NYSE:MEC Q3 2025 Earnings Call Transcript

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Elliott | Conference Call Operator:

Hello, everybody, and welcome to the Mayville Engineering Company third quarter 2025 earnings conference call. My name is Elliott, and I'll be coordinating your call today. If you would like to register a question during today's event, please press star 1 on your telephone keypad. I would now like to hand over to Stefan Neely at Valium Advisors. Please go ahead.

Stefan Neely | Valium Advisors:

Thank you, operator. On behalf of our entire team, I'd like to welcome you to our third quarter 2025 results conference call. Leading the call today is MEC's President and CEO, Jag Reddy, and Rachelle Lair, Chief Financial Officer. Today's discussion contains forward-looking statements about future business and financial expectations. Actual results may differ significantly from those projected in today's forward-looking statements due to various risks and uncertainties, including the risks described in our periodic reports filed with the Securities and Exchange Commission. Except as required by law, we undertake no obligation to update our forward-looking statements. Further, this call will contain the discussion of certain non-GAAP financial measures. Reconciliation of these measures to the closest GAAP financial measure is included in our quarterly earnings press release, which is available at mechinc.com. Following our prepared remarks, we will open the line for questions. With that, I would like to turn the call over to Jag.

Jag Reddy | President and Chief Executive Officer:

Thank you, Stephan, and good morning, everyone. Our third quarter results reflect the discipline and focus of our team as we navigated persistent demand challenges across our legacy end markets. Despite continued softness from our OEM customers, results were in line with our expectations and we are reaffirming our full year 2025 financial guidance. We have also made significant progress integrating the AccuFab acquisition, which closed at the beginning of the third quarter. Our sales team has already engaged AccuFab's customer base and is leveraging MEC's domestic manufacturing footprint to position us as a preferred partner for leading data center and critical power OEMs. These customers are actively seeking reliable domestic supply chains to support accelerating demand from data center and critical power investments. The integration of AccuFab into MEC now offers a scalable solution that simply was not available six months ago. Our pipeline of qualified opportunities within this market has grown substantially, well above initial expectations, and continues to expand as we demonstrate our ability to deliver rapidly and at scale. Today, we are bidding on more than $100 million in qualified opportunities, many of which extend across our broader MEC footprint. Unlike our traditional markets, where projects typically take over a year or longer to reach production, data center and critical power programs can move from bid to revenue in as little as eight to 12 weeks. To support this momentum, we are repositioning capacity and resources. This is a clear demonstration of the flexibility and strength of our vertically integrated operating model. Looking ahead, this opportunity represents a meaningful shift for MEC. Our revenue synergy expectations from AccuFab have now increased to between $20 million and $30 million in 2026. We also expect this business to yield gross margins of approximately 10 percentage points above our historical average of 15 to 20%. While our legacy and markets remain in a cyclical trough, the emerging opportunity in the data center and critical power market represents an important inflection point as we seek to diversify our revenue base and strengthen our long-term growth profile. Driven by the underlying market growth, significant capital investments in data center and critical power, and our opportunity pipeline, we see a path for this end market to represent 20 to 25% of our total revenues in the coming years. At that level, it has the potential to become one of our largest end markets