NYSE:MEI Q2 2026 Earnings Call Transcript

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John | Chief Executive Officer:

positioned us for future growth and operational efficiency. We look forward to being closer to our automotive customers and to having almost all of our functions under one roof. Please turn to slide five. Methods power solutions offerings actually go back more than 60 years, and we are using this history and our expertise to bring solutions to our customers. Our data center activity was just over $40 million in fiscal 2024, and last year generated over $80 million in annual sales. We continue to expect to see long-term growth in this area. One of the most exciting aspects for me in this business is the ability to apply core competencies that have been built over decades to current and future products in different end markets. These capabilities can be brought to bear to better address the megatrend-fueled opportunities in the EV and data center spaces. Looking ahead, as we implement more customer-focused solutions like vendor-managed inventory, utilize our global footprint more aggressively, and develop solutions for problems like high voltage and data centers, it provides us with opportunities to differentiate method in ways that we have not in the past. We continue to expect our fiscal 2026 power sales to be in line with fiscal 2025. We also expect a sales acceleration in the future as our data center growth strategy positions us to take a larger share of customer demand. Our power solution offerings are clearly a long-term growth engine for Method. Please turn to slide six. As you think about the transformation of Method, it has been a journey, and the starting point for that 18-month journey was to stabilize the base. It started by fixing launch execution, and we had 50-plus launches between fiscal 2025 and fiscal 2026 to deliver, while improving customer satisfaction and product quality in multiple regions. So we needed to address these fundamental challenges first. A revamp of our most important plans in Mexico and Egypt, both from a leadership and from an execution standpoint, was next. We've changed all but two of the senior leaders, and many of the team members below those leaders in the company. Standing up a new team who are driving a more global approach, diagnosing situations, and pinpointing weaknesses has dramatically helped move things forward. We are nearing the end of this foundation building phase of our transformation journey, and now starting to discuss what the next chapter is as the foundation is corrected. In this next phase, we can start talking about leveraging synergies with credibility. Because without execution as a foundation, we would not have the credibility with customers and shareholders to talk about what's next. Overall, we've been laser focused on improving execution and making Method a more reliable and resilient company and is showing up in our results. I'll now turn it over to Laura for a discussion of our financial results.

Laura | Chief Financial Officer:

Thanks, John. And turning to slide seven. First, let me note that fiscal 2026 is a 52-week year and fiscal 2025 was a 53-week fiscal year. The three months ended November 1st, 2025 and November 2nd, 2024 were 13 and 14-week periods respectively. Second quarter net sales were $246.9 million compared to $292.6 million in fiscal 2025 as a decrease of 16% while on a sequential basis, sales increased 3%. The year-over-year decrease in sales reflected lower volume across all segments. Second quarter adjusted net loss was $6.7 million, an $11.9 million change from fiscal 2025, and on a sequential quarter basis, a reduction of adjusted net loss by $1.1 million. Second quarter adjusted EBITDA was $17.6 million, down $9.1 million from the same period last year, and on a sequential quarter basis, adjusted EBITDA increased $1.9 million. Second quarter adjusted diluted loss per share was 19 cents, a 33-cent decrease from the prior year second quarter and a 3-cent improvement from Q1 fiscal 2026. Overall, our improvement efforts to drive expanded margins when we return to sales growth are still underway. Please turn to slide eight, where I will discuss the progress made with our disciplined capital allocation strategy. Net debt was down $29.6 million compared to the same period last year as we continue to drive cash flow and debt reduction. We ended the quarter with $118.5 million in cash, which was up $21.5 million year over year. Operating cash usage in the second quarter was $7.4

million, but we generated $17.7 million in the first half of fiscal 2026. An item to note in the quarter was a $10 million inventory bill to support the transition to vendor-managed inventory for our data center customers. With that said, our operating cash flow performance in the quarter would have been positive without the vendor-managed inventory impact. Second quarter free cash flow was a usage of $11.6 million compared to a usage of $58.4 million in the fiscal second quarter 2025, reflecting a $46.8 million improvement on a year-over-year basis. Turning to slide nine. Again, please note that fiscal 2025 was a 53-week fiscal year and fiscal 2026 is a 52-week fiscal year. For fiscal 2026, we are reaffirming our expectation for sales to be in a range of $900 million to $1 billion and for adjusted EBITDA to be in a range of $70 to $80 million. We expect our second half results to be higher than the first half as we have previously communicated. Q3 results will reflect traditional seasonality with improvement expected in Q4. For fiscal year 2026, We expect free cash flow to be positive compared to an outflow of $15 million in the previous fiscal year. Our fiscal 2026 guidance represents a solid foundation for the method team to further build on. We are pleased with the results here today, and our team is focused on finishing the second half of fiscal 2026 strongly. With that, I will hand it back to John for closing remarks.

