NYSE:MEI Q4 2025 Earnings Call Transcript

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Operator | Conference Operator:

your host, Robert Cherry, Vice President of Investor Relations. You may begin.

Robert Cherry | Vice President of Investor Relations:

Thank you, Operator. Good morning, and welcome to Methyl Electronics' Fiscal 2025 Fourth Quarter Earnings Conference Call. For this call, we have prepared a presentation entitled Fiscal 2025 Fourth Quarter Financial Results, which can be viewed on the webcast of this call or found at Methyl.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. The 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 and met those 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 fourth quarter earnings conference call. I'm also joined today by Laura Pawlczyk, our Chief Financial Officer. Let's start with the key messages. Please turn to slide five. In my first 12 months, we've achieved a great deal, even if there's still much more to do. We've built a strong team and stabilized the organization. The way in which the leadership team and I have been talking about our activities and priorities over this first year is all about earning the right with our shareholders our customers, and ultimately with more than 7,000 people that work for Method. What you'll hear on this call and read in the next few slides is the progress that we have made to earn that right. That's the transformation that we're talking about. To earn the right to write the future story, we must first get the foundation correct. In the fiscal year, we took numerous actions to improve our execution, reduce our costs, and respond to external challenges like tariffs and market volatility. Unfortunately, The benefits from these actions were largely masked by a number of items that were one-time or historic in nature, such as the fourth quarter inventory write-off. Regarding market volatility, EV activity in the fourth quarter slowed, and fiscal 26 will be a reset due to EV program delays, especially by Stellantis. We do expect fiscal 27 will be a return to growth. Overall, we truly feel that we have put many of the issues of the past year behind us, while still maintaining a strict focus on business performance. For instance, we delivered $26 million in free cash flow in a quarter. That's the best quarter that the company has had since Q4 of fiscal 23. For the full year, our focus on cash drove a $12 million improvement in tooling recovery and a $22 million reduction in accounts receivable. We also set records for the quarter and the full year in data center power product sales, with the year finishing at over $80 million. Going forward, we expect this level of activity will continue and there will be opportunities for growth. The transformation that I spoke about is absolutely progressing and its priorities remain unchanged. However, given the market conditions, we are looking at a somewhat extended timeline for that transformation. As we look to fiscal 2026, despite all of the challenges that I have cited, the company expects to double its EBITDA as a result of our operational improvements. We expect to achieve this even in

the face of approximately 100 million in declining sales, driven by lower EV demand, again, mainly driven by Stellantis. Turning to slide six and our specific results for the quarter. Our sales were $257 million, an increase from Q3, but down year-over-year. $17 million in sales increase was from Q3 was driven by record sales for power products and data center applications. The lower sales from the prior year were driven by the impact of two large, previously disclosed auto program roll-offs. We have now anniversaried the roll-off of the EV lighting program, but we still have two more quarters of year-over-year comparison headwinds on the GM Center Council program roll-off. We recorded adjusted loss from operations of $22 million. Of that loss, $15 million was attributable to unplanned inventory adjustments. These adjustments were for an increase in excess and obsolete inventory reserves and for a discrete inventory revaluation in the quarter. The primary driver of these adjustments were reduced, delayed, or canceled programs that did not have sufficient future demand to support the inventory levels. The impact was mostly in North America and included some in EV programs. Historical warranty and quality issues for existing auto programs contributed approximately $5 million to the loss as well. These historic charges reinforce the actions that we have taken to improve our operations, supply chain, and product launch capabilities. Turning to a true bright spot, as I mentioned, we had record sales for power products and data centers for both the quarter and the full year. The full year sales exceeded $80 million, and we expect a similar year in fiscal 26 with potential for more growth. The full year sales were almost double those of fiscal 2024. We are achieving this performance based on our existing product technology, utilizing our global footprint to serve the customers. What's truly exciting is the opportunity that we have to leverage our power expertise to capture growth that is being driven by the rapid evolution of component designs to enable the vast increases in power density sought by future data center operators. It is too early to share any more details on this, but it's very promising for the future growth in our power distribution enterprise. Turning to EV activity, sales grew year-over-year. For both the quarter and the full year, they were 20% of our consolidated total, an increase from 14% and 19% respectively. While these year-over-year comparisons improved, our EV sales on a sequential basis from Q3 decreased approximately 10%. We remain bullish on the long-term megatrend in EVs. However, as I mentioned earlier, the near-term outlook is soft, particularly in North America. Weaker market demand is driving lower customer EDI forecasts, some program launch delays, and a couple program cancellations. This is causing us to project a 10 to 15 percent decline in EV sales for fiscal 26, a much different picture than just one quarter ago. However, based on our customer EDI forecasts and third-party industry projections, we expect a significant rebound in EV sales in fiscal 27. Our team has been and will continue to be extremely proactive on any exogenous program delays or changes, and actions are underway to recover costs and capital investments related to these program delays. The outcome and timing of these recoveries is yet to be determined. Both free cash flow and debt reduction are good stories for us. Despite all the external factors, the business delivered free cash flow of $26 million in the quarter, which was the second quarter in a row of strong free cash flow. Our relentless drive to reduce working capital is driving this result. In turn, we reduced both our debt and net debt levels by 10 million from Q3. We also generated more free cash flow than the prior year Q4, despite 20 million less in sales. This is another clear indicator of an organization whose operating efficiency is improving. Lastly, our primary focus continues to be on improving operational execution and successfully launching the large pipeline of new programs. As we've communicated before, we are in the midst of a record two-year new program launch window. In fiscal 25, we launched 22 new programs. We expect to launch another 30 new programs in fiscal 26. Our customers continue to count on us, and we plan on continuing to deliver. Speaking of new programs, for fiscal 25, we had bookings of over $170 million for new and extended programs. About two-thirds of the awards were for power distribution solutions in EV, industrial, and data center applications. The method team has put a lot of hard work into rebuilding our foundation in fiscal 25, which we expect that work to lead to notable performance and financial improvements in fiscal 26. Turning to slide seven. As I mentioned earlier, I'm marking my one-year anniversary as CEO of Method. I'm truly proud of what we have accomplished as a team and I want to share some of the reflections on the past year and the road ahead. Transformations are never easy. I make a distinction between transformations and turnarounds. Quite simply, a transformation is about fixing a business in a way that enables it to evolve and positions it for future growth. A turnaround is basically just fixing the business back to some status quo. The method journey is undoubtedly a transformation. Like any journey, The path is not smooth nor linear. The first order of business was stabilizing the base, which included the significant organizational changes that we made in previous

