NYSE:MEC Q2 2026 Earnings Call Transcript

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Operator | Conference Operator:

Hello everyone, thank you for joining us and welcome to the 2026 second quarter Mayville Engineering Company earnings 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 1 to raise your hand. To withdraw your question, press star 1 again. I will now hand the conference over to Stephan Neely with Valum Advisors. Please go ahead.

Stephan Neely | Managing Director, Valum Advisors:

Thank you, Operator. On behalf of our entire team, I'd like to welcome you to our second quarter 2026 results conference call. Leading the call today is MEC's President and CEO, Jag Reddy, and Rachele Lehr, 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. Thank you, Stephan, and good morning, everyone.

Jag Reddy | President and CEO, Mayville Engineering Company:

Our second quarter results reflect stronger than expected demand across several key end markets. This was highlighted by continued momentum in data center and critical power on the early recovery underway in our commercial vehicle market. As a result, top line performance exceeded our expectations and positions as well as we entered the second half of the year. Throughout the quarter, Our execution remains strong as we ramped activity across numerous data center and critical power programs while continuing to invest in the people and equipment needed to support future demand. These investments are to expand the capacity required to support long-term profitable growth as anticipated higher volumes drove improved operating leverage sequentially during the quarter. As we move quickly to capture a rapidly expanding data center and critical power opportunity pipeline, we are incurring incremental operating costs ahead of the associated revenue. This reflects two deliberate timing-related investments. First, the capacity and equipment we're putting in place to ensure effective program launches. Second, the incremental cost of outsourcing certain elements of the fabrication process to third parties as equipment constraints in our existing facilities currently limit our ability to perform this work in-house. We have ordered the equipment needed to bring this work in-house, though it carries a four to six month lead time. We expect launch costs to continue through the second half of the year as we support customers' aggressive program timelines. These investments are front-loaded by design and reflect both the natural cost of scaling at pace and the opportunity for profitable growth that we see ahead. Importantly, we continue to view these costs as temporary and we expect them to subside as we bring our newly hired workforce up to full productivity and complete our targeted capacity investments. These programs are building toward a meaningful step up in margins over time. As these investments come online, production volumes ramp and utilization improves, we expect strong incremental margins to materialize. Simply put, the programs we are launching today are accretive to the long-term margin profile of the business, and the investments we're making now unlock that expansion in the future. A significant milestone during the quarter was the successful completion of our common stock offering, which generated approximately $94 million in net proceeds. The offering advances our capital allocation priorities by strengthening the balance sheet and enhancing financial flexibility. We use the proceeds to reduce debt exiting the quarter with more than $100 million of available liquidity. With a stronger balance sheet and increased liquidity, we are well positioned to fund strategic growth initiatives and capitalized on the significant

