Ralliant Corporation
Third Quarter 2026 Earnings Results Conference Call
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Presenters
Nathan McCurren, VP of Investor Relations
Tami Newcombe, President & Chief Executive Officer
Neill Reynolds, Chief Financial Officer

Q&A Participants
Alexander Virgo - Evercore ISI
Piyush Avasthy - Citi
Joe Giordano - TD Cowen
Kevin Wilson - Truist Securities
Ian Zaffino - Oppenheimer & Co
Scott Graham - Seaport Research Partners
Jacob Levinson - Melius Research
Brandon Knutson - Morgan Stanley

Operator
Hello. My name is Donna, and I'll be your conference facilitator, this morning. At this time, I would like to welcome everyone to Ralliant Corporation's Third Quarter 2026 Earnings Results Conference Call.

All lines have been placed on mute to prevent background noise. After the speaker's remarks, we'll open the call for questions. If you would like to ask a question, please press "*", then "1" on your telephone keypad. If you would like to withdraw your question, please press "*", "2".

I would now like to turn the call over to Mr. Nathan McCurren, Vice President of Investor Relations. Mr. McCurren, you may begin your conference.

Nathan McCurren
Thank you. Good morning, everyone, and thank you for joining Ralliant's Third Quarter 2026 Earnings Call. I'm Nathan McCurren, Vice President of Investor Relations.

Today, we'll walk through our results, highlight key operational progress and provide our outlook for the fourth quarter and full year 2026. I'm joined today by Tami Newcombe, our President and Chief Executive Officer, and Neill Reynolds, our Chief Financial Officer.

Our earnings release issued this morning and today's presentation can be accessed on the Investors section of our website at ralliant.com. Please note that we'll be discussing certain non-GAAP financial measures on today's call. A reconciliation of these measures 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 2026 results to the same period in 2025.

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 annual report on Form 10-K for the year ended December 31st, 2025, filed with the SEC on February 26th, 2026, and in our quarterly reports on Form 10-Q filed with the SEC on May 12th, 2026, and July 30th, 2026, and to be filed after market today.

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

Tami Newcombe
Welcome, everyone, and thank you for joining us for our Q3 2026 earnings call. I'll start by thanking our team. We are benefiting from attractive market tailwinds, but it's their disciplined execution that is turning those opportunities into growth, margin expansion, and strong cash generation.

Today, I'll highlight our performance in the quarter and the progress we're making against our strategy, before Neill takes you through the financials. Let us start on Slide 4 with a summary of our Q3 performance.

First, our execution across multiple growth sectors delivered 17% revenue growth, and our book-to-bill remained above 1.1 in both segments, reflecting continued broad-based demand.

Second, our operating rigor, led by the Ralliant Business System, or RBS, expanded normalized adjusted EBITDA margin by 400 basis points, as we accelerated savings from our Enterprise Productivity Program.

Third, our targeted investments in innovation and manufacturing capacity are strengthening our positions in defense systems, power grid solutions and AI enablement from the data center to the edge.

And fourth, our disciplined cash management delivered more than $100 million of free cash flow, supporting our organic investments and the return of capital to shareholders.

Turning to Slide 5, in the third quarter, we delivered on all metrics above the high end of our guidance ranges, with the Sensors and Safety Systems segment growing 15% and the Test and Measurement segment growing 21%, organically. Orders outpaced revenue, and demand

signals in our short-cycle business accelerated during the quarter. The expanded backlog provides better visibility and reinforces our confidence in the durability of underlying demand.

Based on these indicators, we're raising our full year 2026 guidance by more than our Q3 beat. We expanded both gross and adjusted EBITDA margins, despite facing higher inflation, as disciplined execution led to strong operating leverage and the acceleration of our Enterprise Productivity Program. Combined with revenue growth, this resulted in adjusted EPS growth of 64% on a normalized basis.

Turning to Slide 6, our profitable growth strategy is gaining momentum. Our winning growth factors position us to capture long-term investment cycles in electrification and defense.

Starting with electrification, rising global power demand is driving investment in grid and energy infrastructure. Our intelligent sensing solutions improve grid reliability and resilience, while our advanced test capabilities support innovation in energy storage and power distribution.

At the same time, AI is accelerating technology innovation from the data center to the edge. Engineers are designing more complex power electronics to improve efficiency, performance, and reliability, increasing the need for advanced Test and Measurement.

Turning to defense, replenishment and surge demand remain elevated. Framework agreements are converting into customer orders and backlog, providing visibility to multi-year demand. And the defense opportunity extends well beyond replenishment. Modernization and the evolution of next-generation defense systems create a broader, longer-term growth opportunity for our precision energetics and advanced Test and Measurement capabilities.

Turning to Slide 7 and our performance by region. North America is our largest region at 54% of total revenue and grew 18% in the quarter, with broad-based momentum across all end markets. High-quality backlog and healthy channel inventories show continued growth runway.

