NASDAQ:NNBR Q4 2025 Earnings Call Transcript

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Chloe | Conference Operator:

Good day and welcome to the NN Inc. Fourth Quarter 2025 Earnings Conference Call. All participants will be in listen-only mode. Should you need assistance, please signal a conference specialist by pressing the star key followed by zero. After today's presentation, there will be an opportunity to ask questions. To ask a question, you may press star then one on a touch-tone phone. To withdraw your question, please press star then two. Please note that this event is being recorded. I would now like to turn the conference over to Joseph Caminiti, Investor Relations. Please go ahead.

Joseph Caminiti | Investor Relations:

Thank you, Chloe. Good morning, everyone, and thanks for joining us. I'm Joseph Caminiti with NN Inc.' 's Investor Relations team, and I'd like to thank you for attending today's earnings call and business update. Last evening, we issued a press release announcing our financial results for the fourth quarter and full year ended December 31st, 2025, as well as a supplemental presentation, which has been posted to the Investor Relations section of our website. If anyone needs a copy of the press release and or the supplemental presentation, you may contact Alpha IR Group at nnbr at alpha-ir.com. Joining us today from NN's management team are Harold Beavis, President and Chief Executive Officer, Chris Bonner, Senior Vice President and Chief Financial Officer, and Tim French, our Senior Vice President and Chief Operating Officer. Please turn to slide two, where you'll find our forward-looking statements and disclosure information. Before we begin, I'd like for you to take note of the cautionary language regarding forward-looking statements contained in today's press release, supplemental presentation, and the risk factor section in the company's annual report in Form 10-K for the fiscal year ended December 31st, 2025. The same language applies to comments made on today's conference call, including the Q&A session, as well as the live webcast. Our presentation today will contain forward-looking statements regarding sales, margins, inflation, supply chain constraints, foreign exchange rates, tax rates, acquisitions and divestitures, synergies, cash and cost savings, future operating results, performance of worldwide markets, general economic conditions and economic conditions in the industrial sector, including the potential impacts and ramifications of tariffs, impacts of pandemics, and other public health crises and or military conflicts on the company's financial condition and other topics. These statements should be used with caution and are subject to various risks and uncertainties, many of which are outside the company's control, which may cause actual results to be materially different from such forward-looking statements. The presentation also includes certain non-GAAP measures, as defined by SEC rules. A reconciliation of such non-GAAP measures is contained in the tables in the financial section of the press release and the supplemental presentation. Please turn to slide four, and I'll turn the call over to CEO, Harold Beavis.

Harold Beavis | President and Chief Executive Officer:

Thank you, Joe, and good morning, everyone. Thanks for spending a few minutes with us as we give you an update on the business and the state of the transformation in 2026. On slide four, I'll begin with spending some time discussing the highlights of the fourth quarter. And, Joe, can you advance to slide four? It looks like the Webcast is slow. Thank you. 2025 marked NN's third consecutive year of improved results, and we were able to increase adjusted EBITDA results toward recent company highs, and our adjusted operating income grew meaningfully, showing a significant improvement versus 2024. And we were able to fund a large vintage year of growth programs with our free cash flow. And importantly, we completed the majority of the heavy spending portion of our transformation plan, which saw us close and consolidate four plants and right-size about 800 people. Second point is we're well underway in showing success and strategically evolving our business portfolio. We are intentionally shifting our sales profile towards higher value in markets and higher value capabilities. and intentionally shifting away from low-value commodity automotive part-making and certain markets in the automotive arena. We are fixing and or exiting the unprofitable plants that we inherited and business strips, and we're replacing this business with new winds and desirable areas. Our new business winds program continues to perform well, and we continue to focus it away from commodity auto part business. We have now won more than $200 million worth of new business since the launch of this transformation plan in mid-2023. And ahead of us this year are record levels of program launches. And on top of that, we have a pipeline now that stands at over $800 million of high-quality prospects. One fun point that I wanted to point out is that we recently achieved our first new business win in the data center market. It is now a key target market for NN and we fit nicely into it. We are making the high precision watertight couplings that go into water cooled computing equipment. In 2026, we're already migrating a bigger portion of our cash flow used towards investment in new business since the majority of our cost restructuring has been completed. And now we're in a better position to fund growth-related CapEx. And in 26 versus 25, we're roughly doubling the amount of capital spending that we're putting into the business for growth purposes. And that ability to fund comes from a higher level of EBITDA as well as completion of projects. 2026 is going to be a year where NN returns to net sales growth, and it's happening right now in the first quarter. This is going to be an important pivotal year year in our transformation, and our 2026 forecast calls for NN to focus on top-line growth going forward. One caveat that I want to point out, and Joe touched on it, and it's in our risk factors in our 10K also, is that volatility remains high in our markets. We are a supply chain participant in a lot of global supply chain decisions, and there's a lot of influences by tariffs precious metals pricing, and ongoing geopolitical unrest. The volatility has increased a little bit here with the Middle East happenings, but except for that, we have the same type of risk factors this year as we had last year. Turning to slide five in the deck, I wanted to give a little more details on Q4 and the full year 2025 metrics. Our fourth quarter came in at 104.7 and our full year at 422.2 million. This is a little lighter than we had hoped. Some of our main end customers reduced their inventory positions towards the end of the year and are now getting caught up in the first quarter. And we're feeling it. And Tim and Chris and I haven't seen a good, healthy backlog of shippable business since we've been here. And we're happy to say that we do have backlogs here in the first quarter because people are getting caught up with some of their end-of-the-year decisions to reduce their inventories, and we're having a good quarter. But a takeaway on our sales is that we were able to rationalize some commodity no-profit automotive parts And we've largely done that with these plant closings and exits. And we're happy to say that that's largely behind us. Our adjusted operating income also has been nicely improving. You know, adjusted EBIT, which is what we are focused on as well. And the fourth quarter was 3.3 million and we had 14.2 million for the full year. Those results are roughly three times the prior year. And we foresee and forecast a nice improvement this year again. And the results are coming from a leaner, more efficient operating model across all of our operations. And we're running a cleaner set of business through our machines because we've rationalized some of the low-end stuff. And now we have a more structurally supportive model to deliver positive operating income in adjusted EBITDA. And our adjusted EBITDA continues to improve. It was almost 13 million in the quarter, 12.9, 49 for the full year. And these results were above prior year and also pushing towards company highs. And despite the continued weakness and volatility in the global automotive and commercial vehicle markets, we were able to perform at that level. And our adjusted EVDA margins are forecast to expand again this year and are. And the Q4 margins were up 90 basis points year over year. And we're continuing to prove in line with our long-term goal that we've stated in past talks like this, 13% to 14%. Our new business wins continued on the same pace, and we were awarded more than $70 million for the full year. We exceeded our guidance and expectations. We're still somewhat capital limited. last year on this topic because we were spending a lot of money on restructuring still. And we have more to spend now on a go-forward basis. And that's one reason why we've increased our goals now that we are intending to pursue in new business. And the key ones were concentrated in our focus areas. And especially beneficial to us last year and continuing is the surging defense electronics industry in the United States. We're directly benefiting from that, and it's immediate ramp-up type of business. We continue to secure new awards that were at accretive gross margins and are still averaging over 25%, and we're positioned to continue winning business in 2026. We have a couple large foundational programs underway right now in medical and in defense, and they're going to be gateway wins for us. And we already have a large multi-year re-win in our electrical power business that we've accomplished this year, year to date, where we beat out two large global competitors