opportunities developing within the data center and the critical power market. Equally important was the timing of the offering. With the demand accelerating beyond what operating cash flow alone could prudently fund, securing capital now gives us the flexibility to invest ahead of demand rather than react to it. This provides us with the Financial Foundation to pursue profitable growth opportunities with confidence. As we deploy this capital, we will remain disciplined, prioritizing higher value, higher margin opportunities that we believe will generate the strongest returns and create lasting value for our shareholders. Moving to some of our key end markets. Commercial vehicle net sales increased approximately 3% year-over-year in the second quarter as North American Class 8 production began to recover. Customer build rates have continued to accelerate, and we expect this dynamic to continue into the second half of this year. In its most recent report, ACT's full-year 2026 outlook projects a 9.1% increase in Class 8 production, supported by a projected 45% increase in production throughout the remainder of the year. This outlook reflects a continued upcycle in order activity and leads to a projected 9.7% increase in 2027. Given that our demand activity typically precedes Class 8 production by approximately six weeks, we are encouraged by the activity levels we are seeing today. In construction and access, revenue increased approximately 15% year-over-year in the quarter as performance was supported by strength in non-residential activity. In power sports, Net sales decreased approximately 6% year-over-year driven primarily by softness in legacy ATV, UTV, and motorcycle OEMs resulting from ongoing offshoring initiatives. With the data center and critical power, we delivered organic growth of approximately 173% year-over-year supported by growth from existing OEM customers and project launches tied to AccuFab-related cross-selling opportunities. Demand in this end market remains robust, with our qualified opportunity pipeline continuing to exceed $125 million. The value of projects scheduled to launch in 2026 is approximately $50 million, to $60 million. Including the growth from our existing OEM customers, data center and critical power is expected to represent approximately 20% of total revenue in 2026. As demand for these higher value programs accelerates, we are making disciplined portfolio decisions across the business. This includes actively evaluating pricing, and Margin Profiles across our portfolio on a case-by-case basis. This may result in changes to mix our capacity allocation over time. These dynamics are unfolding against a backdrop of limited manufacturing capacity across the U.S., increasing the value of reliable domestic supply in response We are evaluating opportunities for customers to reserve dedicated capacity with us. For customers, this provides greater certainty of supply. For MEC, it creates more predictable revenue and supports margin expansion by directing capacity towards our highest value programs. We will continue to manage capacity and production priorities carefully to support sustainable, diversified, and profitable growth over the long term. Before turning to capital allocation, I would like to highlight a few examples of the commercial momentum we are seeing across the business. During the second quarter, we secured approximately $40 million in new awards with data center and critical power customers. While these awards are not expected to contribute materially in the near term, they provide strong visibility into the future with production launches and revenue generation anticipated to begin during 2027. Based on current visibility, we expect total 2026 bookings across all of our end markets to exceed $150 million, supported by and others. Within our legacy end markets, we continue to expand our share with key commercial vehicle customers as they prepare for upcoming product launches tied to the 2027 EPA regulation changes. These programs are expected to begin entering production in late 2026. Beyond commercial vehicle We secured business through new model introductions for an access customer while also capturing additional service business supporting a military customer. In data center and the critical power, the approximately $40 million in awards secured during the quarter reflect both new business and continued expansion with major customers. These programs include power distribution units Switchgear, and Static Transfer Switches. Turning to capital allocation in more detail. With our balance sheet significantly strengthened, our focus is centered on three priorities. Investing in organic growth, continuing to reduce leverage, and pursuing selective accretive acquisitions. First, organic growth. Customer demand is increasingly outpacing our current available capacity, and our organic investments are aimed squarely at unlocking more of it. Over the next two years, we expect to invest an incremental $50 million to expand capacity and support the growing needs of our data center and critical power customers. These investments include targeted upgrades across our existing manufacturing footprint, customer supported program investments, and the development and equipping of a new production facility. Together, these initiatives are expected to increase our revenue capacity beyond the approximately $850 million we have discussed

previously with room to build from there over time. Rachele will discuss in greater detail later on the written criteria we apply to these capital investments. Second, deleveraging. As production volumes increase and profitability improves, we expect earnings growth and cash generation to become increasingly important drivers of leverage reduction. Our long-term net leverage target remains 2.5 times, and the actions we took this quarter represent a meaningful step toward achieving this objective. Third, accretive M&A. We will remain opportunistic, pursuing acquisitions that strengthen our competitive position, expand capacity, and support long-term value creation. With conditions improving across our legacy and markets, Accelerating momentum in data center and critical power and a significantly stronger balance sheet, we are well positioned to deliver profitable growth and create lasting shareholder value. We believe we are entering a transformative chapter defined by expanding capacity, accelerating growth, improving profitability, and rising returns on invested capital. The investments we are making Today, our building is stronger, more competitive company, and positioning us for meaningful value creation in the years ahead. With that, I would like to turn the call over to Rachele.

Rachele Lehr | Chief Financial Officer, Mayville Engineering Company:

Thank you, Jag, and good morning, everyone. Total sales for the second quarter increased 23.2% on a year-over-year basis to $163 million. Excluding the impact of the AccuFab acquisition, Organic net sales increased by 9.2% compared to the prior year period. Our manufacturing margin was 10.9% for the second quarter of 2026 compared to 10.3% for the prior year period. The increase in our manufacturing margin was due to higher margin sales contribution from the AccuFab acquisition and improved capacity utilization as the commercial vehicle and construction access end markets started to recover. This was partially offset by $2.1 million of data center and critical power related project launch costs. Other selling, general, and administrative expenses were $9.3 million or 5.7% of net sales for the second quarter of 2026 as compared to $10.3 million or 7.8% of net sales for the same prior year period. The decrease in these expenses primarily relates to non-recurring executive transition expenses and AccuFab-related acquisition costs in the prior year period. This is partially offset by incremental SG&A expenses associated with the acquisition. Adjusted EBITDA margin was 8.1% for the quarter compared to 10.3% in the prior year period. The decrease reflects $2.1 million of project launch costs and higher gain sharing accruals due to the current company performance and the expansion of our workforce, partially offset by the benefit of the AccuPab acquisition and higher legacy end market volumes. As Jake mentioned, our project launch costs and data center and critical power came in slightly above our expectations to meet our customers' program timelines, while equipment constraints in our existing facilities limit our in-house capacity. We expect to recognize an additional $2 million to $3 million of outsourcing costs in the second half of the year. As activity accelerates, programs reach full production, and targeted capital investments are deployed, we expect these costs to normalize and to realize operating leverage across our footprint, position us to ramp new programs in the pipeline more efficiently, and supporting the margin expansion we expect over time. Interest expense was $3.5 million for the second quarter of 2026 as compared to $1.4 million in the prior year period. The increase was driven by increased average borrowings and interest rate under the company's revolving credit facility and the timing of debt repayment. As a reminder, the proceeds from our May equity offering were used to reduce debt during the quarter. However, under the terms of our credit agreement, The resulting step-down in our borrowing rate will not take effect until August. Turning now to our cash flow and the balance sheet. Free cash flow during the second quarter of 2026 was a use of $6.6 million as compared to $12.5 million provided in the prior year period. The year-over-year decrease was primarily driven by lower operating cash flow reflecting reduced profitability and Working Capital Investments to support the launch of data center and critical power programs. Capital expenditures also increased by $5.6 million, driven primarily by equipment investments supporting the launch of new programs. At the end of the second quarter, our net debt was $134.7 million, up from $71.8 million at the end of the second quarter of 2025. Our debt resulted in our bank covenant net leverage ratio of 2.9 times as of June 30th. Now turning to a review of our outlook for the third quarter and the full year. For the third quarter of 2026, we currently expect net sales for the quarter of between $160 million and $170 million, and adjusted EBITDA of between $15.5 million to $18.5 million. Our third quarter outlook

reflects continued recovery within our commercial vehicle and construction access end markets along with the ongoing ramp of the data center and critical power programs. Our outlook also includes $1 million to $1.5 million in launch-related costs in addition to $1 million to $1.5 million in outsourcing costs. For the full year, we increased our financial guidance for net sales and lowered our free cash flow guidance. We now expect net sales of between $620 million and $650 million. We still expect adjusted EBITDA of between $52 million and $60 million, and free cash flow of between $7 million and $15 million. This outlook reflects a full year of AccuFab ownership, $50 million to $60 million of incremental cross-selling revenue, and continued improvement in legacy end market demand as commercial vehicle recovers and construction access continues to deliver steady performance. Additionally, our full-year outlook includes $5 million to $6 million in launch-related costs and $2 million to $3 million in outsourcing costs. I'd also like to provide some additional detail on our capital allocation plans. As Jag mentioned, we expect to invest approximately $40 million of incremental capital expenditures in the business over the next two years, along with an additional $10 million of leased equipment, which will be reflected in financing cash flow. Our updated full-year 2026 guidance includes approximately $25 million of this planned investment, with the balance occurring primarily in 2027 and to the lesser extent in 2028. Separately, these amounts do not include any investment in a new manufacturing facility. We are actively evaluating several potential sites in the southeastern United States and believe an investment of this type would likely fall in the $25 million to $30 million range and support approximately $50 million to $60 million of incremental revenue. We are generally targeting a decision in late 2026 and will provide updates as our plans take shape. Underpinning these plans is a disciplined approach to capital deployment. We are carefully matching our organic growth investment to customer demand and hold new capital to clear return thresholds, targeting a payback period of two to three years and internal rate of return of at least 15%. In summary, our second quarter results reflect strong top-line performance that came in well above our expectations. While launch and outsourcing costs are impacting near-term profitability, these investments are supporting programs that will contribute sustainable future revenue and earnings growth. As we move through the second half of the year, our focus remains on successfully scaling data center and critical power programs improving operational efficiency, and converting the commercial pipeline in front of us into profitable growth. With a stronger balance sheet, ample liquidity, and a disciplined investment framework, we believe we are well positioned to capitalize on the demand environment ahead and continue to create long-term value for shareholders. With that, operator, we are ready to open the line for questions.

Operator | Conference Operator:

We will now begin the question and answer session. Please limit yourself to one question and one follow up. To ask additional questions, you may reenter the queue. 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. Your first question from the line of Mike Schliske with DA Davidson. Mike, your line is open, please go ahead.