China is 16% of total revenue and grew 39% this quarter due to increasing investments in data centers and the power grid. Strong book-to-bill gives us confidence in elevated revenue growth continuing in Q4.

Western Europe is 12% of total revenue and declined 3% this quarter. We are encouraged by improving macro indicators and growing orders in the region. Demand has been concentrated in grid modernization, defense, semiconductor and data center investment, while general machine building OEM remain more cautious.

Rest of world is 18% of total revenue and grew 15% this quarter, led by Utilities and ongoing investment in power and energy infrastructure across Korea, Japan, and Southeast Asia.

Transitioning to our end markets on Slide 8, the Sensors and Safety Systems segment is approximately 60% of total revenue and grew double digits in the quarter. Defense and space end market is 18% of total revenue and grew 21% in the quarter on the back of double-digit growth in Q3, last year.

PacSci EMC, our Defense and Space business, has received undefinitized contract actions supporting Lockheed Martin's THAAD and PAC-3 programs. Lockheed Martin received seven-year undefinitized contract actions for THAAD interceptor production and PAC-3 Missile Segment Enhancement, or MSE production, supporting the Department of War's efforts to expand critical missile defense production capacity. We began to receive orders against these contracts in the quarter, which helped fuel our multi-year Defense and Space backlog to now surpass $1.5 billion.

We are partnering with our customers to meet ramping production requirements through productivity, capacity expansion, and initiatives to secure supply. We are also securing design wins on emerging defense technologies across lower-cost, affordable mass munitions, autonomous air vehicles and counter-UAS systems, confirming our status as a critical supplier across the multi-tiered defense architecture.

Utilities end market is 14% of total revenue and grew 16% in the quarter. We delivered another record quarter of both orders and revenue. Market growth further accelerated with the rising power demand from data centers, electrification, and aging grid infrastructure. Even with a large step-up in revenue growth in the quarter, we continued to build significant backlog with a high book-to-bill.

Our deep customer relationships are central to how we capture that demand. We partner with leading transformer OEMs to develop intelligent sensing solutions that improve grid reliability and resilience, while our relationships with Utilities and hyperscalers give us direct insight into their evolving requirements and investment plans.

Our operating execution and investment are supporting that growth. Productivity improvements are increasing manufacturing output, and we broke ground in July on a facility expansion to support future demand.

Industrial manufacturing and other end markets are 29% of total revenue and grew 11% on a combined basis. After several years with cautious customer spending, demand is broad-based, supported by strong secular trends and healthier general industrial activity in North America and, selectively, across Europe and Asia. Our customer focus, combined with RBS-led manufacturing execution is our competitive advantage in these markets.

With trusted brands and strong lead time performance, we're responding faster to customers and gaining share across data center cooling, semiconductor equipment and critical environments.

Test and Measurement is approximately 40% of revenue and grew 21%, driven by our investment in innovation intersecting with strong secular demand. Our customers are designing increasingly complex power systems that must handle higher voltages with greater efficiency and reliability, and we help engineers test and validate these increasingly complex systems. Our Q3 product launches are focused on addressing this growing power design challenge.

First, we introduced a high-capacity regenerative test system that simulates the electrical loads of next-generation, higher-voltage data centers. Instead of wasting that energy as heat, the system returns it to the grid, helping customers lower the cost of testing in development and scaled production.

Next, we launched the world's first eight-channel oscilloscope, aimed at multi-channel RF, high-speed digital, and system-level debug, helping engineers ensure power stays stable and clean, across increasingly dense and complicated systems.

Finally, we extended the MP5000 automated test platform by introducing a new module to support higher-voltage semiconductor characterization and optical device validation. These new products demonstrate our technology leadership in how we are helping customers solve increasingly complex power and performance challenges, across a broad range of applications.

Our innovation velocity is translating into results. Diversified Electronics is 21% of total revenue and grew 48% in the quarter. Market growth further accelerated as the pace of technology innovation increased. Engineers need increasingly sophisticated tools to see, understand, and validate electrical systems across the applications supported by each new generation of semiconductors. That plays directly to our strengths in oscilloscopes and advanced Test and Measurement instruments.

Communications is 11% of total revenue and grew 4% in the quarter. We continue to see strong demand across both commercial and defense communication. In defense, orders outpaced shipments, and the opportunity pipeline continued to build.

Our new high-performance oscilloscopes are gaining traction in high-speed communications. In Q3, we secured significant customer wins, expanding our position in a market where we have historically had lower penetration and see meaningful opportunities to gain share.

Semiconductor is 7% of total revenue and declined 7% in the quarter, reflecting the expected comparison to a large customer project completed in Q3 of 2025. Excluding that project, revenue grew in the high teens with broad-based demand acceleration.

Growing adoption of optical interconnects is driving increased investment in R&D and production, where we’re expanding our position in testing high-speed optical modules.

Next, on Slide 9, we're investing behind the opportunities where we see the greatest potential to extend our profitable growth. In Utilities and defense, we are supporting customer demand by expanding our Fairport, New York, site and adding a site in Solon, Ohio. In addition, we are leveraging AI to deepen digital customer engagement and accelerate software development and new product innovation.

