

NYSE:MEI Q3 2025 Earnings Call Transcript

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Operator | Conference Call Host/Operator:

Good day, everyone. Welcome to the Method Electronics third quarter fiscal 2025 results conference call. At this time, participants are on a listen-only mode. After management's prepared remarks, there will be a question and answer session. I would now like to turn the call over to the Vice President of Investor Relations, Robert Cherry. The floor is yours.

Robert Cherry | Vice President of Investor Relations:

Thank you, Operator. Good morning, and welcome to Method Electronics fiscal 2025 third quarter earnings conference call. For this call, we have prepared a presentation entitled Fiscal 2025 Third 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 reflect 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. Method undertakes 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 Method's filings with the Securities and Exchange Commission, such as our 10-K and 10-Q 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 third quarter earnings conference call. I'm also joined today by Laura Kowalczyk, our Chief Financial Officer. Before we discuss the quarter, please turn to slide five, as I take a minute to reflect upon and provide an update on the key messages that I shared with you on my first Methods earnings call six months ago. As I said then, all companies eventually go through periods where the business must evolve to move forward, changing the solutions it develops for customers, the way in which it produces those solutions, and the way in which the organization works as a whole. Method was at such a point. Today, only two quarters later, I can report that Method's journey to transform the business for long-term value creation is well underway. In that first quarter call, I said that our first priority was to execute on the large pipeline of new programs to be launched over a two-year period. Today, I can report that we have successfully launched 20 of those programs year-to-date, and we are working on launching another 33 programs over the next five quarters. Simultaneous with the launches, we committed to focus on immediate actions to address operational execution, costs, and efficiency. Since then, numerous actions have been taken. I will share some of the initial results of those actions later in the presentation, but keep in mind that these are long-term initiatives that will continue to bear fruit over the coming quarters and years. Back in the first quarter call, we committed to building an executive team that was up to both tackling the challenges we faced and moving the company forward. I'm proud to share that we've extensively rebuilt the executive management team, including five new leaders from outside the organization. Again, I'll share more details on this in a few minutes. Lastly, two quarters ago, we committed to profitable organic sales growth in fiscal 26. Today, based on all the information available to us, we're able to reaffirm that guidance. Simply put, Methode is firmly on track to reinvigorate and transform the business for long-term

