

Ralliant

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Brandon Knutson: My name is Brandon Knutson. I'm on the multi-industrials research team here at Morgan Stanley. And this afternoon, I have the pleasure of speaking with Tami Newcombe, President and CEO of Ralliant, and Nathan McCurren, Vice President of Investor Relations. And Tami is going to kick it off with some opening remarks for us.

Tami Newcombe: Thanks for having us.

Welcome, everyone. Thanks for being here. We did post the presentation after market close today. We'll spend a few minutes introducing Ralliant. We are a relatively new public company; this is our fifth quarter that we're in today. So, if you haven't heard of us, I'll catch you up pretty quick on what we do.

We are a premier player in precision technologies. That means we make highly precise test and measurement instruments, industrial sensors, and safety systems for the defense and space industry. Our businesses design, develop, manufacture, sell, and service these precision technologies.

Our customers are engineers, and scientists, and innovators around the globe that are working in a number of different end markets, end markets where we're seeing terrific growth opportunities today. In the utilities space, we work with the grid operators to ensure our sensors and monitoring systems help them keep the lights on. In our industrials space, in the data center for liquid and air cooling, our industrial sensors are being used for pressure, flow, and temperature. In the defense space, we are a critical supplier in a number of the programs that are going through significant replenishment or surge demand. And then in our test and measurement space, the energy here around data center and AI is exciting. We're enabling those engineers with the instruments they need for those electronics. And as that moves to the edge and you see the AI edge and electronics show up in our wearables, our humanoids, robotics, medical devices, all of that electronics innovation is where our test and measurement instruments play a very, very critical role.

As Brandon said, we're a new company, and it was September of 2024 that the spin was announced. At that time, we put forth a strategy where we could drive additional growth in the business. There's really three pillars to our growth strategy. The first being around aligning more of the portfolio to high-growth vectors.

The second is creating recurring value for our customers in what we call stronghold positions. These are often niche applications where we have technical expertise or long-standing relationships and we're embedded in an OEM's product.

And then third is our Ralliant Business System, and that's how we execute our strategy. That's the operating rigor that you will see in these businesses, how we deliver the fantastic free cash flow that we do.

On the high-growth vectors, two places that we play across the portfolio, that's electrification and defense. In electrification, it's from the grid, as I mentioned, into the data center and the AI edge. In defense, it's both legacy programs where we are embedded as well as defense modernization.

Our capital allocation strategy has been very disciplined, and we started with giving oxygen to these businesses at spin. By that, I mean investing in organic growth. This year, it's been around capacity expansion where we've seen strong demand. We've also fueled some areas of supply chain to ensure that we can continue to deliver.

And I'll probably stop there and kind of bring it home to questions that you have for us.

Brandon Knutson: Great. Thank you for that intro.

You're now, as you said, almost a year into your life as an independent company. What are some things that you can do as a standalone company today that you couldn't do under your previous parent?

Tami Newcombe: I think the word is focus. We're a business of products and services. Very similar go-to-markets across the portfolio. Very focused on precision, and precision from an engineering standpoint and also manufacturing precision products. So, I think the focus in the company allows us to invest where we have the biggest growth opportunity.

Brandon Knutson: Great. And then how much of the recent performance would you say is really a function of you seeing a return on those investments versus a real inflection in the cycle?

Tami Newcombe: Well, we're certainly going to take advantage of a good market, but we're also very focused on making our own luck. And when I talk about making our own luck, that's about moves we've made to expand manufacturing capacity, investments that we're making in our innovation road maps, and then we do have some places where we're increasing our commercial focus and putting salespeople on the ground to fuel increased demand.

Brandon Knutson: Great. And you talked about the Ralliant Business System. I want to highlight a little bit in there. What are the AI implementations you're using in order to facilitate the productivity cost savings that you've outlined already? And how are you seeing those returns on that AI enablement internally?

Tami Newcombe: A couple of places. As the Ralliant Business System, which was born back in Danaher, we were able to refine that to be very focused on our manufacturing, our innovation in a products company. We also have modernized it, and with that, we've infused AI. A lot of the problem-solving is about data collection to get to root cause. So, there's a real opportunity there for AI.

