NASDAQ:NNBR Q1 2026 Earnings Call Transcript

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Operator | Conference Operator:

Ladies and gentlemen, thank you for standing by, and welcome to NN Inc. first quarter 2026 earnings conference call. All lines have been placed on mute to prevent any background noise. After the speaker's remarks, there will be a question and answer session. If you'd like to ask a question during that time, press star followed by the number one on your telephone keypad. If you want to withdraw your question, press star followed by the number one. I will now hand today's call over to Joseph Caminiti, in investor relations. Please go ahead, sir.

Joseph Caminiti | Investor Relations:

Thank you, Tamika. Good morning, everyone, and thanks for joining us. I'm Joe 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 first quarter ended March 31, 2026, 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 or a supplemental presentation, you may contact Alpha IR Group at nnbr at alpha-ir.com. Joining us from NN Management today are Harold Beavis, President and Chief Executive Officer, Chris Bonner, Senior Vice President and Chief Financial Officer, while Tim French, our Senior Vice President and Chief Operating Officer, will be joining us for the question and answer session. Please turn to slide two where you'll find our forward-looking statements. and disclosure information. Before we begin, I'd like to take a note of the cautionary language regarding forward-looking statements contained in today's press release. Supplemental presentation and risk factors in the section of the company's annual report from 10Q for the fiscal first quarter ended March 31st, 2026. The same language applied to the 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 our worldwide markets, general economic conditions, and economic conditions in the industrial sector, including the potential impact and ramifications of tariffs, the impacts of pandemics and other public health crises and 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 in a material difference 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, or I'm sorry, in the final section of the press release and the supplemental presentation. Please turn to slide four, and I will now turn the call over to our CEO, Harold Vivas. Harold?

Harold Beavis | President and Chief Executive Officer:

Thank you, Joe. Joe, I just received a text that there's just music on the call. Can we do a check to make sure the lines are open? Can you help us with that?

Operator | Conference Operator:

Yes, the lines are open.

Harold Beavis | President and Chief Executive Officer:

Okay, I'll proceed here. Thank you. Thank you, Joe. Good morning, everyone. We had a good quarter, and we have a good outlook, and we look forward to giving you an update today and answering questions. We had a strong Q1, and... We're very thankful for it, and it was across net sales adjusted EBITDA and a few other areas. We're going to highlight a few of those today. The performance in the quarter was led by a very good mix, which was a main driver of our improved results. And of note, we achieved the highest trailing 12-month adjusted EBITDA that we have in five years. And additionally, with regards to future performance, we captured noteworthy wins and key markets of electric grid and data center, and we're going to touch on those in a minute also. The second point that we want to make is that our growth programs are delivering results. We have three main diversification programs that are in play. They're in electrical grid and data center, defense electronics, and the medical markets. We expect to see solid volume growth through 2026, and we are winning in data centers for AI cloud computing hardware. We're focused on increasing our content per data center. The third point that we want to mention is that our growth program is meeting up with our cost blueprint and generating good profits. We have a lower cost operating footprint today, and it's delivering results reflected in stronger profitability. Our margins, therefore, are turning to the high side of historical results, and you are witnessing the earnings potential of this company. Fourth point that we want to mention right up front here is that we're forecasting this performance to continue, and we're raising our 2026 guidance in a few spots. Our strong Q1 in the outlook and the visibility that we have for the remainder of the year is leading us to positively revise our full-year guide. We're revising our guidance ranges higher for net sales, adjusted EBITDA, and new business wins, which we previously announced on April 14th. We're building momentum from new launches and program ramp-ups, and we're quite excited about it. Our improved 26 outlook is pulling the timelines of attaining our long-term goals in as well. And specifically, we are accelerating our five-year model to be a four-year model. And that is something that we're going to touch on later on also. If we turn to slide five, I'd like to make a few more comments about the outlook and the guidance improvement. We did have a strong first quarter. We're going to cover that, and Chris is going to do a deep dive into some of the areas. We delivered on multiple company records, and we're building forward momentum that will carry us through the rest of the year and into 2027 as well. And the first point that we want to make is that our sales growth is broad. It is not one big program with one customer or even just a few customers. Instead, our sales are up with 22 of our top 30 customers. and improvements are widespread. We have 700 customers in total and the bottom beneath the top 30 customers were up with that group as well. And right now we're launching over 100 small and medium sized programs with many of those customers. And we're adding brand new customers also specifically in the data center arena. So our outlook for the rest of 26 is strong and it's multifaceted. The second point is that based on our full year outlooks and our forecasts and our actual momentum, we're going to be delivering record annual performance this year. We expect that strength to be across many of our key metrics. We expect to have a strong sales mix, growth in adjusted EBITDA, growth in adjusted EBITDA margins, growth in adjusted EPS, and new business wins growth. We're expanding our participation in the data center build-out that's underway, and we're actively prospecting and winning additional business. It's a nice turning point for our company, and we expect it to continue. Additionally, as a result of a strong 2026, we're moving the long-term goal timeline in from 2030 to 2019. The results that we are delivering are overcoming global automotive weakness and global commercial vehicle weakness and tariff turmoil. We're more than offsetting those dynamics, and we're successfully replacing these soft areas with new sales in electric grid data center, defense electronics, medical, and our industrial business. Turning to page six, we want to review the high-level metrics in the first quarter, and then Chris Bonnert, our CFO, will drill down a bit further into the numbers. First of all, our sales were up, both year-over-year and sequentially, about $12 to $13 million, or about 12%. I'll wait a minute for the slide to advance and catch up with me here. The growth was a solid mix, and it was in grid and data center, defense and electronics are delivering strong growth, as I mentioned. The sequential sales growth also led to a

