NYSE:MEC Q1 2026 Earnings Call Transcript

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Operator | Conference Operator:

Hello, everyone. Thank you for joining us and welcome to the Mayville Engineering Company first quarter 2026 earnings conference call. 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, please press star one again. I will now hand the conference over to Stefan Neely with Balam Advisors. Please go ahead.

Stefan Neely | Moderator, Balam Advisors:

Thank you, operator. On behalf of our entire team, I'd like to welcome you to our first quarter 2026 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 risk 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 include 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 MECinc.com. Following our prepared remarks, we will open the line for questions. With that, I would like to turn the call over to Chag.

Jag Reddy | President and Chief Executive Officer:

Thank you, Stephan, and good morning, everyone. Our first quarter results exceeded our expectations, driven by strong top-line momentum in our data center and critical power and market. At the same time, the first quarter reflected an ongoing transition across the business. Our teams remained focused on positioning resources completing tooling requirements, and preparing for the launch of numerous data center and critical power programs throughout 2026. During this transition, we continue to incur and retain variable costs as we position the business for successful program execution. As a result, our margins remained pressured during the first quarter. That said, performance improved late in the quarter as several data center and critical power programs transitioned from the launch phase into full production. We expect that momentum to continue building through the second quarter, which reinforces our confidence in the sequential improvement reflected in our financial guidance. While many of our data center and critical power programs have yet to launch or are still in the early stages of RAMP, Execution to date has been strong. This reflects the upfront time, planning, and resources we have invested to ensure a smooth and repeatable onboarding process across our legacy manufacturing footprint. As additional programs enter production, we are seeing consistent improvement in operating leverage and fixed cost absorption driven by better asset utilization across our manufacturing network. Importantly, the strength we are seeing in data center and critical power continues to contrast with mixed conditions across our legacy and markets. While each market has its own dynamics, we have not yet seen clear indications of a broad-based or material recovery in legacy customer demand. Starting with commercial vehicles, demand continued to soften in the first quarter. Net sales declined approximately 24% year-over-year as North American Class 8 production reached a low point in the current cycle. In its most recent report, ACT again revised its full-year 2026 outlook upward, now projecting a 9.2% increase in Class 8 production. This improved outlook reflects greater clarity around the 2027 EPA emission standards, anticipated pre-buy activity, and strong Class 8 orders earlier in the year. That said, current OEM

production levels remained largely consistent over the past six months and do not yet indicate a meaningful cyclical recovery. Combined with elevated fuel costs and recent tariff policy changes, our near term view of this market remains cautious pending a material improvement in OEM activity. In construction and access, revenue increased approximately 3% year over year in the quarter, which was ahead of our expectations. Performance was supported by continued strength in non-residential activity, although demand remains more customer-specific than broad-based. In power sports, net sales increased approximately 5% year-over-year, driven primarily by incremental volumes from discrete short-cycle customer programs. This was partially offset by continued softness among legacy ATV, UTV, and motorcycle OEMs, as well as lower sales within the marine propulsion market. Within data center and critical power, we delivered organic growth of approximately 71% year-over-year, supported by growth from legacy OEM customers and early project launches tied to AccuFab-related cross-selling opportunities. Overall, demand from OEM customers in the data center and critical power market remains strong. Our qualified opportunity pipeline exceeds $125 million, and the value of projects scheduled to launch in 2026 is approximately $50 million to $60 million. Combined with continued growth from our legacy OEM customers, we continue to expect data center and critical power to represent more than 20% of our revenue in 2026. Customer demand in this end market remains robust and we continue to evaluate the right approach to balancing the needs of our legacy customers while meeting accelerating demand in this rapidly evolving space. As data center infrastructure advances, customers are increasingly seeking adaptable solutions that are addressing their evolving needs and enabling faster speed to market. These shifts are redefining how customers approach large-scale deployments and their selection of partners. As we move into the second half of the year and with the potential for recovery across certain legacy end markets, we are actively managing capacity and prioritization to support long-term diversified and profitable growth. Before turning the call over to Rochelle, I want to highlight several areas of commercial momentum that reinforce our confidence in the growth trajectory for 2026 and beyond. Across all of our end markets, customer engagement and bidding activity remains strong. During the first quarter, we secured approximately $50 million in new project awards with data center and critical power customers. This amount surpasses the total awards we secured in this end market during the second half of last year. For the full year 2026, we currently expect total bookings across all of our end markets to exceed $150 million, supporting profitable growth as our legacy markets move toward a cyclical recovery exiting 2026. Within our legacy end markets, share gains continued with commercial vehicles customers as they launched new products ahead of the 2027 EPA regulation changes. These awards support future growth and are expected to enter production in late 2026 and 2027. In addition, new contract wins supporting legacy military vehicle platforms were secured during the quarter. This provides stability to our core base military revenues. Within the data center and the critical power market, the approximately $50 million of awards secured in the first quarter were primarily driven by demand from new customers in this end market. As these customers scale their programs, the intent is to serve as a long-term strategic metal fabrication partner. The awarded scopes of work span power distribution units, static transfer switches, and switchgear. Turning to capital allocation, our priorities are disciplined and well-balanced. In the near term, we are deploying capital in a targeted manner to support existing project commitments and the evolving needs of our data center and critical power OEM customers, including investments in equipment and capacity. At the same time, we remain focused on prudent balance sheet management and reducing debt. Longer term, the focus remains on strengthening the balance sheet and maintaining sustainable financial flexibility. Our long-term net leverage target remains 2.5 times, and we expect to make steady progress towards this objective through earnings growth, consistent cash generation, and disciplined capital deployment. Importantly, the demand environment in data center and critical power is creating a meaningful opportunity to invest organically in the business and expand our capacity. In certain areas, customer demand is already exceeding our current available capacity, and we believe targeted investments in equipment, automation, and operating capabilities can deliver attractive returns while enhancing our ability to serve this fast-growing end market. Although we're still assessing the full scope of this opportunity and the related capital requirements, we expect growth capital investment to increase above the $5 to $10 million level we have historically averaged. In 2026, that investment will remain focused on supporting current program launches and selectively adding capacity where visibility, customer demand, and return thresholds are strongest. Over time, we believe this market may support a broader and highly attractive organic investment opportunity. As always, we will pursue that opportunity within a disciplined