As we look to 2027, we like our setup for continued strong revenue growth. We have elevated backlogs, healthy channel inventories, positive customer demand signals and targeted investments underway to support the growth ahead.

I'll now turn it over to Neill to go deeper on our results and guidance.

Neill Reynolds
Thank you, Tami. Good morning, everyone. Please turn to Slide 11. Q3 revenue of $620 million was up 17% on a reported and organic basis, while both segments delivered double-digit organic growth. Growth was broad-based across end markets and regions, and disciplined execution is creating wins and converting demand into strong revenue. Our backlog continues to grow across both segments, giving us confidence in elevated demand in our short-cycle businesses.

As I shift to adjusted EBITDA on both the consolidated and segment levels and adjusted EPS, I will again be speaking to our comparisons against normalized adjusted metrics for 2025. As a reminder, we have normalized the first three quarters of 2025 results to reflect our fully ramped post-spin costs, which provides a more like-for-like comparison to 2026 results.

Adjusted EBITDA margin in the third quarter was 23.5%. On a normalized basis, this is a 400 basis point improvement from the prior year, driven primarily by strong operating leverage on higher sales volume, pricing, and accelerated Enterprise Productivity Program, or EPP savings, which I'll update you on shortly.

Adjusted gross margin expanded 190 basis points to over 53%, reflecting the strong pricing power of our portfolio and execution of our teams. The supply chain environment is increasingly challenging, with elevated inflation and limited availability on certain inputs. Our teams are using RBS to secure supply and manage inventory, and we are successfully deploying pricing and productivity measures to protect and expand margins.

I also want to note this was partially driven by a tariff refund benefit of $7 million recognized in cost of sales, which drove 115 basis points of the margin expansion.

Excluding the benefit of IEEPA tariff refunds, adjusted gross margin expanded 75 basis points, and adjusted EBITDA margin expanded approximately 290 basis points.

Relative to expectations, corporate and other expenses of $16 million were lower than our estimated $20 million-$23 million. As we accelerated EPP and centralized more of our enterprise support functions, we're allocating costs to the businesses they are centrally supporting, reflecting the full cost of each segment.

Adjusted EPS of $0.93 increased 64%, driven by revenue growth and adjusted EBITDA margin expansion. Free cash flow was $102 million in the quarter. Trailing 12-month free cash flow conversion was 94%. Cash conversion in the quarter reflected softer working capital, despite strong earnings and lower capital expenditures, as we strategically position inventory to support supply availability.

Turning now to segment performance, starting with Sensors and Safety Systems on Slide 12.

Q3 revenue of $376 million increased 15% on both a reported and organic basis, with broad strength across all end markets. Growth in Defense and Space was primarily driven by increased production capacity, with continued demand lifting backlog above $1.5 billion. Utilities delivered another quarter of record revenue, driven by RBS-led production increases, supporting our customers' ongoing grid investment.

Adjusted EBITDA margin was 30.5%, an increase of 270 basis points, driven by operating leverage on higher volume, pricing, stronger defense margins and productivity savings. The majority of the IEEPA tariff refund was realized in this segment during the quarter.

Test and Measurement highlights are on Slide 13. Q3 revenue was $244 million, an increase of 20% on a reported basis and 21% organically, driven by broad-based improvement across the segment.

Diversified electronics continue to benefit from strong customer investment across compute and power infrastructure, while communications growth was primarily led by commercial communications demand. As expected, semiconductor demand continued to improve, and we expect this underlying strong demand to be better reflected in reported revenue next quarter, as we move past a tough comp from the large customer project we have been lapping this year.

Test and Measurement adjusted EBITDA margin was 19.3%, an improvement of 670 basis points. This was due to strong operating leverage on the revenue beat, pricing, and the ramping of EPP savings. While there were some IEEPA tariff refund benefits in Test and Measurement, it was minimal compared with Sensors and Safety Systems.

On Slide 14, I want to provide an update on the Enterprise Productivity Program. When we announced the program in Q1, we identified drivers of savings across both G&A and cost of sales by optimizing labor, materials, and other facility-related costs. After announcing the program at the beginning of the year, we are already seeing a significant impact on margin expansion. Using RBS tools, we have been able to accelerate EPP ahead of our initial plan.

Our teams have already delivered strong results across vendor consolidation and negotiations, optimizing our enterprise G&A support and applying AI to drive productivity. This has led us to increase our estimate of 2026 in-year savings to $16 million-$18 million, up from $10 million-$12 million, as previously expected.

We now expect to exit 2026 at $30 million-$35 million of annualized run rate savings, which is already over halfway to our target of $50 million-$60 million of annualized run rate savings by 2028. This structural productivity savings is supporting our path towards the midpoint of our through-cycle adjusted EBITDA margin target range, by 2028.

