Ralliant Corporation
Second Quarter 2026 Earnings Results Conference Call
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<u>Presenters</u>
Nathan McCurren, Vice President of Investor Relations
Tami Newcombe, President and Chief Executive Officer
Neill Reynolds, Chief Financial Officer

<u>Q&A Participants</u>
Chris Snyder - Morgan Stanley
Alexander Virgo - Evercore ISI
Joe Giordano - TD Cowen
Kevin Wilson - Truist Securities
Ian Zaffino - Oppenheimer & Co.
Scott Graham - Seaport Research Partners

Operator
Hello, my name is Donna, and I will be your conference facilitator, this morning. At this time, I would like to welcome everybody to Ralliant Corporation's Second Quarter 2026 Earnings Results Conference Call.

All lines have been placed on mute to prevent background noise. After the speaker's remarks, we will 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 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, Donna. Good morning, everyone, thank you for joining Ralliant's Second 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 third 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 US GAAP can be found in the appendix to our presentation. During today's call, unless otherwise stated, we're comparing our second 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 26, 2026, and in our Form 10-Q, filed with the SEC on May 12th, 2026, and to be filed after market today.

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

Tami Newcombe
Welcome, everyone, and thank you for joining us for our Q2 2026 earnings call. One year into our journey as an independent company, we're demonstrating that our strategy is working, and I'm incredibly proud of what our team has accomplished. Our progress is translating into growth, margin expansion, and strong cash generation.

Today, I'll start with results on the quarter and strategic execution. Neill will then walk through the financial results before we open up the call for your questions. Let's start on Slide 4 with the business and outlook update.

First, our Q2 results exceeded the high end of our guidance ranges, and we are raising our full year 2026 outlook as both segments delivered double-digit revenue growth and significant adjusted EBITDA margin expansion.

Second, we're continuing to capitalize on favorable secular trends in electrification and Defense. Our disciplined execution drove Q2 orders growth, resulting in a book-to-bill above 1.1 in both segments and Defense backlog remaining over $1 billion.

Third, our RBS-led enterprise productivity program is gaining traction. We are moving from foundation building to execution and results, reinforcing our confidence in delivering $10 million-$12 million of in-year savings and $50 million-$60 million of annualized run rate savings, by 2028.

Fourth, we continue to generate strong free cash flow, enabling us to execute our capital allocation priorities. We are investing in manufacturing capacity to support growing demand and returned $161 million to shareholders in the first half of 2026, including the completion of our $100 million accelerated share repurchase program in Q2.

Next, I'll summarize our Q2 financial results on Slide 5. In the second quarter, revenue was $568 million, up 13% year-over-year on both a reported and organic basis. Both segments delivered double-digit organic revenue growth, with Sensors & Safety Systems up 11% and Test & Measurement up 16%.

Adjusted EBITDA margin of 19.8% and adjusted EPS of $0.68 were both above the high end of our guidance ranges, reflecting strong operating leverage on higher volume, disciplined execution and early benefits from productivity actions already underway.

We generated $99 million of free cash flow in the quarter, contributing to a trailing 12-month free cash flow conversion of 114%.

Now, turning to Slide 6, our profitable growth strategy is intentionally balanced and designed to perform through the cycle. Our winning growth vectors align with market tailwinds in electrification and Defense, where longstanding customer positions and differentiated capabilities position us for elevated growth.

Complementing this, our stronghold positions are anchored in a broad customer base with more modest growth profiles where precision technologies deliver durable demand, attractive margins, and recurring revenue.

Enabling our strategy is the AI-infused Ralliant Business System, or RBS, which brings discipline, consistency, and enterprise scale to how we operate and execute. The outcome is sustained growth and long-term value creation for our shareholders.

Turning to Slide 7, I'll share how we are capitalizing on winning growth vectors. Electrification is a compelling growth opportunity where we are well-positioned to win. From keeping the lights on to enabling the next generation of intelligent products, we are aligned with the technologies powering an increasingly AI-enabled world. We help Utilities operate a more reliable grid through predictive monitoring of critical infrastructure, while our precision Test & Measurement instruments enable the electronics breakthroughs behind tomorrow's innovations.

As AI accelerates demand for power, compute, connectivity and intelligent devices, our solutions are becoming increasingly important.