representing a meaningful step in our strategic diversification of our business toward faster growing and higher margin end markets. Importantly, growth in this end market is expected to be incremental to our legacy markets. we fully expect to continue to meet the needs of our longstanding legacy OEM customers as end market demand recovers. Taken together, we believe this positions MEC for greater resilience and profitability through end market cycles. Now, turning to a review of our legacy markets, commercial vehicle demand has continued to soften in the third quarter, with net sales to this end market declining 24% versus the prior year period. ACT now projects a 28% decline in Class 8 production in 2025, followed by an additional 14% decline in 2026 as tariffs and regulatory uncertainty delay fleet replacement. In contrast, Our construction and access market revenues increased 10.1% year over year during the quarter. This is supported by the AccuFab acquisition and strong non-residential activity. Organic net sales growth in this market was 6.2% in the quarter. We are expecting to see this level of growth continue through the fourth quarter and into 2026. In the power sports market, net sales grew 6.4% year-over-year, driven by transient aluminum-related demand. Agriculture net sales declined 21.8% amid elevator interest rates and lower farm income. Across all our end markets, customer engagement remains strong. During the third quarter, we secured $30 million in new project awards with the data center and critical power customers. Year to date, total award across our legacy markets reached $90 million, nearing our full year target of $100 million as we entered the fourth quarter. Within our legacy and markets, we have continued to expand our share with our commercial vehicle customers as they prepare to launch their next generation models ahead of upcoming EPA regulatory changes. Many of these products support future growth and are scheduled to begin production in 2026 and 2027. In addition to the future expansion in commercial vehicle revenues, we secured a significant award for a next generation product in our aluminum extrusion business, along with additional tube components for a major power generation customer. Lastly, the $30 million within the data center and critical power market secured during the third quarter includes $25 million in cross-selling wins. We achieved significant awards with two major AccuFab customers, covering battery backup cabinets and panels, static transfer switch components, and busway components. Operationally, our teams have been working diligently to respond to shifting demand within our legacy and markets while positioning to meet demand from the developing data center and critical power project pipeline. we are working closely with legacy customers to manage production schedules and capacity commitments. In select cases, we are adjusting pricing and requesting additional volumes to secure capacity availability for future demand. These actions will help mitigate near-term underutilization, though we anticipate certain legacy market demand to remain a headwind through mid-next year, even as new data center and critical power programs ramp. During this transitional period, we expect additional margin pressure as we balance the resources needed for accelerating near-term demand. Turning to capital allocation, third quarter free cash flow was impacted by $3.5 million in non-recurring items. We expect strong cash flow in the fourth quarter and have reaffirmed our full year free cash flow guidance. Consistent with our strategic framework, our top priority remains reducing debt and lowering leverage. In summary, I am encouraged by the progress our team has made by executing our strategy. While legacy markets remain soft, Our agile operating model is enabling us to capitalize on high growth opportunities, all while maintaining financial discipline and operational focus. I am confident that our continued execution will drive improved profitability, enhanced diversification, and sustainable value creation for our shareholders. With that, I would like to turn the call over to Rochelle.