Mike Schliske | Analyst, DA Davidson:

Yes, good morning and thanks for taking my questions here. wanted to ask a question to follow up, Jag, on your comments about customers being able to potentially reserve some capacity in future periods. Just want to get a little bit more detail there. Was that a data center-only comment or was that across most urban markets? And does this mean that they have to give a deposit to reserve that space? And or do you think there's going to be kind of like a You know, like a like a reserve ticker pay contract, or will it be just having space for a small fee and you can figure out the exact quantities and amounts later?

Jag Reddy | President and CEO, Mayville Engineering Company:

Hey, good morning, Mike. Good question. We are exploring various options, particularly with data center customers, where there is an increasing need for capacity and There is a constraint in the US manufacturing space to accommodate all the demand that we're seeing and they're seeing in the data center build out. So we have had multiple conversations with many of our data center customers and they were exploring different models. We put together a upfront fee structure. We have also discussed volume commitments and we continue to explore these options even though we have not signed any particular customer to a contract like that, but there is interest and we continue to explore those options with our data center customers.

Greg Palm | Analyst, Craig Hallam:

Great.

Mike Schliske | Analyst, DA Davidson:

And then as I follow up, I wanted to just ask for a little more detail on your truck related comments as well. Does a relatively quick ramp up in trucks, does that change any of your capacity plans or any of the other groups, or is that still going to run in its own area? And I guess can you comment also on whether along the way as the truck market ramps up, if you had any interesting new business wins the last quarter or so?

Jag Reddy | President and CEO, Mayville Engineering Company:

Absolutely. We continue to see a significant ramp in commercial vehicle build-out rates. Our understanding currently is that most of the 2026 build slots have been filled and the customers are just beginning to open up their 2027 build slots. That is certainly a faster uptake than we have anticipated in Q1, and we continue to support our customers, all three major customers we currently work with, as they increase their build outs and build rates. At the same time, we continue to see good market share gains, particularly related to 2027 EPA emissions change. We talked about in our prepared remarks a couple of wins in the commercial vehicle space, and we continue to see good activity with the OEMs that are introducing new models going into 2027. In the previous quarters, we talked about our significant wins for the 2027 model truck, particularly a couple of the customers. And those programs continue to be on track with revenue potentially showing up in late Q4. Certainly, the ramp for those vehicle programs will be in 2027. OK, great.

Mike Schliske | Analyst, DA Davidson:

Thanks for the time. I'll pass it along.

Operator | Conference Operator:

Your next question from the line of Vlad Bystrycki with Citigroup. Vlad, your line is now open. Please go ahead.

Vlad Bystrycki | Analyst, Citigroup:

Morning, Vlad. Hey, good morning. Morning, Jag and Rachele. Thanks for taking my call here. I just wanted to ask you about when I think about the revenues and adjusted EBITDA range for 3Q and the back half of this year, Can you just talk about the puts and takes at the low end versus the high ends of that look and whether the ranges are more dependent on sort of customer timing or uncertainty or more so around your ability to

continue ramping on DCP volumes and deliveries?

Rachele Lehr | Chief Financial Officer, Mayville Engineering Company:

Thanks, Vlad. Yeah, I think As we talk about it, the primary variables as we look at the low end and the high end are truly the pace of the CB recovery. We are seeing, as Jagadeesh mentioned, a lot of increase there, but how fast does that happen? So that's a piece that will impact whether we're at the low or the high. The timing and execution of DCP volume. We're continuing to see the volume, but this market is continuing to evolve and change. And so sometimes customers are pushing things out, pulling things forward. So that could impact it. And then how quickly can we get through these launch and outsourcing costs? The outsourcing costs are highly related to when we get our capital equipment purchases. And so the sooner those come in and the sooner we can get those up to speed, the sooner we'll be able to then reduce those costs. So those are kind of the three factors that put us on different ends of the range.

Vlad Bystrycki | Analyst, Citigroup:

Got it.

Ted Jackson | Analyst, Northland Securities:

That's really helpful. Appreciate the color, Rachele.

Vlad Bystrycki | Analyst, Citigroup:

And then just as a follow-up, can you give us some color on the nature of the DCP program awards that you've been winning over the past year or so? Are these mainly additional programs for existing customers? Are you seeing new customer wins? and then just to follow up to that, can you, as you think about the incremental DCP cross-selling revenue on slide 11, how should we think about the level of certainty around those revenues or any risks around generating those sales in the timeframes noted on the slide?