Defense is another compelling growth opportunity where we are well-positioned to win. Our safety-critical systems are embedded in many of today's legacy missile and munitions programs, while our precision Test & Measurement instruments enable the advanced electronics behind next-generation communications, compute, storage, and Space applications. As Defense modernization accelerates, we build on our positions in trusted legacy platforms by also supporting the technology shaping the future of national security, such as autonomous or unmanned air vehicles.

Across both secular trends, we support customers from early-stage innovation through full-scale production and deployment, giving us a unique position at the intersection of infrastructure, electronics, and innovation.

Turning to Slides 8 and 9, my regional and end market commentary will begin with the percentage of year-to-date total company revenue shown on the right side of the page, followed by the year-over-year organic revenue growth for Q2.

North America represents 54% of revenue and delivered 13% growth, driven by continued momentum in Test & Measurement, Utilities, and Defense. Looking forward, we expect elevated demand in North America from ongoing investments in the electric grid, legacy Defense programs and technology innovation driven by AI.

Western Europe represents 13% of revenue and delivered 16% growth as we executed, well, against pockets of opportunity in Defense, Industrial Manufacturing, and advanced research. Still, the macro environment in Europe remains selective with lower growth expected going forward.

China represents 16% of revenue and delivered 7% growth with increasing investments in AI data center and energy infrastructure. We saw an acceleration of activity in the first half, and we expect that to translate into increasing revenue growth in the second half of the year.

The rest of world region represents 17% of revenue and delivered 14% growth, driven by Test & Measurement and industrial customers.

Transitioning to our end markets, I'll start with the Sensors & Safety Systems segment. Together, the Industrial Manufacturing and other end markets represent approximately 30% of revenue and both delivered double-digit growth in the quarter with a broadening recovery across most geographies and particular strength in applications within the AI data center.

For example, our precision sensors are embedded within data center liquid cooling systems where customers are accelerating production volume. This is where RBS provides a competitive advantage. Most recently, the team doubled production throughput on humidity and temperature sensors, leveraging the same resources, achieving a 65% cycle time reduction.

Defense and Space represents 17% of revenue and delivered 14% growth. Our Defense backlog remains over $1 billion with continued multi-year demand on legacy missile programs where we are a trusted supplier. Over the past quarter, our Defense customers have progressed from framework agreements to Undefinitized Contract Actions, or UCAs, under the Department of War's acquisition transformation strategy. This represents the first full-scale transition toward contract execution and provides increased confidence in elevated multi-year demand.

As a key supplier to the Pentagon's priority munitions programs, including THAAD, PAC-3, and Tomahawk, we are scaling production across product lines at roughly two to five times historic levels and making targeted investments in manufacturing capacity to support reliable execution.

Utilities represents 14% of revenue and delivered 4% growth. Q2 was another record quarter for orders and revenue, although revenue growth was below expectations due to shipment timing, primarily related to delays into the Middle East. Shipment delays were approximately a four percentage point headwind to growth in the quarter. In the second half, we expect Utilities growth of low double digits as first half orders significantly outpaced revenue, and we are further progressing our capacity expansion initiatives.

Test & Measurement growth broadened across all end markets. Diversified electronics represents 21% of revenue and delivered 23% growth, as customers increased innovation for electronics in energy storage systems, electric vehicles, medical devices, consumer electronics and emerging AI-enabled edge devices. The convergence of higher compute requirements, greater energy efficiency needs and longer battery life expectations is driving a new wave of innovation across these applications.

Energy storage systems exemplify the innovation driving growth in diversified electronics.
Customers are rapidly increasing system power levels and developing new ways to connect energy storage to the grid and critical infrastructure, including data center backup. Tektronix DC power supplies and customized power racks help validate these next-generation architectures.

In Q2, we secured a production win with a leading energy storage provider, creating an opportunity to scale alongside the customer's future capacity expansion.

Communication represents 11% of revenue and delivered 9% growth, reflecting continued technology innovation in advanced communications for AI infrastructure, Aerospace and Defense, and research laboratories. In the quarter, we had a customer win where engineers are using our Test & Measurement instruments to measure electrical signals with pinpoint accuracy to validate that optical laser chips are working, precisely. This supports the build-out of optical infrastructure, which is a technology that underpins data-hungry AI, cloud computing and high-speed connectivity.