capital allocation framework, balancing growth investment with deleveraging, cash flow generation, and balance sheet optionality. In closing, I am encouraged by the discipline and execution our team has demonstrated so far this year. As we navigate this next phase of growth, our focus is on prioritizing operational agility, efficient program execution, and improved cash flow conversion as volumes ramp. We believe that consistent, disciplined execution over the coming quarters will position MEC to deliver stronger operating performance and create a solid foundation for sustainable growth. With that, I would like to turn the call over to Rachelle.

Rachelle Lair | Chief Financial Officer:

Thank you, Jag, and good morning, everyone. Total sales for the first quarter increased 6.8% on a year-over-year basis to $144.8 million. Excluding the impact of the ACUFAB acquisition, organic net sales declined by 8.2% compared to the prior year period. Our manufacturing margin was 7.6% for the first quarter of 2026 compared to 11.3% for the prior year period. The decrease in our manufacturing margin was due to $1.2 million of data center and critical power related project launch costs non-recurring restructuring costs, and lower volumes in our legacy end markets. These factors were partially offset by the higher margin sales contribution from the AccuFab acquisition. Other selling, general, and administrative expenses were $9.2 million, or 6.3% of net sales for the first quarter of 2026, as compared to $8.7 million, or 6.4%, of net sales for the same prior year period. The increase in these expenses primarily reflects incremental SG&A expense associated with the AccuFab acquisition. Interest expense was $3.7 million for the first quarter of 2026 as compared to $1.6 million in the prior year period. The increase was driven by higher borrowings resulting from the AccuFab acquisition, which was completed during the third quarter of last year. Adjusted EBITDA margin was 4.5% for the quarter compared to 9% in the prior year period. The decrease reflects lower legacy and market volumes and $1.2 million of project launch costs partially offset by the benefit of the AccuFab acquisition. During the quarter, we also continue to execute our previously announced footprint optimization actions, including the consolidation of four warehouse locations and one manufacturing facility. We expect these actions to generate annualized savings of approximately $1 to $2 million and are already contemplated within our full year outlook. Turning now to our cash flow in the balance sheet. Free cash flow during the first quarter of 2026 was a use of $6.9 million as compared to $5.4 million provided in the prior year period. The year over year decrease was primarily driven by lower operating cash flow as a result of reduced profitability, together with a $1.2 million increase in capital expenditures. The increase in capital spending was primarily related to equipment investments supporting the launch of the new data center and critical power programs. At the end of the first quarter, our net debt was $219.2 million, up from $80.4 million at the end of the first quarter of 2025. Our increased debt resulted in our bank covenant net leverage ratio of 4.4 times as of March 31st. Now turning to a review of our outlook for the second quarter and the full year. For the second quarter of 2026, we currently expect net sales for the quarter of between $145 million and $155 million, and adjusted EBITDA of between $10 million to $13 million. Our second quarter outlook reflects continued launch-related costs and margin pressure early in the quarter with improvement expected as the quarter progresses and additional data center and critical power programs move into full production. For the full year, we refined our financial guidance by raising the low end of our previously announced guidance while maintaining the high end of the range. We now expect net sales of between $590 million and $620 million, adjusted EBITDA of between $52 million and $60 million, and free cash flow of between $25 million and $35 million. This outlook reflects a full year of AccuFab ownership, $50 million to $60 million of incremental cross-selling revenue, and a gradual improvement in legacy end market demand, primarily in the second half of the year. In summary, our first quarter results were consistent with the operating conditions we outlined coming into the year. While profitability and cash flow were affected by launch-related costs and continued softness in legacy markets, those pressures are temporary and remain embedded within our outlook. As production levels increase and utilization improves, we expect better absorption, stronger margin conversion, and improved cash generation over the remainder of the year. With continued working capital discipline, and targeted capital spending, we believe we are positioned to support growth while also making measurable progress on deleveraging. With that, operator, we are ready to open the line for questions.

