NYSE:MEI Q1 2026 Earnings Call Transcript

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Operator | Conference Operator:

Good day, everyone, and welcome to the Method Electronics First Quarter Fiscal 2026 results. At this time, all participants are on a listen-only mode, and we will open the floor for your questions and comments after the presentation. It is now my pleasure to turn the floor over to your host, Rob Cherry, Vice President, Investor Relations. Sir, the floor is yours.

Rob Cherry | Vice President, Investor Relations:

Thank you, Operator. Good morning, and welcome to Method Electronics Fiscal 2026 First Quarter Earnings Conference Call. For this call, we have prepared a presentation entitled Fiscal 2026 First 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 and 10 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:

John DeGainer Thanks, Rob, and good morning, everyone. Thank you for joining us for our first quarter earnings conference call. I'm also joined today by Laura Kowalczyk, our Chief Financial Officer. Let's start with the key messages. Please turn to slide five. I'm happy to report that the method transformation is firmly on track. There's still much more to do, but the trajectory is according to plan. We had another good quarter for data center power product sales with growth over the prior year. Our income from operations was up $9 million from the prior year. This was the result of reduction in SG&A costs and operational improvements that we have been sharing with you. This is clear evidence of methods starting to earn the right, as we like to say. Another example of execution improvement is the third straight quarter of strong free cash flow and net debt reduction. Our management team is maintaining a key focus on both the income statement and the balance sheet. As we look to the remainder of fiscal 26, we are confidently affirming our guidance. Despite all the various headwinds that we are facing, the company still expects to double its EBITDA for the full year, even with a $100 million decline in sales driven by lower EV demand. The ability to affirm this profit growth is a direct result of the significant and tireless efforts of the Method team. They've put a lot of work into our transformation, and the progress is tangible. Turning to slide six and our results for the quarter, our sales were $241 million, down $18 million year-over-year as we continue to navigate the transition and programs that we have previously communicated. We remain on track to launch over 30 new programs this year, with most of the launches scheduled for the remainder of the year. In addition, the ongoing strength of our power products activity was able to partially offset the program transition headwind. We recorded a $9 million increase in operating income driven by the SG&A reductions and operational improvements that I previously mentioned. At the adjusted EBITDA level, we delivered $16 million, up $6 million year over year. All of this is

further evidence of the actions that we have taken to improve our operations, supply chain, and product launch capabilities. In these three key areas, our performance in EMEA, particularly in Egypt, has notably improved. while we continue to see solid ongoing performance in Asia. Both free cash flow and debt reduction continue to be good stories for us. The business delivered free cash flow of $18 million in the quarter, which was the third quarter in a row of strong free cash flow. In turn, we reduced our net debt level, also for the third quarter in a row, and we have now reduced it by $41 million over the three quarters. These results provide more evidence of an organization whose operating efficiency is improving. Turning to EV activity, sales were down slightly year over year, but we were up on a percentage basis. For the quarter, they were 19% of our consolidated total, an increase from 18% last year. On a sequential basis, they were down from 20%. We do remain bullish on the long-term megatrend in EVs. the near-term outlook remains soft, mostly in North America, which is partially being offset by the strength in Europe and Asia. Based on customer EDI forecasts and third-party industry projections, we still expect a significant overall rebound in EV sales in fiscal 27. Turning to data centers, sales growth was a solid 12% year-over-year. As a reminder, we did have record sales in the fourth quarter of 25, So, not surprisingly, our sales were lower sequentially. However, we still expect fiscal 26 sales to be similar to fiscal 25 with some upside potential. As I mentioned last quarter, we are achieving this performance based on our existing product technologies. We also have an opportunity to leverage our power expertise, developed over decades and honed by our EV activity, to capture even more growth. The opportunity is being driven by vast increases in power density sought by data center operators for future installations. Again, it's too early to share any more details on this, but it is very promising for future growth in our power solutions enterprise. Turning to slide seven, I want to spend a little more time on our power solutions enterprise. Power products are in methods DNA. Our experience goes back many years. to the time when we supplied bus bars and connectors on the Apollo lunar landers and on the original IBM mainframe computers. Now, those years of experience and expertise are being leveraged on today's power distribution needs in electric vehicle, data center, and military and aerospace applications. As you can see from the chart on this slide, those applications have helped drive our power solution sales to a healthy 30 percent compound annual growth rate over the last three years. Going forward, we see even more opportunities for sales growth. For data centers, the need for higher voltage bus bars is driving further product innovation. In EVs, we are starting to supply interconnect boards for a more efficient power architecture. Lastly, for military and aerospace applications, we are supplying advanced products to meet the growing needs of defense equipment manufacturers. In all these cases, we are bringing our one-method mindset to bear and drawing on our global creativity to drive innovation by listening to customers' needs and bringing them solutions like cutting-edge high-voltage power products. Our power history and DNA are providing method with a competitive differentiation in the marketplace. In regard to our forecast for fiscal 26 power sales, given our guidance for flat data centers and decline in EV, our sales will moderate this year before re-accelerating next year. Power Solutions are clearly a long-term growth engine for Method, and we are actively investing in this area. Turning to slide eight, I'll give a brief update on where Method is on its transformation journey. As I have said before, transformations are never easy, and 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. The method journey is undoubtedly a transformation. Like any journey, the path is not linear. The first order of business was stabilizing the base, which included the significant organizational changes that we made in previous quarters. It meant focusing on executing program launches while simultaneously revamping plans and installing a new team, all in the face of numerous external distractions. We have 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. We are now better positioned to leverage synergies and utilize core competencies to align with market megatrends like data centers and EVs. Our improvements are creating opportunities in other areas as well. We have seen a notable uptick in RFQs and RFPs, which is being driven by our ability to leverage our global footprint and respond to market changes. As a result, we are seeing potential future sales growth from takeover business. This takeover business is in both auto and non-auto markets, and it will likely result in even more customer diversity for Method. While the financial results are not yet where we want them, our team has accomplished