Semiconductor represents 7% of revenue and delivered 5% growth. Our high-precision instruments are at the forefront of enabling engineers to develop and validate the next generation of semiconductors that enable communication networks, intelligent devices, and advanced electronic systems. During the quarter, we saw broad-based acceleration as semiconductor technologies enabled new product innovation across industrial, energy, data center and Defense markets.

Across our Test & Measurement end markets, customer demand remains robust, and our pipeline continues to support confidence in elevated activity levels, through the second half. While the business remains inherently short cycle and visibility beyond 90 days is limited, we are encouraged by current demand trends, and we're actively managing supply availability and capacity to support customer requirements.

Next on Slide 10, we leverage RBS across the enterprise for both growth and productivity. As I shared earlier, the RBS-led enterprise productivity program is on track to achieve $10 million-$12 million of in-year savings and $50 million-$60 million of annualized run rate savings, by 2028.

In Defense and Space, our multi-year RBS-led productivity initiatives have doubled production output within our existing manufacturing footprint. To further increase production going forward, PacSci EMC was awarded $27 million by the Department of War and has expanded into one of our existing manufacturing sites in Ohio.

In Utilities, we continue to see robust demand, supported by multi-year grid modernization and resiliency initiatives. In July, we broke ground on expanding our precision sensor facility in Upstate New York to support the historic orders growth.

Next, Neill will review our financial results and provide additional perspective on our guidance.

Neill Reynolds
Thank you, Tami. Good morning, everyone. Please turn to Slide 12. Q2 results were above our guidance ranges across all metrics, driven by increasing customer demand and strong execution. Q2 revenue of $568 million was up 13% on a reported and organic basis, as revenue growth accelerated across our end markets and regions.

Both segments delivered double-digit organic growth, year-over-year, led by continued execution against our greater than $1 billion of Defense and Space backlog, acceleration in Industrial Manufacturing and other end markets and continuation of broad-based customer wins across Test & Measurement.

As I shift to adjusted EBITDA and EPS, I will 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 for 2026 results.

Adjusted EBITDA margin in the second quarter was 19.8%. On a normalized basis, this represents a 390-basis-point improvement from the prior year, driven by operating leverage on revenue growth and productivity savings realized from the Enterprise Productivity Program actions. Margin expansion was partially offset by costs associated with standing up our enterprise productivity office and higher variable compensation on improved operating results.

Adjusted EPS of $0.68 increased 58%, driven by revenue growth, adjusted EBITDA margin expansion, and the benefit of share repurchases.

Free cash flow was $99 million in the quarter, driven by higher fall-through on increased EBITDA and supported by disciplined working capital management. Trailing 12-month Free cash flow conversion was 114%, above our target of greater than 95%.

I'll go through segment performance, starting with Sensors & Safety Systems on Slide 13. Q2 revenue of $347 million increased 12% on a reported basis and 11% organically, driven by double-digit revenue growth across Defense and Space, Industrial Manufacturing and our other end markets. Adjusted EBITDA margin for Sensors & Safety Systems was 29.4%, a 350-basis-point improvement on a normalized basis, driven by operating leverage on higher revenue, favorable mix from elevated Industrial Manufacturing and other contributions, and better-than-expected Defense margins, based on favorable program mix in the quarter.

Highlights of our Test & Measurement results are on Slide 14. Test & Measurement delivered a strong quarter with revenue of $221 million, up 15% on a reported basis and 16%, organically. This was driven by strong orders and revenue growth across all three end markets, as we saw a broadening of customer investment, across Test & Measurement.

I'll note that in the Semiconductor end market, we continued to have year-over-year headwind from lapping a large customer project in 2025 but given project timing, this was less pronounced in Q2 than in the prior two quarters of what we will face in Q3.

Test & Measurement adjusted EBITDA margin was 14.7%, an improvement of 750 basis points on a normalized basis due to strong operating leverage on higher revenue and the ramping of productivity savings.

On Slide 15, I want to provide a brief update on our Enterprise Productivity Program. As previously announced, we expect $50 million-$60 million of annualized run rate savings by 2028, inclusive of the $20 million we've already actioned. In Q2, we began to realize these savings with $3 million of savings in the quarter, and we are on track to deliver $10 million-$12 million of in-year savings in 2026.