Rachelle Lair | Chief Financial Officer:

Thank you, Jag, and good morning, everyone. Total sales for the third quarter increased 6.6% on a year-over-year basis to $144.3 million. Excluding the impact of the AccuFab acquisition, organic net sales declined by 9.1% compared to the prior year period. Our manufacturing margin rate was 11% for the third quarter of 2025 compared to 12.6% for the prior year period. The decrease in our manufacturing margin rate was due to $1.2 million of non-recurring restructuring costs and inventory step-up expense associated with the AccuFab acquisition and lower customer demand in the legacy commercial vehicle and agricultural end markets. This was partially offset by higher margin net sales contribution from the AccuFab acquisition.

Excluding the non-recurring costs, our manufacturing margin rate would have been approximately 12% during the quarter. Other selling, general, and administrative expenses were $10.5 million, or 7.3% of net sales for the third quarter of 2025, as compared to $7.6 million or 5.6% of net sales for the same prior year period. The increase in these expenses primarily reflects $0.9 million of non-recurring costs and $1.6 million in incremental SG&A expense, each associated with the ACUFAB acquisition. Long term, we continue to anticipate SG&A to remain at a normalized range of between four and a half to five and a half percent of net sales as end market demand recovers. Interest expense was $3.4 million for the third quarter of 2025 as compared to $2.7 million in the prior year period. The increase was driven by higher borrowings resulting from the AccuFab acquisition partially offset by a lower interest rate relative to the prior year period. Adjusted EBITDA margin was 9.8% in the current quarter as compared to 12.6% for the same prior year period. The decrease in adjusted EBITDA margin was attributable to lower legacy customer demand, partially offset by the impact of the AccuFab acquisition. Turning now to our statement of cash flows and balance sheet. Free cash flow during the third quarter of 2025 was a negative $1.1 million as compared to a positive $15.1 million in the prior year period. As Jag mentioned, free cash flow for the third quarter reflects $3.5 million of non-recurring costs. As of the end of the third quarter of 2025, our net debt, which includes bank debt, financing agreements, finance lease obligations, net of cash and cash equivalents was $214.9 million up from $114.1 million at the end of the third quarter of 2024. Our increased debt resulted in a net leverage ratio of three and a half times as of September 30th. Now turning to a review of our 2025 financial guidance. We are reaffirming our 2025 financial guidance supported by growth and select legacy end markets and stronger than expected demand from the data center and critical power end market. We expect net sales for the full year of 2025 to be between 528 million and $562 million. Adjusted EBITDA of between 49 million to $55 million and free cash flow of between $25 million to $31 million. We expect the fourth quarter to reflect normal seasonality and continued softness in certain legacy markets, most notably commercial vehicle. As a reminder, we have reduced manufacturing days during the fourth quarter due to the holidays. Combined with the ongoing reduction in commercial vehicle production schedules and retaining resources to support the ramp of new data center and critical power programs, we anticipate some margin pressure during the quarter. Despite this, we expect to generate positive free cash flow in the fourth quarter. Consistent with our capital allocation priorities, we plan to use that cash to reduce debt. Looking ahead, we anticipate that softness across certain legacy markets will moderate the pace of debt repayment in 2026. To be clear, we do not expect sustained negative free cash flow. However, as we ramp data center and critical power production, working capital will temporarily increase and we may make selective capital investments in equipment to support these programs. Together with fixed costs under absorption from subdued commercial vehicle demand through the first half of next year, we now expect to achieve a net leverage ratio of three times or lower by the end of 2026. Importantly, we view this as a transitional period. As cash generation strengthens with the recovery in the commercial vehicle market and continued growth in our high-margin, high-velocity markets, we expect to accelerate debt repayment and return to a net leverage profile consistent with our stated long-term target of below 2.5 times. With that, operator, that concludes our prepared remarks. Please open the line for questions as we begin our question and answer session.

Elliott | Conference Call Operator:

Thank you. If you would like to ask a question, please press star followed by 1 on your telephone keypad. If you would like to withdraw your question, please press star followed by 2. When preparing to ask your question, please ensure your device is unmuted locally. First question comes from Ross Aaron Black with William Blair. Your line is open. Please go ahead. Hey, good morning, guys. Thanks for taking the questions.

Jag Reddy | President and Chief Executive Officer:

Morning, Ross. Morning.

Ross Aaron Black | Analyst, William Blair:

Jag, you know, we started this year and you guys pulled forward your productivity initiatives and realized that's a delicate process, especially when demand cycles are volatile. How do you feel with the rollout thus far? And do you feel that the organization is well positioned for when demand does begin to turn?

Jag Reddy | President and Chief Executive Officer:

Absolutely Ross, the team has been relentless in driving MBX programs across our plant network throughout the year. Every single plant has had increased number of lean activities throughout the year as we reconfigured our capacity to position data center products into existing footprint. We have done. a lot of adjustments to resources, a lot of adjustments to our equipment, a lot of adjustments to how we think about shift schedules. So all of these actions are not only helping us in the short term to navigate the soft and market demand, but absolutely will position the company for a significant margin expansion, significant productivity once the volumes return, right? I'm really excited about, you know, all the things that we have done this year, though it may not be reflected in our actual financial results. But as we start putting in volumes back into the plant, even with the data center products, right, we should see going into Q1 and beyond a good update in our productivity.

Ross Aaron Black | Analyst, William Blair:

Okay. And if I was to put that into a, you know, a spreadsheet here and just make it through margins, Decker metals were down over 30% in the quarter. What is kind of your timeline for closing that gap to, you know, keeping a sustained incremental under 20% through cycle?