commensurate increase in working capital, which occurs seasonally in our business, and that did happen in the first quarter. Secondly, our adjusted operating income was up year over year and sequentially, and the results of our operational actions are shining through into our results. We have a leaner operating model today, and the large one-time costs that we incurred are washing behind us. Our adjusted EBITDA was also up year over year and sequentially. And as mentioned, this is being driven by a good sales mix, which we expect to continue, heavily concentrated in the power side of our business, and strong operating performance. Most of our plants are delivering results for us. We have just a few left that are at break even, slightly negative, but it's very widespread across many customers, all of our plants, and we're very thankful for that, that we're seeing the results of our hard work. On the new business wind side, we were up significantly year over year and sequentially. We had a big quarter in Q1 for us, and it was concentrated in electrical grid and the data center markets. On adjusted gross margin, again, we were up sequentially in year over year, and our margins were also up for the same reasons, good sales mix and good operating performance. So it was a solid quarter, obviously. It's reflective of the progress we've made across the portfolio with a good sales mix and strong operating performance. And as a result of this performance and our outlook, we're raising our outlook for both the full year and for the next few years. And we're going to get into a few more details after Chris speaks and reviews our company's first quarter more fully.

Chris Bonner | Senior Vice President and Chief Financial Officer:

Chris? Thank you, Harold. Good morning, everyone. If you're following along in the presentation, I'll start on slide seven, which highlights our first quarter financial results. Net sales for the quarter were 118.5 million, an increase of 12.8 million, or 12.1% versus the prior year quarter. The revenue growth was driven by the impact of a positive shift in our sales mix, as Harold mentioned. Higher precious metals passed through in the quarter, along with favorable foreign exchange impacts. These positive impacts were partially offset by softness in our China automotive business. Outside of China, our global automotive business was up slightly. Adjusted operating income for the first quarter was 5.8 million, marking a strong increase of 3.8 million compared to 2 million, or 184% versus the prior year period. Adjusted EBITDA results for the quarter were 14.1 million, increasing 3.5 million compared to the 10.6 million we reported in the prior year period, an improvement of 33.7%. Our strong first quarter adjusted EBITDA results were driven by an improvement to our sales mix, the capture of operating efficiencies across our operations, and our successful cost-out programs we implemented the past couple years. As a result, adjusted EBITDA margins were 11.9%, an increase of 33%, compared to the 10% in the prior year quarter. Now I'll turn to our segment results, starting on slide 8. In our power solutions segment, where our business consists largely of stamped products, net sales for the quarter were $55.4 million, up 11.9 million, or 27%, compared to the 43.5 million we reported in the prior year period. The growth was driven by an improved sales mix from higher volumes in targeted growth areas, higher precious metals pass-through pricing, and favorable foreign exchange impacts. This top-line growth was partially offset by sales volume softness in certain stamped product lines. Our solutions adjusted EBITDA was $10.4 million, an increase of $4.1 million, or 65.1 percent, versus prior year's quarter of $6.3 million, driven by improved sales mix, a strengthening of profitability through ongoing cost-out initiatives. We do see a short lag as we pass through the impact of inflation to precious metals pricing, tariff impacts, and other surcharges, which temporarily pinch profitability. As a function of this improved adjusted EBITDA, we've seen stronger margin pull through, with quarterly adjusted EBITDA margins of 18.7% of net sales, up from 14.5% in the prior year period. Looking ahead, our new business momentum in this segment remains strong, with wins totaling $29.3 million in the first quarter, concentrated in key markets that Harold mentioned of electrical grid, data center, and defense, and electronics products. During the quarter, we announced that we had acquired additional plating equipment to advance our growth in electrical grid and data center markets. Consistent with our strategic growth efforts, we continue to invest our CapEx to support these growth opportunities. Now turning to slide nine, our mobile solution segment, which covers our machine products business. The net sales for the first quarter were $63.1 million compared to $62.2 million in last year's first quarter. an increase of 0.9 million or about 1.4%. Notably, this segment has now returned to year-over-year sales growth. While modest, our sales growth reflected solid volumes from new program

launches and broader strength across North America, South America, Europe, and automotive markets, along with favorable foreign exchange impacts. This was partially offset by softer automotive volumes in China. Our first quarter adjusted EBITDA in the mobile solutions segment was $8.2 million, up slightly versus last year's first quarter, with adjusted EBITDA margins holding at 13%. The flat margin reflects the offset of profitability improvements in most regions against the impact of China automotive softness. On the new business front, we secured wins totaling $13.6 million. Notably, this included the liquid cooling connector components We are now in production and pursuing additional opportunities. With that, I'll turn the call back over to Harold. Harold?