Combined with a strong baseline incremental margin, we expect the Enterprise Productivity Program to contribute to approximately 50% incremental adjusted EBITDA margins, through 2028. This level of incremental margins assumes an organic revenue growth framework of approximately 5% in 2027 and 2028. This framework would lead us to deliver the midpoint of our through cycle adjusted EBITDA margin target range of low to mid-20s, by 2028. However, we are not providing guidance for 2027 or 2028, at this time.

Turning to our balance sheet and cash flow on Slide 16, we ended the quarter with $271 million in cash and cash equivalents and $1.15 billion of debt. With $99 million of free cash flow in the quarter, our cash generation is funding our capital allocation priorities and at the same time, has enabled us to maintain net leverage of approximately 1.9 times within our long-term target range.

We returned $161 million of capital to shareholders through the first half of 2026, mostly driven by $150 million of share repurchases, inclusive of our completed $100 million accelerated share repurchase program. This resulted in the repurchase of 2.8 million shares at an average price of $54.74 per share.

Shifting to Slide 17 to cover our expectations for the third quarter and the full year. In Q3, we expect revenue of $570 million-$590 million. Adjusted EBITDA margin is expected to be between 20.5% and 21.5%, with year-over-year normalized margin expansion, driven by operating leverage on higher revenue and savings from our Enterprise Productivity Program.

Adjusted EPS is expected to be between $0.72 and $0.78, driven by revenue growth, margin expansion and a reduction in share count. We expect Q3 weighted average diluted shares outstanding of approximately 112 million.

Based on our Q2 performance and increased confidence in continued customer demand in our short cycle businesses in the second half, we are raising our full year 2026 guidance. We now expect full year revenue of $2.25 billion-$2.3 billion, Adjusted EBITDA margins of 20%-21%, and Adjusted EPS of $2.76-$2.90. This is inclusive of a small benefit from tariff refunds received through Q2 that will be recognized in cost of sales.

From a corporate perspective, we now expect corporate and other expenses in the second half to be approximately $20 million-$23 million per quarter, an increase of about $5 million-$6 million per quarter from our prior estimates. This is driven by implementation costs associated with the Enterprise Productivity Program, a rebalancing of support function activities identified within the EPP program that results in net savings but shifts some costs from the segments into corporate. Lastly, higher variable compensation due to an increase in expected performance in the year.

Finally, I want to provide an update on our capital allocation priorities on Slide 18. Our top priority remains organic reinvestment. We are enabling organic growth by leveraging RBS everywhere and augmenting it with AI-driven productivity. Second is returning capital to shareholders. As mentioned earlier, year to date, we have returned $161 million to shareholders through a combination of share repurchases, including our completed ASR and dividends.

We continue to target share repurchases of approximately 50% of free cash flow, over time. We have already repurchased approximately 50% of anticipated 2026 free cash flow and will evaluate, opportunistically, against other uses of capital for the remainder of this year.

Our last priority is focused tuck-in acquisitions. We currently have a robust pipeline of attractive tuck-in acquisition targets. We will continue to target double-digit ROIC by year three for these acquisitions. We are committed to balancing these capital allocation priorities against our target cash balances and our long-term net leverage target of 1.5x-2x Adjusted EBITDA.

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

Tami Newcombe
One year into our journey as an independent company, my confidence in what we can achieve has never been stronger. I'll close with a few key takeaways.

First, our profitable growth strategy is working. We continue to capitalize on attractive secular growth opportunities, and the Ralliant Business System is how we drive disciplined execution, across the enterprise.

Second, we're making meaningful progress on margin expansion through the combination of strong incremental margins and the execution of our enterprise productivity program.

Third, we remain confident in Ralliant's long-term value creation potential. Strong free cash flow generation is enabling us to execute our capital allocation priorities, including reinvestment in the business, returning capital to shareholders and pursuing a robust pipeline of attractive tuck-in acquisitions.

Finally, I want to thank our 7,000 team members from around the world. Their commitment, dedication and relentless focus on customers are what make these results possible.

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

Operator
Thank you. We will now be conducting a question and answer session. If you would like to ask a question, please press "*", "1" on your telephone keypad. A confirmation tone will indicate your line is in the question queue. You may press "*", "2", if you would like to remove your question from the queue. And for participants using speaker equipment, it may be necessary to pick up your handset before pressing the star keys. Please limit to one question and one clarifying follow-up question if needed. One moment while we poll for questions.