and secured that business on a go-forward basis. Our adjusted gross margin performance was 18.8% in the fourth quarter and 18.5% for the full year, which again has us trending towards our five-year goal of 20% consolidated gross margins. And in this area, we're ahead of our plan. And we're encouraged by our progress. And this strong performance is driven by the operating improvements that I've touched upon here a couple times, as well as the shifting in our portfolio towards our profit business. On cost and operational leadership, it's ever-present goal for us as a manufacturer to be better and better at manufacturing with a continuous improvement mindset. And we accomplished our goals successfully. In 25, STNA as a percentage of sales continued to drop as well and is now at 10.9%. We've all but eliminated an expensive executive layer that was here when we arrived, and we have reinvested some of that payroll savings into a bigger business development team. We're happy to report that we achieved our cost out targets of $15 million for the year, which offset all inflation and pricing and implemented the rationalizations that we wanted to do. And we have plans for another $10 million out this year. This operational performance and ability to lower costs has helped us overcome the rapid rise in precious metal cost inflation, which has been a big deal for us that we've been able to conquer and still increase our ratios on top of it. Please turn to slide six, Joe. I wanted to talk a little bit about 2026, and then Chris and Tim are going to add portions to it as well. And as already mentioned, we're forecasting revenue growth in each quarter and across the full year of 26. And that growth is happening. It started immediately in January, as I mentioned, because there was some curtailment of supply chains at the end of 25, which are now being refilled. And we will continue growing through this year. The global automotive markets are expected to grow slightly in 2026, a couple percent. But the growth outlooks are very region specific. And so we have outlooks for North America, South America, EMEA, and Asia that are specific to the region. And take into account adoption rates of EVs as well as affordability issues. The commercial vehicle market, It's expected to begin growing this year in 2026, and it's already started out that way with strong orders over the last three months. Just yesterday, ACT Research came out with the February orders, and they were some of the highest orders ever received for that time of the year. There is an EPA 27 mandate that's forthcoming, and the long-awaited pre-buy in that market seems like it's started. And we will benefit from that and are benefiting from that. And that's one of the sources of our positive back orders right now, too. So we have a strong supply chain of orders in that area already. And it happened rather quickly. It happened December, January, February. Our 2026 outlook calls for gross margin growth and adjusted EBITDA growth. And this will be balanced through the year also, starting in Q1. Our outlook... for this year supported by gradually improving markets. We don't really see any V-shaped recoveries, if you will. The hardest growth that we're participating in, the most upward, is U.S. defense business, and it's likely to get stronger as all the munitions are being used and weapons are being used, and that's where we're participating in that. So we are seeing increased volumes. We do have another $10 million cost out program this year, and we have a record amount of new business launches that's underway, and we have a record amount right now in the quarter. So we have a lot of positive tailwinds right now in the business, and we're thankful for that. And Tim and Chris, please knock on wood after I said that. Unfortunately, although our sales rates and production rates of U.S.-made cars are growing, we expect the U.S. auto parts market to remain volatile. Industry forecasts call for automobiles to be made and sold, but there's continued supply chain issues stemming from global tariffs, U.S.-caused trade wars, a fundamental reset that's going on between electric vehicles and internal combustion engines, overall affordability of U.S.-made vehicles, EPA resets and now war in the Middle East on top of the Russia Ukraine war. So, um, a lot of things, you know, the automotive supply chains in the world are very global and, and these are very disruptive things that are happening right now. The new normal is, you know, there will be volatility. And so I, I would just say it's continuing that does, and it does require tactical maneuvering on our part, uh, to, as a supply chain participant, really we're a taker. on a lot of these decisions that are at the OE level. But we are upsizing our new growth program. And we have more CapEx to spend this year. And therefore, we've set higher goals and we're committing to a higher outcome. And we're now looking to achieve between 70 to 80 million of new wins this year. And I'll just tell you, we've already started off this year in the first quarter on that pace. Overall, we still remain capital constrained due to our capital stack. And I'll give you an update on that later. But we have incrementally increased the amount of capex that we're going to spend on growth. Very deliberate. It's very intentional. And Tim and myself approve them one by one. We look at every one of them. What market are they in? Who's the customer? What's the part? Do we want to spend money on that? Do we want to spend money on that right now? So I can tell you that we're hands-on with the growth topic. It's very deliberate. But overall, we're excited for this year. We can see that it's going to be stronger than last year, and our performance in the first quarter is already on track to achieve higher outcomes, and we're off to a good start. With that as an introduction, I'd like to turn the call over to Chris and Tim, and then I'll come back and review some of the market information later. Chris? Thank you, Harold. Good morning, everyone. Today I'll be presenting our financial information on both a GAAP or an as reported basis and pro forma basis to provide transparency into our operating results, primarily due to the exit of some certain unprofitable business in this year and part of last year. I'll start on slide seven where we detail our financial results for the fourth quarter. I'll get into the full year as well. Slide seven shows our as reported GAAP results on the left side. pro forma adjustments in the middle, and pro forma results on the right side, as we've done in previous quarters. As a reminder, we