Jag Reddy | President and Chief Executive Officer:

I would say, yeah, obviously we're not providing any guidance for 2026. Having said that, I would say by mid year, um, we should see a decent readout coming out of all the actions that we have taken. Um, let me address a big elephant in the room. we are taking a conservative approach to our 2026 CV forecast. You can look at our two large OEMs. They're public. And then what they have said publicly for 2026 guidance in terms of volumes. And you can look at ACT. ACT is around 205. And if you average what the customers have said, that's probably somewhere in the two... 45 to 250 range. So the difference is what is going to make, you know, is going to be, I guess, really make a difference next year for us. We have taken the conservative approach of using the ACT for planning purposes. So if the volume turns about the ACT number next year, that's an upside for us, not only in terms of productivity and margin expansion, but also significant revenue increase next year.

Ross Aaron Black | Analyst, William Blair:

Okay, yeah, definitely understood. And thanks for providing that framework for 2026. Definitely understand it's, you know, loose and not when you guys do it. So I'll pass it along.

Jag Reddy | President and Chief Executive Officer:

Thank you.

Elliott | Conference Call Operator:

We now turn to Greg Palm with Craig Hallam. Your line is open. Please go ahead.

Greg Palm | Analyst, Craig Hallum:

Yeah, thanks. Good morning. Hi, Jack. Hi, Rochelle. Morning, Greg. Can you just give us some sense on what's occurred in the last four months since AccuFab? I mean, it just sounds like overall activity, it's been a lot higher. It's occurred much faster than initially thought. And what types of internal changes or investments do you have to make? Are you making to capitalize on this opportunity within data centers?

Jag Reddy | President and Chief Executive Officer:

A really good question, Greg. We have been extremely busy and active in not only bringing our new customers to AccuFab, but also a lot of new customers to legacy Mac locations. We have hosted every top customer in data center and critical power segment in many of our plans, and they continue to be impressed with the level of capacity and automation and the skill sets that MEC can bring to this end market. So as we came out of Q3, we continue to build on that pipeline. We said in our prepared remarks, our pipeline exceeds $100 million. This is qualified, active pipeline. We have won $30 million. Out of the $30 million, it's really $25 million is the cross-selling synergies that we're actively putting into existing plants. A lot of the programs are going into our Defiance plant, which is primarily a CV plant. A lot of programs are going into Mayville. That is a primarily agriculture and power sports plant. We're putting products into other locations as well where we see immediate benefit as soon as we ramp these data center products, immediate benefit in terms of volume and productivity in those plans that are lacking in volume today. At the same time, we continue to host new customers in the space. We continue to navigate some of the accelerated product launch, you know, Timelines, if you recall, our legacy programs take between 12 and 24 months once we win them to start up and see a revenue. Data center products are 8 to 12 weeks. Once they make a decision and award that purchase order to us, within 8 to 12 weeks, we're making product and shipping this product. That means we are repositioning resources, we're repositioning capital, we're repositioning machinery. We're moving machines from plant to plant to fully be prepared for this increase in volumes that we're expecting out of the data center and market.

Greg Palm | Analyst, Craig Hallum:

Okay. Appreciate that, Collar. And I guess maybe can you help us understand, like, what constitutes a pipeline, you know, just versus, you know, non-qualified opportunities. And I'm curious, if you look at, you have a slide that's talking about actual orders. I'm curious, you know, in terms of the customer characterization, how many of those are from new customers? What would these orders have looked like under, you know, ACUFAB as a standalone if they were existing customers? And, you know, just thinking about the future of you know, potential for follow-on orders if some of these are sort of initial orders from new customers? I'm curious just to get your thoughts there, too.

