NYSE:MEI Q2 2025 Earnings Call Transcript

Generated on 6/10/2026

Operator:

Welcome to the Method Electronics second quarter fiscal 2025 results call. At this time, all participants are in a listen-only mode, and a question and answer session will follow the formal presentation. If anyone should require operator assistance during the conference, please press star zero on your telephone keypad. And please note, this conference is being recorded. I will now turn the conference over to your host, Mr. Robert Cherry, Vice President of Investor Relations. Sir, the floor is yours.

Robert Cherry | Vice President of Investor Relations:

Thank you, Operator. Good morning, and welcome to Metho Electronics' Fiscal 2025 Second Quarter Earnings Conference Call. For this call, we have prepared a presentation entitled Fiscal 2025 Second Quarter Financial Results, which can be viewed on the webcast of this call or found at metho.com on the Investors page. This conference call contains certain forward-looking statements. which reflects management's expectations regarding future events and operating performance, and speak only as of the date hereof. These forward-looking statements are subject to the safe harbor protection provided under the securities laws. The method owner takes no duty to update any forward-looking statement to conform the statement to actual results or changes in method's expectations on a quarterly basis or otherwise. The forward-looking statements in this conference call involve a number of risks and uncertainties. The factors that could cause actual results to differ materially from our expectations are detailed in methods filings with the Securities and Exchange Commission, such as our 10Q and 10K reports. On slide four, please see an agenda for our call today. We will begin with a business update, then a financial update, followed by a Q&A session. At this time, I'd like to turn the call over to Mr. John DeGainer, President and Chief Executive Officer.

John DeGainer | President and Chief Executive Officer:

Thanks, Rob, and good morning, everyone. Thank you for joining us for our second quarter earnings conference call. I'm joined today by Laura Kowalczyk, our Chief Financial Officer. We are pleased to have Laura join the Methode team, given her background and experience. She has an impressive track record of delivering successful business transformations within our industry and has gotten off to a fast start at Methode. Turning to slide five and our results for the quarter, our sales were $293 million, and our adjusted pre-tax income was $9 million. As noted in our earnings release, the quarter benefited from an extra week. Our fiscal 2025 is a 53-week year, and that extra week fell into this quarter. Aside from the impact of the extra week, sales benefited from higher demand from our power products and data centers and electric vehicles. We also had growth in Europe from automotive program launches. Offsetting these strengths were program roll-offs that we discussed before and demand weakness in the commercial vehicle market impacting our lighting business. Overall, our sales in the quarter were on track with our expectations. The solid sales volume, along with progress on our cost reduction efforts, drove the pre-tax income improvement in the quarter. In particular, we had a notable reduction in freight costs, particularly premium freight, which is a direct reflection of our overall improved operational execution. The better than expected result was also driven by improved fixed overhead absorption, another sign of execution improvement. Turning to EV activity, sales in the quarter were 20% of our consolidated total, a sequential increase from 18% in the first quarter. We are experiencing the beginning of a wave of new program launches for EV power applications. As such, we continue to expect the EV percentage to grow further, and it should be over 20% for our full year fiscal 2025. While our sales are currently on track for the full year, there are clearly some tailwinds and headwinds in several of our key end markets. Helping us is the growth in data centers. Conversely, hurting us is the weakness in automotive and commercial vehicle demand. The EV market has clearly softened, particularly in North America, but our program launches are mitigating that softening. Turning to the balance sheet, we are maintaining an acute focus on managing it and generating cash. While we experienced a timing issue with accounts payable this quarter that led to a sizable reduction of net cash from operating activities, we were comfortably in full compliance with all our debt covenants. On the order front, we had another solid quarter with over $50 million in annual program awards. This is on track with our expectations for the year. The pipeline of bookings is subject to reduction and or delay due to customer decisions and or market conditions. Lastly, and as I have emphasized before, our immediate priority is to successfully execute on the large pipeline of new programs that must be launched in the next 18 months. In fiscal 25, we have over 30 program launches, and in fiscal 26, we have another 20 plus programs to launch. Our customers are counting on us, and we plan to deliver. In short, we believe that our efforts to improve our execution have started to bear fruit as clearly evidenced by the better than expected results in the quarter. Turning to slide six, the awards identified here are some of the key wins in the quarter and represent $43 million of annual sales at full production. As usual, the launch timing of these programs could be anywhere in the range of one to two years from now. All of these awards were for power distribution products for applications in EV, traditional auto, and defense. As you can see from this chart, bookings can be lumpy. What's important to note is that on a trailing 12-month basis, we are winning awards at a rate sufficient to at least maintain our current annual sales level. Overall, we feel our award activity has been solid. Turning to slide seven, what am I learning since taking the CEO role in July? is that the company's path to success relies on returning to a one-method mindset, where all our global teams are working together and moving in the same direction. This mindset existed within Method historically and needed to be reinvigorated. To facilitate this reinvigoration, we have made a couple of key executive moves. We've appointed a dedicated leader that will oversee all global strategic, launch, and commercial activities for the company's automotive business. On December 2nd, Lars Ulrich joined Method as Senior Vice President, Global Automotive Business, reporting directly to me. Lars comes to us with over 20 years of business and strategic leadership experience in multinational companies, mainly as suppliers like Infineon and Robert Bosch. During his career, he has built a reputation for strategic and innovative thinking, a collaborative approach to customer relationships, operational excellence, and clarity in the face of challenges. He will be a strong addition to our leadership team and help us to develop and launch programs that delight our customers. In addition, we have also promoted Sadiq Eldrisi to lead all operations and engineering in Europe and the Middle East. This will be in addition to his current responsibilities as our Vice President of China. In his 18-year career at Methode, he has held management roles of increasing responsibility, culminating with the successful execution of the company strategy in China. Sadiq is well-respected in his experience, leadership, and demonstrated ability to achieve results makes him an ideal leader to guide our European and Middle Eastern operations through a challenging period of growth. These are both initial but crucial steps to getting back to our history, operating as one method to drive success. And with these steps, we now have fresh perspectives in the roles of CEO, CFO, CPO, and SVP of Global Auto as compared to just five short months ago. Turning to slide eight. In summary for the quarter, sales were on track, while our pre-tax income was better than expected. EV activity steadily grew and was 20 percent of total sales. Data centers were a market tailwind, but the auto and commercial vehicle markets were a concern. While we experienced a timing issue on cash, we were comfortably in full compliance with all debt covenants. Lastly, program awards were solid. Going forward, our focus this fiscal year is to transform the business while positioning it to return to profitable growth next fiscal year. Meanwhile, we are focusing intensely on executing our 30 programs while taking decisive actions to address execution and costs. Led by our new leadership team that we have systematically built over the last several months, Method is focused on transforming its business. We are also committed to compliance and taking steps to invest in our compliance resources and processes. Regarding compliance, Methode has disclosed that the company has received a subpoena from the SEC seeking documents and information. We take all compliance matters seriously and are cooperating fully. While we are limited in what we can say about this matter, we are committed to transparency and will keep you informed. Lastly, for fiscal year 2025, we are reaffirming guidance for flat sales and raising adjusted pre-tax income guidance to approximately break even. I've spent a tremendous amount of time traveling over the past quarter, meeting with customers, visiting our plants, and talking to Method employees. I can share with great confidence that our team is clearly energized, and the results from this quarter demonstrate that our business is heading in the right direction. At this point, I'll turn the call over to Laura, who will provide more detail on our second quarter financials.

