NASDAQ:NNBR Q3 2026 Earnings Call Transcript

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Christine | Conference Operator:

Hello, everyone. Thank you for joining us and welcome to the NN, Inc. Third Quarter Earnings Call and Webcast. After today's prepared remarks, we will host a question and answer session. If you would like to ask a question, please press star one to raise your hand. To withdraw your question, press star one again. I will now hand the conference over to Joseph Caminiti, Investor Relations. Joseph, please go ahead.

Joseph Caminiti | Investor Relations:

Thank you, Christine. 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 third quarter ended September 30th, If anyone needs a copy of the press release or the supplemental presentation, you may contact Alpha IR Group at nnbr at alpha-ir.com. Joining us from NN Management today are Harold Bevis, President and Chief Executive Officer, Chris Bohnert, Senior Vice President and Chief Financial Officer, and Chief Operating Officer Tim French will be joining us for Q&A. Please turn to slide two, where you'll find the forward-looking statements and disclosure information. Before we begin, I'd like to ask that you take note of the cautionary language regarding forward-looking statements contained in today's press release, supplemental presentation, and in the risk factors in the company's annual report on Form 10-Q for the third fiscal quarter ended September 30th, 2026. The same language applies 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 investitures, 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 impacts and ramifications of tariffs, the impacts of pandemics and and other topics. These statements should be of caution and are subject to various risks and uncertainties, many of which are outside of 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 final section of the press release and supplemental presentation. Please turn to slide three and I will now turn the call over to our CEO, Harold Bevis.

Harold Bevis | President and Chief Executive Officer:

Thank you, Joe. Good morning, everyone. We had a pretty eventful quarter in the last four months, and we're going to recap our results for you. I want to start off by saying that we had a great Q3, and the results show significant progress with a strong momentum continuing into 2027. Our Q3 net sales increased 26% year over year. Our Q3 adjusted EBITDA increased 50% year over year. bringing us to Q3 year-to-date net sales up 19% over the same period prior year and our Q3 year-to-date adjusted EBITDA up 40% year-over-year so we're getting the flow through that we want to on that incremental sales growth. We also have secured $106 million of new business awards during this year in the first nine months and we have a strong looking fourth quarter as we close out the fiscal year and the momentum is building, setting up an even stronger 2027. Turning up to slide four, I wanted to just highlight the key messages for today's session. Number one, our sales are growing and we are increasing our profits. Number two, we're winning new business both for immediate launch in 2026 as well as securing launches for 2027 startup and 2028 startup. And we are

increasing our gross margin rates and our adjusted EBITDA margin rates. And it's leading us to be comfortable to raise our guidance again for 2026 and creating solid momentum going into 2027. With that, I'd like to turn it over to Chris Bond, our CFO, for a moment to review the company's financial results more at a lower level of detail.

Chris Bohnert | Senior Vice President and Chief Financial Officer:

Chris. Thank you, Harold. Good morning, everyone. If you're following along, I'm on slide five. I'll talk about our financial results and key metrics for the quarter and year to date through 9-30-2026. Third quarter net sales were $131 million, up $27.2 million, or 26% versus the prior year period, primarily driven by higher selling prices reflecting an increase in raw material costs and higher volume. Here today, through the third quarter of 2026, net sales were $378.3 million, up $60.8 million, or an improvement of 19% compared to our results through the third quarter of 2025, continuing the momentum established across the previous quarters. Third quarter adjusted gross margin dollars of $25.3 million are up $5.8 million, or 30%, versus the prior year third quarter. This growth continues to be supported by a stronger mix of sales, and New Business Launches. Across the first three quarters of the year, adjusted gross margin dollars of 74.5 million are up 16 million or about 27%. These results also reflect solid adjusted gross margins of 19.3% in the third quarter and 19.7% year to date, increasing 50 basis points and 130 basis points respectively compared to the prior year periods. Third quarter adjusted EBITDA of 18.5 million, increased by 6.1 million, an increase of 50% versus last year's third quarter. This growth was primarily driven by improved sales mix, better operating performance, and higher income from our joint venture in China. Across the first three quarters of 2026, total adjusted EBITDA of 50.6 million is up 14.5 million or 40% versus the first three quarters of 2025. This strong growth in our profitability measure has been driven by similar drivers as in our quarterly results. The adjusted EBITDA growth has come with an improvement in our margin capture as third quarter adjusted EBITDA margins of 14.1% of sales expanded by 220 basis points versus last year's third quarter. On a year-to-date basis through the first three quarters of 2026, adjusted EBITDA margins of 13.4% are up by 200 basis points versus the 11.4% across the first three quarters. Now I'll turn to our segments starting on slide six. First, in our power solution segment, where a business consists largely of stamped and plated products, Net sales for the quarter were $63.2 million, up 41% compared to $44.9 million in the prior year period. This growth was driven by increased volumes and higher selling prices reflecting the pass-through of increased raw material costs, particularly precious metals. For the third quarter to date, Power Solutions generated net sales of approximately 180.9 million compared to 133.1 million in the prior year period, an increase of 36%. Power Solutions quarterly adjusted EBITDA was 13.4 million, an increase of 4.5 million or 51% compared to last year's third quarter of 8.9 million. The improvement was driven by stronger operating performance resulting from higher selling prices and volumes, along with the continued benefits of our cost data initiatives. It's worth noting that we continue to operate in an inflationary raw material environment, particularly across precious metals. As we've discussed previously, there can be a short lag before increases in metal costs and other inflationary impacts are fully recovered through customer pricing, which can temporarily pressure profitability. Along with the improved adjusted EBITDA results, we're also capturing stronger margins with quarterly adjusted EBITDA margins of 21% of net sales. Our year-to-date results paint a similar margin story for the segment with 20% adjusted EBITDA margins up roughly 200 basis points versus the first three quarters of 2025. Now turning to slide seven, our mobile solutions segment, which covers our machine products business, Net sales for the third quarter were 68.2 million compared to 59.1 million in last year's third quarter, an increase of 9.1 million or 15%. This growth was driven primarily by higher volumes and favorable foreign exchange impacts. Across the first nine months of the year, net sales of approximately 197.9 million are up 7% versus the 184.8 million in the first nine months of the prior year. This year to date growth reflects continued contributions from new business awards and program launches, particularly are partially offset by certain softness in automotive markets in the first half of the year. Our third quarter adjusted EBITDA in this segment was 8.8 million, up 31%, versus the last year's third quarter of 6.7 million, with the segment's adjusted EBITDA margins of 12.9%, expanding 150 basis points, versus the 11.4% in the prior year. Adjusted EBITDA for the first nine months of 2026 was approximately 26.8 million, compared with approximately 23.5