value creation. Turning to slide six and our results for the quarter. Our sales were \$240 million and our adjusted pre-tax loss was \$7 million. Sales were lower than the prior year as we experienced the first quarter where the impact of two large auto program roll-offs was fully felt. That impact, of course, was anticipated. Our sales were then driven even lower than our expectations by the softening in EV demand as well as the overall weakness in the auto market. Despite the lower sales volume, we were able to deliver \$4 million in higher gross profit than last year due to product mix and improved operational execution, including lower scrap and freight costs. Furthermore, at the operating line, despite the notable drop in sales, our loss improved from the prior year. Taking a step back, these results clearly demonstrate that the actions we have taken to improve operational execution have lowered the break-even sales point for the company. This is a key achievement that will enable Method to drive margin leverage on future sales growth. Improved execution also helped us return to positive free cash flow, which was \$20 million in the quarter. The fact that we generated the same amount of cash from operating activities as the prior year, despite 20 million less in sales, is a clear indication of an organization whose operating efficiency has improved. Turning to EV activity, sales in the quarter were 24% of our consolidated total, a sequential increase from 20% in the second quarter. While this percentage increased, our EV sales on a dollar basis actually decreased slightly. We remain at the beginning of a wave of new EV program launches, but it's been a softer start than expected due to customer demand that impacted the quarter. There's clearly volatility in several of our key end markets. The weakness in automotive markets, especially in North America and Europe, was a headwind. Conversely, a tailwind was the growth in data centers. We enjoyed very strong sales in the data center applications in the quarter. Our success in that market is expected to result in record sales for those products this year. If you're watching the industry closely, you'll know that the technology in the space is rapidly evolving and will undoubtedly lead to some unevenness in near-term sales. However, that very technology disruption is also expected to lead to even more growth opportunities for Methos products. This will be a specific focus area for our new Chief Strategy Officer, Brad Perotti, who will bring both leadership and technical expertise to our mission to expand our power solutions enterprise. As that strategy develops, we will share more in coming quarters. Turning to the balance sheet, we have maintained an acute focus on managing it, particularly accounts receivable and inventory. At the end of the quarter, we were comfortably in full compliance with the leverage and interest coverage ratios per our covenants. Both improved from the second quarter and were more than a full turn better than requirements. Lastly, our primary focus continues to be on improving operational execution and successfully launching the large pipeline of new programs. In the quarter, we made clear progress on our operational metrics, various cost reductions, and improved organizational structure. As I alluded to earlier, we are in the heart of our record two-year new program launch window. Year to date, we have successfully launched 20 new programs. We have six more in the fourth quarter to launch, and then we expect to launch another 27 new programs in fiscal 26. Our customers continue to count on us, and we plan to continue to deliver. On slide seven, I want to spend some more time giving you an update on our transformation. At a high level, this slide maps out where we are at and where we are going. You will recognize the top of this slide from what we communicated back in the first quarter, that the building blocks of our transformation are to reset performance, build and grow capabilities, and shift our culture. To reset our performance, we have improved the organization's focus on fundamental metrics and levers. Some balance sheet examples include our improved focus on accounts receivable, which dropped \$36 million from the second quarter, and inventory, which was down \$9 million from the second quarter. Turning to the income statement, we reduced scrap and freight costs a total of \$5 million from the prior year. On a longer-term basis, we have executed a number of actions that will bear fruit over time, such as price increases, supplier price reductions, and raw material sourcing consolidations. To build and grow our capabilities, we have also extensively refreshed our executive team, and I'll share more on this in a minute. To accelerate our improvements, such as in our efforts to reduce inventory, we've also selectively utilized outside expert resources to help drive initiatives. Lastly, we have systematically improved rigor and discipline in our day-to-day business in the areas of program launches, procurement, engineering, and finance. One of my key learnings since taking the CEO role is that the company's path to success relies on refreshing history and returning to a one-method mindset. where all our global teams are moving in the same direction. This mindset existed within Method and needed to be reinvigorated. In doing so, we can now leverage global best practices, drive better numeracy and cost consciousness, and instill a sense of urgency at all levels across