Jag Reddy | President and Chief Executive Officer:

Yeah, that's a really good question. AccuFab, through AliLocation, which was primarily the data center and critical power location, they were sold out. So pretty much everything that you're seeing on this slide, the 25 million of cross-selling synergies, most of that they would not have had capacity to actually produce. So that is the exciting part here is that battery backup cabinet, they might have been able to handle one to two million at best in that plant. Now we're able to completely take over that program. And we expect that program to continue on, even though we have a purchase order for 10 million, we expect that to increase as the year goes along next year. So that's the same case with power distribution units. Extrusion panels and busway components. Busway components are really around aluminum extrusions, which AcuFab did not have any capacity for. We're going to produce these out of our fondle accessibility. So this is the exciting part about this acquisition is that we're capturing everything AcuFab could capture and then all of this is really icing on the cake because, you know, we're able to then now put all of these programs into MEC legacy plants. Also, some of these products here in the pipeline, as an example, products that ACCUPEP has never made. So those products, you know, we are able to manufacture because of either size limitations capability limitations, machinery limitations that AccuFab would not have even bid on in the past. So now Mac is able to bid and win in the future some of these larger programs and larger physically in size and complexity.

Greg Palm | Analyst, Craig Hallum:

And are you able to sort of tell us what types of customers are they? How big are they? How much data center stuff are they doing themselves? And just to be clear, What we're talking about here, how many is new versus legacy customers to AccuFab?

Jag Reddy | President and Chief Executive Officer:

I would say that a significant number of maybe three-quarters of what we have won here are more are legacy AccuFab customers. And in the opportunity pipeline, I would say at least a third, if not more, hire our new logos to AccuPab and Mac. So we're not stopping at just capturing incremental share wallet from existing AccuPab customers. We're actually expanding our logo list, if you will, and going after new customers in that space. So as an example, this data center customer on this slide you're looking at, right, you know, the one customer, that's a $20-plus billion in sales customer. The exclusions, the two customers, each of them, one is probably a couple of billion in size, the other one is 20 plus billion in revenue. Critical Power, the six customers, these are multi-billion dollar revenue customers, right? So these are large customers significantly expanding their presence in the data center and critical power space and looking for additional capacity to continue to grow.

Greg Palm | Analyst, Craig Hallum:

Okay, perfect. Last one for me because, you know, you provided some good color by segment for fiscal 26, but there's a lot moving along around in this data center critical power segment. So just given the organic growth, ACUFAB, synergies, I mean, you're at an annualized $90 million rate in Q3. What is your expectation for revenue in this segment in fiscal 26?

Jag Reddy | President and Chief Executive Officer:

In data centers?

Greg Palm | Analyst, Craig Hallum:

Yes.

Jag Reddy | President and Chief Executive Officer:

Okay. We don't, obviously, we're not providing any guidance for 26. And, you know, I'm not trying to be flippant about it, Greg. Every single day, a new program is, every single week, right, a new program is being added to that qualified pipeline. It has been so dynamic. We did not expect to win $30 million of new business in Q3, right? And here we are, right? We already won some more in October, right? We expect to win some more in Q4. So, you know, I would say if I were to take a rough guess, we expect the data center and critical power end market, to be at least 20% of our overall sales in 2026. Obviously, the caveat there is what the CV market is gonna do because that's a significantly large end market. If CV stays around 205 number, we expect data center to be at 20% end market for us next year.

Greg Palm | Analyst, Craig Hallum:

Wow, okay. Good to hear. Appreciate all the color. I'll hop back in queue, thanks.

Jag Reddy | President and Chief Executive Officer:

Thank you.

Elliott | Conference Call Operator:

We now turn to Mike Schliske with DA Davidson. The line is open. Please go ahead.

Mike Schliske | Analyst, DA Davidson:

Good morning, and thank you. I want to follow up on a couple of the comments that you've made so far, Jag, on the CV market for 2026. The ACT research forecast, the two OEMs you mentioned. I want to throw out there that all the end users of trucks that I've heard from, not one has mentioned buying less trucks in 2026. That's mostly vocational. Even on the freight side, a lot of folks just set out 2025 and literally bought zero trucks. So any one truck next year would be an increase for a lot of those players. I guess I wanted to figure out, have you talked to any of the OEMs? And could you maybe share at a very high level what their actual comments have been directly to you about what to make sure you're ready for in 2026?