Harold Beavis | President and Chief Executive Officer:

Thank you, Chris. Let's turn to slide nine. Excuse me, slide 10. I'm seeing a lag in the slides turning here. I'll just wait a second. Our portfolio transformation is working. We wanted to report out to you on that. We've been asked questions about that, and we're executing on our strategy to intentionally reshape our portfolio towards higher growth and higher margin in markets. And our top three growth markets, as we've mentioned, and you know, are electric grid and data center, defense electronics and medical. Those specific in markets are collectively up 28% versus Q1 2025. And on a consolidated basis, our growth markets accounted for 35% in 2023. And now, constitute 54%, excuse me, the 56%, and automotive has shrank to 44%. So we're deliberately changing that mix, and we have forward goals to continue that progression. And as mentioned, our growth is broad-based and spread across multiple customers, products, and programs. It's not concentrated in any single program or with any single customer or platform. There are no big bets in what we're doing. intentionally, and we're happy to show you here that the portfolio is shifting as we are driving it to. Our auto strategy remains disciplined. Our goal in automotive markets is to maintain good volumes, not chase share or chase large volumes. And because of this, we're able to better absorb the automotive market weakness that's happening right now without disrupting our overall growth trajectory or our reported numbers. This mix shift is an important structural driver of our margin expansion, and the growth markets carry more accretive margins than our legacy mix, so that's helping us achieve our margin rates also. As these scale up, we expect to see continued pull through to gross margin and EBITDA. This will be a primary lever closing the gap to our long-term targets. Turning to slide 11, I wanted to point out a little bit more about each of the three areas that we're pursuing for diversification and for forward growth, and each has the potential to become a material business for our company. All three are internally funded and we have been allocating people and capital resources to each one of these. Each has dedicated assets, certifications, and pipelines well in excess of current revenue. We're going to go through just a few highlights and kind of a status update for you, starting with electric grid and data center. In this case, we are building on a large, profitable, end-to-end business. It's already over a $70 million segment for us on an LTM basis, and our near-term goal is to target this to be a $100 million business for us. We've added assets, products, and people, and As we previously reported, we added liquid cooling connectors in the first quarter with a new product line and new customers for us. The data center part of this endeavor for us is fast-paced, and it's collaborative. As you know from following this industry, all of us know from following public markets globally, there's a big, big backlog of equipment here, infrastructure built out, And the industry, the supply industry, of which we're a part of, is underway with trying to get caught up. And the bottom line for this segment for us is that the growth from new and existing customers is higher than we expected and faster than we expected. And it's continuing. We're attempting to increase our content per rack and content per data center with multiple endeavors that we're underway with. So that one is a plus-plus situation. in terms of performance for us, and the margins are quite good. Next is Defense Electronics. We're also adding to a large profitable business in this area. The business is already over $50 million on a trailing 12-month basis. We're also adding assets and certifications here. We're internally funding this as well. In this case, we've been working with a marquee OEM in the United States to expand into a new product area. as a Tier 1 manufacturer of weapons components. And it's been going quite well. We've had to add new specialized equipment in this case. It required new equipment because the parts are quite large compared to the parts we've made in our past. But I will say that the bottom line here is the growth has been faster and bigger than we expected also, and our momentum continues to