much since the beginning of our transformation journey, and a foundation has been laid for us to drive consistent and improved execution. At this point, I'll turn the call over to Laura, who will provide more detail on our first quarter financial results and guidance.

Laura Kowalczyk | Chief Financial Officer:

Thank you, John, and good morning, everyone. Before I begin, I would like to address the cause of our delay in reporting first quarter earnings. Shortly before our original reporting date, we discovered an inadvertent miscalculation of dividend equivalents. This caused us to exceed our restricted payments basket for the first quarter as per our credit agreement. The amount was not material, but was in excess of what the agreement allowed. We subsequently needed time to obtain a waiver from our banks, which we could not disclose until the matter was resolved. The waiver was successfully obtained. Please turn to slide 10. The first quarter net sales were $240.5 million compared to $258.5 million in fiscal 25, a decrease of 7%. On a sequential basis, sales decreased 6%. The quarter saw continued growth in the sale of power products, including data center applications. In the automotive segment, sales were weaker in North America as we continue to experience a net negative impact from the transition from legacy programs to new ones. We also experience continued sales weakness in commercial vehicle lighting applications. First quarter adjusted income from operations was $2 million, an increase of $6.7 million from fiscal 25. On a sequential basis, adjusted income from operations increased $23.6 million from the fiscal 25 fourth quarter. Please see the appendix for reconciliation of all adjusted measures to GAAP. On a year-over-year basis, gross profit was relatively flat, despite the $18 million in lower sales. The main driver of the improved operating income was a $9.6 million reduction in S&A related to lower professional fees and compensation expenses. In the sequential comparison, The fourth quarter of fiscal 25 included an excess and obsolete inventory expense and discrete inventory adjustments of $15.2 million. Overall, despite the $18 million sales headwind, METHO delivered operating income growth both over the prior year and sequentially. Please turn to slide 11. Shifting to EBITDA, a non-GAAP financial measure, First quarter adjusted EBITDA was $15.7 million, up $5.9 million from the same period last year. On a sequential basis, adjusted EBITDA increased $22.8 million from the fiscal 25 fourth quarter. As with operating income, EBITDA increased despite the sales headwinds, driven mainly by a reduction in S&A and other operational improvements. Please turn to slide 12. First quarter adjusted pre-tax loss was $5.1 million, an improvement of $4 million from fiscal 25. On a sequential basis, adjusted pre-tax loss improved $23.5 million from the fiscal 25 fourth quarter. Again, the pre-tax loss improved despite a 7% sales headwind year over year and was driven mainly by a reduction in S&A and other operational improvements. First quarter adjusted diluted loss per share was 22 cents, a 9-cent improvement from the prior year and a 55-cent improvement from the fiscal 25 fourth quarter. Overall, our cost reduction efforts clearly bore fruit this quarter and set method up for improved margins when we return to sales growth. Please turn to slide 13. The first quarter's net cash from operating activities was $25.1 million, up from $10.9 million in fiscal 25. First quarter capital expenditures were $7.1 million, down from $13.6 million in fiscal 25. The lower CapEx was according to plan, as much of the program launch investments are behind us, and we are becoming more efficient in our spending on the new launches. First quarter free cash flow, a non-GAAP financial measure, was $18 million, as compared to negative $2.7 million in fiscal 25, an increase of $20.7 million. This increase was mainly due to the lower working capital and lower capital expenditures. This was our third quarter in a row of strong free cash flow. Please turn to slide 14. Just like free cash flow, we had our third quarter in a row of reduced net debt, a key focus of the method management team. Total debt was up $5.8 million from the fourth quarter. The increase was mostly driven by foreign exchange, as the majority of our debt is based in euros. We ended the quarter with $121.1 million in cash, up $17.5 million from the fourth quarter. Net debt, a non-GAAP financial measure, decreased by $11.7 million from the fourth quarter to $202.3 million. We have now reduced net debt by $41 million over the last three quarters. Please turn to slide 15. Regarding forward-looking guidance, it is based on management's best estimate and is subject to change due to a variety of factors as noted at the bottom of this slide. For fiscal 26, we are affirming our expectation for sales to be in a 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 compared to the prior year.