million in the same period in 2025. reflecting the continued improvement in both earnings and margin performance as volumes ramp and recent program launches mature. Please turn to slide eight. I want to spend a few minutes on our balance sheet as the last couple of months sparks a big turning point for NN. As you can see from the chart, Total net debt and preferred stock was reduced significantly from $261 million at year end 2025 to $139 million on a Q3 pro forma basis. This represents a reduction of $122 million due to the payoff of all of our outstanding preferred stock. On our last earnings call, we detailed the significant reduction to our preferred stock and many more. We've also been able to get a lot of proceeds from a successful equity issuance to address a meaningful portion of the outstanding preferred stock. Subsequent to quarter end, we were able to execute another successful pipe transaction to redeem the remaining $35 million of preferred stock, and in doing so, capturing a $5 million discount. With that final redemption, we now have eliminated all preferred stock obligations dating back to 2021. That has been a priority for this management team, Notably, this recent pipe allowed NN to de-lever further and brought in new growth-oriented institutional investors, and we see their participation as a strong vote of confidence in our strategy and long-term opportunities. We now have more flexibility to keep optimizing the business results and take our growth to a higher level. The debt reduction and comprehensive improvement to our balance sheet has strengthened our foundation, and now our results are now our focus shifts to executing our growth strategy to achieve higher returns. Thank you. With that, I'll turn the call back to Harold. Harold?

Harold Bevis | President and Chief Executive Officer:

Thank you, Chris. Appreciate it. Some of you that have been following us or everyone that's been following us know that we have a multi-point growth program. We call it our five pillar growth program. And if you look at our 10Q and Note 3, which goes through our sales by segment, You'll see that for the first nine months of this year versus last year, every single segment of the company is growing, all of them. So it's not really a one segment story, but we do have some parts of the growth that we are more focused on than others. And we really wanted to bring you up to speed on some of the details here as we go through it. Data center is a big one for us. We were able to get into that business. It's grown a lot for us. It's fast growing and our opportunity set is fast growing. So it's really growing by leaps and bounds for us right now. And of course, we recently expanded into liquid cooling products and that's absolutely exploding. And I look forward to talking about that in a page or two. Defense Electronics is another really good one for us. If you look at our stated results in the 10Q and follow along with the details here, you'll see that that's a big part of our year over year sales growth. and we have a growing portfolio of products and an expanding customer base and expanding plant certifications that we are compliant with. And it has led to some recent tier one awards for us that are just now in the launch phase. Medical is an attractive long-term growth market, not as fast growing as Department of Defense, the United States or data center globally, but still a good one and sticky and it is attractive. and we have had some breakthroughs this year where we've become approved supplier of multiple customers but one really, really big one, a marquee customer that's a market in and of itself and we have some programs that are ramping up there. Electric grid, we all know what that is. The grid in the United States is under stress for expansion and improvement of grid management and right in the middle of that and we have strong demand across our product portfolio. And then high value vehicle parts. That is the part of auto that we like. And there's part of auto that we got rid of already in the last three years that was negative EBITDA. We still have some parts of auto that are low margin and we're not trying to grow that at all. And we have forward plans to continue to minimize that. But on the high value side, some business there that's over 40% gross margins and we're quite good at it and have been for a long time and we're still focused on getting it. So those are the five elements of our growth program. I'm gonna go to each one a little more detail turning to slide 10, an update on what are the numbers. The top three growth markets are data center and grid, defense electronics and medical. Right now those are 162 million. of our run rate. Those are year to date. And we have pipelines to continue growing those sales that aggregate to 270 million. Pipeline, when we talk about it on our calls, it's a quoted opportunity. We have a prospecting list that's over on top of that, but it enters a pipeline when we've quoted it and start tracking it in salesforce.com. and if you look at the components, data center and grid is $87 million of our company. We have a quoted pipeline of 100 million, defense electronics,