Jag Reddy | President and Chief Executive Officer:

Good question, Mike. We have been burned by this end market in the last 12 months, significantly burned by this end market. So if we're being a little gun shy, if we're being a little conservative, hopefully you guys can give us some grace on that. Because if I were to listen to everything the OEM has said to us, or the last nine months, right, we would have been in much worse situation than, you know, we ended up in 2025. I know that we called as we saw it coming out of Q2, and many of you, right, you know, picked on us a little bit that we were being too conservative. In the end, Mac was right about this end market because, you know, we get to see you know, daily, weekly EDIs, we get to see the build rates on a daily, weekly basis of what the OEMs are actually doing, right? So, I mean, your numbers that you referenced and what they have publicly commented, all three of them, three public, you know, OEMs, do I trust those numbers? I don't, because I don't see that in the current forecast. I don't see that in the current EDI. I don't see that in their build rates. I don't see that in their production rates, right? So, look, you know, if I'm wrong about 205 and the market ends up being 240 or 260, one of those, you know, numbers, great. That's an upside for Mac, right? So, but what this has done for us is to, over the last three months, right, and since our last earnings call, we were able to go in And it take out cost out of our factories. Six CV focused plants that we have. We were able to take costs out. We were able to take shifts out. We were able to take, you know, other resources out and redirect resources and capacity to data center and market, right? So as I mentioned, a couple of plants that we're putting data center products in, those are CV plans, right? So this has given the opportunity for MAC to reconfigure our production capacity, reconfigure our resources, and if the volumes come back next year, great, right? That's just an upside for us. So I still feel the call we made at the end of Q2 and the call we're making on ACT number today might be conservative, but it has really helped MAC to look at our cost structure, look at our capacity, and reorganize us as a company.

Mike Schliske | Analyst, DA Davidson:

Got it. That's great, Collar. I really appreciate that. And perhaps a very similar question on the ag sector as well. Your comments on it being a back half 2026, just any comments you've heard. I guess the EDI isn't suggesting a good start to the year, at least what you've learned so far. Is that true? And again, have you heard anything from the OEMs directly as to what

Jag Reddy | President and Chief Executive Officer:

You should be prepared for and being ready for it. Right. At least, you know, the good news on the ag side is, if there is any, OEMs are at least being honest and OEMs are at least being transparent with us on what they see and they don't see a recovery in 2026. Perhaps maybe a little bit of flattening out in second half, but still, right, we're calling a low single-digit decline.

Mike Schliske | Analyst, DA Davidson:

uh in ag next year and that is consistent with the information that we've received from our ag oems okay um you've also commented on the last few quarters about sort of getting market share uh tariff related contract pickups or opportunities across cv and construction ag elsewhere something else on do you think um you could outperform the broader end markets next year with some new projects, stuff in the pipeline beyond data centers that maybe you can discuss that might come to the fore in our 2020?

Jag Reddy | President and Chief Executive Officer:

If you look at the slide we have on the deck, right, on the market slide, we have consistently outperformed our end markets. Yes, the negative bars are not great to look at. I recognize that. But if you look at the market downturn, any of these end markets, we have outperformed the end markets. So that's because we continue to win new programs in CV and ag and construction and military and every other end market. So I expect whatever the end market is going to do next year, we're going to outperform that because we have programs that are starting up in 2026 and 2027 that we're already working on, as I mentioned earlier, These are 12 to 18 month startups, right? So we're in the middle of significant new program startups. So you know, 2026 and 2027 will be, again, another outperformance year for Mac in some of these end markets. So 26 will be a transition year, as we navigate, putting in a lot of the data center work into some of our legacy plans, and reconfigure resources, we can't lay out a whole bunch of people in Q4 and then expect them to be there in Q1 when the data center projects ramp up, right? So there's, you know, a bit of a transition here in the next one to two quarters. But, you know, we do expect to outperform all of our end markets next year.