build. The third area is medical. Medical, we restarted that in the fall of 2023. In this case, it was a small, unprofitable business, and we implemented both an operational turnaround plan as well as a forward growth plan. Similar to the defense electronics segment, we've been working for two years with a marquee OEM, a global maker of robotic surgical equipment, and that program is beginning to show results for us also in terms of products going into production. Bottom line for this area is that it's been slower than we expected relative to the two other diversification endeavors, but momentum is now increasing. So we're carrying forward with each of these. And in each case, we have a prospecting list and we have new products envisioned as well as new equipment and new certifications. So they're kicking in now. The biggest and fastest one, obviously, is data center, and if you turn the page to page 12, we're getting a lot of questions about what are we doing, what are we not doing, how big is it, how big is the market, that sort of a thing. So we wanted to report out to you. It is our number two overall market right now. Our internal plan is for it to become our number one market. Currently, right now, the global automotive business is larger than this. sell multiple components into this arena, transformer components, electrical disconnects, circuit breaker components, smart meter components, liquid cooling components. As I mentioned, it's already a big accretive business for us, and our near-term goal is to get it to $100 million. The liquid cooling connector business that we launched in the first quarter was really a neat product for us. If you follow this area, it's a big deal. It's a big deal in the industry if you go to a trade show. A whole bunch of the trade shows tie to cooling if you go to a data center trade show. And it's growing fast. It's also called quick disconnect couplings. It's also called fluid connectors. But the bottom line is it's the stainless steel connectors through which the coolant flows to the cold plates and through the cooling system inside of the data center racks so that the chips don't get overheated and conform at spec. Market sizes, there's a big range here, if you Google this or research it, because the numbers that preexisted the last 18 months are getting blown up as this whole area has really gotten big fast. But the market size estimates for what we're participating in range from 1.5 billion to 6 billion and growing quickly. When I say quickly, some of the growth rates are at 40% per annum, so large growth rates. The bellwether reporter here is NVIDIA. If you follow what they say, they say they have a five-year backlog. We're seeing big backlog situations also. We're seeing backlogs that go out through the rest of this decade, and we're participating in those. And we're leveraging our fluid management trade secrets. For a long time, we've understood how to control fuels, atomized fuels inside of engines. It's a no-leak situation as well. And we're adding to our existing portfolio of machines to make these types of small, precise components. The specs that are prevalent in the data centers equate to about one drop of water that can leak every 10 years. And that may sound severe, but actually we're at a better level than that because in the engine environment with fuel, the leakage is measured atomically and molecularly as it can be explosive and damaging. So this is right in our sweet spot. And we previously mentioned that while we had over 100 machines that could make these kind of products already, we added another 17 and ordered them and have received about half of them. And we're coupling them with our in-house trade secrets around turning, treating, electroplating, abrasive flow machining, and manufacturing and testing. So big deal here is you can't have burrs, and there's a lot of deburring required. And then they have to be aesthetically pleasing with a mirror-like finish, which leads to electroplating. We believe there's a lot of upside in this area. We have a multi-product view of it. Our goal is to add content per rack And we're working on that on a bill for basis. So that was just a little bit more on the data center If you turn the page to our in market outlooks We do participate in several in markets as you know, we have two main types of production platforms one turning and machining and one stamping welding and plating and We serve multiple end markets with those common engineering and manufacturing platforms. I covered grid. It's a strong market. It's growing. It's backlogged several years. So generally speaking, we're getting into situations that are immediate ramp up in this arena. We expect it to continue like that through the rest of this year. Second, defense electronics, we mainly serve it in North America, United States specifically. Spending is at record levels under the current president administration and on a four basis. We also expect that to continue through the rest of this year. And third is medical, where we're really focused in on equipment versus implants. And that is a steady and growing market. And we're expecting to achieve more new wins as the year progresses. It's still a small business for us, but I will say that Tim French and team have corrected the profit problem, and we are making money in the medical business already. Automotive in China. So automotive in China has been growing quickly for us over the last couple years. If you follow that market year to date in 26, the China market's down, and it's predicted to be down going through the rest of the year. So

we expect to stay at a similar rate that we're at through the rest of 26. The indigenous market's down more than the export market, but we're right there in the middle of it with a big plant in the suburbs of Shanghai, and we serve Chinese car makers, and the business is soft. So we've been able to overcome that soft business, and that's a good mix for us. We make good money in China, but we've been able to offset the market softness there. Commercial vehicle... That covers trucks, agricultural equipment, construction equipment. Each of those markets has a different outlook by geography. We're mainly attached... The common denominator for us is that we're attached to large diesel engines. The market's been down slightly globally, and it's a combination of being down in North America but up in China. And so we've been... had two situations, one in China being up, one in North America being down. The bellwether reporter there, in this case, would be Cummins. They're a big merchant manufacturer of engines, big diesel engines. And also now with generators for data centers. And we're expecting to see growth in the second half. Industrial, we're mainly tied into the industrial market in the United States. GDP is up about 2% year to date. That's kind of the outlook. We expect to see modest growth through the rest of the year, and then global auto, which I mentioned, which is slightly down due to affordability, ICE, the EV reset rates, and then China exports. Global data came out yesterday with a global automotive update, and they're predicting that the global market will be down about 2% this year. Due to the programs we're on, we'll just do a little bit better than that, but we're expecting a lot to go through the rest of 26th. So that was just a market update for you. Overall, our markets are better than last year's, kind of a takeaway that I'd like you to have here. If we turn to page 14, I'd like to have Chris take us through a little bit on our long-term goals.