use these adjustments to provide a representation of how management views and makes decisions about our business on a current and go-forward basis. The pro forma specific adjustments to the fourth quarter include last year's contribution from strategically rationalized sales volumes and the impacts of foreign currency translation on our non-U.S. operations. On an as-reported basis, net sales for the quarter were 104.7 million, declining by about 1.8 million versus last year's fourth quarter. On a pro forma basis, accounting for the adjustments I referenced earlier, our net sales increased 1.4 million, up about 1.4% versus the prior year fourth quarter. Adjusted operating income for the fourth quarter was 3.3 million compared to 2.4 million in last year's fourth quarter. On a pro forma basis, operating income was down slightly to 0.2 million or about 5.7% versus the prior year. Our adjusted EBITDA was 12.9 million, as Cheryl mentioned, for the quarter, up from 12.1 million a year ago. On a pro forma basis, adjusted EBITDA increased 1.1 million or 9.3% year over year. Adjusted EBITDA margin was 12.3% of net sales, This represents about 100 basis point improvement on an as reported basis, expanding 90 basis points on a pro forma basis. So a nice increase there. Now turning to slide eight for the full year 2025, our pro forma results and comparisons also normalized for the sale of the Lubbock business, which is divested in 2024. On an as reported basis, net sales for the year were 422.2 million, declining 42.1 million versus last year. On a pro forma basis, adjusting for the sale of Lubbock, strategically rationalized sales volumes and FX impacts, net sales decreased 7.4 million or 1.7%. Adjusted operating income for the year was 14.2 million, up 9.1 million from 5.1 million in the prior year. On a pro forma basis, the results marked a steep improvement, more than doubling from the 7 million in 2024 on a pro forma basis. Adjusted EBITDA for the year was $49 million compared to $48.3 million for the prior year. Pro forma, our results increased $2.2 million up about 4.7%. Adjusted EBITDA margin was 11.6% of net sales representing an expansion of about 70 basis points on a pro forma basis. As we've worked through the transformation across our business, We've grown our adjusted EBITDA now towards pro forma company records, meaningfully grown our operating income, and we've expanded our margins and advanced margin capture toward multi-year targets. Notably, we have done this work to improve our structural profitability despite a smaller top line, which has reflected the impacts of our exit of dilutive sales volumes. We're now prepared to continue delivering our growth through our operating income and adjusted EBITDA, coupled with an expected return to sales growth beginning in 2026. Now I'd like to turn to slide nine, where I'll detail our performance across our operating segments. For year-over-year comparisons, I'll be speaking to our pro forma numbers. In our Power Solutions segment, where our business consists largely of stamp products Net sales for the quarter were 45.5 million, up 5.9 million, or 14.9%, compared to 39.6 million in the prior year period. This improvement was driven by the increase in precious metals pass-through pricing, as well as the benefit of new program launches in electrical and defense business. This improvement was partially offset by lower sales volumes concentrated in one stamping product's customer. For the full year, Power Solutions pro forma net sales of $178.6 million improved 5.3% compared to pro forma net sales of $169.6 million. Power Solutions adjusted EBITDA results, as reported, of $6.4 million increased $0.8 million versus last year's fourth quarter of $5.6 million. This improvement was driven by sales growth, particularly in defense and electronics products, And what's further supported by operational cost reductions, higher margins, and an overall improved sales mix. On a full year basis, power solution segment adjusted EBITDA of 30.7 million, improved by 3 million or 10.8% compared to the full year results of 27.7 million. As a function of our adjusted EBITDA growth, power solution segment margins expanded 90 basis points versus 2024. On the new business front, we won an additional $3.1 million in new business awards for the segment in the fourth quarter, bringing the full year total to $13.2 million. Our wins have largely been concentrated in key target growth markets of electrical, defense, and electronics products, which we expect to remain a strong growth sector for our business. Now turning to slide 10, our mobile solutions segment, which covers our machine products business. The net sales for the fourth quarter were $59.3 million compared to the prior year of $63.8 million. Net sales comparisons were primarily impacted by the rationalization of diluted business, lower volume in North American auto customers, partially upset by favorable foreign exchange effects. For the full year, pro forma net sales of $244 million declined $25 million or 9.3% compared to results of $269 million in the prior year. We note that while we observed weakness in the North American auto markets across the year, our sales comparison was largely concentrated to one specific auto parts customer, which had pushed out volumes due to its own production disruptions. Our fourth quarter adjusted EBITDA and mobile solutions segment was $10 million, up slightly versus last year's fourth quarter on a pro forma basis. Quarterly adjusted EBITDA results reflected our successful shedding of unprofitable sales, which has improved the margin mix of the business, combined with overall lower operating costs. These factors have helped drive adjusted EBITDA margins of 16.9% for the quarter, up about 160 basis points from the same period a year ago. For the full year, mobile solutions adjusted EBITDA of 33.5 million, declined 4%. Notably, adjusted EBITDA margins of 13.7% showed expansion of about 70 basis points for the full year or versus full year 2024, displaying the impact of business rationalization and footprint consolidation. On the new business front, we continued achieving new wins and innovative programs, totaling $26.2 million in the fourth quarter and $58.6 million for the full year. We won over 200 individual award programs in 2025, including machine parts and defense and medical markets, as well as high-quality automotive programs focused on more innovative next-generation fuel efficiency for internal combustion powertrains. Thank you. With that, I'll turn the call over to Tim. We'll discuss our commercial and operational progress. Tim.