Laura Kowalczyk | Chief Financial Officer:

Thank you, John, and good morning, everyone. I am very excited to join the method team and thanks to John for his kind remarks. Please turn to slide 10. The second quarter net sales were 292.6 million compared to 288 million in fiscal 24, an increase of 2%. On a sequential basis, sales increased 13% from the fiscal 25 first quarter. As John referenced, the company's typical fiscal year is 52 weeks, but occasionally requires an additional week in order for the fiscal year to end on the Saturday closest to April 30th. The current fiscal year, ending May 3rd, 2025, is a 53-week fiscal year with the additional week being included in this fiscal quarter, making it a 14-week period. The prior year's second quarter, as well as this year's first quarter, were 13-week periods. As a result, the extra weight contributed to our financial comparisons. In this quarter, sales of power products into data center applications grew both year over year and sequentially. We also saw some modest growth in EV sales sequentially. The quarter also benefited from our launch activity in Europe. Offsetting those strengths was the impact of the previously disclosed roll-off of an EV lighting program in Asia. That program ended toward the end of the last fiscal year and has had no sales this year. Also creating a headwind was the market weakness for our lighting products and commercial vehicle and off-road applications. First quarter adjusted income from operations was $14.3 million, up $8.3 million from fiscal 24. On a sequential basis, adjusted income from operations improved $19 million from the fiscal 25 first quarter. Please see the appendix for reconciliation of all adjusted measures to GAAP. The increase in adjusted operating income, both year-over-year and sequentially, was driven by the higher sales volume. In addition, we were able to significantly reduce our freight costs, particularly our premium freight, due to the operational improvements that John described. The increased volume also served to improve our fixed overhead absorption. Overall, our second quarter sales were on track with our full year expectations. Please turn to slide 11. Shifting to EBITDA, a non-GAAP financial measure, second quarter adjusted EBITDA was $26.7 million, up $5.5 million from the same period last year. On a sequential basis, adjusted EBITDA improved $16.9 million from the fiscal 25 first quarter. The adjusted EBITDA benefited both year-over-year and sequentially from higher sales and gross profit. It was also driven by lower selling and administrative expenses in both comparisons. Please turn to slide 12. Second quarter adjusted pre-tax income was $6.2 million, up $3.8 million from fiscal 24. On a sequential basis, adjusted pre-tax income improved $15.3 million from the fiscal 25 first quarter. Compared to the prior year and the last quarter, adjusted pre-tax income was driven by higher net sales. In addition, both comparisons benefited from lower freight while being partially offset by higher net interest expense. Second quarter, adjusted diluted earnings per share increased to 14 cents from 6 cents in the same period last fiscal year. On a sequential basis, the adjusted earnings per share increased 45 cents from the fiscal 25 first quarter. The second quarter adjusted EPS included a tax expense due to the guilty tax treatment on foreign earnings, which was offset by various tax benefits. The result was approximately zero adjusted tax expense in the quarter. Overall, our second quarter adjusted pre-tax income was slightly ahead of our full year expectations. Turn to slide 13. Debt was up $9.7 million from the prior year end. We ended the quarter with $97 million in cash, down $64.5 million. Elevated program launch activity drove higher inventory investment year-to-date. This was the primary use of cash year-to-date. Net debt, a non-GAAP financial measure, increased by $74.2 million to $243.6 million. The increase was mainly due to the aforementioned use of cash. Despite the consumption of cash, we were in compliance with all of our debt components at the end of the second quarter. Please turn to slide 14. The second quarter's net cash from operating activities was a negative 48 million as compared to a negative 0.6 million in fiscal 24. The decrease of 47.4 million was primarily due to a sizable decrease in accounts payable related to the timing of payments between the first and second quarter as well as the 14-week period. Second quarter capital expenditure was 10.4 million as compared to 10.7 million in fiscal 24, a slight decrease of 0.3 million. Second quarter free cash flow, a non-GAAP financial measure, was negative 58.4 million as compared to a negative 11.3 million in fiscal 24, a decrease of 47.1 million. This decrease was mainly due to the accounts payable timing issue that