Turning to our balance sheet and cash flow on Slide 15. We ended the quarter with $366 million in cash and cash equivalents and $1.15 billion of debt, resulting in net debt of $784 million. Net leverage declined to 1.5 times and is at the low end of our long-term target range of 1.5- 2 times.

Year to date, we have returned $167 million of capital to shareholders, including $150 million of share repurchases and $17 million of dividends.

Shifting to Slide 16 to cover our guidance for the fourth quarter and the full year. In Q4, we expect revenue of $620 million-$640 million, adjusted EBITDA margin between 23.5% and 24.5%, and adjusted EPS between $0.93 and $0.99. We expect Q4 weighted average diluted shares outstanding of approximately 113 million.

Based on our Q3 performance and the demand trends Tami described, we are raising our full year 2026 guidance across all metrics. We now expect full year revenue of $2.34 billion-$2.36 billion, an increase of $75 million at the midpoint, compared to our prior guidance. We expect adjusted EBITDA margin to be approximately 21.5%, and we expect adjusted EPS of $3.10-$3.16.

This guidance is inclusive of a benefit to cost of sales from IEEPA tariff refunds of approximately $2 million in Q2, $7 million in Q3, and $5 million in Q4.

Finally, I want to provide an update on our capital allocation priorities on Slide 17. Our top priority remains organic reinvestment. We are funding it through RBS and AI-driven productivity and investing in capacity expansion in defense and Utilities to serve identified demand, targeting returns in excess of our cost of capital.

Second is returning capital to shareholders. Year-to-date, we have repurchased 2.8 million shares for $150 million at an average price of $54.74 per share, and we continue to target repurchases of approximately 50% of free cash flow, over time.

Third is focused tuck-in acquisitions. We continue to have a robust pipeline of attractive tuck-in targets and aim for double-digit ROIC by year three for these acquisitions, with opportunity for operating synergies.

With that, I'll turn it back to Tami to wrap before opening it up for questions.

Tami Newcombe
Thank you, Neill. I'll close on Slide 19. We are executing against our growth strategy and driving structural margin expansion, allowing us to invest for our future. Again, I want to thank our team members from around the world. Their commitment and relentless focus on our customers are what makes these results possible.

With that, we'll open up the lines for Q&A.

Operator
Thank you. The floor is now open for questions. If you would like to ask a question, please press "*", "1" on your telephone keypad at this time. A confirmation tone will indicate that your line is in the question queue. You may press "*", "2" if you would like to remove your question from the queue. For participants using speaker equipment, it may be necessary to pick up your handset, before pressing the star keys. We do ask that you please limit yourself to one question and one follow-up. Again, that is "*", "1" to register a question, at this time.

Today's first question is coming from Alexander Virgo of Evercore ISI. Please go ahead.

Alexander Virgo
Yeah, thanks very much for the question. Morning, Tami. Morning, Neill. I wondered if you could talk a little bit more about the order intake. If I've done my maths correctly, it looks like it's a double-digit growth, Q-on-Q, so you're accelerating. I wondered if you could give us a bit more color about where that's coming from across the business and what the cadence of delivery of that backlog might be and the visibility that it gives you.

As a follow-up, I wondered if you could just pick up a little bit on the Utility growth. I think you had some delayed shipments in Q2, which dragged on the growth last quarter. So, how much of the Q3 here is a sort of a catch-up for that? Although, obviously, with record orders, it suggests that things are very strong there, so I just wondered if you could give us a bit more color around the utility business as well. Thank you very much.

Tami Newcombe
Alex, good afternoon. We did see demand accelerate in the quarter, and the growth, the underlying demand is supported by several secular trends we're seeing across the business, where we're well-positioned, driven by electrification and defense, which is core to the strategy and the progress we're making on our strategy.

When I think about the growth drivers, we're well-positioned in what I'm seeing as a generational demand and surge in defense technologies in our Defense and Space business. In Utilities, which you talked about, we're seeing record demand for our intelligent sensing solutions. The Industrials continued to broaden. We saw real strength a quarter ago, and that continued to broaden. Then AI and technology innovation is really driving higher demand in the T&M spend.

So, signals are strong in the underlying demand, both from a backlog standpoint, which we called out, we were remaining over 1.1 in our backlog, with really strong backlog in Defense and Space. Customer indications still give us confidence that this has some legs into the new year.

If you asked specifically about Utilities, this was a record quarter for the team. It was our highest book-to-bill for the year, and that is on a record revenue quarter in Q3. The investment that we're seeing in the global power grid, and that's driven from the OEMs that build the critical infrastructure that we work directly with, as well as utility and hyperscaler customers, are continuing to step up on orders and give us longer visibility into the needs out into next year.

Our focus here is really around execution, and we're continuing to get more out of the footprint that we have, and that we have meaningfully expanded production here since the beginning of the year. We also broke ground on a new facility that should come on towards the end of next year and give us some expansion.

Alexander Virgo
Very helpful. Thank you, Tami.