Operator | Conference Operator:

Thank you. We will now begin the question and answer session. If you would like to ask a question, please press star 1 to raise your hand. To withdraw your question, please press star 1 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. Your first question comes from the line of Mike Schliske with D.A. Davidson. Your line is open. Please go ahead.

Mike Schliske | Analyst, D.A. Davidson:

Yes, hi. Good morning. Thanks for taking my questions. Good morning. I wanted to ask maybe a two-part question about the non-data center end markets and legacy end markets here and your commentary in the slides. The ag market you were saying was going to be down like mid-teens, and now you're saying it's flat. And so my question, and you didn't change the comments that, you know, most of you feel like 2027 is the time when heavy ag will come back, but there might be some lighter ag doing better here in 2026. But I guess is that, was that change in outlook from, you know, down mid-teens to flat due to how you feel about the very end of the year and what OAN is telling you about ramping up for 2027, you know, asking suppliers like, you know, Maybill to build stuff in late 2026? I guess that's the first part of the question. And then the construction and access side, I've sensed so far this early in the season that most construction companies, including the largest ones, are taking their outlooks up, most of the construction equipment OEMs. You took your outlook here down from last quarter. So again, I'm curious whether there's some kind of a year-end they're asking you to slow down in advance of some challenges they might be seeing in 2027. Just so maybe a small detail about both those markets would be appreciated.

Jag Reddy | President and Chief Executive Officer:

Yeah, first of all, Mike, you know, on the ag market, we are seeing good strength in the small ag turf care segment. We're approximately 45, 55% mix between large ag and small ag. So the small ag and the turf care segment strength obviously is offsetting that declines in the large ag segment, and that's the reason for our change in our outlook for the ag segment. And then on to the construction and access. Again, as you recall, we're approximately 45, 55% heavy construction versus access. Our heavy construction segment continues to show good amount of strength driven by non-residential ag demand. Some of it driven by data center build-out as well. But then the access segment, we anticipated coming out of last quarter earnings call, access segment to accelerate this year. So far, we have not seen that. So hence, our change in our assumptions for the construction access segment to be flat versus slightly up.

spk06:

Okay. Okay.

Mike Schliske | Analyst, D.A. Davidson:

Thanks for that. Turning to data center, I'd like to maybe get a feel for some more detail as to how you're looking to accommodate some of the demand that's been rolling in or some of the coding that you've been doing. Because I think, Michelle, you mentioned you actually elsewhere in the business closed some footprint. So I want to make sure you've got a plan. Do you plan to open brand new footprint at this point, given the little demand, or are you still looking to convert? existing buildings to data center. Just some more detail as to how this might all play out and the investments that you're making now, are those in people or in machines to accommodate some of that near-term demand?