Mike Schliske | Analyst, DA Davidson:

Great. Thanks so much. I appreciate it.

Jag Reddy | President and Chief Executive Officer:

Thanks, Mike.

Elliott | Conference Call Operator:

We now turn to Ted Jackson with Northland Securities. Your line is open. Please go ahead.

Ted Jackson | Analyst, Northland Securities:

Thanks. Most of my big ones have been asked, but a couple of smaller ones. It sounds like this acquisition is going to be a winner, just going to say it. Question-wise, first of all, with regards to the CapEx spend and working capital needs to bring this data center vision to fruition, can you talk a bit about what are the things that you need to put in place in terms of equipment

Jag Reddy | President and Chief Executive Officer:

maybe some kind of rough understanding in terms of what that means for capital spend next year and um and then the timeline for it i think my first question sure um we don't anticipate significant capex increase ted next year to accommodate some of these programs i say that with that existing what the existing pipeline is informing us We might on the margin, we might go spend on a handful of machines that will help us produce these products faster or more efficiently. We have 90 plus percent of the assets required to produce these programs internally today. So that is the great news about the synergies with this acquisition is that we have the footprint, we have the manpower, and we have the majority of the assets required. Having said that, even though we're not providing any guidance right now, I think we do have it on one of our CAPEX slides. We expect to be in the $15 to $20 million range for our CAPEX next year. So that is a bit of an increase from 2025. And as we have indicated, we're going to be at the low end of the 2025 range for this year. And right now, we do anticipate a slight increase to that CAPEX spend next year.

Ted Jackson | Analyst, Northland Securities:

Okay. Shifting over to construction and access. You know, you had a nice quarter with it. You know, I know you have a fair amount of exposure within access, mainly aerials and stuff, which is a market that looks like it's kind of bottomed out at this point. So my question is, when I look into, or you look into that business, I mean, is what you're seeing in there, you know, like a bottoming out of the access side of things, or is it um more an improvement outside of access maybe some color on that and then maybe some you know you know kind of you know uh perspective in terms of what you're thinking about that with regards to rolling through fourth quarter and 26 because you know i listen to a lot of these oems and it sounds like there's been a lessening of pricing pressure at least within the larger you know construction equipment market and inventories are lined up reasonably well with demand so kind of just maybe some soft, you know, color with regards to your outlier beyond the physical, you know, where we're at.

Jag Reddy | President and Chief Executive Officer:

Yeah. In construction access, we're roughly 50-50, 45-55, right? In access in particular, I think some of the demand is being driven by non-residential construction and data center construction. If you listen to the rental companies, I think out of the three rental companies, one of them is on a heavy capital spend. I believe that is one of the reasons why we saw a demand increase from our OEM. At the same time, two other rental companies, right, they're going through some transition. One trying to come to the U.S. with an IPO and, you know, so other acquisition transition, inventory cleanup. So we have to wait and see what the other two rental companies are going to do. But certainly, right, one of the rental companies that is doing well and spending money right now is mostly driven by data center construction. That's what's been helpful. Certainly in our Q3, we will wait and see how that transitions going into next year. Construction, again, hopefully with interest rate cuts in the coming quarters would help residential and other type of construction for the regular earth movers, the yellows that you can think of in the near term.

Ted Jackson | Analyst, Northland Securities:

Okay, and then my last is just on power sports. You know, you put growth up there, but you caveated it that it, you know, sounds like there was some, you know, one-time revenue, you know, that pushed the quarter. If you took that revenue out, how would power sports have performed? I mean, it seems to me from listening to a lot of the guys that play around there that it's not that the business is bottomed out, but the big declines in it seem to have passed. And, you know, you're starting to see, you know, kind of the, you know, the RV side by side, the marine markets all sort of, you know, hit their bottoms. So I guess the question is, you know, moving, removing your kind of one time revenue, how did it perform? And am I correct in feeling that that business or that market is at least finding its, you know, I'm saying its foundation?