Operator
Thank you. The next question is coming from Piyush Avasthy of Citi. Please go ahead.

Piyush Avasthy
Good morning, everyone, and thanks for taking my questions. Tami or Neill, with the understanding that you are not providing 2027 guidance, I still want to get your thoughts on loose construct for '27. It doesn't seem that the demand environment is slowing for you guys, and you are accelerating your productivity program. So, it would be helpful if you could give us some early thoughts, any reason why top-line growth should not be meaningfully above your long-term algo in '27.

Tami Newcombe
Yeah, Piyush, thanks for the question. We are seeing positive signals across the board, and not only backlog above 1.1, but in our defense business, where we've got multi-year visibility with a $1.5 billion backlog, that's all positive. And we stay close to customers across the business. Both funnels, close rates are good indicators, as well as our channel inventories remain normal for what we would expect.

So, those are all good indications that this continues into 2027. And from a margin standpoint, really proud of the team and the work that we've done on the Enterprise Productivity Program. The team is performing well ahead of the targets that we laid out. In addition, it's quite an inflationary environment out there, and this is where our Ralliant Business System and our operating rigor really gets after that price-cost value that we need to balance.

But it's done a nice job, and I think you see that show up in the gross margins we were able to deliver this quarter.

Piyush Avasthy
Very helpful, Tami. And quick follow-up on the last comment. You did pull forward your $30 million-$35 million savings in '26 from '27, but you maintain the $50 million- $60 million target, by 2028. I understand the inflationary had been common, but is it also you guys being a little conservative with the target?

Ultimately, what I'm trying to get at is that, could those savings happen faster as well? Last quarter, I think there was a slide that kind of showed 50% incrementals in '27 and '28. And with these accelerated savings hitting in 2026, what does that mean for incrementals in '27 and '28? I don't know if you have some additional color there.

Neill Reynolds
Thanks, Piyush. I think that's a really good question. First of all, let's start framing up. We finished 2026, I think, with an accelerating back half of the year. You look at the revenue in 2026, normally, we're 48% first half, 52% second half. This guide assumes 47%, 53%. We clearly have seen an acceleration.

That's with orders too, as you kind of talked about that. As you start looking into 2027, I think we have a better kind of setup in terms of the amount of backlog that we'll have heading into 2'7. That brings us to the margin question. Clearly, I think there's three elements here that are going to drive margin as you move out beyond this year. The first is volume leverage.

Given the fact that we're leaving with a strong backlog position, that should set us up for some nice revenue growth as we get into next year. We'll give an update in the next earnings call exactly what we think that is with more specificity, but it does set up for solid growth going into next year and volume leverage.

Second thing is, and Tami talked about it, the work on the price cost side of things. This is a dynamic supply chain environment, and our team is executing very, very well. Tami talked to the gross margin, so I think that's the second piece. Then the third piece is around the Enterprise Productivity Program savings. As you mentioned, the team has executed leveraging, I think doing a great job leveraging the RBS tools to pull this forward. We talked about $16 million-$18 million now within 2026, and that would leave us with another $14 million-$17

million in next year of the total $30 million-$35 million that we talked about, having a run rate ready by the end of the year.

So, as you look out into next year, we've talked previously about 50% margin incrementals going into '27 and '28. I think that sets us up nicely to achieve those types of goals as we go into 2027. I'll say we did get some IEEPA tariff benefits in this year, so excluding that might bring that number down a little. Just to be clear, we got the benefit this year. That won't repeat in 2027, but the underlying framework for the margin returns going into '27 is clearly intact.

Piyush Avasthy
Appreciate the color, and congrats on good results.

Neill Reynolds
Thank you.

Operator
Thank you. The next question is coming from Joe Giordano of TD Cowen. Please go ahead.

Joe Giordano
Hey, guys. Good morning. We talked about this a little bit last quarter, but when you think about Test and Measurement and the strength they're seeing there, how does the magnitude of the spend that is happening in some of those underlying markets and the duration of that impact the duration of how you see a cycle in T&M moving into next year?

Tami Newcombe
Hey, Joe. Good to hear your voice on the call here. We're certainly benefiting from attractive market tailwinds in this space. Anything AI-related, especially hardware and communications, benefiting power grid, data center, and the AI edge are driving a higher T&M spend, so all positive. But we're well-positioned here.

We're also well-positioned with power electronics. I talked about the suite of categories we play in, and across the board, the brands from oscilloscopes to the Keithley portfolio and the recent addition of Elektro-Automatik, all are specialized in power, which is one of the challenges that we're facing here with electrification and defense.

So, I would say a combination of strong market tailwinds, new products that we're driving. You saw a nice stream of new products. I think there were three announced last quarter. We've got another one teed up for this month. I don't want to pre-announce it for the team, but stay tuned. We got another product coming out, so innovation continues. In that business, besides the underlying demand, they've just done a nice job on structural margin improvement.