Tim French | Senior Vice President and Chief Operating Officer:

Thank you, Chris. I'll begin with slide 11. Our new business momentum has continued to build and is now translating into meaningful scale and future growth. As Harold mentioned towards the top of the call, over the trailing three years, we have secured over 200 million of new business wins, with quarterly commercial performance remaining consistently strong across that timeline. Importantly, these awards are coming in at an average gross margin of about 27%, and are concentrated in strategic markets where we see the best long-term value. It's worth noting that the implied margins on these wins are meaningfully above the multi-year goal of 20% and higher than current levels for the business. As these programs launch, they will be a creative to the overall margin profile and help support profitability and earnings improvement. Over the last three years, we have fundamentally rebuilt our sales pipeline, which had atrophied in the years before the launch of the transformation. Now our pipeline sits strongly at 800 million above potential opportunities. Our commercial execution is focused on discipline growth. We are winning where our technology and differentiation matter most, particularly across defense, medical, data center, and other high reliability applications. Supporting this outlook, our global team of roughly 40 commercial and technical personnel are actively pursuing and executing against the pipeline. If these opportunities convert to wins, the launch cadence steps up meaningfully. 26 will be a very big year for launches, as we expect to launch over 100 programs. As I mentioned, the new programs are margin accretive and continue to shift our mix towards structurally stronger, higher reliability of markets while reducing relative exposure to commodity automotives. Overall, the combination of strong bookings, a deep pipeline, and strong launch schedule gives us confidence in the durability and quality of our growth trajectory. Turning to slide 12, I'll briefly touch on our long-term roadmap. Notably, we remain well on track to meet our long-term goals that we have laid out as part of our enterprise transformation. Our 18.5% adjusted gross margins are consistently showing improvement in each sequential quarter and pulling in line with our 20% adjusted gross margin goal. Our adjusted EBITDA, supported by an improved leaner and more efficient operating structure, is expected to continue improving and delivering on higher margin rates. We expect to grow at a 10% compounded annual growth rate, reaching $80 million in adjusted EBITDA by 2030. Overall, we see approximately 5% market growth, further supplemented by the benefit of approximately 2% share gain as we hone our commercial efforts in electric grid, data center, defense, electronics, and medical markets. As we do this, we are strategically de-emphasizing less valuable elements of our portfolio with the explicit intent to continue lowering our overall portion of the company attached to commodity automotive parts. In parallel, we will continue advancing our successful cost-out programs across our operations. In 2026, we aim to drive approximately $10 million of cost rationalization, which will help offset pressure from inflation and pricing. And finally, as we move forward, we are going to continue sharpening our focus on areas critical to our growth that align with our highly valued capabilities. These include robotics... Did we lose Tim?