the business. While we have focused primarily on execution in the last quarters, we have not ignored strategy. We are, in fact, in the early stages of its development. We've been actively planning and formulating the basic building blocks. And of course, strong execution is fundamental to good strategy. We intend to deploy a proactive product portfolio management customer approach. We will not sit back and wait for business to come to us. As we build our strategy, we'll focus on megatrends, applying our core competencies and unique ways to develop high-value solutions for both current and adjacent markets. We don't plan to solely be shaped by market forces and swings of our current product portfolio. Our initial focus will be to explore opportunities in non-transportation power solutions, industrial lighting, and industrial user interface areas. These are all areas where we can use our capabilities and drive organic growth in the near term. As I said, we are transforming the business to earn the right with customers, employees, and shareholders in order to write the next chapter of Method's history. Turning to slide eight, I want to give a clear illustration of the refreshed executive management team that I referred to previously. Each of these positions and individuals have been publicly announced, but seen here collectively clearly illustrate that Method is now being run by a seasoned, highly experienced leadership team with both long and short tenures that has the capability to face and overcome challenges. This team has been assembled over just the last seven months, but is already driving the Method transformation and delivering results. Talent management will be a core competency of Method going forward. On slide nine, I want to provide an update on the transition that we are navigating from a few large legacy programs to a stream of launches of new ones. The GMT-1 integrated center console program has now gone end of life. The result is a significant sales headwind in fiscal 25 and another lesser one in fiscal 26. The other major legacy program roll-off we previously communicated was for EV lighting. That program went end of life in fiscal 24 and is thus a headwind for us in fiscal 25. Conversely, we are launching several EV programs for Stellantis in fiscal 25. The ramp-up of those programs, as well as other launches, has been slower than expected and impacted the quarter and our outlook, although pricing actions did provide some offset. Consequently, we now expect sales for our fiscal 25 be lower than fiscal 24 rather than flat. Looking further out to fiscal 26, we still expect more launches of EV programs for Stellantis, albeit at lower volumes. In addition, we will be launching a sizable bus bar program for GM. This GM program was a takeover award that we disclosed in the first quarter, but we did not identify the customer. This fast track program demonstrates the trust that GM has in Method. It also further adds to the diversity of the OEMs that we are supplying for EV programs. That activity is expected to more than offset the final headwind from the GMT-1 roll-off, as well as a major appliance program that is going end-of-life in fiscal 25. The overall net result is the continued expectation of organic sales growth in fiscal 26. On a more granular basis, excluding the appliance business, which is non-quarterless, we could potentially see high single-digit organic growth in fiscal 26 in an environment of flat end markets. As we navigate this product transition, we remain subject to market conditions, EV adoption trends, and the success of our customers' program launches. However, as of today, this is the line of sight we have based on our projections, the forecasts of our customer base, and third-party data sources. Turning to slide 10. In summary, for the quarter, sales were lower, but gross profit higher than the prior year, while we returned a positive free cash flow. EV activity was steady and was 24% of sales. The data center market drove strong power product sales and is expected to lead to a record year for those products. We were comfortably in full compliance with all debt covenants, and our focus is on driving fundamental operational metric improvement which helped to lower both AR and inventory levels. Lastly, since the first quarter, we have extensively rebuilt the executive management team, including five new leaders hired from the outside. Going forward, our focus this fiscal year continues to be on transforming the business while positioning it to return to profitable growth next fiscal year. Meanwhile, we are focusing intensely on executing six more program launches this year, while preparing to launch another 27 next year. Our decisive actions to reset performance are expected to continue to improve our operational metrics and reduce costs. As I laid out in our transformation roadmap, we are continuing to build and grow our capabilities, shift our culture, and we are planning the next steps of developing our strategy. Lastly, for fiscal 26, we are reaffirming guidance for profitable organic sales growth. I firmly believe that our business is headed in the right direction. At this point, I'll turn the call over to Laura, who will provide more detail on our third quarter financial results.

Laura Kowalczyk | Chief Financial Officer:

Thank you, John, and good morning, everyone. Please turn to slide 12. The third quarter net sales were \$239.9 million compared to \$259.5 million in fiscal 24, a decrease of 8%. On a sequential basis, sales decreased 18% from the fiscal 25 second quarter. For all the sequential comparisons to the second quarter of this fiscal year, please note that the second quarter had one extra week as we explained last quarter. In addition to the third quarter having one less week in comparison to the second, the third quarter is historically our weakest quarter for sales as it covers the year-end holidays and customer plan shutdowns. As a result, these two factors tend to be a primary driver for most of our sequential financial comparisons. This quarter was the first quarter where the full impact of the GM Center Council and major EV lighting program roll-offs were felt, with negligible total sales in the quarter from both. That headwind outpaced the sales contribution that we received from new program launches. We also experienced sales weakness in the commercial vehicle and off-road lighting applications. A bright spot in the quarter was strong sales of power products into data center applications. As John mentioned, we are on pace for a record year in sales for those data center products. Third quarter adjusted loss from operations was \$1.3 million, an improvement of \$1.6 million from fiscal 24. On a sequential basis, adjusted income from operations declined \$15.6 million from the fiscal 25 second quarter. Please see the appendix for reconciliation of all adjusted measures to GAAP. The improvement and adjusted operating loss year over year was driven by higher gross profit. That improvement in gross profit was driven by lower scrap and premium freight as well as other operational execution improvements. On a sequential basis from the second quarter, the lower sales drove more than 100 percent of the decline as a 4.9 million improvement in SG&A was a partial offset. That improvement in SG&A was mainly driven by lower professional fees and by a reduction of variable management compensation related to financial performance objectives. Overall, the third quarter was transitional in nature as new program sales are starting to replace the legacy program roll-offs. Please turn to slide 13. Shifting to EBITDA, a non-GAAP financial measure, third quarter adjusted EBITDA was \$12.3 million, up 2.8 million from the same period last year. On a sequential basis, adjusted EBITDA declined 14.4 million from the fiscal 25 second quarter. The adjusted EBITDA benefited year over year from higher gross profit. The sequential decline was driven by the lower net sales. Please turn to slide 14. Third quarter, adjusted pre-tax loss was 7.3 million, an improvement of 3.1 million from fiscal 24. On a sequential basis, adjusted pre-tax income declined 13.5 million from the fiscal 25 second quarter. The higher gross profit drove the improvement from the prior year while the sequential decline was driven by the lower net sales. Third quarter adjusted diluted loss per share improved 12 cents from a loss of 33 cents in the same period last fiscal year. This 12 cent improvement was achieved despite the 19.6 million decrease in sales. On a sequential basis, the adjusted earnings per share decreased 35 cents from the fiscal 25 second quarter. The third quarter adjusted EPS excluded evaluation allowance of 6.5 million for U.S. deferred tax assets. The adjusted tax for the quarter was a benefit of 0.3 million. Overall, while operational improvements helped minimize the impact, our third quarter profitability was primarily driven by the lower sales. Please turn to slide 15. Debt was down \$12.7 million from the second quarter, mainly driven by FX. We ended the quarter with \$103.8 million in cash, up \$6.8 million driven by improved cash from operations. This improvement was achieved despite a \$52.7 million sequential decline in sales. Net debt, a non-GAAP financial measure, decreased by \$19.5 million to \$224.1 million. As John mentioned, we are comfortably in compliance with all of our debt covenants, at the end of the third quarter. Please turn to slide 16. The third quarter's net cash from operating activities was \$28.1 million as compared to \$28.8 billion in fiscal 24. Third quarter capital expenditure was \$8.5 million as compared to \$16.6 million in fiscal 24, a decrease of \$8.1 million. The decrease was driven by proactive delays in the purchases of property, plant, and equipment to better match program launch schedules. Third quarter free cash flow, a non-GAAP financial measure, was \$19.6 million as compared to \$12.2 million in fiscal 24, an increase of \$7.4 million. This increase was mainly due to the lower capex spending that I just described. Please turn to slide 17. 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 the fourth quarter, we expect sales to be in a range of 240 to 255 million. We expect pre-tax income to be in a range of negative 1 million to positive 3 million. While our transformation efforts have clearly delivered operational improvements, we continue to work through the residual effects from past operating inefficiencies that still have the potential to negatively impact

our near-term results. Implied in this first quarter guidance is a reduction to our prior guidance for full-year sales and pre-tax income, as shown on the slide. While our full-year sales guidance has come down 77 million at the midpoint, the adjusted pre-tax income has come down only 9 million, a deleveraging of only 12%. This is yet another indication of our operational improvements. The fourth quarter guidance assumes depreciation and amortization of \$14 to \$16 million, capex of \$8 to \$10 million, and a tax benefit of \$1.5 million to tax expense of \$0.5 million. Looking further ahead to fiscal year 26, 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. Lastly, we have not included any of the very recent changes to U.S. tariff policy in our guidance. That concludes my comments, and we can open it up to questions.

Operator | Conference Call Host/Operator:

Certainly. The floor is now open for questions. If you have any questions or comments, please press star 1 on your phone at this time. We ask that while posing your question, you please pick up your handset if listening on a speakerphone to provide optimum sound quality. Please hold just one moment while we pull for questions. Your first question is coming from John Finch-Rebb with Sidoti. Please pose your question. Your line is live.

John Finch-Rebb | Analyst, Sidoti:

Good morning, everyone, and thanks for taking the questions. I guess I'd like to start with the quarter in and of itself. When you look at the drop in the revenue profile, especially in light of maybe some of the anticipation in the lower volume in the EV and hybrid sector, what surprised you really the most about the drop in volumes?

John DeGainer | President and Chief Executive Officer:

So, John, you probably were most disappointed with some of the delays and ramp-ups from our new program launches with our customers. We've been working on this with our customers, and we talked about all the launches, and we expected those ramp-ups to occur much more aggressively, and that's what we had talked about during our last earnings call, so that would be the biggest surprise. Right.