We've also focused on a couple of platforms. One platform is for our software developers. And I call it a platform because it gives us the ability to monitor costs, to be

able to have a marketplace. So, if somebody were to change jobs, we wouldn't lose some of the AI development that we're doing. And to have good governance and cyber control. And we've done that both on the software development side as a platform, as well as on the commercial side.

Sort of early on, on metrics. We're looking more at adoption, utilization, and sort of optimization of costs so that we're using the right model for the right solution. And then on the commercial side, it's about how do we scale as we grow by enabling our sales teams without having to continuously add people.

Brandon Knutson: And in terms of where you can improve the business, how does the opportunity set look now a year into it versus six months ago when you initially kind of gave a level-setting of expectations for cost savings for the next few years?

Tami Newcombe: Well, I think there's two pieces there. If you go back to our preparation for Investor Day, it's almost 18 months ago that we were preparing for our Investor Day. And as we thought about setting expectations for growth at that point in time, we did an analysis looking backwards. We looked from 2019 to 2024, and we said through that five-year period we'd had a growth CAGR of just over 3%. So, we came out talking about 3% to 5% being our new through-cycle growth rate.

Eighteen months later, as I sit here today, we've got parts of the business that are growing high-single to double digit. I believe that mid-single, even without tuck-in M&A, is possible. And some of our shorter-cycle business – our test and measurement and some of our industrial sensing businesses – we had strong Q2. We raised – at the end of Q2, we raised our annual guidance for the year, and our guide at the midpoint right now for this year is double-digit revenue growth, about 200 bps of adjusted EBITDA margin expansion, and growing our EPS over 30%.

So, we're seeing growth and firing on multiple cylinders across the portfolio.

Brandon Knutson: And as you mentioned, you gave the long-term growth outlook somewhat backward-looking of 3% to 5%. As you see how the business has performed, your exposure to AI, defense, grid modernization, repurposing things like EA Elektro to more, like, be battery powers and tests for data centers, does 3% to 5% feel like the right range? Or is it stale at this point?

Tami Newcombe: I think in our defense business, we've talked about that being a double-digit type grower.

I think utility business is high single digit. We'll be double digit in the second half here because we were slower in the first half.

But the 5% through the cycle is the number we've been talking about now, with still to be seen on our short-cycle business. In the presentation that we most recently – we just posted here within the past hour, we talked about the momentum that we saw in Q2, we've continued to see in July and August of this quarter. So, the short-cycle business and test and measurement in industrials continues to perform.

Brandon Knutson: Great. Shifting over to another kind of big secular theme of AI and data center, you've seen AI – could AI create a structurally higher replacement or upgrade cycle for oscilloscopes and other test equipment as bandwidth signal complexity advances more rapidly?

Tami Newcombe: Yes. The test and measurement business is driven by innovation. And so, when there's innovation happening in electronics like there is in the data center going from 400 volt to 800 volt and a lot of the equipment, the electronics equipment, going into that data center needs to be upgraded or expanded, those are good opportunities for test and measurement equipment.

And again, where we see – we talk about the explosion of electronics. It's really outside the data center in all the companies that are building electronics that will take advantage of AI as it shows up to each and every one of us in our lives.

Brandon Knutson: And for Tektronix specifically, the products there sit very early in the electronics R&D cycle. Where are you seeing AI-related demand show up for those products?

Tami Newcombe: So, the test and measurement equipment, about 50% of our opportunity is in R&D. That's the place that really pushes the edge of those instruments. We have our own in-house semiconductor team. They build the chips, the ASICs that go in that equipment, and that's a place where customers are willing to spend extra dollars to ensure they make the best equipment there. So, I would say in the R&D space, anything related to electronics is going to drive growth for T&M.

Brandon Knutson: Okay. And then shifting to AI infrastructure, how large is the direct and indirect revenue exposure there for you?