62 million of our company with a quoted pipeline of 85 and medicals, 13 million of the company and a quoted pipeline coincidentally of also 85. We're using rounding numbers here. We're rounding to the closest 5 million, but you can see the order of magnitude of both the actual reported sales and the business that we're chasing. On the next page, I'm going to go through data center grid and then data center only. Data center and grid is a line item that's called out in our queue, so I want to make sure I touch right back to our reported statements here. Again, with our trailing 12 quarter sales at 87, excuse me, through Q3 of 87 million. That's our second largest market already. We have quite a few products. We're on grid edge power delivery and in rack cooling of the power system. So we're all around the electricity and the heat that it causes and the conductivity of it. and we have a global prospecting list over and above the quoted opportunities that we have. In fact, it's multiples of our pipeline and growing as we become an approved supplier. We had the new product line we came out with this year. It's absolutely going gangbusters for us. We've globalized it now. We're now quoting and doing business in Asia Pacific, in Europe, in South America and in North America. And we're leveraging our know-how and now we're leveraging references with customers who are using our products. So we're off and running with that one. And we're adding new capacity in China specifically with 50 new machines. And we're also adding capacity in North Attleboro, Massachusetts for our power products. So it's really growing for us. On the next page, I just wanted to talk a minute about data center only. We got that request in our last earnings call and a logical request. I wanted to say that it's $35 million right now on a run rate basis up from basically nothing at the beginning of last year. We have a significant pipeline of quoted opportunities that are already out there, and we have a prospecting list that's several multiples that size. Our goal for this area is to get it to 100. That's 100 from virtually zero last year. So it's a big move for us. It could be bigger. We're not capping it. We haven't set any caps, but we have had to set some goals for ourselves and be accountable to them. And that number right now is a forward-looking management objective. It's not an estimate of current business we have in hand. There's a lot of go-get to get to that number, but that is what we're tracking to. On the lower left here, is our installed machine capacity to make liquid connectors. Most of you know we're underway with a ramp up starting from scratch. In Q3, we averaged 19 machines installed and commissioned, and Q1 will be at 55 machines, and our objective's 180 machines. So we have multiple opportunities that are 100 at a time, 100 at a time, 100 at a time. We're being picky here. We're picking our partners carefully. We're picking partners we can make money with and that value what we're bringing to the table. But it will be selecting from a big basket of opportunities. And in the middle here is the three segments that we're going after in data center, the power infrastructure, the rack components, and the cooling system. So we're not just chasing one thing. We tend to talk a lot about liquid cooling in our investor talks, but we're actually doing more than that. and at this point on the lower right here, we are shipping from four plants globally. Wuxi, China, Attleboro, Mass, North Attleboro, Mass and Kentwood, Michigan and we'll be bringing other plants into the production cycle for this also. On the next page, I wanted to just show you our products and our machinery. In the middle here in the bottom, those are the actual machines that we have bought to make liquid cooling connector components. So we're up and running. We're online. As I mentioned in the quarter, we had 17. We're on a continuum process now, ordering machines, installing commissioning, ordering machines, installing commissioning. So it's a thing for us that we're going through. We have an ability in our current footprint to get in about, 70 machines and then we're going to need more footprint we didn't have that amount amount of space open and we're also trying to get out of all the automotive business that we can as we shift the mix here and in the upper left here you can see these are actual products that we're making largely made out of stainless steel specifications different versions of stainless steel Some of them start off milled to get to a net shape, but then turn down to get to the final shape. A lot of heat treating and processing, abrasive flow machining, it's called, to get to the final specifications. And that's the big new product that's blasting off for us. The PCB test probe components. That's our current best seller. So if you look at our 10Q and look at the sales there, that's a big one for us. So what's that used for? When they're installing the racks, they're powering them up, they're synchronizing them to get them up and running. They have to test all the probes, test all the PCBs as they go through it. And we make the majority of the components that go into those. They do not have an unlimited life. They're used and discarded. And then electrical switch components. A lot of our switching components and terminals are being used to power the racks, and those are growing for us also. So that's our current main bestseller that we have for data center. And the product line is expanding. If you looked at our pipeline, cold pipeline, our prospecting, we're going