John | Chief Executive Officer:

Thanks, Laura. Please turn to slide 10. The method team is not standing still. and is working with a high sense of urgency and purpose to drive improved execution. This quarter's results demonstrate that our business is moving decisively in the right direction, yet there is still important work ahead as we rebuild the future of Method. We are aggressively driving financial improvement to strengthen our balance sheet and deliver our fiscal 2026 guidance. At the same time, we are selectively investing in initiatives such as data centers that will position Method for long-term growth. We are transforming Method into a more reliable and resilient company, one that is poised to generate long-term value for our shareholders. And with that, operator, please open the line for questions.

Operator:

Thank you. At this time we will be conducting our question and answer session. If you would like to ask a question, please press star 1 on your telephone keypad. A confirmation tone will indicate your line is in the question 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. Thank you. Our first question is coming from Luke Young with Baird. Your line is live.

Luke Young | Analyst, Baird:

Good morning. Thanks for taking the questions. John, maybe if we could start with the power business this quarter. Just hoping to square kind of current trends that you're seeing right now between the big drivers there in terms of EV and data center, and then in terms of that Full year expectation, maybe if you could break that out similarly, are you expecting some growth in data center to be offset by EV, or are those trending more similarly, would you say? Thank you.

John | Chief Executive Officer:

Thanks, Luke, and good morning. You know, I think it's important to note, as we've talked before, The year-over-year headwind from an EV standpoint, we've already really taken that hit with some of the launches and the things that we've talked about, whether it's delays in certain Stellantis programs or other programs. When you understand overall EV volumes or when you understand our volumes, automotive is, on a year-to-date basis, automotive within Method is 44% of total sales. EVs represent 41% of that in North

American EVs is 12% of that. So total revenue year-to-date in North America for EVs is less than $12 million. So when we talk about EVs and we talk about the headwinds of EVs, I think it's important for everybody to understand, as we've said multiple times, that our EV exposure is huge. not just in North America. It's in Europe and it's in Asia, and it's a much greater percentage of our total than in North America. We expected it to be much higher, as we've talked about in previous quarters, but those launches did not come to fruition. So we've already taken that hit. With regard to data centers, as we mentioned to you on the last call and as we talked about at the Baird conference a few weeks ago, We're very optimistic about the opportunity to grow, and the move to vendor-managed inventory gives us an opportunity to take share and to get a lot more clarity with regard to the sales forecast. But as we have said, we will not adjust our guidance from a data center standpoint until that EDI is locked in. So I believe there is tailwind to come in that. It is not something that we can talk about here in Q2. But I'm very confident in the team that Brad Perotti is leading and the work that we're doing to deepen our relationships with the customers. We would not have made this investment in the $10 million of vendor-managed inventory were we to not feel confident that this is a source of growth for us.

Luke Young | Analyst, Baird:

Yeah, I mean, I appreciate the investment, John. I was just wondering if we could put a finer point on the two Q trends. Just was the power business Similar to what you're expecting for the full year in terms of just being relatively flat and within that, did data center show any growth overall in the second quarter versus 2Q last year?

John | Chief Executive Officer:

Data centers are exactly on the guidance that we expected and actually maybe a little bit ahead. But when we talked about when we said what we expected for the full year, the data center revenue for Q2 is exactly in line with that. And the EV business, as I said to you, EV headwinds are primarily in North America, and they're primarily due to delayed or canceled launches, which we've already taken the hit for that. That's why we had $100 million less in revenue guidance in the first place. So we're only 44% exposed to automotive. We're only 36% of that 44% in North America. So SAR-based revenue headwinds for us are relatively limited from an automotive standpoint. And EV-based headwinds in North America are relatively limited as well. So we're on track with what we expected. We're not getting tailwinds from CVs. We're not getting yet tailwinds from ag and industrial headwinds. The data center stuff continues to move forward. We continue to be optimistic about where that will go, but not to the point where I can increase the guidance on that number.

Luke Young | Analyst, Baird:

Got it. Just in terms of the guidance, reiterating overall sales in EBITDA and the comment that the second half should be stronger, I certainly appreciate the seasonality in the third quarter from a top line standpoint. Should we think that Second half versus first half strength primarily through the lens of EBITDA. Just wanted to clarify that. Thank you.