Jag Reddy | President and CEO, Mayville Engineering Company:

Yeah, Vlad, the wins in the DCP and market are both existing customers increasing volumes of existing ACUFAB programs. It's new programs from existing DCP customers and multiple new customers that we have been able to bring online since the transaction closed in July of last year. So we have added significant number of new customer programs to the mix since the closing of AccuFab acquisition. We talked about, as an example, one particular customer that is new to Mac and AccuFab that have so far awarded a little over $55 million worth of programs. just this year alone, and they continue to look at additional programs to award to MECC. So that is, I would say, that probably out of the 90 million of bookings that we've had in the two quarters this year, easily that's 55 million of that is just from one brand new customer that came online after the acquisition closed. At the same time, the total $135 million of bookings we have had since the transaction closed are a mix of new programs from existing customers and new volume increases from existing programs that we picked up with acquisition. And from a timing perspective, we feel really good about the timing of these incremental cross-selling revenues that we have laid out on slide 11. And we see a line of sight to certainly, right, you know, 2026 revenue. And then we also see good progress towards the 27 revenues.

Vlad Bystrycki | Analyst, Citigroup:

Pat, I appreciate all the color, Jack. I'll get back to you.

Operator | Conference Operator:

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

Greg Palm | Analyst, Craig Hallam:

Thanks. Good morning. Good morning, Jag and Rachele. I wanted to follow up on the capacity reservations that you talked about. In terms of background, are these requests coming directly from customers, and how did these conversations even start? And to be clear, are they solely with Your existing customer base or are you having these conversations with companies that you aren't yet doing business with?

Jag Reddy | President and CEO, Mayville Engineering Company:

I would say most of these conversations are with both existing and new customers in the DCP market space. Greg, as I mentioned earlier, that is a new business model that we're exploring. and in our legacy and markets, whether it's construction or CV or ag, that is not a framework that those customers are used to. And even though we have had preliminary conversations with legacy customers, but we're already on contract for those volumes, we already won those programs and it's a little bit challenging to go back to those customers. Certainly the new customers who are bringing on, those are the conversations we're having and I'll also throw in the mix. As we are working on our Southeast facility identification, that's another opportunity for us to put in front of the DCP customers to say, look, at some point we will have a new facility in the Southeast and here's your opportunity to reserve some capacity. So I would say that's another interesting opening for us to pursue that framework.

Greg Palm | Analyst, Craig Hallam:

And I guess given this dynamic, are you changing at all how you're looking at newer business opportunities in the pipeline? Are you becoming more selective to hold some of these potential spots for larger capacity reservations?

Jag Reddy | President and CEO, Mayville Engineering Company:

We are. I would say that as much as our sales team hates it, we have had to say no to some small programs. We have had to say no to some opportunities because we are right now, in the next 12 months, as we project out our capacity utilization, as we project out where we will be by mid to late next year, we're already making some calls on which programs to walk away from, which programs We need to exit, right? So it's a lot of analysis and a lot of internal conversations that we're having. But yes, we're having to make some choices. And my expectation is that those choices will help us in the long run to improve our mix, improve our profitability, and continue to push up our expectations for our margin profile.

Greg Palm | Analyst, Craig Hallam:

Okay, thanks.

Operator | Conference Operator:

Your next question from the line of Ross Sparenbleck with William Blair. Ross, your line is now open. Please go ahead.

Mike Schliske | Analyst, DA Davidson:

Hey, good morning.

Jag Reddy | President and CEO, Mayville Engineering Company:

Morning, Ross.

Ross Sparenbleck | Analyst, William Blair:

Hey, sticking to the new wins here, can you maybe just give us a sense of how the mix of revenue is expected to change over time as we think about maybe bespoke programs versus these higher quality, longer term programs that you're selectively bidding on?

Jag Reddy | President and CEO, Mayville Engineering Company:

Yeah. We are certainly prioritizing volume increases from existing programs. What I mean by that is if a DCP customer currently has a program that we're building in one of our plans. And we have seen occasions where they would come in and then say, I want to double my volumes. I want to triple my volumes. I want to quadruple my volumes. Those programs obviously get a higher priority because it's the product line that we know well. Systems and processes have been set up, and it's easier to scale those programs. We'll prioritize those. at the same time, right, if we're adding equipment, CapEx, new incremental costs, we're going back to them to raise our prices even for those existing programs. That'll push our mix and margin up for the future. At the same time, we are looking at where can I exhaust my open capacity? So we're being very selective about converting our tube plants in Michigan, particularly one plant and potentially a second plant, to take on fabrication of DCP products. This is, I would say, a very challenging switchover, but the team has done a phenomenal job in converting one of our tube plants into a fab plant and that has opened up significant opportunities for us to take on DCP product lines. That would be our second opportunity. Again, we talked about PowerSports customers offshoring many of our programs. Even though that's a headwind in the short term, we're looking to take that capacity, convert that to DCP as well. So that's a second priority that we're driving. and then the last but not least, scale. If we're gonna take on a 10, $20 million program, we would prioritize that versus multiple two to $3 million programs. So that's how we're trying to scale up and mix up for the future.