after quite a and quite a few different products for us. On the next page, I want to turn our attention to Defense Electronics for a minute. That's 62 million of our trailing 12-month sales through the end of the third quarter. We've had 10 million of wins this year and we have 85 million of quoted opportunities and again, a big prospecting list. A couple of big things for us in this business so far here today, we've registered it. A couple of our plants to ITAR and ATF levels so that we can quote unimpeded into market opportunities that we see or chase. And we've had two big products that we've landed this year. You heard us previously talk about the firearm products for a U.S. company that are titanium, which was a new accomplishment for us. And it turned out to be harder than we thought, to be quite honest. But we've conquered it. We're over the hump. It's got advanced coatings, Cerakote coatings, diamond-like coatings, as well as titanium and the welding of the titanium. And we have multiple ramp-ups underway right now. It's not just one product. It's multiple products now. And we recently have won a munitions contract to make munitions for the Department of Defense and NATO. And it's, again, a first-time product for us. We hadn't done it We hadn't done a large-scale brass machining or multi-part matching, and we had to conquer that as well, and we have. And the initial ramp-up is underway right now, and we have a large go-forward opportunity here. It's a new manufacturer of munitions for NATO, the Department of Defense, and specifically the Marine Corps. so that's a brand new product category for us that we've just entered since we last spoke we didn't put out a press release so you're hearing it first here and we're under underway with that on the next page medical you know a few years ago we were talking a lot about medical because it was part of the company's history we sold off the medical business you know to correct the company coming out of COVID and we got back into it It was harder to get into them than these other areas. But we have done it. We have done it. And this year is an important year for us. We had passed some hard to pass plant certifications that are customer specific. And we, as I mentioned earlier, have gotten inside with a very, very large medical equipment maker who has 30 machine platforms. and we have our initial POs received for the first platform, which is robotic orthopedic surgery. And that's the growing area, thanks to pickleball and all the things that happen to cause knee surgeries and ankle surgeries, elbows, people that play tennis. It's heavily rolling over to robotics and we're right in the middle of that, making the end effectuators that actually perform the surgery. So that's just starting up for us. It's specialized equipment, specialized process, and specialized plant certification. So in the middle here, you know, the business is only 13 million, but this customer loan is an opportunity for us to almost triple it. And we have additional quoted opportunities in the pipeline. So we're quite excited about the multiple growth things that have taken root for us after multiple years of investment and hard work and bidding and correcting and sampling. And it's a very big program we have. We're launching as a company right now over 150 programs this year that are worth $100 million in annual sales. So it's way more than just one thing. And again, back to the 10Q, if you look at the nine months of this year versus nine months of last year, every single end market is growing. So turning to the next page, I would like to turn it over to Chris, who's going to walk through our guidance for this year.

Chris Bohnert | Senior Vice President and Chief Financial Officer:

Thank you, Harold. I can hear the excitement in your voice with these new verticals and our growth strategy. As a result, we decided to raise our guidance a little bit. We had a range previously of $460 to $480 million. We're increasing that to $480 to $500 million with a midpoint of about $490 million. Same with the adjusted EBITDA, the drop down. We're going to increase that range from $55 to $65 to now $64 to $68 with a midpoint of $66. That'd be about a 35% increase from our 2025 actuals. And same with new business wins. You heard Harold talk about all the new business wins. We've seen a lot of the new wins feathering in this year so far. So we're going to increase our new business wins midpoint as well from 80 to 100 million to now 110 to 130 million with the midpoint of 120 million. Obviously, this assumes our current base metal costs are relatively flat with where they're at today, as well as FX rates. Turning to the next slide, just to give you a little highlight on the future, we like to put out some longer-term growth targets. And so our multi-year plan with our current guidance at 490, we're targeting 625 million in 2029 on revenue and commensurate adjust growth, margin growth, as well as adjust EBITDA at 66 million, targeting in midpoint right now, growing to 87 million. So with that, I'd like to turn the call back over to the operator for questions. Thank you.

Christine | Conference Operator:

We will now begin the question and answer session. Please limit yourself to one question and one follow-up. If you would like to ask further questions, kindly rejoin the queue. Reminder, if you would like to ask a question, please press star one to raise your hand. To withdraw your question, press star one again. We ask that you pick up your handset when asking a question to allow for optimum sound quality. If you are muted locally, please remember to unmute your device. Please stand by while we compile the Q&A roster. Our first question comes from the line of Rob Brown with Lake Street Capital Markets. Rob, your line is now open.

Rob Brown | Analyst, Lake Street Capital Markets:

Thank you. Congratulations on a great quarter and all the progress. First question is on the kind of the ramp rate of all the new business wins that you've got. Could you sort of go through how that lays into the business, how many quarters it kind of takes to ramp, and maybe a sense of the gross margin impact of that new business?