Our first question is from Chris Snyder with Morgan Stanley. Please proceed.

Chris Snyder
Thank you. I wanted to ask about Test & Measurement and specifically, the diversified electronics. So, we've seen a really nice acceleration there year-to-date after declines a year ago. And I know you guys don't have a lot of visibility in the backlog, I think you guys said maybe only 90 days. But I wanted to ask about how you think about the duration of this cycle, whether in the context of a typical upcycle for diversified electronics, but then also thinking about all of the secular tailwinds that are coming through for that business. You highlighted a number of them. I think energy storage systems; we're seeing AI come through. Just whether it's conversations with investors, what you see in the future, how do you feel about the duration of strength there? Thank you.

Tami Newcombe
Hey, Chris. Thanks for entering that question. And I'd start with what we know today, and we'll specifically talk about Test & Measurement. It's about 40% of the overall business. You had started with diversified electronics. That's about 20% where we've seen really strong growth the last two quarters.

But in the space, the second quarter, headline last quarter was return to growth. This is the second quarter of really strong growth in T&M. Inherently, it is a 90 to 120-day short-cycle business, but we like the book-to-bill. We talked about 1.1 across both segments. In T&M, that's up over 1.2, right now, so we do see some strength there.

I spoke about the elevated demand in China. A lot of activity there in the first half, which is going to translate into some higher revenue in the second half, and that's an area we're still assessing. Is this a build-out tied to AI and energy, more episodic or event-driven, or is that something that's going to drive some structural growth along the way?

Overall, we see strong first year kind of coming out of the downturn and T&M is having a strong first year. Expect that to moderate in the second year. If you look at history, probably more mid-single digit coming out of a really strong first year.

Chris Snyder
Thank you, Tami, I appreciate that. Maybe if I could follow up on PacSci. I think everybody appreciates there's a lot of demand in the world for the products that PacSci sells. But I wanted to ask about capacity and just the ability for you guys to ramp there.

So, can you just maybe talk a little bit about some of the actions that you guys have taken to improve that supply chain and production capacity? I believe you guys maybe, I think when you guys talk to mid-singles in the out years, I think it assumes maybe like low doubles for PacSci is kind of my understanding. But if we do get these surge programs come through, is there ability to flex that up to something higher and meet that demand, should it come through? Thank you.

Tami Newcombe
Yeah, thanks, Chris. The demand, we talked about remaining over $1 billion of backlog in the Defense business, and that's following a strong quarter that we had, where we saw double-digit growth in Q2.

A couple things that we're doing to continue to increase capacity, and this is an extension of what we've been doing over the last several years. We've doubled the throughput in our existing footprint. Now we've had the opportunity to create a center of excellence around electronics in our Ohio site. That's a place that we've begun investing and getting some help also from the government, as we are a critical supplier in many of the top priority munitions programs. And that will take us, eventually, to a fourth site. But the team's got good line of sight here out through 2030 in our capacity needs.

I think the second part of your question is double-digit, could that be higher? We are, actively, working with our customers in the Defense Space on the programs. There's a variety of scenarios, as far as volume and a variety of scenarios on timeframe. Of course, our customers are trying to line up their supply chains, and when they have firm commitments there, we'll start to see orders, which we'll represent in our backlog to you.

Chris Snyder
Thank you. I appreciate that.

Operator
Our next question is from Alexander Virgo with Evercore ISI. Please proceed.

Alexander Virgo
Yeah, thanks very much. Good morning. I wondered if you could just dig a little bit into your Utilities comments and the semis comments. I guess the first question is just to make sure I understand the clarifying point of the four percentage points of impact from the Middle East. That was in the utility segment, right, so, the underlying growth is more like eight, if that's correct. And therefore, how would you expect that to trend through the second half? Are you going to able to catch up on some of that? I appreciate that right now, it's probably quite tough, but thinking about how that plays through in the rest of the year.

Then on semicon, I just wanted to make sure, given the point regarding lapping the contract last year, the 8-12 guide in Q3 would imply quite a limited diff impact. And you obviously have 5 in Q2, 5% growth in semicon in Q2. So just again, wondering how that plays through in the very near term. Thank you.