I just described. Please turn to slide 15. Regarding forward-looking guidance, it is based on management's best estimates and is subject to change due to a variety of factors, as noted at the bottom of this slide. For fiscal 25, we are reaffirming expected net sales to be similar to fiscal 24, with the third quarter expected to be similar to third quarter of fiscal 24. We are raising adjusted pre-tax income guidance to be approximately break-even. This raise is mainly a function of our outperformance in the second quarter. Please note that the adjusted pre-tax income in the fourth quarter is expected to be significantly stronger than the third quarter, with the third quarter potentially having a pre-tax loss. Please keep in mind that our third quarter is historically our weakest quarter due to the holidays and customer shutdowns. In addition, it will be our first full quarter since the effective end of the GMT-1 program, and we are also seeing some near-term auto market weakness, just like others in the industry. This fiscal year 25 guidance assumes depreciation and amortization of 60 to 65 million, capex of 45 to 55 million, and tax expense of 13 to 15 million. The reduction in capex guidance is primarily related to the lower run rate year to date. The increase in tax guidance is related to a higher valuation allowance for U.S. deferred tax assets, which was $7.5 million through the first half of the year. Looking further ahead to fiscal 2026, we are reaffirming expected net sales to be greater than fiscal 25 and pre-tax income to be positive and notably greater than fiscal 25. That concludes my comments, and we can open it up to questions.

Operator:

Thank you. At this time, we will be conducting our question and answer session. If you would like to ask a question, please press star 1 on your telephone keypad. A confirmation tone will indicate your line is in the question key, and you may press star 2 if you would like to remove your question from the queue. For participants using speaker equipment, it may be necessary to pick up your handset before pressing the star keys. One moment, please, while we poll for questions. Thank you. Our first question is coming from John Fransreb with Sidoti and Company. Your line is live.

John Fransreb | Analyst, Sidoti & Company:

Good morning, everyone, and thanks for taking the questions. I was wondering if you could quantify the impact of the extra week, not only on the top line, but perhaps on operating results.

John DeGainer | President and Chief Executive Officer:

So, John, from what we look at with the extra week is it's approximately $20 million worth of revenue, and then it would have the follow-on operating results that go along with that.

John Fransreb | Analyst, Sidoti & Company:

Okay. Those drops down. Got it. And what cost control measures impacted the second quarter results beyond the reduction in freight costs? Was there anything else that had a positive impact on operating income?

John DeGainer | President and Chief Executive Officer:

Yeah, and as we said, we're seeing, you know, thinning of overheads. We're also seeing improvement in our scrap activities. So it is execution-driven activities that really are driving the performance, execution-focused activities that are driving the performance.

John Fransreb | Analyst, Sidoti & Company:

Okay, fair enough. And of the $50 million in new orders, how much was that directly related to new programs in the EV market versus other markets?

John DeGainer | President and Chief Executive Officer:

Well, the majority of our launches are all in on EV programs or on power programs, as we've talked about. So, all of the awards are in those areas, as we said.

John Fransreb | Analyst, Sidoti & Company:

Fair enough. And one last question, I'll get back into queue. In regards to the improvement in the data center market, can you kind of quantify what kind of impact that is up year over year or any other way that kind of puts it all in context?

John DeGainer | President and Chief Executive Officer:

So, you know, data centers are roughly 3 to 5 percent of our total sales. And what we're seeing is we're about 50 percent year over year improvement. It's above average margin for us, and we're really excited about the opportunities that we see in that space going forward and trying to expand that business beyond the 3 to 5%.

John Fransreb | Analyst, Sidoti & Company:

Okay. Fair enough. I'll get back to you. Thanks for taking the questions. Thanks for the question, Sean.

Operator:

Thank you. Our next question is coming from Luke Young with Baird. Your line is live.

Luke Young | Analyst, Baird:

Great. Thank you for taking the questions, and good morning. I wanted to circle back just to the pre-tax income walk into the third quarter. I appreciate, Laura, the things that you shared. I'm just wondering if there's anything else that we should be accounting for in terms of things that may have been temporary in the current quarter beyond the inventory reserve, any impacts that we should think about from the extra week that have an outsized bottom line impact either, John?