Harold Bevis | President and Chief Executive Officer:

Yep. Thank you, Rob, for your comments. And Tim French is on the phone, too. He's personally leading the ramp program. Numerically, what you're speaking about is we do have $100 million of business this year that we've launched and that it's in ramp-up mode, but we're still winning business that has not yet begun its ramp process. So going into 2027, we're doing our 27 business plans now. And we can see what the ramps are pretty clearly in data center, and medical and defense and the whole company. And one thing that we have, Rob, one thing that we haven't done yet is take a take a decision on how aggressive to be on, quote, the old legacy business that we have. And, you know, the numbers are large enough that we need to have board buy in and talk about it when we have board meetings. So we don't we don't have a twenty seven business plan yet. Chris flashed up the long-term goals that we have for over the next few years. And if you chop it down, it's about 50 million of net sales growth a year. It's about 7 million of EBITDA growth a year. Right now, I'll just say, Rob, that we believe those are very achievable goals. And we'll give an update that's more clear on 27 When we have our 27 business plans completed. But since we don't, I don't really want to have conjecture on that.

Rob Brown | Analyst, Lake Street Capital Markets:

Okay, great. Fair enough. And then you gave some great color on the data center kind of opportunity and market. How much penetration do you have in those different product lines? I think you've made good products in the liquid cooling. Could you maybe give us a sense of how much pipeline is in some of the other product areas and what the timing is on some of those programs?

Harold Bevis | President and Chief Executive Officer:

Yep. So on data center, for us, for what we do, like liquid cooling, there's a top 20 that matters, a top 20 customer set that matters, and we have a A data center meeting every two weeks. I chair it right now. I'm leading data center personally, given that we don't really have a business leader of it. And so we have these biweekly meetings and we are tracking. We're trying to get in at all 20, Rob, all 20. And we haven't been blocked from any of them yet. There's a decent amount of small little guys, but we're really focused in on big plays right now. And we have our hands full. Tim French has been meeting with the operations team and procurement teams at these data center customers also. And so we're engaged with all of the top 20. In the other areas, we also have explicit prospecting lists. It's so easy to do now with AI. We're a user of AI. We use ChatGVT here at the company. and trained all of our executives how to use it. So with our prospecting lists

that we're developing, we're using AI and we're really seeking customers who source the products we make versus they need the product, but they make it themselves. So I would say we have a pretty smart prospect list. Overall, the prospect list is $750 million right now of quoted opportunities. The pipeline is, excuse me, and the prospect list is over a billion. of additional opportunities we're tracking that are not yet quoted. And for data center, it's mostly prospecting right now. So we're still working our way in to get to the firm quote stage. And we're quoting in Europe and in South America, North America, and in China. So it's multifaceted, Rob. And it is not static. It's definitely dynamic. So if we go to the point of a quote that we lose and it closes out with a loss for whatever reason, we take it out of the list. And we're still running over a 25% hit rate. And we have a floor on gross margins, a new business of 25, we're targeting 35, and we're over 25%. And we have a floor on IRR, on the return on invested capital for new business of 25%. And we're tracking over that. These are similar numbers that we've said before in the past. So we haven't lowered the bar, Rob, on that, and we haven't changed the bar. We're marching to those rules. And if you look at our gross margins right now, they're about 20. And hey, Joe, can you advance to page 17, the next page? And if you look at our longer term goals on gross margin, it's on the left hand side of the chart on page 17. It's 22% gross margin as a longer term goal. Aspirationally, you know, we'd like that to be 25. And aspirationally, on EBITDA, you can see in the quarter that we just had, we finished at 14% of sales on the right part of this chart. So we're there. And so a fair question could be, well, OK, well, what's the real number? You know, I think aspirationally at 25 percent gross margins and 15 percent EBITDA looks achievable. But Chris, myself, the board, you know, we'll all update this together and give Chris 27 guidance and an updated longer term plan the next time we speak.

Christine | Conference Operator:

Your next question comes from the line of Gregg Palm with Craig Hallam. Gregg, your line is now open.

Gregg Palm | Analyst, Craig-Hallum:

Yeah, thanks, Maureen. Congrats on the progress. I feel like I'm maybe teeing up a softball here, but I am genuinely curious because I think you started the year thinking you were going to win something like in the $70 million to $80 million range of new business. You'll probably do something close to it. 120, or maybe even more this year. And I'm just wondering why. What is allowing you to win all this new business? You've launched a lot more programs than you thought. And I mean, I think you've targeted 78 going forward, but you're much better capitalized now. So why isn't that annual target even more than that going forward, just based on what you've done here today?