Chris Bonner | Senior Vice President and Chief Financial Officer:

Thank you, Harold. Please turn to slide 14 if you're continuing to follow along. So given our market expected growth rates and the pace at which our targeted growth programs and cost initiatives have been delivering our results, we're going to pull in the timing of our long-term financial goals by one year. We've previously communicated these goals to you. So with these changes in our markets and business, we're going to pull them forward from 2030 to 2029. The net sales and EBITDA, targets are not changing. So the net sales of approximately $600 million at a 20% adjusted gross margin rate and adjusted EBITDA at about $80 million at a 13% margin are going to be consistent with what we've previously reported. So relative to our full year 2025 results, this reflects more than a 40% growth in net sales and more than 60% growth in adjusted EBITDA, with adjusted gross margins expanding from around 18.5% in 2025 to our target of 20%. As previously communicated, we're targeting about 13% to 14% adjusted EBITDA margins, demonstrating meaningful growth from where we're at today at about 11.6% through 2025. So in slide 15, it provides additional context on our business performance through our transformation actions and the trajectory of underpinning our targets. This chart represents our adjusted EBITDA performance from 2020 through through the midpoint of our 2026 updated guidance, excluding the contribution from the divested Lubbock business for comparability. Notably, ahead of the launch of our transformation, our results reached a trough in mid-2023 at approximately 35 million on an LTM basis, with the adjusted EBITDA margins having fallen to 7.4 percent. From the launch of our transformation plan at that point, Adjust EBITDA has increased approximately 61% to the midpoint of our 2026 guidance of $57 million, with margins expanding significantly to 12.4%. This success in the first years of our transformation has been led by operational performance as we simultaneously work to reestablish our sales pipeline and reshape our portfolio mix, as we discussed in the past. Our three main growth programs in electric grid, data center, defense and electronics, and medical are now contributing, and we expect to drive further improved results. Lastly, on slide 16, which shows our end-market outlook for 2026 as it stands today, given our first quarter results and the expected forecast we have for the remainder of the year, we're revising our guidance ranges slightly higher. For the full year of 26, we're now guiding net sales in the range of $450 to $470 million, reflecting approximately 9% growth at the midpoint compared to the prior year, and adjusted EBITDA in the range of $52 million to $62 million, reflecting approximately 16% growth at the midpoint. Importantly, this revised guidance is supported by our current market outlooks, the expected contributions from our new business from prior wins, and the operating leverage we expect to capture as our volumes grow across the year. With that, I'll now turn the call back over to the operator for questions from our

analysts. Operator?

Operator | Conference Operator:

At this time, if you'd like to ask a question, press star followed by the number 1 on your telephone keypad. If your question has been answered and you would like to remove yourself from the queue, press star followed by the number 1. We do ask that you ask one question in a follow-up. And if you do have further questions, you may re-enter the queue. Your first question is from the line of Rob Brown with Lake Street Capital Markets.

Rob Brown | Analyst, Lake Street Capital Markets:

Hi, good morning. Congratulations on all the progress.

Harold Beavis | President and Chief Executive Officer:

Thank you. Good morning.

Rob Brown | Analyst, Lake Street Capital Markets:

Just following up on your data center activity and wins there, you know, to get to the $100 million goal, what's sort of the steps that you need to take? It seems like you're well on the way there. Is it expanding penetration in the liquid cooling market, or are there other products that you can go after to get there?

Harold Beavis | President and Chief Executive Officer:

Yeah, we have several. We have multiple items there, Rob. We have two new products we're coming out with in Busbar and Power Whips. We also are growing with the current content that we have there, which is tied into transformer components as well as these connector components. So we're not overly counting on one product line, but we're hitting the the market more broadly now and have organized to do that. So we're not making any predictions yet, but I will say that we have a great product line going into these data centers. And we're trying to get our content up. We're not falling in love with any particular product. We're selling a product basket.

Rob Brown | Analyst, Lake Street Capital Markets:

Okay, great. And then in the capacity to expand there, I know you mentioned additional machines that you're deploying, but how much capacity do you have in the power solutions segment that you can kind of grow into here before you really need to add much capacity?

Harold Beavis | President and Chief Executive Officer:

Yeah, Tim, you want to take that?

Tim French | Senior Vice President and Chief Operating Officer:

Sure. In power solutions specifically, we have significant capacity available for we aren't running 24-7 in the primary facilities. So we're able to adapt and assimilate new business fairly quickly. It requires basically just the creation of the tool, and then we're good to go from there. So lots of available capacity. So ramp-ups can be extremely quickly in the power side.

Rob Brown | Analyst, Lake Street Capital Markets:

Okay, excellent. Thank you. I'll turn it over.

Harold Beavis | President and Chief Executive Officer:

Thank you, Rob. Thank you, Rob.

Operator | Conference Operator:

Your next question is from the line of Joe Gomes with Noble Capital Markets.

Joe Gomes | Analyst, Noble Capital Markets:

Good morning. Thanks for taking my questions. You bet, Joe. So you mentioned, you know, a couple of factors that were behind the sales growth for the quarter, including, you know, precious metals pass-throughs and favorable effects and product mix. I was wondering, could you kind of break those out as to what each contributed to that 12% sales growth?

Harold Beavis | President and Chief Executive Officer:

Well, we actually, it's harder to answer than that, Joe, because we're up with 22 of our 30 top customers and they cover basically all the markets we're in. And we're just down and we're flat with three others. We're just down in a couple areas. And it's been a consequence of the new programs that we've won and that we're launching. Chris touched on that, that we have all these new programs that we've won with new and existing customers and that it's helping propel us. Precious metals were flat sequentially, but up year over year, we're expecting precious metal pricing for the rest of the year to be flat to where it is now. So it will not, quote, contribute anything further beyond this second quarter because the current levels are flat to the second half, if you look at the second half of last year when things began to come up. So getting a temporary boost for sure from precious metals and volume growth with customers in most of the markets we're in.