Tami Newcombe: There's a few places where we sit in the data center. That would be more in our sensors that actually show up in the data center in cooling, whether it's air cooling or liquid cooling. Most of our other opportunity is sort of the echo of the AI data center, which is in the labs that are generating the electronics; in the power grid, the expansion needed in the power grid, both for storage systems and for critical infrastructure to increase our ability to power the AI infrastructure.

Nathan McCurren: I'd just add, Brandon, we've shared that about 10% to 20% of revenue has direct exposure to data centers, AI infrastructure. Some of it's a little bit difficult to measure of whether a chip is going into a server in a data center or a different application. So, certainly a bigger impact than that on the second-derivative impact of all the investment that's happening there right now.

Brandon Knutson: Great. Another strong end market for you all has been defense. Your backlog remains above a \$1 billion. Double-digit revenue growth. How far does that backlog give you visibility?

Tami Newcombe: So, the reporting – we report the defense and space as one of our end markets, and that'll be about 15% to 17% of our revenue this year. And that would take us through this year, through '27, and into the beginning of 2028.

At the same time, there's a lot of activity right now with our customers, the defense contractors, and thinking through what does this replenishment cycle and surge demand. Many of the programs that we're on, we're talking about 2x to 4x increases in productivity between now and 2035. And that's come to us in quoting a number of different scenarios, different volumes, different time periods, and we're still waiting to understand what the contracts will look like that will become part of our backlog there. But that is not part of the billion-dollar backlog today.

Brandon Knutson: Okay. And you have a line of sight now to capacity needs through 2030 on the defense side. You're expecting to do expansion past 2028 and beyond. You're good through '28.

What level of revenue growth with this capacity expansion beyond '28 are you growing the business for – growing capacity for?

Tami Newcombe: So, within our footprint today, between increasing capacity – and that comes in both sell output as well as expanded shifts – we're comfortable through the demands in 2027. So, we have announced we're moving this business into another facility which we own outside of Cleveland, Ohio, and that capacity is to come on late '27 and into '28. And then, possibly a fourth facility after that. And that is to take us through now through 2035 at the double-digit rates that we're thinking about.

Brandon Knutson: Okay. And then on the demand side, it's clear what's driving demand for defense. But we know that margins are somewhat lower than company margins on the defense side as well. So, how should investors think about the trade-off between that faster growth and segment margin mix?

Tami Newcombe: So, our defense and space end market is in the sensors and safety systems segment. We've talked about adjusted EBITDA margins there in the mid- to high-20s, and this will be a headwind to where we are today.

You have to understand the context around that. These customers fund their new product developments; so, R&D is very low for us. They also fund a lot of the stand-up of the production lines, as well as equipping the people to come onto the lines. So, we have guardrails on margin profile there.

And it becomes a mix issue as we look forward, that we'll have a higher mix of some of these programs with lower margins. Having said that, we still are very comfortable with the range that we gave of the mid-20s to high-20s in adjusted EBITDA margins. We're just making sure that people didn't get ahead of us and think that they were going to go beyond the high-20s.

Brandon Knutson: Right. And is there any opportunity for RBS or volume leverage to offset some of this margin mix headwind?

Tami Newcombe: Yes. And as we have done in the past, we will always continue to do that. And I think as we get orders and backlog and understand timing of some of this, that will be an opportunity for us.

Brandon Knutson: And what are the levers within RBS to try to improve the margins for this?

Tami Newcombe: Oh, productivity. I mean, if you think of our RBS tool set, it's all about getting efficiency and productivity out of the manufacturing facility.

Brandon Knutson: Great. And sticking with sensors and safety on the utilities side, 14% of revenue, expected to show growth in the double digits in the back half of the year, had delays in the beginning of this year. But how durable is that double-digit growth beyond the catch-up we're expected to see in the second half of this year?

Tami Newcombe: So, the first half of this year, demand – orders – continued to be strong. We called out Q2 being historically our strongest quarter ever in demand. So, we are continuing to see strong demand. Some of the shipments shifted from first half to second half. So, that was the double digit in the second half.

And we stay – I mean, this business was born 50 years ago, pioneering how we monitor critical assets in the grid. We stay very close with those OEMs. Those OEMs, we work

with multiple years in advance to actually design sensors for that equipment. So, the signals that they're giving us are strong for several years to come. If you know that industry, transformers are backlogged 18 to 24 months. So, there's good demand there.