Tami Newcombe
Alex, I'll start with Utilities. Utilities represents 14% or so of total company revenues, and the demand has continued to be strong. Recognize Q2 is our largest orders and our largest revenue quarter, historically. We grew from Q1 to Q2. We grew revenue about 11%, quarter-over-quarter. Still, I called out the 4% year-over-year was below our expectations. And it was a handful of customers in Middle East that asked us to adjust timing on shipments for them, which we have done. That's the four-point headwind that I called out. We expect, both from shipments that we're catching up on in the second half, as well as some of the capacity that we're bringing online.

At that site, we've brought on additional shifts. We've also expanded some cells for additional capacity and expect that to move to double-digit revenue growth, as we get into the second half.

That is your Utilities question. You had a separate question around semi, and as a reminder, the semi end market for us is about 7% of overall company revenues. We did see 5% growth in this quarter, and the headwinds on the large deal we talked about in the comps was a little favorable for us this quarter, not as much. That'll come back in the third quarter.

Alexander Virgo
I guess, sorry, Tami, that's kind of what I was getting at. So, the 5% in Q2 is an underlying number, so we're going to have to factor in headwinds in Q3, that number will be lower. Is that the right way to take that comment?

Tami Newcombe
Yeah, we have not given a specific number for Semiconductor. We have talked in the past that it's about a $10 million headwind each quarter in our semi-end market. It was less this quarter. It'll be below that this quarter in Q2, what we saw, and more than that in Q3, to give you a little direction.

Neill Reynolds
Yeah, and outside of that project, we've had some very solid growth numbers in semis, as you'd expect. And we will see that, I think, a bit of a headwind in Q3, and it'll unlap itself in Q4, so Q4 should be clean.

Alexander Virgo
Perfect. Thank you very much.

Operator
Our next question is from Joe Giordano with TD Cowen. Please proceed.

Joe Giordano
Hey, guys. Good morning.

Tami Newcombe
Hey, Joe.

Joe Giordano
I wanted to push on Test & Measurement a little bit, too. I understand the desire to keep us all in check to some extent but when I look at this, it just went positive last quarter. It grew very nicely in 2Q and modeling kind of somewhat meaningful detail in the second half and into next year feels very conservative. When things just start to inflect, how long until you typically see a peak growth number in a business like that, historically?

Tami Newcombe
Yeah, Joe, maybe I'll start with what we're seeing today in the demand environment, and I'll start with the change from Q1 to Q2. So, we increased our full-year outlook at midpoint, $60

million, $20 million of that was what we saw in Q2. And the point of the raise is really around our industrial end markets. We've just seen robust demand there. It was broad-based across all regions and double digit in both of the other and industrial end markets, so those are strong.

Grid and Defense, we think we've got pretty long sight on those secular trends in the high singles and probably low double digits for Defense. At T&M, this is the first year of recovery, and what's embedded in the full-year guide is double digit on Test & Measurement, this year. I started to allude to this in the first question.

In a second year, that moderates to the low single, mid-single type range. That's what we've seen, historically. We also have not seen historically industrials be in the double digits. I don't know the duration of that. As I said, we look at about 90 to 120 days. We're going to assess that, keep our eyes on it in the second half.

And probably the last one, I spoke about this, but it goes in what we're keeping track of. It's what's happening in China around T&M, and is that going to be something that continues or is that going to be episodic for us here as they are funding investments in AI data center and energy? So, those are the things we're keeping our eye on as we move into the Q3 and Q4.

Neill Reynolds
Yeah, Joe, let me just add to that a little bit. If you take a step back for the '26 guide, we talked about 8%-11% kind of organic growth, so this is double digit at the midpoint. And Test & Measurement, these are either at or above the high end of that, with Sensors & Safety Systems being just down kind of towards the lower end of that, so I think both segments growing strongly. That is a strong kind of recovery year for Test & Measurement coming off a tough year in terms of the cycle.

The second thing I would add is last time we talked, we talked about having seasonality in the business, and we had guided 49% of revenue in the first half of the year and 51% in the second half of the year. When you look at this guidance range and what we projected here, that'd be about 48% in the first half of revenue and 52% of revenue in the second half, which is pretty consistent with what we see seasonally normally.

So, I think when you start to frame up the pieces here, a lot of strength in Test & Measurement, I think at the higher end or above the high end of this range, as well as kind of framing that up with the normal seasonality that we see. I think that's a good solid place to be in, right now.

