more towards energy use. We are seeing large projects that we're participating in, quoting, designing. It's just hard to sell the time frame on these because they're big CapEx, they often come with a new building that's coming up, a production facility. So we're keeping our eye on that. But I would say in the Diversified Electronics quarter-over-quarter, it's stabilize to modest improvement.

**Neill P. Reynolds**

*Senior VP & CFO*

Yes. And we've seen if you look over -- the comps year-over-year are pretty heavy. If you look sequentially, we've seen some nice pickup over the last couple of quarters in that area, but predominantly in North America. And I think that's really a bit where things are shifting to from that perspective. So we are seeing some more focused efforts and some growth in North America. You look at the overall North America from a company perspective that we talked about or showed in the presentation there. So we have seen some life there in North America picking up both year-over-year and now sequentially. So we feel like that's kind of heading in the right direction.

I think it's another piece of -- another data point that kind of underpins while we're looking at some tough year-over-year comps for T&M, we're also seeing some sequential improvement, particularly in North America, which gives us -- which makes us, I think, incrementally more positive on the business than maybe we were a couple of months ago.

**Piyush Avasthy**

*Citigroup Inc., Research Division*

Helpful. And one quick one on the cost saving plan. The \$9 million to \$11 million of cost savings by the end of 2026, like can you remind us of the cadence of when you realize these savings? Is it more spread out? Is it more first half, second half? Any incremental color there would be helpful.

**Neill P. Reynolds**

*Senior VP & CFO*

I think we said by the end of the year, look, there's some -- built into that is some rationalization, some site and infrastructure rationalization. So that always takes a little bit of time. I'd say from an execution perspective, we've already started the execution on that plan. We should see by midyear or so kind of the execution on some of the closure and rationalization of some of the infrastructure related to that plant, which is primarily cost of sales savings, and we'll see some benefit from that as we get to the back half of '26.

**Operator**

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

**Robert Gregor Jamieson**  
*Vertical Research Partners, LLC*

I just want to stick with Test & Measurement and dive in a little bit more here. Just on semiconductor and the test equipment, I mean, there's currently some bifurcation here, some weakness in memory and make sure those offset by strength in leading AI chips and packaging. But which subsegments in semiconductor are you serving? And how does your product portfolio enable you to maybe benefit from some of the AI-driven investments in advanced packaging, high-bandwidth memory validation test? I mean, are these areas that you're trying to grow exposure to?

**Tamara S. Newcombe**  
*President, CEO & Director*

Yes, absolutely. We certainly want to be where the growth is in Test & Measurement. If you think about our business, it's predominantly in the R&D space. Probably 50% to 60% of the focus is R&D. So next-generation AI chips, next-generation compute, next-generation communication protocols, that's squarely where the Tektronix business is and where this new product that they just announced plays extremely well.

The adjacency that -- there's two new products, the MP5000 platform takes them into the automated test part of the workflow, which is relatively new. I've made the point that there's been -- certainly customers will use the bench instruments to do some automated tests. But this is like purpose-built, ground up to play in that segment and really go after the opportunity there, both new build opportunity when you're building out a new lab and upgrades and replacements of where we would be getting share gain. So both of those.

**Robert Gregor Jamieson**  
*Vertical Research Partners, LLC*

Okay. That's helpful. And then just when you think about the Test & Measurement space and the recovery path that you're on, what end markets and regions do you think are going to be the biggest drivers of getting your organic growth back towards the broader Test & Measurement peer group average over time? Like what should we be looking for? And then just also, can you help like in order of magnitude, size or just qualitatively how you'd rank the Diversified Electronics portion of Test & Measurement, like what's your largest and smallest exposures there?

**Tamara S. Newcombe**  
*President, CEO & Director*

Yes. The way we think about the business is really where we start to see activity, channel activity, sales activity, funnel build, orders. Where I'm most positive there is North America. We talked earlier in our prepared remarks about China, which has been a strong growth driver for the Test & Measurement business from '21 to '23. Not expecting any type of a recovery there anytime soon in the short term. But we do think it has stabilized and seems -- we're -- if you look at the order side of the business, there's been some up and down from a revenue standpoint in China. But from an order standpoint, pretty consistent the last 4 to 5 quarters. So I think the -- when I say a modest recovery, we'll see in North America as well as Southeast Asia, India, where some of the companies have moved.

I think the second part of your question was around Diversified Electronics. If I were to think about what's inside Diversified Electronics, the biggest end markets would be industrial, consumer, some auto, battery, medical and then education in that bucket.

**Operator**

The next question is coming from David Ridley-Lane of Bank of America.

**David Ridley-Lane**  
*BofA Securities, Research Division*

What were Test & Measurement orders in the third quarter of 2025 and the third quarter of 2024?

**Tamara S. Newcombe**  
*President, CEO & Director*

We have not shared orders profiles in the past. I directionally gave a view that we've seen a really strong orders profile in North America in Test & Measurement. And all of the -- what's wrapped into our guidance for Q4 is our visibility into earlier demand. And some of it's orders, some of it's sales funnels, channel insights, all those different pieces of the business that we look at to give you that guidance.