Joe Gomes | Analyst, Noble Capital Markets:

Okay, thanks, Zach. And then just to follow up on the data centers, when you talk about increasing content per rack, what are we talking about here? I don't know if you can kind of either give a dollar figure or, you know, percentage type of increase, you know, or yet, you know, whatever the number is, what you're selling into the rack for today and you double the amount of content you're selling into that rack, triple that amount of content and, Just a little more color there just to see what the potential growth is just by increasing the wallet share, so to speak, per rack.

Harold Beavis | President and Chief Executive Officer:

Yeah, that's a similar question to what Rob asked. You know, roughly speaking, our trailing 12 months is a little over 70 million, and we're trying to get to 100, and our pipeline is multiples of that number. It's hard to tell which... new programs you'll get a hit on um but you know we're we're planning on our same hit rate and i believe that we have the pipeline that we need to get to 100. um so we really we're really trying to understand you know the tam is so big here joe i mean we're talking billions of dollars of tam and and we have a 70 million dollar business so We really can't blame anything on what's happening in the market. It's based on our own actions. We're coordinating our efforts to grow. When we get specific numbers, it's hard to even tell how many racks are in development right now with the amount of announcements that are underway. We can't really answer that with good accuracy right now, but we are going to be getting as smarter on it and reporting more in the future on the per rack content. When I say per rack, so when we're calling on a customer that's building out racks, we're trying to get more content during that sales call. And we have multiple products that we can bring to it. And so we're coordinating between what we call power mobile to call on these customers to sell a bigger portfolio of products.

Joe Gomes | Analyst, Noble Capital Markets:

Okay, great. Thanks for that, Harold. I'll get back in queue.

Harold Beavis | President and Chief Executive Officer:

Thank you, Joe.

Operator | Conference Operator:

Your next question is from the line of John Fringerapp with Sidoti & Company.

John Fringerapp | Analyst, Sidoti & Company:

Good morning, everyone, and thanks for taking the questions. I guess I'd like to drill down a little bit on some of your newer growth initiatives. Can you talk a little bit about what's going on in medical? You kind of illustrated or suggested that it's a little bit behind plan. And also the new program, I'm also interested in the wireless program you initiated on last year. How's that standing?

Harold Beavis | President and Chief Executive Officer:

Yeah, so medical pipeline is fine. The development is fine. We've had to conquer more plant certifications than we expected at the beginning of our endeavors, but we've now done that, and we expect to report positively in the medical arena this year. But coming into today's call, it was not a source of our sales increase, so it hasn't showed up yet in terms of an actual item. But we're not backing off of it. We have a dedicated team. We hired people. We added equipment. We got underway with these certifications. And we're calling on customers and adding to the portfolio. So just in terms of the three of them, John, it's behind. But overall, what we expected from the three in total is ahead by a lot. It was just really hard to tell where you're going to get the hits. It is playing out nicely, though, for us overall. And on wireless, what specifically are you interested in there, John?

John Fringerapp | Analyst, Sidoti & Company:

the wire harness business that you started.

Harold Beavis | President and Chief Executive Officer:

Yeah, so we put together the team. We've hired a team. Tim and I are in the final stages of equipment selection. There's a wire harness show. Tim, is it next week coming up here? It's today. Today, thank you. So we're making specific equipment selections and have a team there. And we expect to report on that during this year that we've launched that program, John.

John Fringerapp | Analyst, Sidoti & Company:

Got it. And just not on the precious metals cost escalation, how are you dealing with regular metals, steel, aluminum, copper? All of them have gone up sizably in the first quarter. Do you have surcharges, escalators? How are you working with that with your customers?

Harold Beavis | President and Chief Executive Officer:

Yes, you're correct. We're experiencing metal escalation, and we have the right to pass it through. We have to show POs that we've incurred the inflation before we can increase our prices for the pass-through. We still have metal tariffs. on copper from Germany and that sort of a thing. So we also have tariff charges to pass through as well. So we get a slight lag, a slight lag, but we don't have to wait to the end of a month or a quarter. I mean, once it happens, we go in and we present proof. So we've been able to keep up with it because generally speaking, we have raw material on hand at, quote, the old price. So the game plan is procuring which has a lead time, you have a time period there where you have an adjustment negotiation that you go through and prove it. So we've had to adjust our prices, and it's taken active work by our customer service teams. But knock on wood, we haven't had any material compression at all from that, John.

John Fringerapp | Analyst, Sidoti & Company:

Good to hear. I'll get back into you. Thank you, Eric.

Harold Beavis | President and Chief Executive Officer:

Thank you.