quarters, and that focusing on executing program launches while simultaneously revamping plans and rebuilding the team, all in the face of numerous external distractions. Business plans are always linear on paper, but the real world curves and bends every day. The past year was no different. Whether it was tariffs, market shifts, geopolitics, or other factors, we had to maintain discipline and our focus on our objectives while conditions were constantly changing. We worked hard to remediate practices that had atrophied or institute practices where they didn't exist. We now have better visibility into the business and are driving more global collaboration and efficiency, especially around engineering, product management, and supply chain. The work is showing in many areas but is exemplified in our improved working capital, especially around AR and inventory. As we rebuild our foundation, it positions us well to leverage synergies and utilize core competencies to align with market megatrends like data centers and EV. We can also then optimize our footprint and reevaluate the composition of our portfolio. While the financial results are not yet what we want, our team has accomplished much over the past year. and our foundation has been laid for us to drive consistent and improved execution. On slide eight, I want to spend a little 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. First and foremost, we've put in the work to improve our fundamentals and reset performance. It can be seen in 100 basis points worth of gross margin improvement, 9 million worth of SG&A reductions, and $12 million worth of tool and recoveries, all fiscal 25 year-over-year improvements. Then there's been a whole series of execution-focused improvements, like $11 million reduction in freight, reduction in scrap, and a reduction in headcount of over 500 people. All of this complements the execution of customer pricing actions, supplier cost reductions, and material sourcing actions. None of these activities could have been done without the reset of nearly all of the executive leadership teams. the reset and talent lower in the organization, as well as bringing in some specific outside help. However, in order for the organization to be a stable, long-term, execution, and growth-focused organization, it has to have internal capabilities, especially in plant operations, engineering, and the supply chain. Talent and solid fundamentals are yielding improved rigor and discipline in the way in which we procure material, operate our plants, in our launches, and in the way in which we develop new products for our from an engineering standpoint. What that leads to is a change in culture for a company that's almost 80 years old. There's been a lot of change at Method over the decades. What we're trying to bring back is more of a one-method approach, working much more collaboratively and much more globally, leveraging our best practices to drive numeracy and cost consciousness down throughout the organization and to really drive a sense of urgency. Turning to slide nine. So how do we continue to earn the right from here? We continue our foundational actions to successfully launch programs, drive improved operational execution, and accelerate lower-level team rebuilding, all of which will be enabled by our new global engineering and product management teams. Second, we keep refining the organization to harmonize it to market opportunities. That includes the right sizing of plants and headcount. It also includes footprint consolidations. And finally, we take actions to address our structure and capital discipline, like reducing our board size from 10 to 7 directors, relocating our headquarters to an already owned Methode facility, reducing our dividend, and reviewing our product portfolio. All of these actions support Methode's core business and data centers, EV, and lighting, which provide an attractive foundation for value creation in fiscal 26 and beyond. While the transformation is certainly about improving execution and reducing cost, it is also about driving innovation. What drives competitive advantage at the end of the day is the ability for an organization to redeploy the knowledge, resources, and capital it gains from its everyday business into new products and markets. Method is systematically taking this proactive approach, whether it is digging deeper into the power needs of our data center customers or optimizing our footprint and portfolio for what it's what the customers and the business will need in the future, we are working hard to refine our business model. We will continue to highlight the milestones on this transformation journey, but it does take the passage of time to be fully appreciated and valued. Everything that I've shared with you today gives us confidence to not only provide guidance for fiscal 26, but to project a doubling of our EBITDA from fiscal 25. Laura will share more details on our guidance later. In summary, I firmly believe that our 2025 actions have positioned Methode for success in 2026 and beyond. At this point, I'll turn the call over to Laura, who will provide more detail on our fourth quarter and full-year financial results.