Ross Sparenbleck | Analyst, William Blair:

Yeah, that's helpful. And that's kind of what I'm trying to assess here. And there's inherent cyclicality in some of your in markets. You can't really fix that. but you're going back and you're repricing an existing business because of the level of demand. So just trying to, you know, how should we think about, you know, the contribution of kind of higher quality, longer term, like recurring revenue, just the stability of the portfolio

outside of, you know, just obviously we're going to have more DCs, maybe some more defense. Just generally speaking, like is it kind of 30% heading to 20% that's like bespoke, kind of one-offs that are cyclical? Right.

Jag Reddy | President and CEO, Mayville Engineering Company:

In the past, Ross, we talked about reducing our overall CV mix to just under 25%. I think we're making good progress, not by exiting CV programs, but by increasing our exposure to DCP programs. So that's number one. We see a line of sight to 20% revenue mix of DCP product lines by end of this year. Even though we're not laying out any long-term targets for our DCP mix, I could see in the long run somewhere between 25% to 30% of total revenues, MEC revenues exposed to DCP because we do think that it's a three to five year cycle, at least from what we can assess. So those are the two drivers I would say that reduce a lower margin end market exposure and increase a higher margin DCP exposure in the long run.

Ross Sparenbleck | Analyst, William Blair:

Okay, I understand. And then maybe just one more really quick on that new facility coming online. Forgive me, but did you guys give a kind of a sense of the size there on square footage as we think about the revenue? runway you gave us?

Jag Reddy | President and CEO, Mayville Engineering Company:

We have not. We continue to explore those options. We feel pretty good about being able to find and close on a plant sometime this year. And what we are targeting is a plant that has some existing infrastructure that could eventually generate between $50 and $60 million of revenue once it's fully capitalized, i.e., put capital equipment and hire new people, train them, and scale that up.

Ross Sparenbleck | Analyst, William Blair:

Okay. I'll pass it along. Thank you.

Jag Reddy | President and CEO, Mayville Engineering Company:

Thank you, Ross.

Operator | Conference Operator:

If you would like to ask additional questions and re-enter the queue, please press star 1 to raise your hand. To withdraw your question, please press star 1 again. Your next question from the line of Ted Jackson with Northland Securities. Ted, your line is now open. Please go ahead.

Ted Jackson | Analyst, Northland Securities:

Thanks very much. Rachele, my first question was actually just a clarification. You made a comment with regards to kind of what you thought this you know plan that you want to put in place in the southwest might cost and I missed the number and so I just wanted to get that really quick.

Rachele Lehr | Chief Financial Officer, Mayville Engineering Company:

Yeah we said that that could cost us 25 to 30 million dollar range that would be buying a facility that would be you know in the 10 to 15 and then putting another 10 to 15 in capital in that.

Ted Jackson | Analyst, Northland Securities:

And then, so when we think about the $50 million of incremental capex that you want to put into play over the next, I call it two years, half of that is from this, you know, both building and the equipment to make it a factory. And then the other half is expansion within your existing footprint in terms of capability and capacity. Is that the way to read that?

Rachele Lehr | Chief Financial Officer, Mayville Engineering Company:

Yeah. Yeah, that's correct. Yeah, we were saying, you know, in our existing facilities, we're investing about 10 to 15 incremental, just kind of on the fringes for where we have existing. And then as we grow in the future, we put that similar target out.

Ted Jackson | Analyst, Northland Securities:

And then taking this a step farther, on your view with regards to the revenue capability of your capacity, you know, This would take that view north of $900 million. I think your current view is 850, and you're going to add 50 to 60 plus more capability in your existing facility. We're talking about something between $900 and $1 billion in terms of revenue support on this expense.

Rachele Lehr | Chief Financial Officer, Mayville Engineering Company:

Yes, we've publicly stated that in our existing facilities, we think we have 850 million in capacity. And so then adding that 50 to 60 million would take you north of the 900.