John Finch-Rebb | Analyst, Sidoti:

And how does that program rollout look today in light of those changes and the confidence level you have that they will continue to roll out at the pace you anticipate over the coming, say, six months?

John DeGainer | President and Chief Executive Officer:

Yeah, as you look at the sales bridge that we laid out, particularly both for fiscal 25 and fiscal 26, you can see that we have lowered, go back to previous ones, we have lowered our expectations for a couple of those programs, particularly the Stellantis programs. We are actively working with a customer to deal with that from a commercial perspective. We'll keep you and all of our investors up to date as that comes to fruition. But we're still optimistic with regard to the programs. We've seen no cancellations. It's just delays and ramp-ups or change in overall volume expectations, and we're dealing with our customers that way. The other thing that I think is important to note is the GM program is something that we hadn't talked about before and is a signal of how our customers view us and our opportunity to be a recipient of takeover programs. That is a statement on our customer view of our health.

John Finch-Rebb | Analyst, Sidoti:

Understood. And I guess you talked about you've executed some pricing actions. I'm curious how that stands. Are there still other repricing opportunities, or is that program completed?

John DeGainer | President and Chief Executive Officer:

No. I mean, as I said, with regard to Stellantis, there are conversations that we have ongoing as we look at these volumes, but with all of our customers. We're in regular conversations with them with regard to economics, with regard to whether there's design changes or whether there's other things. So it's not just one customer. It is a continual activity. We look at the program profitability and we look at what our performance should be. We take our responsibility for our things, but we're talking with customers around the globe on an ongoing basis.

John Finch-Rebb | Analyst, Sidoti:

And you mentioned data center. Data center is a bright spot. How much is data center as a percentage of revenue at this point?

John DeGainer | President and Chief Executive Officer:

So in a quarter, it was 7%. And for the fiscal year, it should be closer to 9%. And, you know, historically, we've talked about it being 3% to 5% of our sales. Right. You know, there's been many questions in the first two of our earnings calls with regard to data centers, and the more I get into the organization, the more I get a chance to study it, the more optimistic I am about our ability to bring core competencies to bear to grow this space. So it's part of the reason why we announced what we did with regard to Brad Carote and while this 7% and 9% respectively aren't representative of new strategic direction. It is representative of where the opportunity is and how we think we can grow upon that.

John Finch-Rebb | Analyst, Sidoti:

Okay, and one last question. I'll get back into Q. Can you give us some updated thoughts on what you're seeing in the Class A truck market and how that's impacted your thoughts on guidance?

John DeGainer | President and Chief Executive Officer:

So the Class A truck market as we see it, and I'll just talk about North America for right now, We still see fiscal calendar 25 as down 5%. And that's in the numbers that we talked to you about, our fiscal 26. And what I mentioned to you, both from a past car and a commercial vehicle standpoint, we're talking about flat to down markets, being high single digits up in sales and flat to down markets. That includes what we see with regard to commercial vehicles. I guess one other thing, John, I'll take the opportunity since you asked the question. The team has really done a lot to reinvigorate our relationships with our CV customers, and we're seeing higher RFQ opportunities and really the opportunity to grow that portion of the business more aggressively going forward. I'm optimistic about where we stand with our customers there.

John Finch-Rebb | Analyst, Sidoti:

John, on that topic, most people think that's a first-half calendar year-weighted event as far as the drop in the Class 8 market. Is that how you view it, or do you think it's going to be flatter down?

John DeGainer | President and Chief Executive Officer:

We don't know. try to be a forecasting house. We use, whether it's ACT or S&P Global for our forecasting. And in talking to customers as well as looking at the forecasting houses, I think that's a fairly common theme, but that's what's in our guidance.

John Finch-Rebb | Analyst, Sidoti:

Fair enough. Thank you, sir. I'll get back in the queue. Of course. Thanks, John.

Operator | Conference Call Host/Operator:

Your next question is coming from Luke Junk with Baird. Please pose your question. Your line is live.