**Neill P. Reynolds**  
*Senior VP & CFO*

Yes. I think the overall -- if you look at year-over-year, we're obviously down in revenue. A lot of those bookings are kind of book and turns in the quarter. So I think from a book-to-bill of 1:1 a year ago and a book-to-bill more or less 1:1 in the last quarter or so. So I think that's kind of the way to think about it.

**David Ridley-Lane**  
*BofA Securities, Research Division*

Let me try a different way. Deferred revenue on the balance sheet is up \$22 million year-to-date and \$19 million quarter-over-quarter. So if you are seeing orders growth that would come with down payments. Directionally, should your investors look at that quarter-over-quarter or year-to-date increase in deferred revenue as indicative of the bookings number?

**Neill P. Reynolds**  
*Senior VP & CFO*

Yes. So deferred revenue primarily relates to our Defense business. So the way that those contracts work generally is we get some incremental, I guess, cash investment from our customers as we start to go execute on long lead time items. And then down the road, we go ship those and then match that up. So that deferred revenue is really in relation to the increased backlog that we're seeing in Defense, and premiums that we're getting from customers upfront to go execute on some of those longer lead time items as it relates to that defense growth we talked about earlier.

**David Ridley-Lane**  
*BofA Securities, Research Division*

And then just since you mentioned it, I guess, what about your contracts in PacSci EMC make them not qualify for the GAAP remaining performance obligations? Because if I look, there's less than \$10 million of RPO in Sensors & Safety.

**Neill P. Reynolds**  
*Senior VP & CFO*

I'm sorry, I didn't catch the end part of that question.

**David Ridley-Lane**  
*BofA Securities, Research Division*

There's less than \$10 million of remaining performance obligations in the Sensors & Safety Systems segment. And generally speaking, if a business had firm noncancelable backlog, that would be in the RPO metric.

**Neill P. Reynolds**  
*Senior VP & CFO*

So yes, we'll follow back with you on that one in terms of how that works. I think the backlog that's related to the Defense business is very strong, obviously, which is consistent with how we think about defense businesses overall, but we'll come back on the RPO.

**Operator**

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

**Scott Graham**  
*Seaport Research Partners*

I want to understand a little bit about -- maybe cutting Defense, Diversified Electronics a little differently. I know, Tami, you mentioned that EA is the largest business there, but that business has a lot of -- that division has a lot of non-EA. So I guess my question is, within those markets, is this the 7000, the 5000 upgrades, are you going to look to pivot to new markets there? And I'm asking that -- I know that these are products, particularly the 7000, which is very engineer oriented, but engineers work everywhere. So there's clearly an end market issue away from EA there as well. So I'm just wondering if there's a plan here to move some of these new products into your salespeople moving them into new markets that are maybe better markets than what we've seen in that business.

**Tamara S. Newcombe**  
*President, CEO & Director*

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Yes. Scott, you're absolutely right. The products that Tektronix just announced, both the DPO7000 which is more of research play, and the MP5000, which is more in the validation workflow, really transcends end markets. So any end market where you're building out electronics, whether it's electronics in the medical field, electronics all over the consumer space or IoT, electronics and industrials, education, every one of those customers, anybody building electronics. We had a traditional plumbing fixture supply company that's marketing electronics into their fixtures. That's an opportunity for Tektronix. You're absolutely right, as electronics spread across almost every end market. As we kind of talked about this electrification of many devices, you will see the opportunity for Tektronix and Test & Measurement across all of that.

**Scott Graham**  
*Seaport Research Partners*

That's helpful. Then just a quick follow-up on sort of the margin development here. Can you give us what pricing was in the quarter, help us maybe triangulate toward price cost? I know you mentioned a mix factor, Neill mentioned a mix factor in Defense as being negative in the quarter. But maybe just help us understand the dynamics of price cost in the quarter, if you can give us price.

**Neill P. Reynolds**  
*Senior VP & CFO*

Yes, in the quarter. So normally, we see about 1 to 2 points of price year-over-year. We talked about that previously. As we think about moving from 2Q to 3Q, a lot of the pricing had already been baked in, including the pricing for tariffs. So we didn't see a large step-up in price from 2Q to 3Q. Most of that was underlying volume. We might see a little bit trail into Q4 just based on the timing of some of the countermeasures on the tariffs and how we manage that. But predominantly, the buildup is from volume. And also, I'd say quarter-over-quarter from an FX perspective, I'm not anticipating any material movement there either. So underlying primarily is volume.

**Operator**

That brings us to the end of today's question-and-answer session. I would like to turn the floor back over to Ms. Newcombe for closing comments.

**Tamara S. Newcombe**  
*President, CEO & Director*

Thank you all for joining us today. Again, I want to thank my team for how they executed the first full quarter as an independent company. With the spin behind us, we are energized about the opportunity that we have in front of us here. We are balancing our operating rigor and our discipline and our heritage with a growth mindset in innovation and how we go drive growth in this business.

Thank you all for joining, and I look forward to continuing the conversation in the weeks to come.

**Operator**

Thank you. 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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