Laura Pawlczyk | Chief Financial Officer:

Thank you, John, and good morning, everyone. Please turn to slide 11. Before I address the financial and relative to U.S. tariffs, please note that I will be referring to only the tariffs enacted this calendar year and prior to any specific tariffs announcements from this week. First of all, we have had a cross-functional team meeting daily on tariffs from day one. This has not only helped us to navigate the situation, but has also helped to foster team collaboration and drive deeper understanding of how we run our business. From an exposure standpoint, our U.S. sales of imported goods are approximately $265 million, which is our sales that are potentially exposed to U.S. tariffs. This is approximately 25% of our annual global sales. The large majority of those sales come from goods imported from Mexico. Those goods are subject to the USMCA, and over 95% of those goods are compliant. As a result, we are not subject to incremental tariffs on those compliant goods. For everything else, we are targeting 100% mitigation, either by passing tariffs through to the customer leveraging our global footprint to reduce the tariffs to the greatest extent possible, or making changes to our supply chain. To be clear, we've communicated to all of our customers that we expect 100 percent tariff recovery or mitigation. And to be even more clear, this 100 percent tariff recovery or mitigation expectation also applies to any new tariffs. The work that the team has done from day one was foundational to dealing with potential future circumstances as well. This is a great example of the one method collaboration that John mentioned. Lastly, we are utilizing our global footprint to capture opportunities as a result of our geographic position relative to competitors. Please turn to slide 12. The fourth quarter net sales were 257.1 million compared to 277.3 million in the fiscal 24, a decrease of 7%. On a sequential basis, sales increased 7% from the fiscal 25 third quarter. The quarter saw record sales of power products in the data center applications. This was the second quarter where the full impact of the GM center console roll-off was felt, but it was also the last quarter to have any impact from a major EV lighting program roll-off. We also experienced sales weaknesses in commercial vehicle and off-road lighting applications. Fourth quarter adjusted loss from operations was 21.6 million, a decrease of 11.8 million from fiscal 24. On a sequential basis, adjusted loss from operations declined 20.3 million from the fiscal 25 third quarter. Please see the appendix for all reconciliation of all adjusted measures to GAAP. In the fourth quarter, the company recorded an excess and obsolete inventory expense of 13 million, mainly in the automotive segment, and a discrete inventory revaluation of 2.2 million. As John described, the excess and obsolete expenses were related to reduced, delayed, or canceled programs that impacted future demand projections. The effect of excluding these two impacts, totaling 15.2 million in the quarter, can be seen on the chart. The lower sales had a 6.2 million impact on the year-over-year comparison. A partial offset was a 4.2 million year-over-year improvement in S&A. Overall, the inventory adjustments had a significant impact on the quarter and masked operational improvements. Please turn to slide 13. Shifting to EBITDA, a non-GAAP financial measure, fourth quarter adjusted EBITDA was a negative 7.1 million, down 12.4 million from the same period last year. On a sequential basis, adjusted EBITDA declined 19.4 million from the fiscal 25 third quarter. As with loss from operations, the inventory adjustments and lower sales drove the year-over-year decline. They were only partially offset by a reduction in S&A and other operational improvements. Please turn to slide 14. Fourth quarter adjusted pre-tax loss was 28.6 million, a decrease of 14.8 million from fiscal 24. On a sequential basis, adjusted pre-tax loss declined 21.3 million from the fiscal 25 third quarter. Again, the inventory adjustments and lower sales drove the decline year over year. Excluding the inventory adjustment impacts, operational execution improvements minimize the year over year impact despite sales being 20 million lower. Historical warranty and quality issues in Europe for existing auto programs contributed $4.5 million to the loss as well. Fourth quarter adjusted diluted loss per share was 77 cents, down 54 cents from the prior year and down 56 cents from the fiscal third quarter of 25. Overall, while operational improvements helped minimize the impact, our fourth quarter loss was primarily driven by the inventory adjustments. Please turn to slide 15. The fourth quarter's net cash from operating activities was $35.4 million as compared to $24.9 million in fiscal 24. Fourth quarter capital expenditure was $9.1 million unchanged from fiscal 24. Fourth quarter free cash flow, a non-GAAP financial measure, was $26.3 million as compared to $15.8 million in fiscal 24, an increase of $10.5 million. This increase was mainly due to the lower working capital. This was our second quarter in a row of strong free cash flow. Please turn to slide 16. Debt was down 10.3 million from the third quarter. We ended the quarter with 103.6 million in cash, down slightly from the third quarter of fiscal 25. The strong cash