Harold Bevis | President and Chief Executive Officer:

Yeah, it's a good point. So in reverse order, you know, what should the new wins number be per year going forward? You know, you can see the guidance here. We moved it up to 120, Gregg, for this year. And then your question is, why shouldn't it be 120, you know, forever or higher? And I think you're right, especially given data center, the opportunities are bigger than we thought. defense bigger than we thought munitions now we're in munitions and and i know some yeah you probably follow munitions for other reasons but we're in munitions now and the numbers are quite staggeringly huge um so that's a reasonable request it's probably going to be a bigger number greg we'll be moving that number up um the first question you ask is how are you able to exceed The growth targets that you set. And if you look at the continuum here over the last few years, we've grown our EBITDA for four years in a row. We've grown our new wins for four years in a row. And we're increasing the amount of launches that we do. And then we're increasing the amount of growth capital that we're spending. It's a continuum. We kind of saw that that might happen this year towards the end of last year. And we have the same feeling right now. I think our momentum is increasing, Gregg. Right now, it's not flat. It's increasing. And I'll credit a couple of our executives to that. We have a person that I don't

know if you've met him, Rob Esch. He's probably on the phone. I'm going to make him blush, but he's a difference maker. Paul Wong, our leader in APAC. and his team there, Kyen Zong and Lu Tao. They've chased this data center business for us. So I would say we have a few key executives that have made a big difference for us and been very entrepreneurial. And our board has allowed us to be entrepreneurial. And the downside of that is our non-operating expenses, our one-time expenses are a little higher than we had hoped. It's a very small price to pay for the position that we put ourselves in. And I just think that it's been smarter prospecting, using AI, entrepreneurial behavior, and letting a few of our executives go for it. And they really have the subject matter expertise. So I don't think this is going to stop, Gregg. I really think that we have a continuum going here in these areas.

Gregg Palm | Analyst, Craig-Hallum:

Yeah, that makes sense. I'm going to also give you a chance to maybe talk about Q4 a little bit. So we still have a pretty wide range for the full year. And I'm just kind of curious, do you have any visibility into maybe some of the balance sheet, working capital on behalf of your customers, year-end positioning versus some of the newer business that's sort of still I guess I'm just trying to get a sense for how much conservative is baked in. And just from a seasonality standpoint, we're obviously still expecting a pretty big seasonal sequential decline. So maybe just some additional color behind that.

Harold Bevis | President and Chief Executive Officer:

Yep. So, Tim, get ready to pop in here, Tim French. But I can answer it generally. So, yes, we're being conservative. We've kind of been that way this year. We've upped it. They did our guidance a few times, but we've always left our cell phone to beat the guidance. So I want you to know that our mindset is the same. So we haven't stopped being that way. So there's conservatism in here with regards to your request for actual facts. We do obviously know what October was and it was it was really good. We have no slowdown. We have visibility into the end of the year. We have all the material we need. and you know in the short term here the next eight weeks we have the people we have we have the material we have we have the machines we have so we have really good visibility and we have backlog we have a backlog so especially in data center the data center number could be bigger right now but we have a backlog in China we have a backlog in Attleboro we're working our way through that but in the short term we have visibility to a strong q4 numerically if you look at our last several years, Q4 is usually 7% lower than the others. It's quite possible that doesn't happen this year, Gregg, because automotive is less as a percentage of our total than it normally is. But our automotive business is even growing. If you look at the 10Q, Global Automotive, and automotive production's flat globally at 90 million-ish kind of passenger vehicles and in North America it's flat around 15. There's moving parts and a lot of talk you can get into but we track production and so production is fine and that business is fine. Commercial vehicle is strengthening for us so we have that legacy market's actually getting stronger and we're layering on top of it our wins. We're not expecting any slowdown, Gregg, to happen. The thing is, since we're a tier two guy, we can't control our sales. We're a taker on our sales, so we get pull signals. That's us, so we can't control the sales, and we can't stuff the channel. So I would just say that we're being conservative right now because we can't control that outcome. But no signals have been given to us right now to slow down. The signals that Tim has right now are I want more. Tim's on the phone. Tim, I'll turn it over to you for a minute. Yeah, I'm mute, Tim. That didn't work, Gregg. Sorry.

Gregg Palm | Analyst, Craig-Hallum:

That's all right. I think you covered it. I'll leave it there. Thanks. Thank you, Gregg.

Christine | Conference Operator:

Your next question comes from the line of George Prost with Noble Capital Markets. George, your line is now open.

George Prost | Noble Capital Markets:

Hi, this is George Prost. I'm filling in for Joe Gumbs this morning. You guys mentioned that you guys have a pipeline Backlog in China. And I was kind of wondering if there would be any sort of decision that would drive to expand capacity there.

Harold Bevis | President and Chief Executive Officer:

Yep. Good question, George. So we won a big chunk of business this year to make components for the NVIDIA supply chain. And we put out a press release on that, and it was a part of our Investor Deck when we went and did our pipes. And the equipment that we need to produce the parts, we had to order it. And the equipment has a lead time itself. And so we're subject to the equipment lead times, the installation and validation. There's a strict process that's followed called a PPAP. And that can't be truncated or shortened. It has a timeline to it. And so we're underway ramping up about 55 new machines. They're on the way. They're not all here. It goes into Q1 of 27. But as I kind of gave some forward thinking here this morning that we're headed to 180 machines. So it's a continuum. And there's go get and saying that number. because we're prospecting and quoting and need to win business in order to keep filling those machines. And we're underway with it and we're getting good at it and we're in that business now. So we're feeling comfortable about it. So we foresee ourselves adding capacity all the way through 2027, not just right now. We view this as a continuum for us. All right, thank you. Welcome. Christine, Tim French sent me a note that for some reason his phone's on mute. If you can unmute him.