Harold Beavis | President and Chief Executive Officer:

Operator, can you hear Tim?

Tim French | Senior Vice President and Chief Operating Officer:

Can you not hear me, Harold? Yeah, I can hear you. Okay. Well, then just closing these include robotics, artificial intelligence, automation equipment, as well as opportunities for material and vendor substitution. With that, I'll turn the call back over to Harold. Chris, are you able to hear me? Yeah, I can hear you, Tim. I'm wondering if we've lost Harold.

Chloe | Conference Operator:

Harold, is your line muted? Excuse me, everyone. Please stand by while I check the speaker line. Harold, please proceed.

Harold Beavis | President and Chief Executive Officer:

Thank you. Tim, are you there? Yes, I am. Okay, I got dropped for some reason. Are you with me now?

Tim French | Senior Vice President and Chief Operating Officer:

Yeah, I completed and we're ready for you on slide 13.

Harold Beavis | President and Chief Executive Officer:

Thank you. I apologize to the listening group here. I got dropped off the call somehow. I would like to talk about the markets for a moment Starting with the electrical grid and data center market, which is 60% of our sales, there is a strong market outlook for this year. There's many announcements being made to expand aggressively the data center infrastructure. We participate in this market in the US and in China. There's big announcements by Amazon, a lot of the data center builders, And we continue to see growth in this area. The next market underneath that on the chart is the China automotive market, where we've been in that market for about 20 years. Been in the China automotive market and the China commercial vehicle market and the China data center market now. But the automotive market has a good outlook for the year. It started off beginning of the year kind of weak, BYD and Geely being big, and OEs that we service. They have had some timing issues in their local market, but this remains a strong element of the NN portfolio, both sales for use in China as well as the export market for those vehicles and those parts. On the commercial vehicle side, we expect to see this market improving this year. As I previously mentioned, the growth looks like it's going to be sooner than had been forecast. as orders have come in strong for the first few months of the year already. And there's structural reasons for that if you follow that market. So it looks sustainable. It's not a fluke. Defense electronics is 10% of our business, and it's growing strongly. Specifically within customer, we serve being right beyond and the desire for their missile defense systems. And we are basically increasing our production capacity and our ability to make larger parts as well. Our own organic growth here is expected to remain strong through the year and it's building. And we've already been given multi-year volume increase outlooks from several customers as a forward indication of what we need to do. On industrial, we're really tied into GDP level growth here. A lot of building products as well, like smoke detector parts and security system parts. And our primary focus in this area is innovation versus takeover business. And we're having good success. Medical, this remains a steady and growing market for us. For us specifically, we've been increasing the breadth of our team that focuses on this market. We have now a very large, strong pipeline of opportunities. And I mentioned earlier in my initial comments, we're on the edge of foundational large programs that will enhance our credibility. Global Automotive, which is North America, South America, Europe, we carry tempered expectations for the year here. Not negative, per se, but tempered by volatility. And the view here is that we will continue to participate in the high end part of the market for very precise parts. And our goal here is over time to hold our sales flat by re-winning the amount of sales that go into production and replacing them, staying flat, keeping our capacity equally full, not going backwards. And it's not a focus area for us. It's really a hold your own kind of area. And this part of the company's portfolio will shrink over time intentionally. On page 14, in December, we announced that our board had launched a committee to look at our financial and strategic options. We've previously discussed in some of our calls together that our capital stack is problematic. There's basically too much debt plus preferred equity, and we'd like to solve that over time. We're looking at various options here. We really have no updates that are concrete. I just want you to know that it's underway. It's a board process, and it's ongoing. And when there's something big to say, we'll say it. But right now, we don't have anything. And instead, we're just focusing on looking at our options and basically letting the business grow right now, which is what's happening. Turning to page 2026, excuse me, turning to page slide 15, I'd like to talk about 2026 and what our guidance is. We're guiding to net sales growth, which is meaningful to us, 445 to 465 million in sales, which covers the consensus outlooks on us, anchored by the new program launches, which Tim walked through. And they're expected to occur through the year. And we've already been winning new business that's immediate ramp up for this year. So this will be a strong area for us during 2026. And we have overall strengthening of some of our end markets. As I mentioned, commercial vehicle markets coming back after a three-year freight recession. And defense is growing much stronger than anyone had expected. No one had expected President Trump to be able to go through as many munitions as we have in a short amount of time. And we participate in the reloading of that supply chain. Adjusted EBITDA, we're starting with a wider range here as the year starts and we'll narrow it and focus it as the year unfolds. But as I mentioned, the first quarter is already starting off very well and it's supported by higher contribution margins. Our mix is naturally higher now. And we have unit volume growth underway, and we expect that to continue through the year. And so we're going to have good mix. Usually people talk about getting hurt by mix. We're going to benefit from mix, mix that we've caused. And furthermore, we are going to reduce costs another $10 million this year to more than offset the inflation and pricing agreements that we have in place. And we are going to increase our new business wins target. to $70 to $80 million. We have a long-term goal to get to $600 million in organic sales, as Tim touched on. We do have EOPs during the five years. So another way to think about it is, you know, our sales plan is replace EOP plus another 200. So to do that, we have to win above that 200 rate because we do have EOPs during the period as well. As mentioned, our pipeline is more than sufficient. We're running over a 20% hit rate and carrying an $800 million prospected pipeline. This is just a matter of doing the job on a continuous basis and making it happen. We've continued to add key personnel in defense, electrical products, data center products, electronics, and medical. We're looking forward to this year and we're excited about this year. We think that it's going to be a nice record year for the company. And with that, I'd like to turn the call over to our operator to answer any questions that you might have.