generation in the quarter allowed us to pay down debt. Net debt, a non-GAAP financial measure, decreased by $10.1 million from the third quarter to $214 million. After the end of the fourth quarter, we entered into an amendment to our credit agreement. The amendment reduced the capacity of the facility to $400 million, which is still in excess of our needs. It revised covenant ratios and updated pricing and other details. The amendment waived any default that may have occurred due to noncompliance with covenants for the fourth quarter that were in effect prior to the amendment. Following the amendment, we were in compliance with all covenants. For further information, please see our 10-K filing. Please turn to slide 17. The full year fiscal 25 net sales were $1,048,000,000 compared to $1,115,000,000 in fiscal 24, a decrease of 6%. The net sales decline was primarily driven by the GA Center console and EV lighting program roll-offs that I previously mentioned. Together, their year-over-year impact was 111 million. Partially offsetting those declines was a record year for sales of over 80 million of power products for data centers. Adding back the year-over-year inventory adjustment of 12.2 million, operational improvements minimize the impact of the 67 million decline in sales as seen on the chart. Please turn to slide 18. Next, I want to provide an update on our sales bridge from fiscal 24 to 26. As previously mentioned, the GMT-1 integrated center console program has gone end of life. The result was a significant sales headwind in fiscal 25 and a slightly 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 at the end of fiscal 24 and was thus only a headwind for us in fiscal 25. The major update on this bridge concerns the launching of several EV programs for Stellantis. In fiscal 25, those launches generated 46 million of incremental sales. You may recall that back in Q1, we projected Stellantis to generate a total of 84 million in fiscal 25 and then another incremental 125 million in fiscal 26. However, due to severe reductions and delays from Stellantis, we now expect fiscal 26 to see a decrease of $40 million, essentially a $200 million swing from our Q1 projection. We have also seen EV program reductions for fiscal 26 from two other major OEMs. As John mentioned, our team has been proactive on these customer program changes, and actions are underway to recover costs and capital investments related to them. The magnitude and timing of these recoveries is yet to be determined, but it is our intention to maximize our recovery. While we do expect growth from our fiscal 26 launches with other key customers, as well as potential growth from data centers, they are not enough to overcome the drop in demand from Stellantis and other EV customers, giving the soft market outlook. Consequently, we now expect sales for our fiscal 26 to be approximately $100 million lower than fiscal 25 rather than the organic growth we previously expected. A byproduct of this revised outlook is that we expect fiscal 26 to see an improved diversity of OEM customers given the forecasted mix. Please turn to slide 19. 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 on the bottom of the slide. For fiscal 26, we expect sales to be in the range of $900 million to $1 billion. Please note that fiscal 25 was a 53-week fiscal year, and fiscal 26 will be a typical 52-week fiscal year. So we will have one less week in fiscal 26 as compared to the prior year. We expect EBITDA to be in the range of 70 to 80 million, and we expect the second half of the year to be higher than the first half. As you can see from the charts on the right of this slide, we expect fiscal 26 EBITDA to be higher than both fiscal 24 and 25, despite a significant reduction in sales over that same time period. Specifically, in fiscal 26, the downward conversion from the lower sales will be offset by operational improvements and we'll actually see almost a doubling of EBITDA margin from 4.1 percent to 7.9 percent. The fourth quarter guidance assumes the current market outlook based on third-party forecasts and customer projections, the current U.S. tariff policy, depreciation and amortization of 58 to 63 million, CapEx of 24 to 29 million, interest expense of 21 to 23 million, and a tax expense of 17 to 21 million, most of which is related to a valuation allowance on deferred tax assets and is non-cash. It is worth noting that our interest expense is expected to be essentially flat year-over-year despite the amended credit facility agreement. This is mainly a factor of lower year-over-year benchmark European interest rates. One last note on fiscal 25. Back in fiscal 24, we identified three material weaknesses in our internal controls. We are pleased to inform you that all three of these material weaknesses were remediated in fiscal 25. For more details, please see our 10-K filing. So, to echo John, we have driven improved operational execution this past year that was often masked by various external or historical challenges. The result is a solid foundation for the method team to build on into the future. That concludes my comments, and we can open it up to questions.