We are also affirming our expectation for 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. As a percentage of net sales, we expect almost a doubling of EBITDA margin from 4.1% to 7.9%. In regard to free cash flow, as previously noted, we had a strong start to the year. For the full fiscal year 26, we expect free cash flow to be positive versus the negative $15 million in the previous fiscal year. The fiscal 26 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, of which $10 to $15 million is for valuation allowance on deferred tax assets. Our practice has been to non-gap the valuation allowance for our adjusted earnings calculation. So to echo John, this guidance represents a solid foundation for the method team to further build on. That concludes my comments, and we can open it up to questions.

Operator | Conference Operator:

Certainly. Everyone at this time will be conducting a question and answer session. If you have any questions or comments, please press star 1 on your phone at this time. We do ask that while posing your question, please pick up your handset, if you're listening on speakerphone, to provide optimum sound quality. Once again, if you have any questions or comments, please press star 1 on your phone. Your first question is coming from Luke Young from Baird. Your line is live.

Luke Young | Analyst, Baird:

Good morning. Thanks for taking the questions. John, maybe starting with automotive, you know, clearly most challenging results relative to method overall still. I know there's a lot of countervailing factors there. Just hoping to better understand relative to the overall outlook for EBITDA to double this year, how you see the automotive segment contributing to that incrementally, especially beyond some of the non-repeating operating items that were in the P&L last year. And then, you know, even beyond this year, if we zoom out maybe a couple years, just kind of what you envisioned for that business at a high level on the operating side of the house. Thank you.

John DeGainer | President and Chief Executive Officer:

And Luke, thanks for your question. I think it's important that we separate out by region. That's why we specifically talked about the performance in EMEA and the transformation in Egypt. We have automotive business around the world, and our business in EMEA has significantly improved on a year-over-year basis. Part of the challenge that we have in North America, as you well know, is the transition of some of the historic programs rolling off that specifically hit us in Mexico. So the automotive business globally, I would say the performance activities are significant. impacted disproportionately in North America due to just the roll-off of that program and the subsequent delay in the EV programs, particularly with regard to Stellantis, as we've mentioned to you. So we have a bit of a tremendous amount of progress in EMEA. We have stability and good performance in Asia, and we have challenges both from an execution standpoint, as we talked about our Q4 call, but also from a revenue headwind perspective in North America. The second part of your question, where do I see it going forward, as we talked about, we expect to see the volumes start to stabilize and grow in fiscal 27 from an EV standpoint. That will create tailwinds for our Mexican facilities and basically for our North American business. And then you also see some of the data center activity that we're putting into Mexico that will help it. So I see leverage from all of our segments in our facilities, and that will help the business going forward.

Luke Young | Analyst, Baird:

Thanks so much, John. And maybe a related question just in terms of Asia. So I know there's been a program roll-off impacting that business and automotive as well if we look at the sales base. Following that role, I'm fairly limited on a quarterly basis right now, just maybe at a high level strategically how you're thinking about Asia, and clearly relative to EV is one of the trends that you're most focused on, probably the most opportunity-rich region, China especially. Thank you.

John DeGainer | President and Chief Executive Officer:

Our Asia team really in many ways is leading our activity from development of new product for EV applications. The battery interconnects and some of the other advanced activities are being led out of, from a manufacturing perspective, out of Asia. So they become our, in many situations, our launch facility and our first and our first product development and product validation location. So, yes, true, we had headwinds for the roll-off of one customer's programs, but I see a lot of progress there. It's a very well-run organization from an operational and from an engineering perspective, as well as from a working capital side, and they give us credibility with customers both on the power side and on the... both on the data center and on the EV power side, and give us a chance to grow around the world.