Jag Reddy | President and Chief Executive Officer:

Let me address that, Mike. We announced a closure of four locations. Those are mostly warehouses that we consolidated into Our manufacturing site, that was the restructuring we announced last year, the second half, and then we just wrapped those up. We're not in process of closing any manufacturing footprint, number one. Number two, we have converted approximately six, potentially a seventh plant as well. to data center manufacturing. So we're retooling, you know, between six and seven plants as we speak here to produce data center products. We continue to add capital as needed in these seven locations to offset existing manufacturing assets to continue to take on additional data center volumes. we do see significant growth in the data center volumes. Every quarter, as you all have seen, we continue to step up our cross-selling synergies. Pre-acquisition closing, we were in the single digits. Now we're up to $50 to $60 million of cross-selling synergies in 2026 alone. I continue to be very bullish on data center volumes. At the same time, we have not exited any of our legacy customer programs. We continue to be able to support, at this point, our legacy customers with their volumes. As we talk about multiple end markets, we really haven't seen broad-based recovery in our legacy end markets. So certainly, at this stage, we're able to support our legacy customers as they continue to ramp and also take on incremental data center volumes in these seven locations.

Mike Schliske | Analyst, D.A. Davidson:

Great. Maybe one last one for me. A lot of headlines and stories about changes in the Session 232 tariffs and cost of steel and other metals. I was wondering if you could maybe outline how any of this might be impacting you theoretically and maybe just over the last few months. Are you guys a beneficiary since you're almost entirely, you know, U.S.-based? And are you seeing some customers old and new coming to you to say, how can you help us to, you know, best structure ourselves for these tariffs?

Jag Reddy | President and Chief Executive Officer:

Yeah, 100% of our steel is procured from domestic sources. That way we have been reasonably insulated from supply challenges. We pass on any increases in steel prices to our customers. I would say that it hasn't impacted us. At the same time, you know, approximately 30 to 40% of our aluminum is imported from Canada. And then, you know, we're trying to mitigate that, but it is challenging. So rest of our aluminum is sourced domestically. So we're able to support many of our aluminum customers with their demand and needs. We are seeing some challenges where some of our customers are going on allocation with other suppliers on aluminum. So fortunately, we're in a good position to continue to support our customers as their demand increases or they switch from another supplier that is unable to procure aluminum to MEC. So those have been positive. In general, on 232 impact, I would say that we have not been either positively or negatively impacted. You have seen some of our customers and their competitors publicly talk about 232 impacts. But so far, I would say that that has not really impacted MEX.

spk06:

Okay. I appreciate that, Keller. I'll pass it along. Thank you.

Operator | Conference Operator:

Your next question comes from the line of Ross Sparenbleek with William Blair. Your line is open. Please go ahead.

Ross Sparenbleek | Analyst, William Blair:

Hey, good morning.

Jag Reddy | President and Chief Executive Officer:

Morning, Ross.

Ross Sparenbleek | Analyst, William Blair:

Sounds like you guys have been busy. Some good problems to have here. Maybe just starting with the new customer wins, you know, continued momentum in data centers in the first quarter. Anything one time in nature to call out, or are you sensing that customer buying patterns are starting to change here within the data centers in the power market?

Jag Reddy | President and Chief Executive Officer:

Yeah, good question, Ross. In the data center market, some of the significant wins we had in Q1 actually came from two brand new customers to MEC and ACUFAB. We never did business pre-ACUFAB days. So those two customers significantly contributed to the wins in Q1. We expect those two customers in particular to continue to grow with us as the year progresses and into the future. What we are seeing is a significant switch in our data center OEM customer behavior, purchasing behavior, where similar to our legacy end markets, Many of these customers are looking to completely outsource fabrication step of their manufacturing process to someone like MECC. To think about our legacy customers in ag or construction or CV, over the decades, they exited fab operations to suppliers like MECC. We're seeing a similar process happening slowly, but steadily in the data center and critical power customers. And we see that as a long-term secular tailwind for the fabrication industry. And being the largest fabricator in North America, we are able to offer significant capacity to these OEMs, and we're able to capture significant portion of that outsourcing that is that is starting in this industry, right? So all of those are positives, tailwinds for the industry and for Mac going into the future.

Ross Sparenbleek | Analyst, William Blair:

No, that's great to hear. And just staying on that topic, you know, when we think about all the larger potential OEM customers out there within data centers, can you just give us a sense of, you know, where your kind of penetration rate is as you think about the pipeline of opportunities and who you're speaking with?

Jag Reddy | President and Chief Executive Officer:

I mean, our penetration at this point, Ross, and take the top 10 potential customers, our existing customers, is low single digits or less, right? You know, we're sub 5% penetration. And hence, my optimism for the industry and for our customers is that as we're going to even rest of this year, second half, right, we continue to get significant inquiries. We continue to qualify these opportunities. Even after raising our cross-selling synergies for the year, right, our qualified pipeline remains really, really strong and gives me a lot of comfort that, you know, this is a multi-year secular growth opportunity for MEX.