John | Chief Executive Officer:

Well, I think what you should think about, and Laura can give you a little more detail on sort of the year-over-year improvements, I think what you should think about is the sequential improvements in our two biggest facilities and the progress that we've made in both Egypt and Mexico. And as I said in my prepared remarks, Mexico is behind Egypt with regard to that performance. But Laura, we'll talk a little bit on just where we are today.

Laura | Chief Financial Officer:

Yeah, for Egypt, when looking at Egypt, our gross margins have nearly doubled. So we've made reductions in scrap, freight costs. We have upgraded talent there too, both at a leadership team meeting, our leadership team level, and a level below. In Mexico, obviously with the reduction in volume, margins are down. However, we focus on the cost side. there in Mexico with reductions in direct labor, indirect labor, and salary. Material and freight and scrap are also down in Mexico.

John | Chief Executive Officer:

So, to answer what a fine point on it, Luke, yeah, you should expect to see it as a conversion on sales will be a lot higher because some of the cost of poor quality, the premium freight, some of the other things as we make improvements in the plants and we get through these launches. So, you start seeing run rate impact of launches and you see the improvements that we're making in the plants. That's why we feel very confident about the second half of the year.

Luke Young | Analyst, Baird:

Hopeful. Thank you. I'll leave it there.

Conference Moderator | Investor Relations:

Thanks, Luke.

Operator:

Thank you. Operator. Our next question is coming from John Fransreb with Siddhoti & Company. Your line is live.

John Fransreb | Analyst, Siddhoti & Company:

Good morning, everyone, and thanks for taking the question. Hi, John. I guess... I'm just curious about the guidance. You know, we're more than halfway through with the year. We have a seasonally weak third period coming up. Are you comfortable at the lower end at the guidance or at the upper end based on your current visibility today?

John | Chief Executive Officer:

John, because there's so much exogenous volatility, you know, Nexperia is not behind us. We still have, you know, commercial vehicle sales that are turbulent, we still have a whole series of ranges of economic turbulence. It's why we haven't narrowed either the top or the bottom half of our guidance and why we continue to bracket both the revenue guidance and the EBITDA, the adjusted EBITDA guidance the way we do. The predictability and the performance of the business is much better than where it was 12, 18 months ago. But we spend every day still talking about tariffs and every day still talking about the impact of next period and what it can mean from a revenue perspective. And it would be, we believe... a disservice to our shareholders to narrow down those numbers right now until we have a little more clarity on just what's happening from the turbulence in the external market.

John Fransreb | Analyst, Siddhoti & Company:

Okay. Fair enough, John. In the quarter, I noticed there was a nice improvement in the industrial operating profit on a sequential basis on a nominal increase in revenue. Is that totally due to data centers, or can you provide some color with all that sequentially?

John | Chief Executive Officer:

No, basically it goes back to our plants are getting better. And we've said before that these plants aren't, other than in a very specific situation, they are shared between our industrial activities and our automotive activities. So the plants getting better flows through the P&Ls of the different segments. Our plants are getting better. And that's why we can feel confident about our guidance without it having to be revenue tailwind that drives it. Is Mexico, Egypt first, but Mexico as well. Both of them are getting better. Our plant in Malta is much, much better. The plants in China continue to perform. I want to thank that team. But the two places that were most on fire 18 months ago when I walked in the door were are much, much better, and that gives us the predictability. When we talk about earning the right with shareholders and the predictability that goes along with it, it starts with our plants are much, much better.

John Fransreb | Analyst, Siddhoti & Company:

You know, John, there's a point where you voiced concerns about new program rollouts and you want to get beyond that. And you just mentioned, you know, 50 so far in, you know, 25 versus 26. You know, are we beyond the point, you know, given the new personnel that you've hired in multiple levels where that's no longer a significant worry for you at this point?

John | Chief Executive Officer:

What I can say is the trend lines from our launches are all also going in the right direction. In many situations, those launches both were happening in Egypt and in Mexico, so were the plants getting better? Some of it was premium freight and other issues with regard to program launches. The ones that were most problematic where we had customers in the building have largely gotten behind us. It doesn't mean that they're all behind us. We still have a couple of challenged launches, a little bit of it, the difference between where I said Mexico and its phasing versus Egypt. But we've got new people plus some outside help that are working with us to continue to stabilize and drive those launches. And so The answer is largely the launch challenges are behind us, but not completely. OK, fair assessment.

John Fransreb | Analyst, Siddhoti & Company:

I guess one more question. It appears that you're past the part of stabilizing the business, and you're moving on to the part in the transition process of addressing revenue and cost cutting drivers. Can you kind of like walk us through the roadmap to returning to profitability? What's going to be the biggest drivers here? Is it going to be on the cost cutting, be it product rationalization, or is it going to be really a top line driven story here to get you back in black?