Operator | Conference Operator:

Thank you. At this time, we will be conducting a 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 queue. 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. Once again, please press star one if you have a question or a comment. Our first question comes from Luke Junk with Baird. Please proceed.

Luke Junk | Analyst, Baird:

Good morning. Thanks for taking the questions. John, hoping to start with, you know, certainly the key message this morning that you expect sales to come down 100 million, but EBITDA to go in the opposite direction and rise into fiscal 26. I'm just trying to understand some of the key earnings levers at a high level, given that sales decline. I would assume most of the improvement we should be thinking about operationally would be within automotive. And I guess if I look at what's going on in that business, exiting this year, you know, pretty weak jumping off point coming out of four key fiscal 25. Even if I back out the inventory charges and warranty quality, expense? You know, I know you're still launching more programs, so how should we just, you know, think about balancing cost saves versus some incremental costs coming in the P&L from launches? Thank you.

John DeGainer | President and Chief Executive Officer:

Thanks, Luke. And by the way, good morning. Thanks for your question. You know, I think we talked about some of the base performance improvements during my section. Laura will give you a little more detail on the bridge on the top level. We've done a We've done a lot to improve how we launch, and so I think the incremental costs, if you will, for these new launches, I've got less concern about. The challenge that we have is our reaction, our ability to react in such short order to a fairly significant drop in demand on the EV side makes the revenue hole a little more stark. But if you think about the one-off expenses, that would give you confidence in why 2026 should be so much better. We talked about the warranty reserve, and while we talked about $15 million in the quarter, full year is $22 million. We had $12 million worth of quality and warranty issues. In fiscal 2025, we had $9 million with knowledge partners and $5 million with legal expenses and another $3 million worth of restructuring. All of those things are either eliminated or improved year over year as a basis for our guidance. So there are one-off things that are eliminated, and there is expectations of performance based on what we see in the plants and what we see in our supply chain. and what we see in our launch execution, and give us the basis for why we believe we can, on lower sales, double our EBITDA.

Luke Junk | Analyst, Baird:

Thanks for that, John.

Luke Junk | Analyst, Baird:

All helpful commentary, especially all those individual expense items. Second question, just in terms of the launch activity into fiscal 26, 30 launches, How should we think about those in terms of the percentage that our EV platform specifically and then on the EV side of the house, just how can we conceive the materiality of those launches and maybe, you know, given the Stellantis experience this year, and I know you mentioned other EV program delays and whatnot, just how you attenuate for that, you know, potential risk, either timing or volume as you put together the guidance?

John DeGainer | President and Chief Executive Officer:

Well, so as we've said each time, we have used third-party as a basis for how we give our guidance. So we tried to tie back and sense check what our customers told us with third-party evaluations, and that's what's in the guidance. As we said, EB as a percent of sales is 20% this year, and we'll actually – the challenge that we have is in past years, quarters, we've talked about it being an expansion year over year. Now we're talking about it being relatively flat based on some of the program delays or cancellations. What we have, however, is we have other areas where we're driving growth, and we have the ability to use our footprint. Some of the tariff challenges have highlighted actually the power of our global footprint to deliver on power products, and we're taking advantage of that and will continue to take advantage of that. on the data center side from a power side. So some of the investment that was made for EV programs, particularly in our North American footprint, we're actually going to put to work the capabilities there. We're going to put to work to support our data center customers. So the attenuation that we've done is there's been a series of headcount reductions and cost reductions that have been taken against the EV programs where there have been delays or where there have been cancellations. We are going back to customers, as we talked about. That's the second piece of the attenuation. And the third side is finding other ways to utilize our engineering capability and our fixed assets to support other markets that we touch, and that's particularly on the data center side.

Luke Junk | Analyst, Baird:

Just to be clear, I totally get what you're saying in terms of checking customer schedules with third-party data in terms of EV launches. Should we think that you're then haircutting that further as well or are you mainly kind of relying on that third party data?