Ross Sparenbleek | Analyst, William Blair:

Yeah, I mean, just expanding on that, I mean, it sounds like the whole market's heading for a capacity squeeze. So maybe we just kind of take out the increased allocation for DC customers. If the broader end markets start to recover here, I mean, how do you feel like you guys are positioned to handle legacy customers?

Jag Reddy | President and Chief Executive Officer:

That's a great question. Our intent at this point is to continue to serve our longstanding legacy customers. as they build out their volumes into the second half and into 2027. We're constantly evaluating plant by plant, manufacturing operation by manufacturing operation, and continuing to see where we have to offset some capital to increase capacity. So some of my comments and our prepared remarks allude to that fact that we're looking at potentially in the long run, a significant organic investment opportunity as we think about expanding capacity for data center customers while continuing to serve our legacy customers.

Ross Sparenbleek | Analyst, William Blair:

Would that imply the optionality at Hazel Park? I believe you guys still have that. additional square footage?

Jag Reddy | President and Chief Executive Officer:

Absolutely. And I can tell you that that's been a long time coming, Hazel Park story. We just put approximately $55 million worth of data center products into Hazel Park in Q2, Q1, Q2. We're ramping approximately $55 million worth of data center products in Hazel Park. and we think we can fill up Hazel Park. And we always said that the current space we have, not the sublease space, the current space we have supports $100 million worth of capacity. We do need some capital assets to continue to go in because the mix of operations for data centers is slightly different than our legacy customer products. So with all of that, we continue to be bullish on Hazel Park being filled up in the next year or so.

Ross Sparenbleek | Analyst, William Blair:

All right. Well, very nice quarter, all things considered. I'll pass it along.

Jag Reddy | President and Chief Executive Officer:

Thank you, Ross.

Operator | Conference Operator:

Your next question comes from the line of Greg Palm with Craig Hallam. Your line is open. Please go ahead.

Greg Palm | Analyst, Craig-Hallam:

Morning, Greg. Hey, thanks. Good. Yeah, good morning, Greg, Rochelle. Can you maybe talk about how some of these early launches in data center critical power are going just in light of the comments last quarter? It seems like everything is on track and you're starting to see the margin improvements, but just kind of curious what else is kind of top of mind as we obviously launch more of these projects this quarter and in the

second half?

Rachelle Lair | Chief Financial Officer:

Yeah. As we pointed out in the prepared remarks, we invested in these product launch costs, and we spent about $1.2 million in Q1, $1.2 million in Q4, and those are just to be ahead of these launches. We see that continuing into Q2, but then after that, as we're hitting full run rate production levels, we're seeing improvement. And in fact, in Q1, as we were exiting in the quarter, we saw that improvement happen as we had several programs hit that full production run rate. So very optimistic about the fact that we made those investments, did the right thing to make sure that we're creating an effective onboarding program so that as we do new programs, as we do new launches, we know what the upfront investment is. And then when we hit that full run rate production levels, we're back to the margin levels of the overall end market.

Greg Palm | Analyst, Craig-Hallam:

Okay. Understood. And as we think about, you know, appreciate the commentary on the new customer side in terms of what you're winning on data centers, but if we could go back to kind of the existing customers, I'm kind of curious what you're seeing in terms of like order progression, you know, from them in terms of, you know, how much bigger are the orders getting because they're outsourcing more business to you or they're winning a lot more business themselves. It kind of feels like you're not only going to have this big ramp of orders from your existing customer base, but you're also going to be now layering on brand new customers as well, which presumably would follow some similar path of accelerated activity as well. So maybe you can just kind of walked us through those dynamics.

Jag Reddy | President and Chief Executive Officer:

Let me clarify, Greg. You're asking all of this in the context of data center customers, existing data center customers versus new?

Greg Palm | Analyst, Craig-Hallam:

Correct.

Jag Reddy | President and Chief Executive Officer:

Yeah, that's absolutely right. As we bring on, as I mentioned, we brought on two brand-new customers to MECC, Since the acquisition closed, we expect a couple more brand new customers that are in the works to become our customers later this year. Outside of those brand new logos, as we internally call it, coming to Mac, AcuPabs legacy data center customers continue to ramp significantly. That's also been another tailwind for us. I shared some examples in the past about volumes doubling, tripling, quadrupling on products that AccuFab historically manufactured for some of these customers as they win significant new projects and significant volumes for their own product lines. And hence, what the legacy AccuFab customers are doing is looking at their own footprint, their own resources, and making choices around outsourcing additional work to suppliers like Mac. So there is new customer growth, there is existing customer volume growth, and then there's existing customer market penetration or market share gains. So that's how I would position the growth we're seeing in this end market.