Luke Junk | Analyst, Baird:

Good morning. Thanks for taking the questions. John, maybe to start with, can you just help us unpack the sequential margin momentum in automotive segment margins in this corner? You know, looking, we saw some improvement first half of the year, and now they're kind of back where they were in the back half of 24, roughly speaking. I mean, I understand there's a lot of moving pieces and that there's not direct comparability there, but can you just help bucket some of the factors there in terms of overall industry volumes and take rates on EV, and now with those programs fully sunsetted, any kind of overhead considerations related to that as well? Thank you.

John DeGainer | President and Chief Executive Officer:

Yeah. So, Luke, by the way, good morning, and thanks for your question. You know, I would look at it, I would maybe characterize it a little differently than you characterized it. For a revenue, we knew that this quarter, and we've talked about the fact that this quarter was going to be challenging for from a performance standpoint, but also from a revenue standpoint, just from the way our quarters lay out with the holidays, plus then you have weather issues and the EV delays that we talked about. So on a revenue of \$239 million for the quarter, and I won't break out the specific regions, if you think about the performance from an adjusted off-income basis versus a comparable quarter last year, so on \$20 million less, \$19.6 million less in sales, We're actually up from an adjusted operating income basis by \$1.6 million. If you would just look at sort of typical downside conversion with regard to revenue, that performance is actually double-digit millions better than between one-timers and conversion. So I'm actually pretty pleased with the operational performance from a scrap perspective, from a premium freight perspective, from an overtime perspective. both in North America and in our EMEA facilities. The progress that's been made in Egypt, the progress, the performance that we see in our Malta facility and our continued performance in China, as well as what's happening in Mexico. Our plants are doing a very good job dealing with a lot of turbulence. The EV volumes have really caused our plants to be choppy in how they run. So this year-over-year performance, I think, is the best way to evaluate where we are from an operating side, and I'm actually quite optimistic about where we are. I view it as a true drop in our break-even.

Luke Junk | Analyst, Baird:

Appreciate the color there. Second, typically include some color on awards, and the slides weren't in the slides this quarter. color on current quarter awards and maybe just the industry backdrop as well relative to auto headwinds, EV moderation, et cetera? Thank you.

John DeGainer | President and Chief Executive Officer:

Yeah, thanks. So in the quarter, we had \$20 million worth of wins. For the year to date, we're at \$130 million. Would we like it to be higher than that? Yes. We have a large number of big programs in the pipeline, and whether they'll get awarded in the fourth quarter or whether there'll be an early fiscal 26 awards, I don't know. And as we've said multiple times, awards are lumpy. So we kind of have to average it out over time. The fact that we're talking about high single-digit growth year over year tells you that our awards in flat underlying markets tells you that our awards are turning into revenue growth for the company. And you combine that with a lower break-even, and it really portends much better performance for the business going into fiscal 26, which is what we had been talking about for the last couple quarters.

Luke Junk | Analyst, Baird:

Yeah, and just on that high single-digit growth expectation, did you say, John, that you're excluding the appliance sunset? Did you say that you think that's not more essential?

John DeGainer | President and Chief Executive Officer:

To get a true like-for-like comparison, if you look at the bridge that we provided on slide 9, If you take out that appliance program roll-off, the \$25 million that we show there, and so you would subtract that out of the fiscal 25 guidance and you compare to the fiscal 26, that's all organic growth then in our base business, so that we're talking about base-to-base.

Luke Junk | Analyst, Baird:

Got it. And then lastly, I know that you're not including tariffs in the guidance, but just given your manufacturing presence in Mexico, anything you can share around preliminary customer discussions and maybe what your approach might be prospectively should those actually come into effect in April?

John DeGainer | President and Chief Executive Officer:

So we've been pretty clear with our customers and we believe that the way in which we're approaching it is relatively similar to our peers and that's that we've been proactive but we basically said we can't bear the extra cost. And so therefore, our actions have been to communicate with our customers that we will not bear that extra cost. To answer your question, about a third of our sales are impacted, a third of Method's overall sales are impacted by the tariff discussions between Mexico, Canada, and China. A much larger portion of that into the U.S. is coming out of Mexico, obviously. But we are in regular conversations with our customers. We have a war room set up here, and the team is talking about it multiple times a day to make sure that we've got the latest information and that our strategies are well-defined. It's also giving us an opportunity to make sure that all of our systems are really well-refined, and we're using this crisis as an opportunity to make the business better. That's all I have for now. Thank you. Thanks, Luke.