Joe Giordano

Just switching over to margins and mostly in Sensors here, I know we're not going to get into specific guidance for 2027, but if we strip out tariff benefits from this year and think about the defense growth pacing things most likely into next year, is it reasonable to think that margins in Sensors, ex-tariffs, can increase? Forget about the magnitude, but can they increase if that mix picks up? I'm just curious, when you mentioned the THAAD orders and with Lockheed and all this, what's the margin profile there relative to what you're printing? I think that's the real debate around where margins, what direction they can go next year, just with revenue being as strong as it's going to be.

Neill Reynolds
Yeah, it's a really good question. When you look at Sensors and Safety Systems, obviously, we achieved over 30% EBITDA margins in the quarter. Part of that was related to execution by our defense team, both on the output, we had record revenue in that business, and some margins obviously came along with that as well in terms of how the team has executed.

As you look at Sensors and Safety Systems, though, you got to think about several different pieces here. One is on defense, and we talked about it before. The defense margins are a little bit lower from a product perspective than the rest of the segment, albeit better, maybe a little bit better than we thought previously. We're a little bit further in terms of understanding what these longer-term agreements are going to look like and what the margin profile may look like over time.

So, maybe not what we had thought before, maybe a little bit better than that. We still got to work through that, as you said, for 2027. As you look at those margins out beyond this quarter, you back out, as you mentioned, there's some IEEPA benefits and some refunds in this quarter. You exclude that, you think about Sensors and Safety Systems in the high 20s. As I think if you look out to 2027, in conjunction with the work we're doing in defense, I think you're seeing stronger industrial revenue, which is a positive mix for us.

We're seeing the Utilities business grow substantially, as Tami mentioned, accelerating really, which also has, from a product perspective, better margins as well. I think that some of those things says, look, could you see a Sensors and Safety Systems business that kind of those high 20 EBITDA margins in 2027? I think that's entirely reasonable.

Joe Giordano
Thanks, guys. Appreciate it.

Operator
Thank you. The next question is coming from Kevin Wilson of Truist Securities. Please go ahead.

Kevin Wilson
Hey, good morning. Congrats on the quarter. Wanted to ask on defense capacity, with backlog now above $1.5 billion and orders now on these surge programs. I guess, how are you thinking

about capacity in this business? Is the Ohio expansion you've talked about still a late '27, early '28 event? And do you think you'll need to accelerate the fourth site that you've talked about, or lift CapEx above the rate we've been running here?

Tami Newcombe
Yeah, we think about the business, Kevin, in sort of the near term, mid-term, long term. The good part is we've got multi-year visibility into customer timing, so we can see into that in 2027. And the footprint that we have right now, independent of turning up Solon, Ohio, gets us through 2027. Anything we turned up in Solon would be on top of expectations, our expectations.

So, the team's done a great job just in the footprint we have driving productivity for near-term demand. And then mid-term to long term, yes, Solon is coming online. Obviously, this set of customers, there's a lot of work with our customers to approve and sign off on a new facility, new lines. And we are continuing, knowing that this is a seven-plus-year cycle that we're in, sort of unprecedented, we will consider a fourth site at some point.

Kevin Wilson
Thanks, Tami. And for my follow-up, just wanted to follow up on the comments on price cost and supply availability. I guess any numbers you can put around cost inflation and pricing, maybe what businesses are seeing the biggest hit from supply availability, and any comments on what you're expecting in terms of price cost in the fourth quarter or 2027. Thank you.

Tami Newcombe
Yeah, the team's done a nice job staying ahead on this, working through supply chain. We'll see from a pricing standpoint somewhere above 3% price this year, and continue to navigate a tough environment, both inflationary and electronics, especially the supply chain has been challenging.

Our position with working capital and allowing the teams on spot places, very selectively, to add some inventory to ensure supply has been a great strategy for us. There's places in our business that we have been able to take competitive share because of our lead times, our lead times being competitive, and that's due to how we're navigating both inflation and the supply chain.

Kevin Wilson
Appreciate the color. Thanks, Tami.

Operator
Thank you. The next question is coming from Ian Zaffino of Oppenheimer & Co. Please go ahead.

Ian Zaffino

Hi, great. Thank you very much. Just wanted to ask on Test and Measurement. Maybe talk about what you're seeing on the validation side. How big of a bucket has this now become in Test and Measurement? The greater question I'm trying to get at here is, you described Test and Measurement as short cycle, and I get it's kind of like one year on, one year off. Are you seeing any kind of underlying trends or just demand just in general, that would maybe lengthen that period of time? Not a year, but maybe a couple years. Really, just any color there would be helpful. Thanks.

Tami Newcombe
Yeah, Ian, I would reflect on the cycles in T&M being unique and individual every time we have seen one. We had a good run, post-COVID, sort of late '20 through early 2024. Pretty strong, high single-digit, double-digit run in Test and Measurement. We'll see. What I can tell you is, a quarter later, that business continues to be really strong, and we have got another quarter of insights, and I'm very encouraged by the positive demand signals that we've seen, especially in our channel. Channels are selling through and then directly placing orders, which is always a level of confidence for us.