Jag Reddy | President and CEO, Mayville Engineering Company:

I do want to add a caveat, Ted, that is the capacity number at the same time, right? You know, some of our end markets could be highly cyclical, right? By the time we get to that extra capacity, We just need to be aware that some of our legacy end markets could go back into a downturn. So we just need to be a little cautious, not just stack a number on top of another number.

Ted Jackson | Analyst, Northland Securities:

No, no, I'm just trying to understand the dynamics with regards to your investments and what it all means. And the long and short of it is, I understand it's not a revenue number, but simply put, you know, sometime when we're either exiting 27 or in 28, the firm itself at a fundamental level should have the infrastructure to support that kind of revenue.

Jag Reddy | President and CEO, Mayville Engineering Company:

That's right.

Ted Jackson | Analyst, Northland Securities:

And then I wanted to touch base on two more things. One, I'm just kind of curious. The functions that you have to outsource, what are they? And then the equipment that you need to put in place, you're saying it's four to six month lead times. Is that, I assume you already put the orders in for that equipment. And so I guess where I'm going with that is that, what is the function and at what point do we see that constraint being resolved. Is that something in early 2017, or will you have that before the end of the year?

Jag Reddy | President and CEO, Mayville Engineering Company:

Yeah. A couple of main things we're outsourcing. One is laser capacity that is strictly taking large sheets of metal and cutting into shapes. We have ordered a significant number of laser machines. Some of them are being installed. Some of them are on their way. Some of them will get delivered towards end of this year. We're adding a lot of laser cutting machines across the enterprise. So we're outsourcing some of that work as we ramp new programs. Secondly, we are also outsourcing some brake press capacity. That's primarily, yeah, we have some machines on order. but more importantly, there is a labor constraint in some of our key factories where in Defiance, Ohio area, unemployment rate is 2.3%. In Mabel, Wisconsin area, unemployment rate is 2.9%. So we're working hard to fill some of those positions. While we fill those positions and train these new operators, were outsourcing some of that work as well. And then last but not least, paint capacity. As an industry, there is dearth of paint capacity, paint and powder coat capacity in the country. So we're also looking at bringing some of that work into our Wisconsin paint facilities. At the same time, sometimes it's more economical just to outsource some of the paint capacity to local paint vendors in some of these locations, so we're outsourcing that as well. So those are, I would say, three of the activities we're currently outsourcing, and we expect to pull some, if not all of it, by early next year, at least for these programs, back in-house, and hence some increased transitionary costs in the second half of this year.

Ted Jackson | Analyst, Northland Securities:

Okay, so it's a combination of equipment and labor. and then labor was actually the next question I wanted to ask is, you know, you put this expansion in place and, you know, you've commented in the past in terms of, you know, the amount of hiring you've done, the hiring needs that you have and honestly the challenge of retaining and, you know, what's really a, you know, it's a seller's market in terms of labor these days for manufacturers. What's the view with regards to the cost to put all this new capacity in place from a labor standpoint, both in terms of just kind of headcount and maybe dollar per headcount. And how does that layer in, you know, relative to the ramp in demand? And I guess where I'm getting at, you know, as we think about it, and I know you're not giving 27 guides, but as we think about 27 and a lot of this capacity You know, turns on, you know, you're going to have, I'd imagine you're going to have to have some investment in terms of some, you know, labor expenses, operating expenses, costs that are, you know, going to go in front of that. How do we think about that? as we get into 27 and you really start to see at least at the top line the benefits of your investments and kind of the investments that you're going to have to continue to do to kind of drive forward to what should be great margins. That's my last question. I hope it wasn't too long.

Jag Reddy | President and CEO, Mayville Engineering Company:

Sure. I'm going to let Rachele get into some of the details of our hiring and hiring plans and associated costs. But in general, I would say that we're not the only ones that are seeing labor constraints. So we're doing a couple of things. Number one, as the labor costs increase, at least temporarily or in certain locations, we're pricing our programs accordingly. to take into account increased costs. That's number one. Number two, we're asking our customers, if it's a transitionary cost, to actually pay for that increase over time or outsourcing or things like that. So we're having those conversations with our customers. And then last but not least, we're also looking at locations where we have access to good labor pools like Detroit area. So our Hazel Park is obviously being scaled up. Similarly, we can hire people in Raleigh, North Carolina. We can hire people in Chicago area. So we are prioritizing where to put some of these larger programs to make sure that we have good access to labor pools as well.