Greg Palm | Analyst, Craig-Hallam:

Okay, makes sense. And I want to follow up on a comment you made in response to an earlier question, Jack. I think talking about Hazel Park, I think you said that, you know, you could actually generate $100 million out of that facility. I think you were specifically saying as it related to data centers, is that correct?

Jag Reddy | President and Chief Executive Officer:

No, that's the total capacity. Historically, we have always talked about Hazel Park being a $100 million plant. As I just said, we put $55 million worth of data center work into that plant. We still have another 15 to 20 million of other legacy customer work in that plant today. And you can do the math and then say, can I put another 20 to 25 million of data center work into Hazel Park? Absolutely. So that's what we're trying to do.

Greg Palm | Analyst, Craig-Hallam:

Okay. Makes sense. And I guess just, you know, last question to me is I'm, is I'm thinking about the full year guide and backing into the second half, you know, it implies an EBITDA run rate on a quarterly basis. That's pretty close to 20 million. And, you know, I'm just, asking in light of sort of early thoughts on next year, but I mean, we're already going to be at low double-digit margins in the second half of this year, if that's the case. I assume next year, as volumes recover further, as mix gets more positive from data centers, that would probably support even higher margins, but I just wanted to ask the question because it's a pretty big step up in both absolute EBITDA and margins that is being considered for the second half of this year.

Rachelle Lair | Chief Financial Officer:

Yes, so when you look at our legacy business, you can look back to 2024 when we were hitting, you know, roughly 600 million in that base business alone, our margins were at that point well in excess of where we're at today. And so, you know, we're on our way towards that 15% plus that we would like to be long-term. You throw in, you know, 20% plus in the data center and critical power, which is 20% margins, and, yes, we do see a clear path to that 15% plus as we move into the future.

Greg Palm | Analyst, Craig-Hallam:

Okay. I'll leave it there. Thanks.

Operator | Conference Operator:

As a reminder, if you'd like to ask a question, please press star one to raise your hand. To withdraw your question, please press star one again. We ask that you pick up your handset when asking a question to allow for optimum sound quality. If you're muted locally, please remember to unmute your device. Your next question comes from Ted Jackson with Northland Securities. Your line is open. Please go ahead.

Ted Jackson | Analyst, Northland Securities:

Thank you very much. Congrats on the quarter. So my first question, I want to just touch on the second quarter guidance. You know, you're looking for midpoint $150 million. You know, it's comfortably above, I call it the consensus view. The legacy markets themselves, at least in, you know, the first part of this year, are, let's just say they're underperforming with a better outlook maybe in some of them as you get to the second half. To hit the midpoint of that, I mean, is that that would, William Newburry, M.D.: : help me that you know,

perhaps you're going to see maybe even more business coming out of the data Center you know our side of things, and perhaps you thought going into the year. William Newburry, M.D.: : Is there, do you see that that business being able to hit your 20% of revenue target in the second quarter alone.

Rachelle Lair | Chief Financial Officer:

Jennifer Proulx, M.D.: : In the second quarter alone, no, I think we want to still. really look at that as being second half of the year, that it's really going to hit those levels and actually, you know, almost outperform at that point. But in Q2, it's really going to be launching the program still, and we probably won't hit full run production rates until late in Q2. So really second half focus still for the data center and critical power being at full production run rates.

Ted Jackson | Analyst, Northland Securities:

And what is the full production run rate for data center critical power?

Jag Reddy | President and Chief Executive Officer:

Well, we have always targeted, please publicly commented, Ted, our ambition is to be at 25% of our total volumes to be in data center and critical power and market. I do see that target in our reach, certainly on an exit run rate for 2026 and certainly for 2027.

Ted Jackson | Analyst, Northland Securities:

Then shifting back into the second quarter, is there any particular legacy market that you're expecting to have some kind of I mean, call it a bulge in terms of, you know, ability to generate some revenue that then, you know, kind of falls away. I mean, I, you know, like power sports comes to mind because, you know, you've had some performance there, but you keep highlighting this in driven by very project oriented stuff. And it's not like, you know, long tail project, you know, uh, customer wins. I'm just trying to understand like how to get to that one 50, if it's not coming. from a faster ramp in the power and data market than may be accepted?