Chloe | Conference Operator:

Thank you. Yep. Thank you. We will now begin the question and answer session. To ask a question, you may press star then one on your touch tone phone. If you're using a speaker phone, please pick up your handset before pressing the keys. If any time your question has been addressed and you would like to withdraw your question, please press star then two. At this time, we will pause momentarily to assemble our roster. Our first question today comes from Johan Franza with Sidoti. Please go ahead.

Justin (for Johan Franza) | Analyst, Sidoti & Company:

Good morning. This is Justin on for John. Hello, Justin. Hey, can you expand on the data center and market opportunity, including any additional color on the size, expected ramp timeline, and margin profile of your first direct data center wind? Yes.

Harold Beavis | President and Chief Executive Officer:

We have a couple product angles into the data center market. We're focused in on the cabinetry that houses the equipment and specifically the cooling. It is a very high precision micron tolerance type setup so that the cooling doesn't escape the cooling system and damage equipment. And it plays right into our capability as a very precise micron level tolerance achiever. And so the first entry point was to become an approved supplier to the equipment building crowd as a provider of watertight coupling. And it turns out it's very much needed. And the cabinets are dense with this type of product. We're putting our hands around the size of the TAM. It's a very specific thing. And we do intend to report out on it in our next public call. We have a team underway with that right now. And the second product that we are targeting into the data center market is cable assemblies. And so at the top of the rack is a distribution of the electricity, bus bar, bus bar, as well as high-voltage cable assemblies. And we can make those also. And the new team we hired at the end of last year from the electrical products background with Mohammed Farhad as our leader technically, and then Tim Merrill, three other people that are account managers, that know the industry well are now prospecting. And we do have formal pipelines and we do have customers delineated. And that's what we're doing. And it's not a long ramp up either, Justin. It's not like the gestation period for getting onto medical equipment or an automobile or a commercial vehicle. It is an immediate ramp up kind of industry because the supply industry is behind There's a need for more gigawatts of power and data centers than is in place. So it's an immediate ramp up business for us. We're quite excited about it.

Justin (for Johan Franza) | Analyst, Sidoti & Company:

Very helpful. Thanks for the call there. Maybe shifting gears to transformation with the heavy lifting behind you, including plant closures and exiting dilutive businesses. What is the roadmap for sustaining sales growth in 2026 look like?

Harold Beavis | President and Chief Executive Officer:

Yeah. So roughly speaking, if you look at the K and the numbers that Chris and his team have put out there, we're going to be doubling our capital spending. So the biggest use of our free cash flow is cash interest to service our debt. And the second is CapEx. And so we're increasing the amount of capex that we are going to allocate a capital allocation to growth to really continue the paths that we're on. So this year's growth primarily 85, 90% from new wins is going to come from wins that preceded the beginning of the year. So we're coming in, we're ramping up business that we already won. This year's wins primarily will benefit 27, 28, with the exception of areas that are immediate ramp up, like a data center, like defense ramp ups that are happening right now, like the volume increases that are going on commercial vehicle platforms where we're already approved and there's just an increased production rate. So 26, we can see very well, Justin. And the new WINS program for this year will create the outline for 27 and 28.

Justin (for Johan Franza) | Analyst, Sidoti & Company:

Great. Thanks. Good luck in 2026. I'll turn it back. Okay. Thank you, Justin.

Chloe | Conference Operator:

The next question comes from Rob Brown with Lake Street Capital Markets. Please go ahead.