John DeGainer | President and Chief Executive Officer:

Hey, Lucas, John, good morning. I'll take the first piece, and if Laura wants to add color to it, she can. There were not, other than the extra week, there were not one-off positive performance things in Q2. So as we think about Q3 and as we talk about the perspectives with regard to Q3, it really comes down to it's our lightest revenue quarter. So we feel confident about the base performance of the business, where we are in the progress that we're making, but we need to be transparent with our investors that Q3 is a challenging quarter just because of the holiday periods around the world, not because of something else one-off or something else special within Method.

Luke Young | Analyst, Baird:

Okay. Then switching gears here, wondering if you'd be able to comment just where we stand from a launch standpoint right now. In other words, you're anticipating 30 plus launches this year. Just how many of those are already in motion versus what remains to execute? And maybe if you could just remind us of the waiting to Europe and risk of any launches flipping to the right geographically specifically.

John DeGainer | President and Chief Executive Officer:

So from a launch standpoint, many of them are capitals on the floor. We're in final development phase or we're in wrap-up phase. These launches are mainly between North America and EMEA. and they're split relatively equally. What we do see is we do see certain customers, particularly on EV programs, where they may delay the start of their programs. It's not program cancellations, but it is exactly when they start those ramp-ups, so we're working with our customers from the standpoint of making sure that we've got transparency on when exactly they start and how do we manage our pipeline of inventory and some of what we talked about here with regard to the uses of cash, but also what do we do to support our customers there.

Luke Young | Analyst, Baird:

I don't know if you're able to make any specific comments relative to Stellantis, but obviously a really important launch customer this year. Any color there would be great as well, if possible.

John DeGainer | President and Chief Executive Officer:

So Stellantis, as we've talked about, is a very important customer for us. And as we get the programs ramped up, they'll be one of our largest customers, an over $200 million revenue customer for us. We do see some, if you will, some timing shifts, and that's been publicized by them that they're taking their time with regard to their EV launches, so it's not new news. But what we see is we're not, you know, one, EV programs are at 20% of total methods. We're not overly exposed to EV programs, and we're not overly exposed to Stellantis. We're pretty comfortable with our balance on the different OEs. Stellantis is an important customer to us. We stay in very close contact with them, and we feel good about where that business is going, but we do watch it closely.

Luke Young | Analyst, Baird:

Got it. And then lastly, just on data center, a couple maybe clarifying items. One, can you just help us understand, you know, within the 3% to 5% overall exposure, industrial segment versus interface? And then in terms of the really strong year-over-year growth, are you seeing any AI-related changes

John DeGainer | President and Chief Executive Officer:

impacts in that business or would you say this is more core data center that's driving the improvement thank you so so as we said it is a relatively small portion of the total it is fairly significant year-over-year growth and we do see both ai and and just overall data center growth and and what we're exploring right now we're spending quite a bit of quite a bit of time on is what are additional opportunities where we can use our capabilities more fully to actually expand this space.

Luke Young | Analyst, Baird:

Got it. I will go ahead and leave it there. Thank you.

Operator:

Thank you. Once again, ladies and gentlemen, if you have any questions or comments, please press star 1 on your telephone keypad. Our next question is coming from Gary Prestapino with Barrington Research. Your line is live.

Gary Prestapino | Analyst, Barrington Research:

Thank you. Good morning all and welcome, Laura. Morning, Gary. A couple of questions, initially a little nitpicky. Interest expense looked like it was up sequentially. almost $1.4 million. Was there any one-time expenses in that interest expense number, or is that going to be the run rate at $6.2 million per quarter for the remainder of the year?

Laura Kowalczyk | Chief Financial Officer:

That should be the run rate, but as debt does decrease, obviously it will go down some.

Gary Prestapino | Analyst, Barrington Research:

Okay. And then could you, if it was a, you mentioned something about an inventory reversal, reserve reversal in interface, could you quantify that for us?

Laura Kowalczyk | Chief Financial Officer:

Yeah, the inventory reserve reduction in the interface segment was approximately a half a million.