John DeGainer | President and Chief Executive Officer:

When we say sense checking it, we're trying to take multiple sources of data and be as conservative as possible without... I'm not a big fan of haircutting it on top because then it comes down to our judgment as opposed to a compilation of expert judgment. So we look at it, try to use the best sources of data that we can get and make an evaluation from there. But we don't, unless we have better information, that's where communications with customers and other things, unless we have validated better information, we don't just take haircuts.

Luke Junk | Analyst, Baird:

Understood. Last question for me, just on the balance sheet, Laura, can you help us understand the leverage waiver? I think that's in effect until the late July, early August next year. I know it was discussed qualitatively in the 10-K, but I didn't see any specifics yet.

Laura Pawlczyk | Chief Financial Officer:

Yeah, as far as the leverage, our covenants were relaxed through next year, and we feel confident that we will meet those covenants over the next year.

Luke Junk | Analyst, Baird:

Yeah, what specifically is the covenant level, Laura, can you say?

Laura Pawlczyk | Chief Financial Officer:

Yeah, it is starting at 4.25 for Q4 of fiscal year 25, and then it's at 3.75. That was before the amendment. After the amendment, it is at 4.25 in Q1, and then goes up after that.

Luke Junk | Analyst, Baird:

Okay, I can take that off. I'll leave it there. Thank you.

Operator | Conference Operator:

The next question comes from Gary Prestopino with Barrington. Please proceed.

Gary Prestopino | Analyst, Barrington:

Good morning, everyone. A lot here, all right? So first of all, what I want to ask is, and I think I know the answer to this question, you didn't back out these inventory charges in adjusted EBITDA. So that $7 million that you did in adjusted EBITDA, you would add back that $15 million to get kind of a recurring number on EBITDA? Yes.

John DeGainer | President and Chief Executive Officer:

We did not adjust those out, Gary.

Gary Prestopino | Analyst, Barrington:

Did you not adjust those out because of why? I mean, it's a non-recurring charge. I just want to get an idea of what the thought process there is. Is it something you can't adjust that out?

John DeGainer | President and Chief Executive Officer:

Well, so... I'm not the best accounting person, but based on our judgment, it's an operational issue, and so we don't back those things out. That's why we tried to make it very clear to you and all of our shareholders that these are one-time events, even if we didn't adjust them out.

Gary Prestopino | Analyst, Barrington:

Okay, that's fine. And then you went very quickly through all the one-time items in fiscal 25, so could we just take that slowly? You had $15.2 million of inventory. What else did you have there? I think you cited four.

John DeGainer | President and Chief Executive Officer:

So the $15.2 is just in the quarter. Right. The total inventory reserve in fiscal 2025 is $22 million. And we had $12 million worth. So $22 million of inventory reserves. Excuse me. $22 million worth of inventory reserves. $12 million worth of warranty and quality charges. $9 million for Alex Partners. $5 million worth of legal expenses and $3 million of restructuring charges.

Gary Prestopino | Analyst, Barrington:

Okay, and $3 million restructuring. All right. Okay, that's fine. And then I know Luke kind of asked this question, but I want to get an understanding. Of these 30 new awards that you got in 2025, how much of those are dealing with the EV market itself?

John DeGainer | President and Chief Executive Officer:

It's in our 10K from a detailed standpoint, but I believe it's about 50% of the total. What we talked about, and we talked about in the conversation, that from our booking standpoint, our bookings are about two-thirds power products, be that across the board. So, yes, it still is overweight from an EV standpoint, about 50%, but I'm really concerned I'm actually really pleased on where we are with regard to our split of bookings and the opportunities for growth in data centers. I think it's important to note, we think about 2024 versus 2025, a doubling of our data center revenue and the opportunities that we talk about briefly with regard to 2025 versus 2026. I think it gives us the ability to better balance the business than where we were 12 months ago.

Gary Prestopino | Analyst, Barrington:

Are these new EV awards still with Stellantis?

John DeGainer | President and Chief Executive Officer:

No. As we talked about, we've got launches around the world, Asia, Europe, as well as a couple of programs in North America with other customers. But if you look at the bridge that Laura has, I believe it's on slide 18. Right. That shows you that we have had to haircut the majority of the launches in North America, not just the Stellantis launches. The Stellantis launch is the biggest impact, but there are other launches that have been delayed with other customers. So we're having conversations with all of our customers with regard to how do we offset what we've done for these launches.

Gary Prestopino | Analyst, Barrington:

Okay, and that's what I wanted to go back to this bridge because a lot of numbers here, but I just want to get an idea of the Stellantis. So as of fiscal Q125, you thought you were going to get $84 million of Stellantis revenue. As of Q4, that actually materialized to $46 million. Is that correct?

John Frenzreb | Analyst, Sedoti:

Correct.