Rachele Lehr | Chief Financial Officer, Mayville Engineering Company:

And I would add to that beyond really identifying strategically where we want to put programs, We're looking across all of our sites from a very holistic manner. It's about attraction, retention, the overall employee experience. And so from an attraction standpoint, yes, we need to ramp up our plans by several hundred people by the end of the year. So getting to your point, Ted, we're looking to be ramped with those employees before we hit 27 so we can hit the 27 production versus waiting till 27 to start hiring. And that's all built into our plans right now. We're actually leveraging some third-party resources to help us with that, too. As Jag pointed out, in several markets where we have very low unemployment, our teams have already pulled out everything out of our tool chest, but now let's go and use others. We're not afraid to use the resources we need, but doing it prudently. Everything comes through me with the business case, so get to make sure that we're making the right decision for our financials, and it is all built into our second-half guidance right now. Then also from a retention standpoint, with having some of those outside resources helping us on attraction, our teams in location are going to be able to focus more on what's happening in the facilities with the employees, with the management to make sure we're focused, along, of course, with the standard retention programs and things like that that you put in place to keep our employees. So we're taking a holistic look at this to make sure that we aren't just bringing people in and continuing to cycle them out. We're bringing them in so they stick and can help us contribute to future year's revenue and growth.

Ted Jackson | Analyst, Northland Securities:

All right. Thanks for the answers. Congrats on the quarter. Looking forward to the next couple of years.

Operator | Conference Operator:

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

Greg Palm | Analyst, Craig Hallam:

Thanks for taking a few follow-ups. I guess from our seat on the outside, it's hard to understand the full impact of some of these temporary cost pressures. I'm trying to figure out your visibility here as we get into 2027 because I'm assuming you'll continue to win more business and there's going to be new programs at launch. There's always going to be this ongoing demand. but is it just a matter of increasing your revenue to some point that you're better able to absorb them? And then just to be clear, it sounds like some of the outsourcing stuff is really just a byproduct of once the equipment's there and you have it, you take it in-house and those go away entirely. So I just wanted to confirm that.

Rachele Lehr | Chief Financial Officer, Mayville Engineering Company:

Yeah, I think starting with the outsourcing, you're absolutely right. Once the capital equipment's in, we won't need to use the outsourcing at least for the existing programs. As you point out on winning new business, yeah, there might be some, but the margins will be higher. It'll be built in. We'll understand that. But really right now, the million to million and a half that we've been looking at each quarter is as we look to bring additional facilities up to speed. So, you know, Jag mentioned now we're looking at another two facilities. So those are the things that we're incurring right now. But yes, as we... potentially open the Southeast facility, we know we'll need ramp costs there. So it's really facility-based where we're seeing a lot of this. We will continue to have that that way, and then we'll also have the increased margin for absorption, as you pointed out as well.

Jag Reddy | President and CEO, Mayville Engineering Company:

Just to add to that, Greg, and at some point, right, we're going to run out of footprint, we're going to run out of capacity, even with all of these additions, right? What is the timing? We're obviously not providing any guidance at this point. Is it 28? Is it late 2027? So I think those are some of the calculations that are going into our planning for next year at the appropriate time towards the end of this year, beginning of next year. I think we'll have more clarity internally, but also we'll be able to share more of those details with our shareholders and our stakeholders.

Greg Palm | Analyst, Craig Hallam:

Okay, and then I guess just one more follow-up on the capacity reservation point. And this kind of relates to potentially the new facility that you talked about. Would you be expecting to dedicate that to a single customer? And what are the chances that some of that CapEx requirement could actually get funded by an actual customer? And same thing with the capacity reservation dedication. are there certain launch or ramp-up costs that could actually be incurred by the customer in that situation versus yourself?

Jag Reddy | President and CEO, Mayville Engineering Company:

It is possible. Those are all the options our commercial team is exploring with our customers.

Greg Palm | Analyst, Craig Hallam:

Okay. I'll leave it there. Thanks.

Jag Reddy | President and CEO, Mayville Engineering Company:

Thanks, Greg.

Operator | Conference Operator:

This concludes our Q&A. I will now turn the call back to Jag Reddy for closing remarks.

Jag Reddy | President and CEO, Mayville Engineering Company:

Before we conclude, I want to thank our employees for their continued strong focus and execution and our shareholders for their ongoing support. We remain confident in the progress we're making to position MECC for durable, high growth, higher margin 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.