NYSE:MEI Q3 2026 Earnings Call Transcript

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Operator | Conference Operator:

Greetings and welcome to the Method Electronics third quarter fiscal 2026 results conference call. At this time, all participants are on a listen-only mode and a question and answer session will follow the formal presentation. If anyone should require operator assistance during the conference, please press star zero on your telephone keypad. And please note this conference is being recorded. I will now turn the conference over to your host, Joni Constantelos, Managing Director of Riveron. Ma, the floor is yours.

Joni Constantelos | Managing Director of Riveron:

Good morning and welcome to Method Electronics' fiscal 2026 third quarter earnings conference call. Our fiscal 2026 third quarter financial results, including a press release and presentation, can be found on the Method Investor Relations website. I'm joined today by John DeGainer, President and Chief Executive Officer, and Laura Kowalczyk, Chief Financial Officer. Please turn to slide two for our safe harbor statements. 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. We will also be discussing non-GAAP information and performance measures, which we believe are useful in evaluating the company's operating performance. Reconciliations for these non-GAAP measures can be found in the conference call materials. The factors that could cause actual results to differ materially from our expectations are detailed in Method's filings with the SEC, such as the 10-K and 10-Q. Please turn to slide three, and I will now turn the call over to John DeGainer.

John DeGainer | President and Chief Executive Officer of Method Electronics:

Thanks, Joni, and good morning. Welcome to Method's third quarter 2026 earnings call. I want to begin by recognizing our global team for their continued focus on serving our customers in the face of a challenging and rapidly evolving environment while driving forward our multi-year transformation journey. Across our manufacturing sites and corporate functions, our teams have demonstrated resilience as we work through industry headwinds and advance our transformation initiatives. Your discipline, collaboration, and commitment to continuous improvement are strengthening our foundation and positioning us for better long-term performance. Thank you. Moving to our third quarter results. We generated 234 million in sales and 7.3 million in adjusted EBITDA. While profitability was pressured year-over-year, we delivered positive pre-cash flow of $10 million in the quarter and approximately $17 million in year-to-date cash flow, as we remain on track to achieve our fiscal 26 pre-cash flow targets. Importantly, our industrial segment sales increased 9.5% year-over-year, reflecting continued strength in off-road lighting and power distribution solutions supporting data center applications. That performance demonstrates the benefit of our growing exposure to higher growth industrial power markets and helps offset some of the headwinds we are seeing in North American automotive and in commercial vehicle lighting. Generating cash while navigating a volatile revenue environment is a clear reflection of the operational discipline we are building into this organization. Please turn to slide four. Our transformation journey continues. As I've said before, progress will not be linear and is not something that can be measured in a single quarter or even a few quarters. Our transformation is a