Brandon Knutson: Great. And the grid is going to require a lot of investment to accommodate data centers, renewables, electrification. Where does Ralliant have the strongest competitive position within the grid modernization spend?

Tami Newcombe: I would say everything you said as far as expansion. There's also a tremendous opportunity for upgrades in the grid. Much of our grid is over 25 years old. And our opportunity is both in the generation side and the transmission side. We don't play as much in distribution, but the sweet spot is transmission, with opportunity also in generation.

Brandon Knutson: And what's the mix between replacement of aging equipment versus new infrastructure?

Tami Newcombe: We don't break out – I don't even think we would the replacement. We think about retrofits, which is a business that has been building over the last two to three years. Maybe 10%, 15% of the business today is retrofits, where a transformer going through a retrofit, they'll add sensors to it. And with aged infrastructure, you can imagine people are more interested in monitoring that aged infrastructure now to know if they get an investment or they get a shipment of a critical asset where they want to put it.

Brandon Knutson: And are you seeing across utilities, given the increasing cost of outages and things like we're seeing with fires and how that impacts the liabilities that utilities are facing, are you seeing a higher willingness to spend on predictive monitoring and other solutions that you provide?

Tami Newcombe: Yes. The aged equipment, some of the penalties driving not only the monitoring, which is something we've traditionally historically done very well, but (inaudible) moving up and providing more insights and more predictive analysis to the grid operators. Or the new customer force is the hyperscalers. We announced or shared on one of the earnings calls that one of the hyperscalers has selected us as part of the – as a critical supplier as they build data centers. So, they're staying really close to deciding who is in their design footprint.

Brandon Knutson: That makes a lot of sense. Shifting to test and measurement. So, organic growth reached mid-teens in Q2, following a return to growth in Q1. It's a very strong start to the year. Book-to-bill above 1.2. Where are we in the test and measurement recovery cycle today?

Tami Newcombe: We're clearly in year one. We saw strong growth both in Q1 and Q2. And we've seen in the past, we've seen these cycles run anywhere from two to four years. And you look around, I ask myself, "Is there going to be more electronics in the world or less electronics in the world?" It looks like there's a lot of opportunity here for electronics, which is good for test and measurement.

Brandon Knutson: And you've cautioned that, historically, after a strong first-year recovery in test and measurement, you see it moderate, typically to mid-single digits in year two. What would need to happen for this cycle to provide a stronger or longer kind of duration of that higher growth than history?

Tami Newcombe: So, first of all, thank you for asking this question on moderation. Every cycle has had a different profile. And we have seen double-digit years followed by moderation; I commented low-single, mid-single. We did see coming out of COVID, we also saw a

cycle where we saw high-single-digit, double-digit growth for three solid years. So, every cycle's a little bit different, and I think all of us can see the opportunity that we have across electrification.

Test and measurement is also used in defense and a lot of the modernization in defense. Communications that are used in defense is another good growth factor for test and measurement. So, I think all of those things. How many different ways can we win in test and measurement is what we're trying to play into.

I also mentioned China's been strong for us in the first half, stronger in orders than in revenue. So, should be good – or will be good in the second half. And a lot of that's driven by a focus on energy and also on AI.

Brandon Knutson: And within test and measurement, you typically have 90 to 120 days of visibility; so, not super long visibility. But what leading indicators give you the greatest confidence around the duration of the test and measurement up cycle?

Tami Newcombe: A couple. We look at some market indices, one of them being the Semiconductor Industry Association, the SIA. It's a pretty good – within a quarter – usually a pretty good predictor of test and measurement overall.

We look at the peer group. We look at our customers, and we look at the growth that we're seeing in data center and some of the technology providers.

But internally, we have a strong sales organization. So, we have funnels we look at. We have reach that comes through distributors. We get inventory and point-of-sale or sell-through from them.

All of this combined gives us pretty good visibility for 90 to 120 days.