Gary Prestapino | Analyst, Barrington Research:

Okay, so 500,000, great, thank you. So you mentioned one of the positive aspects of the quarter was premium freight costs are down substantially, which is great news. Have you reached a point here where you feel that your premium freight costs are now more normalized? Or is there still room to improve that metric? And if you could, could you maybe share how much premium freight was down?

John DeGainer | President and Chief Executive Officer:

So the answer, Gary, is no, we're not at a normalized period. Both from a premium freight and from a scrap perspective, we're continuing to drive additional improvement there. In the quarter, we had $7 million worth of premium freight, and we're working to move that down sequentially. And as we've said in the past, The team, particularly in Mexico, I'm sorry, I misspoke. It's a $7 million reduction quarter over quarter. I apologize. But the teams both around the world, but particularly the team in Mexico, has done a very good job of getting their business stabilized from where we were in fiscal 2024. from a scrap and premium freight perspective. I would expect to see continued improvement both in EMEA and in North America with regard to how we execute. We've got some additional work going on with regard to some pretty in-depth workshops to try to drive improvement in both Egypt and in Mexico that'll drive scrap down and will continue to drive premium freight down.

Gary Prestapino | Analyst, Barrington Research:

Okay, that's all good news. I just want to talk about some of these program launches, particularly with Stellantis. But first of all, beyond Stellantis, could you maybe talk about where some of this new business is coming from, what OEMs?

John DeGainer | President and Chief Executive Officer:

So, Gary, as you know, Intel program is in production. We're not allowed to name customer names. Okay. But it's balanced between, if you will, European OEMs, North American OEMs, as well as Japanese OEMs. That's as much detail as I'm able to give you at this point from stuff that hasn't started production yet. Okay. And the launches are primarily split between... the European market and the North American market, again, with the different nameplates that I mentioned to you or the different regional companies that I mentioned to you. But the teams around the world are working to try to make sure that those launches go well.

Gary Prestapino | Analyst, Barrington Research:

Okay. So let me ask a question. Let me put your question to you this way, John. You know, I follow other companies that are dealing with the EV market. they put together their projections on what, at least some of the companies, on what they can do to that particular OEM based on what the OEM is telling them they think their production levels are going to be. And then, you know, we're starting to see a slippage in the EV market. And obviously those projections come down as we go through the year. So could you maybe go through a sequence of how your determining what your potential sales are going to be, meaning you're taking the raw numbers from the OEM on what you, what they think their production levels are, or just give us some, some insight into that because it just appears to me that, that there's so many EVs coming out in the market. Um, but you know, they're not really getting purchased as, as quickly as they had been in the past.

John DeGainer | President and Chief Executive Officer:

Yeah. Yeah. So as, as we've said in the past, um, So let me talk about how we think about this first. It's easy to get focused because the press is so focused on just North American EV penetration while recognizing that we are selling into customers in the U.S., in Europe, and in China. So when you think about electric vehicle market penetration in the U.S., it's about 9%. In Europe, it's 21%, 22%. And in China, it's 27%. So those take rates and the market penetration changes depending on the region. So as we talk about launches both in Europe and in North America, we're not solely exposed to the North American market. That's part number one. Secondly, we don't just take the customer volumes as they give them to us. Certainly we use that as a consideration, but we look at the sources of expert data, if you will, whether it's Global Insights or IHS or others, to try to sense check what is the OE telling us, what do we read in the press, as well as what are the global experts are saying. Gary Dolan- And we sensitize then the ramp up the timing, the overall volumes and therefore what do we what do conversations do we need to have with customers and what do we have to do with with regard to. Gary Dolan- Our inventory plans, as well as to our capex plans so that's that's how the approach that we're taking Gary is we. we validate or we sensitize the customer data with third party data as well as our own subject matter expertise and try to then work with customers to make sure that we're covering our inventories and that we're scaling the capital appropriately.

Gary Prestapino | Analyst, Barrington Research:

Okay, that's very helpful, thank you.

Operator:

Thank you, we have, A question from John Franzrupp with Sedotian Company. Your line is live.