Operator | Conference Call Host/Operator:

Once again, if you do have any remaining questions or follow-up questions, please press star one at this time. Your next question is coming from Gary Prestapino with Barrington Research. Please pose your question. Your line is live.

Gary Prestapino | Analyst, Barrington Research:

Thanks. Good morning, all. Hey, John, I'm looking at this bridge here, and I was looking at some historical charts from prior bridges, And way back when at the beginning of the year or whatever, were you anticipating about \$84 million of Stellantis program launch sales for this year? And then something like \$125 million in fiscal 26? Is that correct?

John DeGainer | President and Chief Executive Officer:

Yeah, that's correct, Gary. And thanks for raising that. When we talk about the question was asked about some of our disappointments is, We've made the investments and we've planned these, but we're doing our best to follow our customers and support them. Obviously, we've looked at what, based on third party as well as their feedback, where we see this going both in fiscal 25, 26, and into 27 as these programs ramp up. And so what you're seeing in the new bridge is our current expectations both based on third party as well as customer feedback. And as I said earlier, that does lead us to having to have commercial negotiations and other things.

Gary Prestapino | Analyst, Barrington Research:

So these programs have been delayed. I know Stellantis has canceled some model rollouts. Has anything been canceled on you?

John DeGainer | President and Chief Executive Officer:

No. No, these are not canceled. These are take rates and these are delays, not cancellations. Delays. So when we talk about launches, and we have launches going on with customers around the world, and many of them are EV-based. And when we talk about these launches, unfortunately, the Stellantis program is so big that it overwhelms some of our growth. But if you look at it from an EV standpoint, EV penetration, as you think about it, in for the market in the U.S. is 10%, in Europe is 25%, in China it's 40%. We have launches happening in all three regions with new customers for EV programs. So I think this will balance out over time, but it's a pretty turbulent time and obviously with the big Stellantis launches, it puts a spotlight on it.

Gary Prestapino | Analyst, Barrington Research:

Were all your launches with Stellantis EVs or were they spread out on ICE vehicles too?

John DeGainer | President and Chief Executive Officer:

It's EVs and... It's EVs and a hybrid, I believe.

Gary Prestapino | Analyst, Barrington Research:

A hybrid. Okay. Okay. All right. So you've channeled those down pretty significantly. Do you think a lot, I mean, the market obviously for EVs has been challenging versus where it was a year ago or two years ago. But does some of this impact come from the change of leadership at Stellantis since Tavares is no longer there and you've got some new players in there running the company?

John DeGainer | President and Chief Executive Officer:

Yeah, I don't want to make comments about how our customers run. I just think with the election and with some of the market dynamics, there's a lot of turbulence in the space. Ultimately, do we believe that EVs will be a productive part of the end market in all of our end markets? And again, I'm just going to remind you and our investors that we're selling into multiple end markets, not just into North America. So yes, the 10% market penetration in North America matters, but in Europe it's 25 and in China it's 40. So we have to be a player in this space. And I think this will stabilize out for our customers and for Stellantis in particular, but you see new program launches and new announcements from General Motors and others. Our customers are still moving forward with their EV strategies, and we're going to support them.

Gary Prestapino | Analyst, Barrington Research:

Okay. Then just two other quick questions. Looking at the slide with transformation update and then talking about initial exploration of non-transportation power, industrial lighting, industrial unit user interface. Do you rely on your segment heads to – be the impetus or the initial, for lack of a better word, spotter of these opportunities? Or do you have your own in-house Corpfin that's out there actively looking for acquisitions?