Christine | Conference Operator:

Yes, I believe he would just have to unmute on his device because right now.

Harold Bevis | President and Chief Executive Officer:

Thank you. Okay.

Christine | Conference Operator:

I'll assist with it. In the meantime, our next caller comes from the line of Robert Sussman with Bentley Capital. Robert, your line is now open.

Robert Sussman | Bentley Capital:

Yep. Thank you. My first question is, you said nothing on the call about cable assembly, but you announced that new business and even indicated you're going to open a plant in Mexico. Can you talk about the prospects for that and how large an investment is required and what commitments you have?

Harold Bevis | President and Chief Executive Officer:

Yes. Thank you for the question, Robert. help the 27 numbers for sure. Right now it's an investment program. We are launching our Juarez plant first with a machined product, a machined product. I could send you pictures of the first machines that are in there. They're installing machines. It's underway. Cable assembly is going to be second on the side of that plant. We've ordered the machines. We don't have any yet, to my knowledge. We have machine lead times we're dealing with. We expect to get the machinery for both the machine parts side, and we have a launch customer there, and the cable assembly side at the end of this year and beginning of next year. And we will be completing the ramp up during Q1. And when we give 27 guidance, 27 guidance, We will be giving guidance for what we expect out of our plant in 27 and going forward. We're not ready to release those figures just yet, Robert.

Robert Sussman | Bentley Capital:

Robert V. Understand. A follow-up. This is for Chris. What should be the tax rate in 27 for both book and tax?

Chris Bohnert | Senior Vice President and Chief Financial Officer:

Well, we are not in a taxpaying situation. We have a very large tax loss deferral. So our cash taxes are very small. They're in the $4 or $5 million range. So on a percentage basis, it's very tiny. And we expect to be in a tax loss deferral situation for the next couple of years because of all the losses that the company had in previous years. So I would say we're going to continue to be a cash taxpayer just for foreign repatriated dividends and other non-U.S. taxes, as well as franchise taxes in the U.S. It's a very small number.

Robert Sussman | Bentley Capital:

What will be your book tax rate, though?

Chris Bohnert | Senior Vice President and Chief Financial Officer:

Globally, our book tax rate, like I said, will be about $4 or $5 million cash taxes. That's what I would expect over the next couple of years.

Robert Sussman | Bentley Capital:

So it's a very, very low book tax rate, as well as actual paid taxes.

Harold Bevis | President and Chief Executive Officer:

Correct.

Robert Sussman | Bentley Capital:

Correct. Okay. One comment, if you don't mind. It sounds like these estimates for 2099 revenues are way, way low. You're talking about increasing revenues 40 million each year. And when I listen to your opportunities, that's a very, very low number. I know that you're always conservative, but it seems to me to be extremely low.

Harold Bevis | President and Chief Executive Officer:

Well, the obstacle on that, Robert, is how fast do you want to deal with, how fast do we want to deal with automotive sales that are diluted to the company? So automotive is about $200 million of our 500 million sales, just using round numbers here. And we have, we've closed a couple plants that the plants, the entire plant lost money. but we still have about 10 automotive customers that are right around zero gross margin. And we have working capital tied up to keep them happy. They take salespeople to keep them happy, et cetera, et cetera. So we're planning on... curtailing those customers over time. Not all in one big fall off so that we have some big thing we got to talk about. But we are planning on curtailing our business with them. The first move, obviously, is go and say, here's my new price that I need to continue to be your partner. I know we've been partners for 20 years, but it doesn't work that well for us. And here's what it's going to take for us to stay in the game. Some people will engage on that. Some people won't. Tim and I spent a lot of time on that, including this week. And so that's the offset, Robert, to the gross number. So you're correct that if the wins were just completely additive, that the number's higher. You're correct about that. But the takeaway is us shedding This automotive business, it doesn't make sense. And we're committed to doing that. We're committed to making that a smaller number. And that's board-level talking, right? And so we've been on a shedding plan, and it is getting smaller. But that will be part of our 27 guidance when we give it. And that will take a point of view on how much of the automotive business we want to get rid of.

Robert Sussman | Bentley Capital:

I endorse that plan totally. And if your sales grow a little slower because you're getting rid of very low margin business and replacing it with high margin business, I'd be thrilled. Great job. Great job. Thank you.

Harold Bevis | President and Chief Executive Officer:

Thank you, Robert. Thank you.

Christine | Conference Operator:

Your next question comes from the line of Barry Himes with Sage Asset Management. Barry, your line is now open.