Jag Reddy | President and Chief Executive Officer:

Yeah, we have looked at commercial vehicles ramping, you know, starting in, you know, May-ish. So May and June could have a slightly higher commercial vehicle run rate as our OEMs ramp. Power spores is probably not the market that I would expect to help us in Q2. We continue to see significant outsourcing to Asia from our power sports customers. The discrete programs we talked about were specific aluminum-related. As we had the materials and the capacity, we took on some quick-run projects that will exit in Q2. So that's not a long-term project. Run rate type of business in power sports that could help us in Q2.

Ted Jackson | Analyst, Northland Securities:

Okay. Okay. I think you've given me what I needed there shifting over to capacity. I mean, you have 1 of the better problems that a manufacturing company can have, which is demand that might is pushing you to capacity constraints. know given your current footprint and the uh the potential we'll just call it potential for a lot of your legacy markets turn around at the same time that this power data center market is coming um how much revenue do you think you could run through your existing footprint um and what does it take to do i mean i mean i assume that you're running it you know like I assume you could add shifts and increase

capacity that way. I mean, maybe just in discussion, you know, like at your current level, where could you take your revenue run rate to? And then, you know, all else being equal, that you're at your same footprint, how could you take your revenue higher?

Jag Reddy | President and Chief Executive Officer:

Yeah, great question. I will give you a couple of numbers, Ted. As we look at our current capacity and current programs that we have won and potential ramp up of our legacy customers. Now we're going to top out with no further investments. We'll probably top out around $850 million in revenue. What that means is we have to continue to invest given the mixed differences between data center products and our legacy products, we will potentially run out of capacity after the $850 million of revenue. And more importantly, and I've said this in the past, that we probably have to think about an organic investment somewhere on the eastern seaboard. where we're currently running out of capacity for data center customers. We have capacity in the Midwest, but some of the products we're manufacturing for some of the data center customers are large in volume, significantly expensive to ship across the country. So that's something that we're evaluating. We're at the, I would say, early stages of that analysis and to figure out how do we fill existing capacity first And then, you know, what's the timeline by which we will run out of our existing capacity? And then how do we think about expanding our capacity organically?

Ted Jackson | Analyst, Northland Securities:

And that 850 million run rate, that without further investment, that's running, you know, the same shift counts or if you're getting nearby, you're just utilizing your facilities more by adding shifts.

Jag Reddy | President and Chief Executive Officer:

Yeah, we are feverishly adding people and shifts to our plans in the last four or five months. Some of our plans are running seven days a week. Some of our plans are running full 24 hours and five days a week. We're running 10% to 12% over time in many of our plans right now. and continuing to hire in many of our clients that are seeing volume growth, particularly driven by data center customers.

Ted Jackson | Analyst, Northland Securities:

So, Jag, I'm sure every day you come to work, you have a lot of problems that you need to solve, and it's challenging, but it seems like the problems that you're solving are a lot of fun. So, I mean, it's pretty exciting to see, you know, what's sitting there in front of you. I'll get out of line. Thanks again for... taking the questions and congrats on the results.

Jag Reddy | President and Chief Executive Officer:

Thank you, Ted.

Operator | Conference Operator:

There are no further questions. Oh, apologies. Your next question comes from the line of Andrew Kaplowitz with Citibank. Your line is open. Please go ahead.

Natalia (for Andy Kaplowitz) | Analyst, Citibank:

Hi, good morning. This is Natalia on behalf of Andy Kaplowitz.

Jag Reddy | President and Chief Executive Officer:

Morning, Natalia.

Natalia (for Andy Kaplowitz) | Analyst, Citibank:

I think the first question I'll just ask is I'm just curious As you continue to highlight strong momentum within data center and critical power, yet your broader other end market outlook is flat for FY26. Can you maybe help us unpack what areas within that category are offsetting that data center and critical power related strength? I think you mentioned on your side there's like modest activity from those growth initiatives.

Jag Reddy | President and Chief Executive Officer:

Right. As we mentioned earlier, Natalia, Ag is flat. Construction access is flat. Power spores we actually think will be a headwind for us in the second half and into 2027. Our CV market, we didn't spend a lot of time today talking about. Now our current forecast guidance assumes a $240,000, sorry, 240,000 unit built for the year. That is higher than what we started the year with, but at the same time, it's lower than what ACT is projecting today. We haven't seen that ramp yet. We're in the window right now. We should see that in May and June going into Q3 with our CV customers. That's really giving us a bit of a pause in terms of legacy end markets, all in all, while we see strength in our DCP market.