Operator | Conference Operator:

Your next question is from the line of Mike Crawford, Ruby Riley.

Remy Johnson | Analyst, Ruby Riley:

Hey, this is Remy Johnson on for Mike. And just wanted to zero in on the new business wins guidance for 2026. It was nice to see the 42.9 million in new business for the quarter. But how should we think about the cadence of wins as the year goes on? and what that split looks like between power solutions and mobile solutions. Thanks.

Harold Beavis | President and Chief Executive Officer:

Yeah, thank you. Our pipeline overall covers each of the areas that we have pretty uniformly. The hit rates are similar. We have goals that we set that for our sales team and our business development team that obviously exceed our guidance. We're aiming higher than what we're committing to here. So we're shooting for higher numbers. And the goal is skewed towards our growth areas of medical, defense and electronics, and a grid and data center. So the pipeline is reflective of what we're trying to do. In the case of automotive, You know, the outlooks for automotive are interesting. The unit volumes are supposed to be down a couple percent, but it doesn't mean that the industry's stressed because the affordability is so high on new cars that wealthy people are the ones buying the new cars and they're still wealthy. So the industry is viewed as being healthy even though unit volume is down somewhat. And so we're not getting the normal pressure like when you're in a real problem, a recession or something, to reduce our prices on new business or anything. So we're on the watch out for that because that sometimes happens. But I will say that we are letting quotes go as they get our margin bottom lines. And that's going to continue to happen. It happens the most in automotive, that's for sure. And so it's going to be driven by margins and our opportunity set. But right now, we see a good cadence to get to the new guidance that we've given.

Remy Johnson | Analyst, Ruby Riley:

Nice. Thanks for the color on that. And then just taking a look at 2029, where the new long-term goal settles, if you don't mind sharing, I guess, what could the split look like between the growth and markets and the auto market? end market, and where could we see the auto segment fall out in 2028, 2029 area?

Harold Beavis | President and Chief Executive Officer:

Yep. We're trying to get automotive to be 30% or less over time, but we could do it abruptly and harm ourselves, you know, financially speaking, because it takes active work to be flat in automotive because you have end of lives that come upon you, and then you need to either be aggressive about the next generation win for that same platform, or pursue a different type of business. So to stay flat in automotive, it's hard work. And if we get to the point where we're outperforming in the other areas, we can start to price clear ourselves on the next generation programs. And so it goes EOP and it's EOP, and the sales are gone. But for the minute, it's... It's sizable for the company. And so we're working hard to keep the business we want. In the last trailing two years, you know, we've gotten rid of a bunch of diluted business. So that's largely behind us. So on a go-forward basis, it's really about competing in areas that are profitable for us. So overall, you know, if we could dial it in and everything was perfect, it would be around 30%.

Remy Johnson | Analyst, Ruby Riley:

Thank you. I'll get back in the queue. Thank you.

Operator | Conference Operator:

We have a follow-up from the line of Joe Gomes with Noble Capital Markets.

Joe Gomes | Analyst, Noble Capital Markets:

Hey, Harold. You didn't really talk anything this morning on, you know, the strategic option program. Maybe you want to give us just a little update of, you know, what's been going on there behind the scenes and, you know, when you think we might start to hear some information coming out about that.

Harold Beavis | President and Chief Executive Officer:

Yep. So we do have an ongoing process. Still evaluating our alternatives for financing or otherwise. There's nothing material to report there or meaningful, so we don't really have an update. I will say, though, Joe, that I do have an update on the CARES Act proceeds. And we did receive that money, so we have that in the house. that that's helped with our liquidity and that that also was a driver of looking at our options because we were having a tough time with liquidity with the growth vector that we're on and that's helping us a lot so I'd say there's the pressure is less and we're being calculated the board is being calculated with its actions there, and we have nothing major to report at this time.

Joe Gomes | Analyst, Noble Capital Markets:

Okay, great. Thanks for that, Harold.

Harold Beavis | President and Chief Executive Officer:

Thank you.

Operator | Conference Operator:

You have a follow-up from John Friendship with Sidoti & Company.

John Fringerapp | Analyst, Sidoti & Company:

Yeah, I was looking at the slide in Power, and it seems like you were looking for new wins in certain markets that may not have materialized. Can you just talk about that? What are the new program wins that you need that you referenced?

Harold Beavis | President and Chief Executive Officer:

Yeah, in power, we're trying prospecting to get more straight-up grid business. That's one area. We've outperformed on the data center side of that. On the grid side, residential starts are down in the U.S., the EV craze has subsided and the I'll call the residential strain that was driving a lot of grid thinking has lessened and on the other side the industrial side of the grid which ties into large equipment and large infrastructure investments is outperforming so historically our grid portfolio was tethered to residential grid. And we are pursuing new wins in those areas. And so that's one of the areas that we want. And then in terms of a product category, bus bars are an area that we've been focusing on growing in. And that's tied into the plating equipment acquisition that we previously announced. We couldn't do the big part We couldn't plate the big parts. Most of them were silver plated. And the acquisition of that equipment from a customer who was also a very large electrical grid customer headquartered out of Europe is a big advancement for us. So we'll be able to, instead of no quoting business, we'll be able to quote the full bill of material and be a more holistic supplier in there. We have fixes under way. And, you know, we're always looking at our hit rates there, John, and looking for pattern recognition for what we need to do next to get our hit rates up. So there are areas that we know about and that we're focused on fixing.