Luke Young | Analyst, Baird:

Got it. And then maybe just a quick one on the interface business. I know that in the bridge you had given us for the current fiscal year, there was an appliance program roll-off reflected in that bridge. Are we seeing that in the first quarter results yet? And to what extent there might be any offsets from the transceiver business that we're seeing in the P&L right now? Thank you.

John DeGainer | President and Chief Executive Officer:

The reason we didn't put that bridge in there is the situation is consistent with what we have said in previous quarters. So the roll off as we talked about in the fiscal year and how they're going to move year over year is consistent from one quarter to the other. So, yes, you're seeing the impact of the roll-offs both from the user interface as well as from the Whirlpool business. And then we see the ramp-up of some of the new programs as well as the backfill with some of the data center activity. Understood.

Luke Young | Analyst, Baird:

I'll leave it there for now. Thank you.

Operator | Conference Operator:

Thanks, Luke. Thanks for the questions. Thank you. Your next question is coming from John Fangereb from Sedati. Your line is live.

John Fangereb | Analyst, Sedati:

Good morning, everyone, and thanks for taking the questions. I'm curious, last quarter you provided a slide that kind of really took a deep dive into the tariff outlook. Has there been any change in your tariff expectations, be it positive or negative?

John DeGainer | President and Chief Executive Officer:

There has been no change, John. We had, what, $1 million worth of impact. That's more of a timing thing than it is anything else in the quarter. But we have been pretty consistent in our approach with regard to tariffs. We're not going to bear the extra cost. We've worked with the customers on this. And so there has been no change different than what we said in the previous quarters, and we feel pretty confident to the greatest extent we can be confident with the changes in Washington, we feel pretty confident based on what we see right now as to where we're at and the relationships that we have with customers through this. The other thing that I would say is, and I mentioned it a little bit in the additional RFQs, the current tariff regime is actually creating opportunities for us because our facilities, our ability to, they're USMCA compliant, and our ability to deliver into North America with 97-plus percent USMCA compliance. So it's creating opportunities and RFQs that we didn't see six or nine months ago with customers that are new to us.

John Fangereb | Analyst, Sedati:

That's good to hear. And in terms of restructuring actions, can you talk a little bit about how far along are you in this process, John? You just got the low-hanging fruit at this point, and, you know, maybe some more color. What kind of, what would you expect maybe in fiscal 2026?

John DeGainer | President and Chief Executive Officer:

Well, I mean, we've talked about the transformation of the leadership team, and in the last quarter, we talked about the move of the consolidation of the headquarters facility. We're on track with regard to that and believe we'll have everything completed by the middle of this fiscal year from the headquarters consolidation and the facility consolidation. We continue to look at what we can do around the world with regard to reduction of whether it's engineering activities or whether it's warehouse activities or other facilities to take structural cost out. But there isn't anything at this point of a level of materiality. So we reduced headcount probably by 500 people. And we continue to refine that. And part of the transformation that, excuse me, part of the improvement that underlies the EBITDA growth and the performance growth is just ed count reductions in our different facilities, be it in Mexico or in Egypt in particular.

John Fangereb | Analyst, Sedati:

Got it, got it. And just, I guess, when you look at the end markets, you know, the class A truck, the ag and construction haven't been particularly favorable. I'm just curious about your thoughts on how those end markets play out in the year ahead based on what your customers are telling you.

John DeGainer | President and Chief Executive Officer:

So, you know, we continue to get indications from our customers as well as from forecasting services like ACT that The commercial vehicle space is still bound by 5%. We do expect it to rebound in 26, and we're starting to see we haven't seen that come through an EDI yet. What we are seeing is as our lighting business has worked very hard to improve our relationships with customers, we're seeing additional RFQs. We're also seeing interest. On the power side, from a commercial vehicle standpoint, that doesn't have near-term revenue impact, but it does have future impact. And it goes to, John, what we've talked about with earning the right with customers from the standpoint of us being viewed as a trusted partner beyond just lighting. So both on the commercial vehicle side and on the ag and construction side, we still see softness in the end markets. but we are gaining business based on the improved execution of the organization.

John Fangereb | Analyst, Sedati:

Got it. With that, I'll get back to you. Thank you for taking questions.

John DeGainer | President and Chief Executive Officer:

Thanks, John.

Operator | Conference Operator:

Thank you. Your next question is coming from Gary Pristapino from Barrington. Your line is live.