There's multiple trends that are driving this business. It's kind of the AI lift of technology innovation, starting in the grid, where our Elektro-Automatik has announced some new products that help with energy storage systems and the Test and Measurement around those.

You get into the data center, and we're a critical component in ensuring that the 800-volt power shelves can be delivered. We're doing Test and Measurement there from validation into production.

Then our traditional portfolio around supporting the electronics for the data center, which is compute, memory, networking, communications, solid-state transformers, and then to the edge. The edge is really where the volume, it aligns nicely to our diversified electronics. You saw real strength in that end market for us, and that's where all of the innovation is happening around delivering AI out to all of us, whether it's humanoids, new medical technologies, new consumer devices, industrial robots for manufacturing. That's really the lift that we're seeing, and it's strong right now.

Neill Reynolds
Yeah, let me just add to that, too. I think the other component to that, in terms of the demand and the volume that we're seeing, is not just the backlog that we're generating but how that translates into margin expansion for our Test and Measurement business. As you've seen, it's fairly highly levered from an operating perspective in terms of how we've been driving margin improvement.

So, as you look out at the next year with another year of revenue growth going into 2027, we would expect to expand margins in Test and Measurement as well. We've been kind of in that, we have seen us stick to the high teens. I think for the year, the guidance implies somewhere

around mid-teens plus. But getting to a margin in '27 with the two handle on it, something, again, that we think is reasonable and something that's achievable in 2027.

Ian Zaffino
Okay, thank you. Very good color there. On the capital allocation side, nice of you guys returning a lot of cash to shareholders, so thank you for that. How are you also thinking about maybe tuck-ins, any type of technology that you think that you're missing that you would like to add to, or maybe just the overall environment in general? Thank you.

Tami Newcombe
Yeah, we've been executing against the first two levers of our capital allocation strategy, delivering some innovation that you're seeing come from our organic investments, as well as returning cash to shareholders.

On the tuck-ins, it'll align to our strategy. So, I would go back to the focus of our strategy around where we're seeing secular growth, long-term growth in Electrification and Defense, and we've called out a number of areas there. I think your point of a technology tuck-in would be right up the middle of the fairway, something that we can accelerate with a global sales organization, or we've got a lot of great operating rigor to be able to help with the operating leverage in a smaller business.

So, we're active in the market. We will continue to progress there and continue with our strategy around tuck-ins.

Ian Zaffino
Okay. Thank you very much.

Operator
Thank you. The next question is coming from Scott Graham of Seaport Research Partners. Please go ahead.

Scott Graham
Hey. Good morning, and congratulations on the earnings. I wanted to ask you, Tami, about your channel inventory commentary. It was very refreshing. I just kind of wanted to know how you do that exactly? And how much of sales are you able to really track in the channels? Because I know you also serve OEMs, which are obviously a lot harder than distributors. So maybe just a little bit on how you do that and the percent of sales that that covers, and then I have a follow-up.

Neill Reynolds
Yeah, there's three ways we look at this, Scott. First is our direct customers where we're doing -- working directly. That's about 50% of our business where we have salespeople directly working with customers. In there, especially in our Industrials business, some of our customers

build something, so they keep some inventory that they also sell. So we work with those customers on what inventory levels they have. This was a real learning from COVID is to understand that there was another level of inventory at some of our OEM customers. So we do a good job of paying attention to that.

And then the third is our distributors or channel partners around the globe. And they have been open. We've stayed with a pretty loyal, strong channel for decades here. And we've got good metrics as far as understanding not only inventory levels, but getting to see the point of sale of where they're selling to. And then the positive part is when they're directly placing reorders. And what we're seeing now is their confidence in the channel to place reorders when they sell through.

Scott Graham
That's very clear. Thank you for that. My follow-up is simply around the geographics. So it looks like Rest of World accelerated. It looks like Europe decelerated. Just kind of hoping you can give us a little more color around each.

Tami Newcombe
Yeah, I would say that we've seen the most strength and the most momentum is North America. It's about 54% of our overall business and high double-digit growth there and, really, across almost every end market. Western Europe has been more lumpy. Last quarter, it was stronger. We had indicated last quarter that we expected that wasn't a trend, it was sort of episodic.

So Western Europe, we saw a decline this quarter, and generally there, especially Germany, the machine builders are a little soft still. We haven't seen that pick up as much. And then rest of world, which is one you called out, is really being driven by AI investment and a moderate industrial manufacturing recovery. We're seeing good strength in our Utility space in rest of world, and continue to see that be strong.

Scott Graham
Thank you.

Operator
Thank you. The next question is coming from Jacob Levinson of Melius Research. Please go ahead.

Jacob Levinson
Hi. Good morning, everyone.

Neill Reynolds
Morning.