Joe Giordano
Can you just give us a little bit more detail on the Defense solution at Sensors? I know you said it was favorable mix this quarter on what programs were active. But how should we think about that for the rest of the year and into next year?

Tami Newcombe

Yeah, the Defense business is large programs, and our shipment timing is based on customer need. And we had a quarter here where it turns out the programs that ended up shipping for those customers, the margins were better than we had expected. Still expect the same degradation that we've talked about in the Defense end market due to high-volume programs that we're seeing in the future are our lower-margin programs.

Neill Reynolds
Yeah, I think if you take a step back and look at the overall Sensors & Safety Systems segments, we were at the high 20s, over 29% this quarter, based on that favorable mix. The other thing I'd add is the industrial benefit that we're seeing in terms of the pickup in industrials, those are very strong margins for us, as we start to look forward.

So, if you think about the segment, we will see some degradation in the margins related to Defense, I think, over time, although we've had a couple of, I think, better quarters here. I think, however, with the better performance we're seeing in Industrial, we do expect the Sensors & Safety Systems segment to stay kind of at that high 20s level for the remainder of the year.

However, over time, given those Defense margins that we will see over time, we do expect to see that kind of revert back to kind of that mid-to-high 20s over the longer period but I think for the remainder of the year, high 20s is a reasonable place to be at.

Joe Giordano
Thanks, guys.

Operator
Our next question is from Kevin Wilson with Truist Securities. Please proceed.

Kevin Wilson
Hey, good morning. Wanted to ask on capital allocation, just how we're thinking about maybe opportunities for tuck-in M&A, understanding it's your third of three priorities there. Neill, I think you mentioned a robust pipeline of opportunities, which I think is new language on that front. So, maybe just what are the areas we're looking at there and just how we're thinking about that leg of the capital allocation strategy, going forward. Thanks.

Neill Reynolds
Thank you for the question. From a capital allocation perspective, look, we want to be disciplined in this, as we are in terms of how we operate the business. We talked about three things: investing in organic growth, returning cash to shareholders. We obviously completed the ASR this quarter, so given over $160 million back to shareholders or plan to this year in the share buybacks and the dividends.

So, that leaves us with number three, which is our kind of tuck-in acquisition strategy, as you asked about. Look, we talked about 50% of free cash flow within a year, going back to investors. I think we're more or less in that zone with what we've already done so now we'll kind of focus our attention to that third one.

And look, I think staying within the leverage is important. That one and a half to two turns leverage is important. We'll continue to look to manage within that. As we go through that list for tuck-in acquisitions, you can think of these as smaller deals that we're looking at. I like to think of it as supplementing or supporting our organic strategy, so things that really help us from either a technology perspective or a gap we may have somewhere that can fill those things in. That also have to give us a chance at very high returns. We want to see kind of a three-year ROIC at double-digit range.

So, that's really what we're focused in on now. I think the team's done a nice job of identifying the target list that we're working through.

Kevin Wilson
Thanks. I wonder if you could maybe flesh out the corporate costs. I appreciate some costs shifting from the segments to that corporate and other line. You're now assuming $20 million-$23 million a quarter. I think that was closer to $13 million a quarter, earlier. Some of that's EPP costs, variable comp, so, maybe if you could just size the pieces there. I guess, should we expect that to normalize a bit in 2027, after most of the EPP cost actions are taken? Thanks.

Neill Reynolds
Yeah, good question. This is moving around a little bit, I think also as we're kind of getting our legs under us with the productivity program. A couple of things here. One is we did see a corporate cost of about $21 million in the quarter. That consists of standing up the EPP program office, as you mentioned.

We've also centralized some costs where we moved costs from the segments into corporate. And the reason we did that is because we think that provides us a more kind of focused kind of execution mechanism for how we drive the productivity program, across the company. So, it's not just the EPP standup cost or the enterprise productivity program standup cost, it's also a little bit of shift, right pocket, left pocket, so to speak, not an overall increase in cost. As you mentioned, some higher variable costs related to the better performance this year from a variable comp perspective.

I think, overall, we look to be in this 20 to 23 zone with those things in there. And look, I think some of this, as you look out over time, will come back to us. We also think that we'll drive significant savings and support the program, over time. So, we'll continue to manage this, manage it within the margin framework that we've provided and continue to do that, going forward.