Gary Prestopino | Analyst, Barrington:

Okay. So then if we go to the next slide, you have $125 million of Stellantis revenue in that number. And that was what you figured you would – I'm trying to understand going from side to side here. So it looks like to me – excuse me, John. It looks like you almost had a – $165 million reduction in what you expected from Stellantis?

John DeGainer | President and Chief Executive Officer:

That's exactly right. It's actually more than that. It's roughly $200 million. So the way to think about it, Gary, is... The way to think about this for all the investors is this wasn't something that was foreseeable because if you look at what the customer was talking about as well as IHS in... In January of 2025, now I'm not talking fiscal, now I'm talking calendar, January 2025, the volumes for those programs were between large and frame. The two big Stellantis programs were combined 169,000 vehicles. In May of 2025, this is for 2025, it goes back to the bridge. So in January, it was 169,000 vehicles. In May, this is for 2025. In May, it was 58,000 vehicles. And in July, it dropped to 15,000 vehicles. So we had a huge drop quarter over quarter, which is why Q4 had such a revenue hole and also what drove some of the inventory because we had built a pipeline. We built our plants and we built our pipeline to respond to When you have long lead time items like copper, we built a pipeline based on what the customers had told us and what IHS said. You take those same numbers for fiscal 2026, in January, so for fiscal 20, excuse me, calendar year fiscal 2026, in January 2025, that number was $259,000 between the two programs, in May it dropped to $176,000, and in July it dropped to $63,000. So we have been reacting within a quarter to huge drops both in the quarter and in the following fiscal year, which is why our ability to adjust and overcome that is just not passable within a quarter. So what we're trying to do, we're having conversations with the customers, we're trying to work with them And it's not just with Stellantis, work with all of our customers. And at the same time, be able to use our capabilities, use our engineering, use our operations, use our supply chain to support growth in other areas. So if you think about slide 18 and 19 and say they've had a huge hole punched in the revenue from Methos' perspective, But the performance on a year-over-year basis, you have negative downward conversion that you should expect in any company when you take $100 million worth of revenue out or the better part of $100 million worth of revenue out. And on top of the downward conversion, we're driving, what, $32 million worth of EBITDA improvement in our midpoint of our guidance.

Gary Prestopino | Analyst, Barrington:

So, I mean... In the numbers that you're citing for this year, I guess it's very easy to assume there's negative growth from Stellantis, in other words. Oh, yes. Big time.

John DeGainer | President and Chief Executive Officer:

Absolutely. That's what slide 18, if you look at the top of slide 18, is what we knew when I first started talking to you. Mm-hmm. Q1. That's what we knew at the time. Mm-hmm. Okay. Now, based on The bottom of the slide shows you what we know now.

Gary Prestopino | Analyst, Barrington:

Okay. Okay. I just want to clear that up. All right. And then I don't, just one more quick question. You know, I saw the report that you're paying a seven cent dividend. So it was 14. So safe to assume you've, you've cut the dividend and it was that having to do with some of the issues you had to get with some amendment changes or leverage covenant changes or whatever, because the cashflow was still pretty strong.

John DeGainer | President and Chief Executive Officer:

Yeah, so actually, but Gary, if you look at it based on the dividend has historically been set first, the dividend policy is set by the board. But let's just talk about it. If you look at it, this change in the dividend still puts us with a yield, a dividend yield, very much in line with our peers. That initial dividend on a per share basis was set back when the stock was much higher. So the new dividend rate, one, is in line with our peers. It gives us back some flexibility from a working capital perspective. And, yes, of course, it did consider what we had to

do from a covenants perspective.

Gary Prestopino | Analyst, Barrington:

Okay. That's fine. I just wanted to make sure I was on the right track there. Thank you. Of course.

Operator | Conference Operator:

Our next question comes from John Frenzreb with Sedoti. Please proceed, John.

John Frenzreb | Analyst, Sedoti:

Good morning, everyone, and thanks for taking the questions. We'll just stick with slide 18 here, and I guess I want to focus on that $48 million and that other launches and pricing and market. I guess my biggest curiosity is how much of that $48 million has pricing benefits embedded in it?

John DeGainer | President and Chief Executive Officer:

You mean as far as versus its new programs is just price to price?

John Frenzreb | Analyst, Sedoti:

Yeah, on the right-hand side of the column, it's $48 million down from $107 million. I'm just curious how much is pricing because I figure that's going to be one of the hardest things to execute.

John DeGainer | President and Chief Executive Officer:

Yeah, no, no, no. It's not that. This is, as we said to you, we've had other programs that have either been delayed or canceled. So the downdraft between the $107 million and the 48 is due to delays or cancellations. Pricing is incremental plus. Data centers is incremental plus. So the, what you have to look at is the combination of the Solantis plus the other delays. It's basically a hole that's been punched in our revenue plan based on largely North American EV program delays or cancellations. Not pricing that we didn't get.