John Fringerapp | Analyst, Sidoti & Company:

Got it. Got it. And just on the refinancing of the preferred retirement or whatever you decide to do with it, I mean, it's been a multiyear process at this point. Can you just give us some color as to why it's taken so long besides the turnover at the investment bank?

Harold Beavis | President and Chief Executive Officer:

Yeah, that's true. We're actively looking at our alternatives there. It's not on the back burner. It's on the front burner. It's helpful to have better operating performance because it's You have better credit statistics when you look at the secure debt part of that as well. We're in possession of our outlook for the year and you are too now. You see that we're planning on having a nice year and the cash value of the EVDA is going to be a lot higher because we're not doing plant closures and laying off people. The last two years we in the last few years, we've closed four plants and laid off 800 people and that had a cost to it so that the cash value of our performance was lower and going forward, that's behind us. So, you know, our adjusted EBITDA is a cash value and therefore it's leverageable. And so it can be, we'll have better cash flow, John, to do refinancing with going forward than we have in the past. So it's, It's becoming a better situation in terms of a refinance story.

John Fringerapp | Analyst, Sidoti & Company:

Got it. Thank you, Harold. I appreciate the call.

Harold Beavis | President and Chief Executive Officer:

Thank you, John.

Operator | Conference Operator:

Your next question is from the line of Robert Sussman with Bentley Capital Management.

Robert Sussman | Analyst, Bentley Capital Management:

Thank you. Two questions. Number one, in your outlook for margins, your goal is to go from 18 and a half to 20. However, everything that you said indicates you're pruning low margin businesses. Maybe, you know, you have another plant or two to close, and the new business is theoretically at a much higher margin. Why is your goal only 1.5% improvement from 25 to 29? Yeah.

Harold Beavis | President and Chief Executive Officer:

It's a good question. And a good catch, we are being conservative, to your point. We're not ready to change our guidance yet on that topic. And the same, your comment also is the same, if you do the same comparison on the EBITDA margin, Robert, the same question. We're looking at both of those for revising external commitments. We're closing in on them. You're correct. They look conservative going forward. You're correct. We're aware of that. You know, we were thinking through how to improve our multi-year guidance. And instead of changing the margin percent goals, we decided to change the time period to achieve them. But that would be what's next, Robert. And I will say that that's top of mind for us, and we're looking at it.

Robert Sussman | Analyst, Bentley Capital Management:

On a follow-up, are there still plans or businesses to exit that are marginally profitable or not making an adequate return for you?

Harold Beavis | President and Chief Executive Officer:

Yes. Tim, you want to answer that?

Tim French | Senior Vice President and Chief Operating Officer:

Sure. At this point, we have nothing scheduled for closure. We've been able to mitigate the impact of what we formally refer to as the Group of Seven and they're all performing in a decent fashion right now. So at this point, there's nothing scheduled for closure.

Harold Beavis | President and Chief Executive Officer:

And I'll add, Robert, that we obviously have some plants, if you force rank them, are at the bottom, you know. But when you look at consolidation and the one-time cost to do it and the IRR of doing the project and the disruption of doing the project, We don't have any, to Tim's point, we don't have any that check those boxes right now. We have better use of our capital than closing plants.

Robert Sussman | Analyst, Bentley Capital Management:

Exactly. Okay, last question for me. How are you paying for the plating acquisition, and is it going to be a meaningful add to your revenues, or is it relatively small?

Harold Beavis | President and Chief Executive Officer:

It's It's medium-sized, but it's in our thinking and guidance for the year. The equipment is kind of expensive. The installation is kind of expensive. It has a lot of chemicals and require proper chemical handling. But it was in our base plan for this year to do a product expansion in that area. so that we could more fully participate in bus bar prospecting. And it'll come online in, when, Tim? The fourth quarter, maybe? Towards the end of the year, Robert. Yeah, towards the end of the year.

Robert Sussman | Analyst, Bentley Capital Management:

Okay, keep up the great work. Thank you very much. Thank you, Robert.

Operator | Conference Operator:

I will now hand today's call back over to Harold Beavis for any closing remarks.

Harold Beavis | President and Chief Executive Officer:

Thank you, everyone, for staying on the call with us and for the good questions. We're very happy about this quarter. We obviously expect it to continue with our guidance improvement, and we look forward to reporting out to you on our initiatives in the next call. And with that, Operator Tamika will end the call today.

Operator | Conference Operator:

This concludes today's call. Thank you for joining. You may now disconnect your lines.