Gary Pristapino | Analyst, Barrington:

Thank you. John, Laura, Rob, how are you? Good morning. We're well. Hope you're well also. Yes, I am. Okay, a couple of questions here. First of all, when you reported Q4, you gave us a sales bridge for sales guidance for this year. Has anything changed dramatically in that bridge? I mean, are we still looking at a 40 million reduction in Stellantis programs, and then about 48 million of other program launches positive on the sales side?

John DeGainer | President and Chief Executive Officer:

And that's the reason why we didn't put the bridge back in again, Gary, is there's nothing changed. So as you think about how you model it, just go back and get that as the basis. Okay.

Gary Pristapino | Analyst, Barrington:

I just wanted to make sure there. A couple of questions here surrounding bus bars for data centers. Okay. Is this mostly a new construction market, what you guys are supplying? Or is there a repair and replace component of this market for these bus bars for data centers?

John DeGainer | President and Chief Executive Officer:

This is primarily new construction. And everything that we've talked about with regard to our guidance is what we would refer to as sort of current technology. We're working with them on future advanced activities. None of that is in our guidance. We're excited about those opportunities, but it's a little bit too soon to talk about from a revenue perspective. But everything that we're talking about here is sort of current product technology and is new construction with multiple end customers.

Gary Pristapino | Analyst, Barrington:

Right, because the gist of my question is that, yeah, it's new construction. I mean, who knows how long this is going to go on with growth and data centers. But I guess I'm getting what I'm leading to is, are the plans, can this business get to be fairly substantial relative to the whole pie? It looks like from the chart on page seven, it looks like EVs maybe about 60% of the sales, data centers maybe about 35% of fiscal 25 sales. I mean, is there a way you can make it bigger or are you just range-bound by the fact that it's a new construction market?

John DeGainer | President and Chief Executive Officer:

No, we're not range-bound because, remember, we have a relatively de minimis share of the total. So what we've done, and we talked about it in previous calls, to be more responsive to our customers and offer them utilizing our global footprint in a more efficient and effective way than what we've done in the past has allowed us to grow, share on the current data center product. That's where you see the growth between fiscal 24 and fiscal 25. That also is giving us opportunities with expansion because we weren't on every one of their designs for the current data centers. But in addition to that, And so that's what we talk about is in our current guidance. In addition to that, then, as they look at putting higher voltages into their data centers and bringing high voltage closer to the rack, we are working to try to help them with that. And that's growth on top of what you see here. So the chart on slide seven is historical. And yes, it is power activities, not just for data centers, but for Mill Aero as well as EV. But what you heard me say earlier is now we're starting to talk about commercial vehicles. We're starting to talk about utilizing those core competencies in other other pieces of our end markets and with our existing customers, as well as what's the next product families with our existing customers like the data center customers. So we expect this as an opportunity for growth. That's what I mentioned in my script.

Gary Pristapino | Analyst, Barrington:

Okay. And then I want to also ask about the EV side of the business here. Can you give us an idea of the percentage of your EB sales that are, or products for EBs, I should say, that are outside the U.S., which would be mainly China and Europe, I suppose?

John DeGainer | President and Chief Executive Officer:

So we look at fiscal 2025, and that's probably the best way to look at it so you don't get into one quarter versus another quarter. And remember that we sell things beyond just bus bars into EBs. In fiscal 2025, for our total, if you will, EV sales split, roughly $220 million of fiscal 2025 revenue went to EV products, as we said, the 20%. Fifty-five percent of that was in EMEA, 16% of that was in Asia, and 30% in North America. Okay. When we say to you that our exposure isn't just a North American exposure to EVs, it's that that's the basis for the data. Certainly, we had expected, and go back to the sales bridge that was the start of your question, we had expected significant growth in North America EV, particularly with Stellantis and a few other customers. That's where we see some of the headwinds in North America, but the overall split is pretty balanced between the regions. Okay.

Gary Pristapino | Analyst, Barrington:

So in terms of what you're looking for this year, just particularly with the bus bars to the EV market, it's safe to assume the majority of any growth is going to be coming from outside the U.S. just because of the Stellantis program reductions.

John DeGainer | President and Chief Executive Officer:

Okay. All right. Thank you. Yep. Thanks, Gary.

Operator | Conference Operator:

Thank you. That concludes our Q&A session. I'll now hand the conference back to CEO John DeGainer for closing remarks. Please go ahead.

John DeGainer | President and Chief Executive Officer:

I want to thank all of you for joining us and for your interest in Method and for your questions. We look forward to updating you on our progress in future calls, and have a great day.

Operator | Conference Operator:

Thank you. Everyone, this concludes today's event. You may disconnect at this time and have a wonderful day. Thank you for your participation.