John | Chief Executive Officer:

Well, so if you think about our year over year improvement from an EBITDA perspective, if you just took midpoint of our current EBITDA guidance versus last year, And what that means, basically adding from 43 million to midpoint at 75, adding $32 million of EBITDA on $100 million less in sales, that is getting cost for

quality and waste out of the plants. We have taken more than 1,000 people out of those two big facilities between Mexico and Egypt. We will continue to refine those, but it's, and the headquarter move is a cost refinement plus a capability increase. We will continue to make cost adjustment activities, but now it's really, okay, let's ramp up these new programs. Let's ramp up the data center activity. Now let's really start to drive revenue. Let's get ourselves positioned as we see commercial vehicle volumes come back into, calendar 2027, what would be our fiscal, you know, the latter part of our fiscal 2026 and into our fiscal 2027, as we start seeing some revenue tailwinds just with stuff that we have because there's headwinds in each of our end markets, we believe that the business is very well positioned for profitability at all levels down the income statement.

John Fransreb | Analyst, Siddhoti & Company:

Okay, fair enough. I'll actually get back into Q at this point. Thanks, John.

Operator:

Thanks, John. Thank you. Our next question is coming from Gary Prestapino with Barrington Research. Your line is live.

Gary Prestapino | Analyst, Barrington Research:

Hey, good morning, everyone. Good morning, Gary. A couple of housekeeping questions here. Laura, this was the quarter where it was 12 versus 13 weeks last year. Is that correct? That's correct. Okay, so on a lifelike basis, can you give us some idea of what the sales were down?

Laura | Chief Financial Officer:

Yeah, the sales were about roughly $20 million.

Gary Prestapino | Analyst, Barrington Research:

So $20 million that was incrementally added by that one week?

Laura | Chief Financial Officer:

For last year, yes.

Gary Prestapino | Analyst, Barrington Research:

Okay. Thank you very much. And then... I noticed you didn't report the percentage of your sales to EV and hybrid applications, which you had done in the past. Are you not reporting that anymore? Can you share that with us?

John | Chief Executive Officer:

Well, I don't know that we gave that specific detail, but let me give it to you. So in the first half, so I don't have it by the quarter, but I have it by the half. EVs are 41, so automotive... is 44% of our total sales are $217 million in the first half. EVs are 41% of that. Now, for full transparency, that's not just power. That's anything that goes into an EV. Then you take that 41% of the 44% and split it. 71% of that, 41% is in Europe, 18% of the 41% is in Asia, and 12% of the 41% is in North America. So in the first half of fiscal 2026 for Method, our sales on the EV side in North America were $11.5 million. So when we talk about EV penetration in North America and what it means for a headwind, it's already been baked into our guidance. The stack charts that we talk about with regard to Stellantis and some of the other programs, we already took the hit.

Gary Prestapino | Analyst, Barrington Research:

Right. I understand that. I'm just trying to square with what you guys have recorded in the past. And I'll work through that. That includes EV and hybrid, right?

John | Chief Executive Officer:

No, this is just based on platform specific, it's EV stuff. As we talk about business wins and where there are opportunities for power going forward, those would be both in EVs and hybrid vehicles. And we talk about that separately. But these are for EV-based platforms.

Gary Prestapino | Analyst, Barrington Research:

Okay. And then in your guidance, the tax expense of $17 to $21 million, is that all cash taxes were? Could you give us some idea of what the cash taxes will be?

Laura | Chief Financial Officer:

No, some of that, as it's noted on the slide, it does include a $10 to $15 million valuation allowance on deferred tax assets. So that's expense.

Gary Prestapino | Analyst, Barrington Research:

so I backed that out of your range then to get an idea of what cash taxes could be. Okay. All right. And then John, I want to talk about, um, your program launches. Like I went through my reports over the last quarter, 30 program launches you're anticipating this year. Um, you say you've taken all the hits from the reduction in the EV programs. So in the back half of the year, number one is how many programs are expected to be launched? And are these programs all dealing with ICE applications? Give us some idea of where those programs are. Is it all auto? Is it across all of the different segments like industrial or whatever?