Kevin Wilson
Sounds good. Thanks, Neill.

Neill Reynolds
Got it.

Operator
Our next question is from Ian Zaffino with Oppenheimer & Co. Please proceed.

Ian Zaffino
Hi, great. Thank you very much. Wanted to maybe drill down on T&M a little bit more in the Diversified Electronics. What drove that growth, right? Because if I'm looking at Western Europe, I'm looking at China, they didn't grow to the extent that the whole segment grew. Just trying to understand what drove all that strong growth. Thanks.

Tami Newcombe
Hey, Ian. Thanks for the question. Diversified Electronics is 21% or so of overall revenue. From a Test & Measurement standpoint, think of that as broad-based electronics. The other two end markets, comms is predominantly our Aerospace and Defense. Semiconductor is pretty well-defined as to who those large semiconductor players are, globally.

Diversified Electronics is every place else that electronics are being innovated around, and we sit right in those labs. I mean, Tektronix is the pioneer in the oscilloscope, and the oscilloscope is the core foundational instrument sitting in the electronics lab for the engineers, whether they're doing energy storage systems, electronics for any type of mobility, including cars, medical devices, and a lot of AI edge devices that are full of electronics.

So, you'll see when that is broad-based, like it's been the last two quarters, it's a good sign for electronics innovation and the Test & Measurement equipment that enables those engineers to do that innovation.

Ian Zaffino
Okay, thanks. Then on margins and T&M, is there a path back to 20% here any time soon, or how do you think about maybe getting back to where you were, previously? Thanks.

Tami Newcombe
As we put the framework together for our margins back at Investor Day about a year ago, the Test & Measurement segment we've always thought of through the cycle in the mid-teens to the low twenties. That's still our expectation on this business. I think what you're seeing here, as we've come through four quarters now, is continuous improvement there. We'll be helped by some of the actions that we took in the first quarter, then we've got an Enterprise Productivity Program here to drive our structural cost, across the enterprise down.

Ian Zafino
Okay. Thank you very much.

Operator
Our next question is from Scott Graham with Seaport Research Partners. Please proceed.

Scott Graham
Hi. Good morning. Congratulations on your quarter, and thanks for taking my question. I really have just two. Well, I have a lot more, but I'll only ask two. Tektronix, there was a big movement afoot with new products in the second half of last year, I think nine, covering several platforms. I was just wondering, it looks like you have traction on that already, whereas I thought that was maybe more of a 12 to 18-month thing. Can you talk about how those new products at Tech are faring in the market?

Tami Newcombe
Absolutely, Scott. Nice to hear from you. Thanks for the kind words on the quarter. The team will appreciate that. Tektronix continues to increase the velocity of new products. In Q4 last year, there were two major platforms announced. One of the platforms, I mentioned oscilloscopes. It was the high-performance, state-of-the-art, industry-leading oscilloscope that is used in a lot of the R&D that's going on today for energy, for AI data center, anything around electronics.

The team continues, because it's a platform, they will continue to bring out modules and software updates, as we move through this year. That really is a place new products and new innovation go hand in hand. And yes, they have started to get good traction on the 7 Series, the probes, and also the platform for their power supplies. So, very positive on velocity at Tektronix.

Scott Graham
Well, thank you for that. Also, I know that part of this initiative was your indication back from a year ago at the Investor Day of moving Tektronix from more of just a research standpoint, more into manufacturing, and just wondering kind of the same question, how is that going and acceptance? And how many of these products, these nine, are half of them focused on manufacturing? Maybe just some color there. Thank you.

Tami Newcombe
Yeah, I would tie back to the platform approach. The MP5000 platform is one that can be taken from research into the validation phase into production. That's one place where new products are showing up. One of my stories in the opening was around the testing of optical transceivers, and that's another place where their Keithley portfolio plays really well in the validation and production side of the workflow. So, they continue to expand out of R&D into other parts of the workflow.

Scott Graham
Thank you.

Operator
This will conclude our question and answer session. I would like to turn the call over to Ms. Newcombe for closing comments.

Tami Newcombe
Thank you, everyone. Thanks for joining us, today. We appreciate your interest in Ralliant, and I hope you have a fantastic day.

Operator
Thank you. This will conclude today's conference. You may disconnect at this time, and thank you for your participation.