John Fransreb | Analyst, Sidoti & Company:

Yeah, I'm just curious. Are there any changes in your commercial vehicle assumptions in the coming year versus three months ago?

John DeGainer | President and Chief Executive Officer:

You know, John, thanks for the question. Like we just said, with regard to the EVs, we rely on external forecasters like ACT for commercial vehicle. And 2024 is a decline year-over-year, and 2025 is still down. And what we're seeing is we're seeing some positivity toward, if you will, toward the end of calendar year 2025, which would be the middle of our fiscal year. What we have done, so It hasn't changed materially over the last quarter. But what we are doing is we're spending a lot of time trying to reinvigorate, deepen our relationships with the customers. And I'm headed out to the West Coast to visit a couple customers before the holidays here. And we're really seeking to make sure that All of the relationships that we have on the commercial vehicle side are as robust as possible. We had customers visiting us in Europe to our facilities in Europe a couple weeks ago. I had the chance to be there at the same time, and we'll be seeing customers in a couple weeks on the CV side. So the CV business is cyclical, and it's got a little different cycle than the past car space. Their cycles are more dramatic peak to trough than what we see in the PASCAR space, but they're a very important customer base for us, and we look forward to growing with our CV customers over time.

John Fransreb | Analyst, Sidoti & Company:

Okay. And you touched on Mexico a few seconds ago. Where are we in that process of fixing operations in Monterey? Is that behind us? How much more is there to go? Can you kind of talk through what's going on there?

John DeGainer | President and Chief Executive Officer:

So I guess what I would say to you is there's a difference between fix and improve. Fix would imply that a relatively uncontrolled set of activities, where IMPROVE is more of a controlled set of activities. The team in Mexico, it's the one place I've been to twice in my tenure. And the majority, I said to you that we had premium freight reduction on a quarter-to-quarter basis of $7 million. The majority of that premium freight reduction was in Mexico. The team there has done a very good job of getting from fix into improve. There's a long way to go from an improvement standpoint. But the leadership team down there and the global organization with some specific outside help is really continuing to drive progress there. So it's less about, if you will, an uncontrolled set of problems and more about controlled opportunities down there. Does that make sense to you, John?

John Fransreb | Analyst, Sidoti & Company:

Yeah, it's a start. I get it. Fair enough. And one other question. Your reduction in the CapEx spending, does that represent just lower required spending or a change in the timing of that spending from this year to next year?

John DeGainer | President and Chief Executive Officer:

Some of both. As I said to you, as we look at EV programs or if we look at customer needs, so part of Part of my background, and you and I haven't had a lot of chance to talk about this, but part of my background is operations and what we do with all these programs is we look at what was the initial capital assumption and where are our opportunities for capital efficiency. And we've driven a lot of productivity in a couple areas, SMT being one of them, where we haven't needed to make investments that were originally planned. So some of it is, is actually capital reduction, capital spend reduction, and others of it are timing change based on where customer programs go.

John Fransreb | Analyst, Sidoti & Company:

All right, and I guess one last question to bother everybody here. The cash outflow was kind of sizable in the quarter. Will we be able to recapture that with cash inflows by the end of the fiscal year, or will it be a net cash outflow year?

Laura Kowalczyk | Chief Financial Officer:

Yeah, we are certainly looking to reverse some of that cash outflow in the next two quarters, and we certainly expect to be, you know, approaching neutral.

John Fransreb | Analyst, Sidoti & Company:

Fair enough. Perfect. Thank you very much.

Operator:

Thank you. As we have no further questions on the lines at this time, I would like to hand the call back over to Mr. DeGainer for any closing comments.

John DeGainer | President and Chief Executive Officer:

Yes, thank you, Operator, and thank you to everybody who joined us on the call today. Thanks for your interest and for your questions. We look forward to updating you on our Q3 call, and once again, we appreciate all your interest in the company.

Operator:

Thank you. Ladies and gentlemen, this does conclude today's call, and you may disconnect your lines at this time, and we thank you for your participation.