Natalia (for Andy Kaplowitz) | Analyst, Citibank:

I appreciate that, but I'm just curious about your other end market, like the other end market that you guys have on your slide with .

Rachelle Lair | Chief Financial Officer:

Yeah, I think the biggest thing here is as we've been growing, you know, in data center and critical power. We really have been focused on growth initiatives there. This is, you know, some things that come in more as one off pieces of business or different opportunities. Our extrusion business has a lot in here, but the extrusion business we're winning is actually data center and critical power classified. So we're seeing a big piece of what maybe would have been growth and extrusion here and other be extrusion growth and data center and critical power.

Jag Reddy | President and Chief Executive Officer:

So some of this is really reclassification from other into data center market.

Natalia (for Andy Kaplowitz) | Analyst, Citibank:

Got it. Makes sense. Much appreciated. And then one last question, Maya. You know, we appreciate the long-term growth opportunities and data centers and critical power. Both margins still under pressure and leverage elevated. What's giving you the confidence that MEC and the business can generate sufficient free

cash flow to both de-lever and continue investing in these growth initiatives?

Rachelle Lair | Chief Financial Officer:

Yeah, we... We definitely are focused on de-levering. That's something that we have a proven track record of doing as we do acquisitions. There's a little bit of a 12 to 18 month time of absorbing the acquisition and then working to pay that down. What we see as really the true opportunity here is as we move into the second half of this year and we really have both the strong sales for data center and critical power at higher margin, plus some expectation of that CB market coming back in the second half that we'll be able to generate some additional cash flow to focus on delivering with the goal of being below that three times as we exit this year. So very second half weighted, but with what we are seeing with the launch and the confidence that we gained exiting Q1, see those sales coming to fruition and the margin and results associated with it.

Natalia (for Andy Kaplowitz) | Analyst, Citibank:

Thank you so much.

Operator | Conference Operator:

We have a follow-up question from Greg Palm with Craig Hallam. Your line is open. Please go ahead.

Greg Palm | Analyst, Craig-Hallam:

Yeah, thanks. I thought this one would have gotten asked. So since I'm back in the queue, I'll ask it now. As it relates to commercial vehicle, I understand and can appreciate your conservatism. Let's just assume, hypothetically, that the build rate or the production increase ends up being, whether it's that 9% rate or something in the high single digits for fiscal 26. Is there a reason why your segment results would deviate significantly from that?

Jag Reddy | President and Chief Executive Officer:

It should not Greg. So if. The market actually builds up that 9 plus percent build rate, but also let me remind you that you know the 9% is actually retail sales is how a CT would report. You know which is pretty close to the bill rates anyway, but you know, let's say that's approximately 9% bill rate. Yes, we should see. a very similar pale wind for our segment revenue.

Greg Palm | Analyst, Craig-Hallam:

Okay, understood. And I guess since I'm asking questions, I'll ask one more. Going back to data centers, is most of the revenue or awards contracts that you're seeing today more project-based with sort of a you know, a definitive timeline attached to it. And I'm curious if there's now, or if there is like potential discussions to enter into like more, you know, long-term frame agreements, sort of multi-year type of, you know, sort of capacity, you know, expansion, that kind of stuff.

Jag Reddy | President and Chief Executive Officer:

I would say that since the acquisition significant portion of our wins are have been for long running products these customers will continue to offer to various data center projects. I can only think of perhaps maybe one program where it was one customer specific program. It's a small program. But generally speaking, these are long tail, long run product lines is where we're winning. At the same time, we are beginning the conversations with these customers regarding potential capacity reservations, potential long-term agreements, as you mentioned, Greg. So those are the conversations our teams are beginning to have, certainly with our DCP customers.

Greg Palm | Analyst, Craig-Hallam:

Okay. Appreciate the call.

Jag Reddy | President and Chief Executive Officer:

Thank you, Greg.

Operator | Conference Operator:

And this concludes today's Q&A session. I will now turn the call back to Jag Reddy for closing remarks.

Jag Reddy | President and Chief Executive Officer:

Before we conclude, I want to again thank our team members 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.

Operator | Conference Operator:

This concludes today's call. Thank you for attending. You may now disconnect.