Brandon Knutson: Got it. And then within the segment, diversified electronics has been particularly strong. How much of that is traditional electronics cycle versus incremental AI-, energy-, or mobility-related investment?

Tami Newcombe: I would say it's certainly hard to separate the – there's not an electronic product or company out there that isn't thinking about how do we infuse our electronics with AI. So, I would say there's an element of innovation both in existing products – I just upgraded my iPhone last night. I couldn't find the alarm clock this morning, by the way, if anybody else had that problem. But there's also, I think, new products that are going to come out. I mean, you think about some of the predictions on humanoids, some of the predictions on robots we're going to have in the industrial environments, we're all going to be wearing electronics on ourselves, medical technologies, just life-changing type medical technologies that'll be out there for people. I think there's a lot of innovation happening in electronics, and a lot of it's driven by AI.

Brandon Knutson: That makes sense. I mean, you mentioned China. I want to pivot there. You had strong growth in Q2, with elevated activity around AI data centers and energy infrastructure. How sustainable do you see that demand trend being?

Tami Newcombe: Specifically, test and measurement?

Brandon Knutson: This is just broad China question.

Tami Newcombe: A broad China question. So, two places. In test and measurement, there's definitely an investment cycle going on in energy and the AI data center. And is it structural? Is it episodic? I think still time will tell in that space.

Also in China, we have – again, back to making our own luck – we have invested in a local-for-local capability there for our industrial sensor businesses, where we actually transport designs, they can redesign, re-engineer the supply chain, manufacture, and deliver localized products. And that is benefiting us right now in that space.

Brandon Knutson: And how do export controls affect the type of test and measurement products you're able to sell in China?

Tami Newcombe: So, it's been pretty stable the last several years. You'd have to go back to pre-COVID to when some of the rules changed about who U.S. companies could sell to, but that's been quite stable for the last several years.

Brandon Knutson: And then does the development of a domestic Chinese electronics ecosystem create a long-term opportunity for electronics? Or does that ultimately raise the competitive risk?

Tami Newcombe: Well, I always think competitors make us better. And so, we certainly keep an eye out. Much of the China competition has come in places where customers we cannot work with, based on our headquarters and U.S. role. And some of that competition then does go to Europe and does come to the United States.

I'd say where we play in test and measurement, it's a very high end of complex test systems. We have advantages around our ASICs that we build and the performance that we have. So, where the competition comes from is really at the low end of the portfolio.

Brandon Knutson: Got it. And then want to shift gears to semiconductors. You saw strong growth, 7%, in Q2, despite a difficult comparison year over year. What are you seeing in terms of underlying demand there?

Tami Newcombe: Underlying demand is strong in semiconductor. Our reported numbers are light due to a year-over-year compare with a large project that will run about one more quarter. I think underlying, it was high-teens?

Nathan McCurren: Yes. We've said, like, mid- to high-teens growth broadly within semiconductor, excluding that, which will be more reflected in Q4 once we've fully lapped that.

Brandon Knutson: Right. And that should be a fair starting point when thinking about what '27 demand looks like?

Tami Newcombe: For semiconductor?

Brandon Knutson: For semi, yes. Taking out the tough comp.

Tami Newcombe: We haven't made any predictions for 2027 in our business. We're kind of getting in the 120-day window here. By the end of this quarter, we'll be able to give some visibility into 2027.

Nathan McCurren: There's nothing that we've called out that would be a lumpy comp for next year as we're going into the year.

Tami Newcombe: No.

Nathan McCurren: So, it's really more just what's the underlying demand. And right now, there's nothing that we're seeing that's indicating that that's slowing down.

Brandon Knutson: Got it. And then which parts of the semiconductor are most relevant to Ralliant, whether it's wafer fab, advanced packaging, test, R&D?

Tami Newcombe: R&D. We sit in – you think of the Who's Who of the top twenty semiconductor players, we'd be sitting in their R&D labs, helping them with characterization of their next generation of semiconductor chips. And when they ship those chips to somebody building something with those chips, we would follow those to those technology companies that are building systems or subsystems and be tested all along the way.