Jacob Levinson
Tami, you mentioned solid-state transformers in passing, earlier. I know there certainly seems to be a lot of excitement there about that technology. Can you just give us a sense of how does the content for Qualitrol change when you go from traditional oil-filled transformer to solid state? Then I guess on the flip side, I assume there's some opportunity as well in the power electronics and needing to test that. I'm not sure quite how to think about that.

Tami Newcombe
Yeah, my comment that I made, Jake, was related to Test and Measurement and the role that Elektro-Automatik plays. That's a significant opportunity for that part of the business. That's where my commentary came from, was specific to a growth vector in Test and Measurement, one that's new to us, one we have not had in the past. When we talk about different cycles here, I think this gives us a little more diversity in the portfolio.

In the Utility space, the focus right now and the demand, the majority of the demand is coming from your traditional transformers, and we're seeing very little so far in solid state. It's on the horizon, but what's being deployed today is definitely overweighted to more traditional critical infrastructure and transformers.

Jacob Levinson
Okay, that's helpful. Just on a different topic, you mentioned some wins in some of these newer defense technologies around smaller munitions and counter-drone technology. Is that work typically cost plus, or do you have better pricing power because it's merchant pricing?

Tami Newcombe
Yeah, this is an area that's not been a big talking point because the legacy programs have had such a surge in demand. But as you think out to the future of the health of this business, securing these new design wins where we're extremely advantaged in some of the fastest-growing areas of defense which, as you called out, are these lower-cost missiles and munitions.

We've got customers developing affordable mass solutions and low-cost containerized munitions, and they'll become a larger part of the portfolio as we move through the years. But the early indicator, which is securing design wins and knowing that we have a competitive advantage, is the first seed that you want to plant, and then we'll start to see the volumes come in, over the years.

Jacob Levinson
Okay, I appreciate the color. Thank you, Tami. I'll pass it on.

Operator
Thank you. The next question is coming from Brandon Knutson of Morgan Stanley. Please go ahead.

Brandon Knutson
Good morning, and congratulations on the quarter. I just want to start on Defense. So you had really strong results in the quarter, and backlog's now over $1.5 billion. When you look across all of the possible missiles and munitions programs you're targeting, have the majority of these already been determined and are in the backlog, or are we still in the early innings of this? Any extra color on where we are there would be great.

Tami Newcombe
Yeah, Brandon, I would definitely call it the early innings. In the backlog is what I consider a major milestone, which is the undefinitized contract actions that we've been talking about that have a seven-year line of sight. The first-year purchase orders have begun to flow. That's what is in our backlog, is firm purchase orders that customers are starting to place.

So that's, I think, over the last six months, nine months or so, you've seen the backlog go from about $1 billion to $1.5 billion, as we 've been shipping, and that is due to the first POs. So there is definitely some upside out there that we continue to work scenarios with our defense customers, and if that shows up in firm POs, we will add it to our backlog.

Neill Reynolds
Yeah, and the other thing there, too, is you look at that Defense backlog, I mean, one thing that we're seeing there and we're seeing out over time is this is giving us really nice visibility into what our revenue outlook is from a defense perspective.

But on the flip side, we're also seeing better visibility in the short-cycle businesses, as well. As we start to look into 2027, that certainly gives us more confidence as we head into the new year, and we'll give more update on that as we get into 2027. Just a reminder, as you look at Q4 to Q1, we talk about revenue, as mentioned earlier, 48% in the first half, 52% in the second half normally, better than that this year.

But as we go from Q4 to Q1, then you would see a normal kind of seasonal decline, both in revenue and margins. However, with the backlog position we have now, we anticipate that we can do a little bit better than we have done, historically, but there will be some of that transition most likely as we move into the new year. But that would give us solid growth rates and I think margin expansion regardless as we look into the new year. We will give a better update and a more detailed update on that as we get out to the end of the year and give the next update on the call.

Brandon Knutson
Great. For my follow-up, I want to touch on the cost savings program. How much of this that you brought forward this year is an acceleration of what you previously had planned versus finding new savings that you did not anticipate when you gave the cost savings program in Q1?

Neill Reynolds

I think it's both. I think the team has really rallied around this. I think there's a lot of momentum around how we're driving performance in the business, and I think our teams understand it's not just about driving bottom line performance, it's also about how do we reinvest and drive growth into the business. And I think what this is allowing us to do is really focus on our margin expansion framework while reinvesting in the business and being competitive.

You saw some of the products that Tami talked about and new releases that we have today. I think the EPP program is allowing us to invest and release these things as well. So, I think we're hitting on both sides of this. I think we're driving the margin improvement. We're seeing new funnels of opportunities come in.

Some of these are AI-based ideas that the team has that we're driving through productivity, through our functions and through our supply chain. So, I think all of that is contributing to the savings, but in the performance and how we've increased the timing of the program.

Operator
Thank you. This 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.

Tami Newcombe
Thank you. The team is progressing our strategy and delivering strong growth and structural margin improvements across the business. We appreciate your interest in Ralliant and hope you have a great day.

Operator
Ladies and gentlemen, thank you for your participation. 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.