John | Chief Executive Officer:

So I don't have the split by region, but the majority of the programs that are launching are power-based programs. And so there, Gary, it would be either EV or hybrid. And we have a couple of examples where it's both. The new launches are primarily in Mexico right now versus in EMEA. Those launches, we went through some of that pain earlier. It's part of the reason why Egypt is ahead of Mexico in the transformation. And the big hit that we took with regard to programs that were delayed or canceled was primarily in North America. That's part of the reason why North American auto was so challenged, because we had particularly Salientis

programs that we expected, you know, $100-plus million in annualized revenue that were canceled. So as we have discussed previously, we're in negotiations with Salientis on this topic, but we are launching multiple programs in Mexico, and ramping up programs in Egypt and Malta right now, plus programs in Asia Pacific.

Operator:

Thank you. Thank you. We have another question from John Fransreb with Sedotian Company. Your line is live.

John Fransreb | Analyst, Siddhoti & Company:

Yeah, just regarding the cash outflow in the quarter, A quick back of the envelope suggests that there was a cash outflow in the receivables in the quarter. Is that like seasonal timing? If I did the numbers right, it seems like it was $12 million in the quarter. Or is there something else to that? I'm sorry, $14 million in the quarter.

Laura | Chief Financial Officer:

Yeah, that's correct. There was $14 million. It was up from last year, and that's due in last quarter due to the sales increase. in the quarter compared to last quarter.

John Fransreb | Analyst, Siddhoti & Company:

Okay. Okay. So there's nothing, nothing else. All right. Unusual about that.

Laura | Chief Financial Officer:

And there were some receivables that were collected in November after the end of our, after the end of our quarter. So it came down in November.

John Fransreb | Analyst, Siddhoti & Company:

Excellent. Well, thank you. And I guess in regards to, since John, you brought this up about tariffs, you talk about it every day. But you don't have a new change in the slide presentation from the fourth quarter. So is it fair to assume that not only the bridge that we talked about last quarter, but the tariff slides, everything is status quo since the last presentation that we had included? Or is there anything we should be aware of?

John | Chief Executive Officer:

There's no new news from an investor standpoint with regard to tariffs. As we've said, we are working with our customers closely to first try to alleviate any tariffs where possible, and our USMCA facility helps us do that. We're moving, we're rebalancing manufacturing to try to help that, but where there is a tariff that we can't avoid, we are passing that on to customers and working with customers that way. So there's nothing different, John, with regard to the financial impact for us. More what I was saying is the tariff regime, and particularly most recently the next period chip issue, still creates turbulence and it still it still creates um challenges with regard to our customer plans stuff that's in many ways outside of our control and that's why the revenue range for our guidance is difficult to narrow down at this point yet okay no that's fair and i guess one last question as we close out the calendar 2025 calendar

John Fransreb | Analyst, Siddhoti & Company:

I'm kind of curious about how you envision calendar 2026 in some of the what's called problematic end markets. Do you view the overall automotive sector as, you know, up or down? Same with the ag and the class A truck market. What are your thoughts in aggregate about how calendar 2026 plays out?

John | Chief Executive Officer:

So concurrent, we try to use third-party forecasters to help us with this because I'd love it if we had a great economic staff that was better than S&P, but we don't. And I don't think that's the best place to use our smart people. IHS is saying that fiscal, or this is fiscal year, not calendar year, right? IHS is saying that calendar year would be just a little bit better from an overall volumes perspective. that also that IHS is talking about 2027 or 2026 being better from a CV standpoint, particularly in the second half of the year, which would be our first part of our fiscal 2027. So we see in the industrial market as we talk to customers and we see where things are going, for our electronics business, our nautical lights business, as well as some of the activities from Greycon, we see some future tailwinds as opposed to headwinds. So, you know, the thing that gives me the most, one of the things that gives me the most confidence here is this has been performance improvement in the face of very little good end market news. Our performance improvement is Yes, we talked about data centers being a tailwind and good end market news, but the rest of our end markets have all been headwinds for us. And commercial vehicle, as those who know that space, is a highly cyclical, more cyclical than past car, and we still move freight, and there will be trucks that will be sold. And so what we're seeing for commercial Calendar year 26 is an improvement, particularly in North America, and a small improvement in Europe that will hit us the latter half of our fiscal year and early into fiscal 2027.

John Fransreb | Analyst, Siddhoti & Company:

Thanks. I appreciate your insight. Thanks, John.

Operator:

Thank you. And that concludes our Q&A session. I will now hand the conference back over to Mr. Randy Wilson for closing remarks. Please go ahead.

Randy Wilson | Investor Relations:

Thank you for joining us today and your interest in method. Take care, everyone, and have a great rest of the day. And with that, operator, please disconnect the call.

Operator:

Thank you. Ladies and gentlemen, this concludes today's call. You may disconnect your lines at this time and have a wonderful day. And we thank you for your participation.