Brandon Knutson: Great. In these last few minutes, want to shift to capital allocation and M&A. You've returned over \$160 million to shareholders year to date in buybacks, and you target 50% of free cash flow over time. What do you look for to determine whether you lean a little bit above or below that number?

Tami Newcombe: We specifically said "over time" to give us some flexibility, with our first priority being around organic investment. Talked about some of the investments that we're making in manufacturing capacity. And then the other is tuck-ins. And we have a good funnel of tuck-ins, but timing is always interesting on small tuck-ins as to when they're the right value for us, as well as the timing works with the other party.

Brandon Knutson: And on tuck-ins, where are you seeing the most attractive technology or portfolio gaps?

Tami Newcombe: I think for tuck-ins, for us, we want a line to higher growth. That was kind of the thesis for the spin. So, we want higher growth.

We also want places where we can get good synergies. I think about small technology companies that don't have a global sales organization that we could tuck into one of our businesses and really help them scale something that they have started. That's probably, like, right up the middle of the fairway.

Brandon Knutson: And then, generally, for M&A, you target double-digit ROIC by year three. Is that something that is basically a gating factor that keeps Ralliant focused on smaller tuck-ins versus larger strategic M&A?

Tami Newcombe: Well, I think, I mean, the nature of our free cash flow and if you think about somewhere around 50% going to buybacks and dividends, what we have left with is going to lend itself to smaller type tuck-in deals than large strategies. I also think as we – we're four quarters public right now. We want to a little bit walk before we run and prove out that we can do a few tuck-ins here before we take on anything bigger.

Brandon Knutson: And then assuming there was a large strategic opportunity out there and you were willing to step into it, at the moment step away from buybacks, how high would leverage – would you let that go above the kind of 2%, 1.5% to 2%, range in order to make that deal happen?

Tami Newcombe: It's not a ceiling or a floor. It's really a guideline. And we would look at anything that came to us and is it the right thing for our shareholders.

Brandon Knutson: In looking beyond 2026, current guidance we just talked about needs to see – is guiding for test and measurement to moderate a little bit next year. What would need to happen for growth to remain above the historical growth?

Tami Newcombe: We haven't guided anything for 2027. I think what we're seeing in the business today is really healthy growth rates across multiple parts of the portfolio. We're seeing strong growth and opportunity in the defense space. The utilities space is a multiyear secular trend. And then our short-cycle businesses around industrials and test and measurement, industrials really grew stronger in Q2 than we had expected. That was the over – we came in over our guide in Q2, and we raised our guide for the year. It was due to the industrials. And we've continued to see strength in our short-cycle business, and that was the comment that I made on July and August continuing the momentum of Q2.

Brandon Knutson: Okay. And if we sit here a year from now, what would tell you that the spin has genuinely changed the earning power of the business rather than simply spinning off right around the bottom of a cycle and catching the upswing?

Tami Newcombe: I think that we've made our own luck, that we have prepared ourselves to capture growth from '27 and beyond. Some of that's the investment in our supply chains and our manufacturing, but also in the platforms I talked about for AI and innovation.

And fueling our innovation road map, I should have mentioned a big week for our test and measurement segment. I think there were three new product announcements that came out this week. Every one of them builds upon the launches that we made last year in Q4, when we talked about platform announcements, and we've continued to extend those platforms and add to those platforms with some of the announcements this week. So, fueling that innovation in both segments, but that's a great proof point of what's possible.

Brandon Knutson: And what is the opportunity in Ralliant that you're most excited about that you think investors don't fully appreciate?

Tami Newcombe: I think the first thing that gets me excited is that we have multiple growth opportunities. We're multi-threaded. We're firing on multiple cylinders. I think that's the most exciting part.

From an upside standpoint, I'd say that the opportunity in defense right now and some of the alignment that we have on the critical programs that are talking about 2x to 4x production over the next several years, that's probably the single one upside that I see that is pretty lumpy, but an opportunity for us.

Brandon Knutson: Excellent. Well, Tami, thank you for your time today, and thank you for coming to the conference. That's all our time today. Appreciate it.

Tami Newcombe: Thank you. Nice job.