John Frenzreb | Analyst, Sedoti:

Okay. Right. Which brings me to my other question. With so much of a revenue coming out of the automotive side of the business, does that suggest that you're assuming growth in the industrial side of the business in the coming year?

John DeGainer | President and Chief Executive Officer:

Yeah. It does. And not only does it assume growth, but what you'll see is you see that ultimately this business is going to be about 50% automotive and 50% other. And And, you know, we're excited about opportunities to grow our lighting business, the industrial activities, as well as the data center work, both on base data center activity as well as future data center activity.

John Frenzreb | Analyst, Sedoti:

Okay, so that's largely coming from data center given what's going on in the truck market. Yeah. Yeah.

John DeGainer | President and Chief Executive Officer:

Well, so lighting would be data centers and lighting for things other than trucks, not off-highway lighting as well.

John Frenzreb | Analyst, Sedoti:

You know, since you brought that up, I am curious how Nordic Lights is performing relative to expectations, maybe to summarize 2025.

John DeGainer | President and Chief Executive Officer:

I'm very proud of the team at Nordic Lights. Auntie and the team there do a fantastic job. in a challenging market. The base market, the equipment suppliers aren't blowing the doors off, but Nordic Lights is performing well, and the team there has been a good addition. And as we talked about briefly with some of the engineering and program management team, program management changes, the team at Nordic Lights is actually contributing more broadly within broader method. I'm pleased with it.

John Frenzreb | Analyst, Sedoti:

Good. Good to hear. Question about slide nine, so we can move off from 18. It seems like there's sounded to me it sounded to me as if there's still more to come right uh the 2026 priorities including further plant consolidation sga right sizing um you know portfolio review things of that nature uh can you give us a sense of some of the timing of those projects when do you expect to execute or realize them are they you know are they all going to materialize in 2026 any kind of You know, more color would be appreciated.

John DeGainer | President and Chief Executive Officer:

Well, the program launches and the operational execution and the team rebuilding, that first one, those foundational actions, those are ongoing and, of course, we expect them to impact in 2026. Plant and SG&A rightsizing, we're in the process of that right now. None of them are large enough where they would be a capable announcements, but we're moving forward with those activities in each of our sites and each of our regions to size the business based on what product development we need and where we're going. Aligning the portfolio, more to come on that, but I expect activity to happen within the fiscal year. And addressing the business structure, the board size reduction, that will happen after the annual meeting in the next forthcoming months, the headquarters relocation. We expect to have done within fiscal 2026. We talked to you about the dividend adjustment and, as I just said, the portfolio review. So, yes, these are all things that we're actively working on in fiscal 2026.

John Frenzreb | Analyst, Sedoti:

Okay. Most of the other questions were already answered. Thank you. I'll get back to you.

Operator | Conference Operator:

Thanks, John. We have a follow-up question coming from Gary Prestapino with Barrington. Please proceed.

Gary Prestopino | Analyst, Barrington:

Yeah, I just wanted to kind of ask, just for our purposes of modeling, and I don't want to get too specific, but on a sequential basis, I mean, how are we looking at the sales plotting out quarter to quarter to quarter sequentially? Is should we expect the same seasonality that we saw a couple of years ago, or is there something here where, you know, you're going to, it just kind of puts out where it just constantly gets better as we go along in the year?

John DeGainer | President and Chief Executive Officer:

Gary, we're checking our notes, but typically with the launches and the ramp up of timing, that's why we've talked about the improvement, second half versus first half. We don't typically provide quarterly revenue guidance, but yes, you would expect to see a, there is a level of seasonality, particularly in Q3 because of our Q3 being with holidays, but a fairly significant step up in Q4 versus Q1.

Gary Prestopino | Analyst, Barrington:

Okay. So the answer would be that probably sequentially we're going to continue to see increases as we go along. And back after the year as well, you're really going to shine. Okay. That's fine. Thank you.

Operator | Conference Operator:

Thank you. We have reached the end of the question and answer session, and I will now turn the call over to John DeGainer for closing remarks.

John DeGainer | President and Chief Executive Officer:

I want to thank everybody for your attendance today. I'll just conclude it by saying we're really proud of what we've achieved in 2025, and we know that we have a lot more to do in 2026, and we look forward to speaking with you in the next earnings call to describe that progress. So thank you all.

Operator | Conference Operator:

This concludes today's conference, and you may disconnect your lines at this time. Thank you for your participation.