Barry Himes | Sage Asset Management:

Thanks so much and congrats on the great results. I had a couple questions. One had to do with the win rates you mentioned over 25%. Does that very much by the three major segments and as you've gotten further into some of the new segments like medical, do you see that rise over time? And then I think you said 750 million of pipeline, which is quoted business. So if we take the win rate, that would imply for next year new business wins could be 150, 200 million. Am I doing the math right? And then just a couple questions on the auto business that you were just talking about. What's the timing on when those contracts typically reprice? How soon in the future would that happen? And To the extent you exited some of that business, are some of those machine tools movable to some of the other end markets, or are they unique kind of one-off and would have to be written off? Thanks. Thank you.

Harold Bevis | President and Chief Executive Officer:

Tim, you're going to have to help me. Barry, I think you asked four questions. On the win rates, yes, they do vary by area. Yes, sir. Our win rates are turning out to be quite high in data center. High. Our win rates and defense are turning out to be high. We don't think we're actually a better supplier in those arenas. We think there's a higher need for supply. So both markets are supply limited and therefore people that are available and know what they're doing and can make the products are welcomed in to begin producing and supplying. So there's a natural drop. Medical is harder to get into. It's a risk-averse market. It's slow growing. They have suppliers already. You're waiting for someone to fail. And so it's been harder to get into kind of a static situation. Tim tracks the win rates by area. And our win rate metric, just to be transparent on that, is on closed opportunities. So when the opportunities close and a winner is selected, we track how many we won, how many we lost. Tying into your question that you asked about on the size of the opportunity versus a quoted pipeline, not all opportunities that are in the pipeline will close out in 27. So we're working on multiple programs that cross multiple years. And so the wins this year were not all quoted this year or even last year. So they have a gestation period that they go through. So I think we'll continue to have around a 25 to 28% win rate on closed opportunities This gets back to the question that Greg Palmer asked also is, hey, it seems like we're able to pull off 120 million of wins from the pipeline versus 80. And he's correct. So I think it's going to stay a number like that, Barry. On the auto contracts, how much lead time? It varies by agreement. Very few are longer than 12 months. But there's usually about a 12-month heads-up that you can give that this isn't working. With regards to price negotiations, we have the right to go and argue for price compensation for basis cost changes like steel. And so we have a dynamic environment for pricing conversations as you go through an agreement. But they still have the right to say no, and all contracts have a meet comp. So their pushback is, hey, I know that what you're saying is true. It all makes sense. It's logical. You guys are really smart. But you have to meet someone that's willing to do it at the current price so you can take it or leave it. So it's an old fashioned negotiation. We just too many that are ending up in zero. And so we're going to be taking that down over time. and yes, a lot of the equipment can be repurposed to make the products that are growing, especially defense and especially munitions.

Barry Himes | Sage Asset Management:

Yeah. Great, thanks so much.

Christine | Conference Operator:

Our last question comes from the line of Gregg Palm with Craig Hallam. Gregg, your line is now open.

Gregg Palm | Analyst, Craig-Hallum:

Yeah, thanks for taking the follow-ups here. I know you're not wanting to comment specifically about 2027, but are you willing to endorse that $50 million incremental revenue in fiscal 27 over 26? I just want to be clear because you've, I guess, referenced that number a couple of times.

Harold Bevis | President and Chief Executive Officer:

Greg, I would just say we're very comfortable with our long-term guidance. We made it on purpose. We did look at the incremental years of estimates and They're in the ballpark. They're in the ballpark.

Gregg Palm | Analyst, Craig-Hallum:

Yeah. Okay. All right. And then I guess my other question just on M&A, because I don't think we talked about that, but just given the balance sheet, you're much better capitalized now than you have been. And you've talked about that a little bit. So I don't know. In a perfect world, What does an ideal acquisition bring you? I mean, is it more capacity? Is it capabilities? Is it new customers? Maybe you can just talk a little bit about your appetite there.

Harold Bevis | President and Chief Executive Officer:

Yeah. So we have one that we like right now. Their customer base is medical and defense. They have machines like us made by the same people, index machines. They have some capabilities that we don't have to do what's called gun drilling. and then they have multi-access EDM machines, which we don't have. So it's capabilities and customer roster expansion is into the areas that we've already selected. So we're not looking to get into new areas per se. We're really looking at how to continue our quest to get bigger in these end markets, the five pillars. Can someone bring a customer roster to us? Can someone bring some know-how to us? And are they willing to sell at a multiple that's accredited to our company? So it's got to be all three of those, Gregg.

Gregg Palm | Analyst, Craig-Hallum:

Makes sense. Thanks.

Harold Bevis | President and Chief Executive Officer:

Thank you very much. And, Christine, thank you for hosting the call. Thank you, everyone, for calling in today. We appreciate it. We look forward to delivering the quarter that we're in and speaking about 27 when we have clarity over our commitments that we want to make. And I want to thank our advisors, some who are on the call today, who helped us get through six separate transactions over the last four months and create a new one that is going to be unleashed to create value at a higher level. So thank you, everyone, for being on the phone today. And with that, we'll end the call.

Christine | Conference Operator:

Thank you for attending. You may now disconnect.