Rob Brown | Analyst, Lake Street Capital Markets:

Good morning. Congratulations on all the progress. Thank you. On the kind of ramp of new business in 26, I think your chart showed a pretty strong ramp of sort of, you know, full program kind of ramp rates. But what's the what's sort of the cadence of ramp in 26 in terms of the, uh, the revenue that hits this year versus future years.

Harold Beavis | President and Chief Executive Officer:

Yeah. Tim, you want to take that one?

Tim French | Senior Vice President and Chief Operating Officer:

Sure. Uh, obviously when, when we're ramping up launches, uh, it's, uh, it's not an immediate turn on of the peak annual sales. So, uh, we're looking, uh, we're launching over a hundred programs this year and, we would expect to see somewhere around between 20 and 25 million of revenue from those launches that occurred in 26 but you also have to keep in mind that we launch programs in 25 that will continue to escalate as well so but from launches purely in 26 it will be between 20 and 25 million of revenue okay great that's very helpful uh and then your capex kind of outlook i think

Rob Brown | Analyst, Lake Street Capital Markets:

doubling that would put it around 25 to 30 million. Where do you, what sort of CapEx activity are you planning and what program areas do you need CapEx for?

Harold Beavis | President and Chief Executive Officer:

You want to do that, Tim?

Tim French | Senior Vice President and Chief Operating Officer:

Sure. The bulk of our CapEx goes towards growth programs. We'll be spending well over 15 million in growth programs and it's You know, it's not focused on any specific area. It's basically tied to a program launching capability requirements within that. But the, you know, 75% of our capex spending will be focused on capital required for launching the business. Does that answer your question?

Rob Brown | Analyst, Lake Street Capital Markets:

Yep, that was very good, thanks Tim. I guess one last question just on the Q1 activity. You mentioned some strength in Q1. How much visibility do you have kind of beyond that? Is Q2 looking strong as well or is that really hard to say at this point?

Harold Beavis | President and Chief Executive Officer:

We have released orders into the second quarter already. And we have, Rob, we have a real healthy backlog already. So we have a shivable backlog. It hit us a little bit by surprise with the strength that happened in commercial vehicles over the last few months. So we have a forecast with our customers. Generally, we force specificity through our raw material lead time. So we can already see Q2, yes. And then Q3 and Q4, we don't have firm releases that go out that far. So we just have expectations from our customers. And it's looking to be very, very, very consistent with the sales guidance we just gave. And I wanted to add another point to your last question, Rob, on CapEx. So if you look at our net CapEx, Last year it was about $10 million, and this year it's going to be about $20 million. And to Tim's point, it's primarily going to be on more growth, funding more growth programs that will help this year and next year. And primarily next year, primarily the capital spending for this year will help make 27 larger because we're basically saying yes to more programs. And, in fact, we yesterday said yes to a pretty large program. that was about $1 million of capital, for example, and it would take about six months to get the machine. It's one machine that we need, that we're out of capacity on, and then we already have the load for it. So the spending this year will primarily, the extra spending will primarily help next year. The $10 million kind of rate, we'd already pre-spent that with programs that we awarded last year. We're absolutely inflecting up intentional growth in these target areas, and it's already hitting the first quarter. Okay, great. Thank you. I'll turn it over. Thank you.

Chloe | Conference Operator:

Again, if you have a question, please press star, then 1. This will conclude our question and answer session, and I would like to turn back to Harold Beavis for any closing remarks.

Harold Beavis | President and Chief Executive Officer:

Thank you, Chloe. Thank you, everyone, for staying on the phone for a bit with us. We're pretty happy to report this update on the business. It's quite positive. It's a nice inflection point for us to be reporting on growth and growth and growth, and we want to get more growth. And it's been our game plan all along to get the ugly restructuring out of the way, and we had to part ways with about 800 employees and sever them and pay those severances, and we had to close four plants. But it's behind us, and we're thankful for that, and we have a more profitable cash generative company now, and we're using it to our advantage to be competitive in the areas where we want to. We're off to a good start. Thank you for your support, and we look forward to speaking with you again in the future. And with that, we'll end our call for today. Thank you.

Chloe | Conference Operator:

The conference has now concluded. Thank you for attending today's presentation. You may now disconnect.