John DeGainer | President and Chief Executive Officer:

Well, so right now, sorry, I want to make sure. We've always had a central acquisition M&A team. But as I've said to you, and as I've said before, Our focus from a capital allocation is on organic growth and on using our core competencies to drive that. The announcement that we made with regard to our new chief strategy officer really is in alignment with that change in strategic direction from growth via acquisition to growth via organic growth. And Brad's bringing a focus will help the central team as well as the business heads to focus on where are those opportunities. And as we said in the script, the near-term focus right now is on industrial data centers, obviously with all of the AI news in the space, as well as what are we doing on some of our other industrial end markets. I believe that between Brad and Lars and some of the other leaders that we've added, it's going to give us we're going to have opportunities to grow on the automotive and the commercial vehicle side, but because of the timing of those programs, it takes longer to see that growth hit. So the near-term organic growth focus is on the non-automotive side, particularly with data centers and what do we do there. And the fact that we went from a usually 3% to 5% of our sales to 7% and forecasting 9% tells you we've got opportunity, that both we're seeing the opportunities now, and I believe there's a lot more opportunity in the future.

Gary Prestapino | Analyst, Barrington Research:

Okay, just one last quick one, real easy answer. Laura, are there any issues on the covenants of your debt with buying back stock since your stock's down pretty precipitously here?

John DeGainer | President and Chief Executive Officer:

So I'm going to answer that one. We obviously talked at a board meeting level on a regular basis on the priorities for utilization of our capital and utilization of our cash. We have a board meeting upcoming in a couple weeks and certainly those conversations will happen again. Do we like what we see right now with the stock today? No. Do we think there's opportunities given the growth of this business? Yes. Can we answer the question with regard to buybacks right now? No, it wouldn't be appropriate for us to answer that.

Gary Prestapino | Analyst, Barrington Research:

Okay, thank you.

Operator | Conference Call Host/Operator:

Your next question is a follow-up from John Finchrib with Sedoti. Please pose your question. Your line is live.

John Finch-Rebb | Analyst, Sidoti:

Yeah, I'm actually just curious. We haven't talked about Nordic Lights in quite some time, and if you could kind of give an update on how that acquisition is performing relative to the expectations when it was acquired over a year ago.

John DeGainer | President and Chief Executive Officer:

John, I'm really pleased with the team at Nordic Lights. Obviously, we have some challenges in the industrial, in their end markets, but we're seeing some green shoots in the beginning of fiscal 2020, not fiscal, but calendar 2025 with regard to that end market, and that impacts both our Nordic Lights business and our Hedronix business. What I mentioned to you or mentioned in the call with regard to opportunities for continued growth on the industrial lighting side, that is Where do we go next with regard to the product portfolio from a Nordic Lights perspective? And Brad has been working with the leadership team in Nordic Lights as well as the leadership team in Hedronix to try to drive additional growth there. So the team from Nordic Lights is doing a very good job around the world, and we see more opportunities for growth in fiscal 26 and going forward.

John Finch-Rebb | Analyst, Sidoti:

Okay. And it's not being weighed down by what we're seeing in Europe more so than you anticipated or just context maybe?

John DeGainer | President and Chief Executive Officer:

Yeah. I mean, the end markets in calendar 24 were certainly down from an industrial perspective. But that team did a very good job of driving performance in spite of lower end markets. And now we see some of the markets coming back and there is a There's a cyclical where I'm learning more about that cyclical versus an automotive or commercial vehicle cyclical. And the team at Nordic Lights is quite confident as they see the beginning of the year rolling out. That's good news. Okay.

John Finch-Rebb | Analyst, Sidoti:

Thank you very much, John. Appreciate it. Thanks for your question, John.

Operator | Conference Call Host/Operator:

Once again, if you do have any questions or comments, please press star 1 at this time. Just hold a moment while we poll for questions. There are no additional questions in queue at this time. I would now like to turn the floor back over to John DeGainer for any closing remarks.

John DeGainer | President and Chief Executive Officer:

I want to thank all of you for attending our call and for your questions. We look forward to discussing our continued progress in future calls, and we wish you all a great day. Thanks very much.

Operator | Conference Call Host/Operator:

Thank you, everyone. This does conclude today's conference call. You may disconnect your phone lines at this time and have a wonderful day. Thank you for your participation.