Jag Reddy | President and Chief Executive Officer:

Yeah. Yeah, I would say that, again, listening to the public comments from some of the OEMs, and know what we're observing, is that right now their production schedules are reasonably aligned with end user demand. That's what we wanted to see. And I think they're finally there. So we do expect flat to up low single digits in 2026 for our sports and market. As you recall, we also brought on some new customers this year. So that's also helping us outperform the market. So if we take out at one time in our transitionary order we got, so if we take that out, we still see flat to slightly up next year.

Ted Jackson | Analyst, Northland Securities:

Okay. That's it for me. Thanks very much.

Jag Reddy | President and Chief Executive Officer:

Thanks, Ted.

Elliott | Conference Call Operator:

As another reminder, if you'd like to ask a question, please press star 1 on your telephone keypad now. We now turn to Natalia back with CITI. Your line is open. Please go ahead.

Natalia | Analyst, Citi:

Hi, good morning.

Jag Reddy | President and Chief Executive Officer:

Morning, Natalia.

Natalia | Analyst, Citi:

Maybe I know there's a few questions on your data center and critical power vertical, but just maybe a few more follow-up. You know, you highlighted 20 to 30 million synergy opportunities for 2026 from ACUFAB, but what are some of the key milestones to realize that? And can you also just frame the run rate EBITDA margin profile for this vertical once these synergies are captured?

Jag Reddy | President and Chief Executive Officer:

Sure. I think we have on our slide, let's go back. Yeah, this one. Where we listed our wins, the 25 million of revenue synergies, Natalia, you can see that the battery backup cabinet starts to ramp, actually starting to ramp in Q4. And power distribution unit and transfer switches will ramp up starting in first quarter, late January, early February. And then extrusions and busway components, so that is starting to ramp already through first quarter of 2026. So majority of these cross-hailing synergies will see an impact starting in Q1 and a full ramp by Q2. Sorry, what was the second part of your question?

Natalia | Analyst, Citi:

Margin. So yes, yes.

Jag Reddy | President and Chief Executive Officer:

Yeah, so all of these are 30 plus percent gross margin programs that we just won. I would say that next year, approximately 20% is what I said will be data center and market. All of the 20%, approximately 3%, I would say, would be legacy MAC products that are in the data centers, i.e., power generation, et cetera. So, those are slightly lower margin, and then the remaining here, obviously, is the higher margin.

Natalia | Analyst, Citi:

Got it. That's helpful color. And one more question for me. I'm just curious, like, how are you positioning production capacity between Your legacy MECN markets are commercial vehicle agriculture versus high growth data center exposure. I mean, there's an expectation for some of your end markets, you're saying, for like recovery next year. So just curious how you'd balance the production capacity.

Jag Reddy | President and Chief Executive Officer:

Right. You know, we're having a lot of conversation with our legacy customers. Since we closed, we have started and shared our growth objectives with them and started by requesting additional volumes. because when their markets come back up, right, you know, they need capacity today. If we reallocate that capacity to data center customers, they're not going to have access to that capacity. So next steps, you know, to that conversation, if volumes don't materialize, will involve commercial pricing. So many of these discussions are just starting and are in early stages, and we'll continue to have those conversations with these customers.

Natalia | Analyst, Citi:

All right. That's helpful. Thank you.

Jag Reddy | President and Chief Executive Officer:

Thank you.

Elliott | Conference Call Operator:

We have no further questions, so I'll now hand back to Jack Reddy for any final remarks.

Jag Reddy | President and Chief Executive Officer:

Before we conclude, I want to thank again our employees for their continued strong focus and execution and our shareholders for their ongoing support. While we recognize the near-term challenges in several of our legacy markets, We are confident in the progress we're making to position MEC for durable, high margin growth in the years ahead. We look forward to sharing our continued progress with you. Thank you for joining us today.

Elliott | Conference Call Operator:

Ladies and gentlemen, today's call is now concluded. We'd like to thank you for your participation. You may now disconnect your lines.