multi-year effort focused on strengthening the foundation of the company, utilizing our resources as efficiently as possible, and finding new sources of value. Along the way, we must refine our portfolio, align our business structure, optimize our footprint, and embed operational discipline into everything we do. At the same time, there are factors outside of our near-term control, commercial vehicle market softness, EV program delays, and macro volatility, particularly in North American automotive, that will impact our improvement trajectory. We are addressing those realities directly with our teams and with our customers, but we are not allowing them to distract us from executing our priorities. Let me briefly recap these priorities. First, stabilize and improve our operational execution. When we started this journey, we had two facilities that were extremely challenged, Egypt and Mexico. We continue to see positive trends in Egypt as a result of the changes we have made there. The transformation of our Mexico facility is not as far along. We're making progress in upgrading the team and improving execution on both existing programs and new programs. However, we have not seen the productivity improvements as quickly as we initially expected, which has been exacerbated by commercial vehicle volume reductions and program delays from multiple North American customers. These external factors were the primary driver of our EBITDA guidance revision that Laura will talk about later in the call. We've built an entirely new leadership team in Mexico, and we are supplementing that team with both corporate and specialist external resources. Our new leadership team is getting fully up to speed and working hard to tackle the challenges in our two Mexico facilities, understanding root causes, driving accountability, and resetting expectations. Naturally, when you're transforming an operation, there is a cleanup involved. You have to surface issues before you can permanently fix them. This is part of the process. It is not comfortable, but it is necessary. We are taking focused actions to improve execution, efficiency, and cost control, and we expect performance to strengthen as those actions take hold. Second, we are refining and simplifying the portfolio. A clear example is the completed sale of the Datamate business, which I'll talk about more in a minute. Third, align our cost structure and footprint. We completed the move of our headquarters from Chicago and subleased that facility. We've signed a purchase agreement on our Howard Heights facility in Illinois facility that formerly housed our DataMate business, so we are making good progress in reducing our overall footprint. And fourth, position the company to capitalize on secular growth opportunities, particularly in power solutions. We are actively capitalizing on the data center and vehicle electrification megatrends, reallocating resources toward the areas where the strongest long-term return potential. These are deliberate, measurable actions, and we are doing what we said we would do, These are not concepts, they are actions. Turning to slide five. For background, DataMate is a supplier of copper transceivers for enterprise and telecom networks. While it was a solid business, it was not aligned with our long-term power solution strategy. Divesting it allows us to redeploy capital and management toward higher growth, higher return opportunities, particularly in our industrial power solutions business. We are concentrating our capital management, capital and management attention, and engineering resources on the areas that can generate the greatest long-term returns. The proceeds from this sale and the Harvard Heights facility sale will be used primarily to repay debt and further strengthen our balance sheet, consistent with our disciplined capital allocation approach. Turning to slide six. Our solutions has been part of the method DNA for more than 60 years. We are now leveraging that deep expertise to serve today's most demanding applications across EV, industrial, and data center markets. We're expanding our customer base. We are adding experienced industry veterans into the industrial power business, and we are rotating engineering and commercial resources toward higher growth opportunities. This is not a short-term pivot. It is a structural reallocation of talent and capital, and we expect this to pay dividends over time, but we are still early in this journey. Let me spend a minute on data centers. Based on Q4 order patterns, we now have line of sight toward 120 million annualized run rate. This represents a significant increase in run rate year over year. Importantly, this run rate reflects current end customers to various contract manufacturers. It does not assume incremental wins from new accounts. Our actions regarding additional commercial and engineering resources and our investment in items like vendor managed inventory are enabling us to react much more quickly to customers. We are seeing increasing momentum as a result of these actions. We are expanding our customer base, but our current run rate is supported solely by existing relationships. As momentum builds, the trajectory suggests a 50% increase in run rate year over year in the near term. This is a meaningful growth driver for Method both for today and the future. Turning to slide seven. Transformation is not linear. There will be turbulence, particularly in North American automotive, and we are seeing that today.

But we are building a stronger operational foundation underneath the business. At the same time, we are executing every day. We're shipping product, we're supporting launches, and we are managing working capital. This dual focus of transformation while operating is critical. Transformation does not happen in isolation. We remain encouraged by opportunities in our industrial segment, especially in power distribution solutions supporting data center infrastructure. Those align directly with our core competencies. While there is more work ahead, we are making measurable progress, strengthening execution, simplifying the organization, improving the balance sheet, and positioning method for improved performance over time. And I'll turn it over to Laura to go through the financials.

Laura Kowalczyk | Chief Financial Officer of Method Electronics:

Thanks, John. And turning to slide eight. Third quarter net sales were $233.7 million compared to $239.9 million in fiscal 2025, a decrease of 3%. The year-over-year decrease in sales reflected lower sales volumes in the automotive segment related to a reduction in North American electric vehicle volumes and the interface segment related to a previously announced appliance program roll-off. Results were partially offset by a higher sales volumes in the industrial segment, particularly for off-road lighting and power products, as well as positive foreign currency translation, which had a favorable impact of approximately $12 million in the quarter. As a reminder, the third quarter is also historically our weakest quarter for sales as it covers the year-end holidays. Gross profit was $38.8 million, down from $41.3 million in the prior fiscal year quarter, primarily a result of lower sales volume and product mix in the automotive segment and interface segment. Selling and administrative expenses increased by $1.4 million to $39.1 million in the quarter. Restructuring and asset impairment charges included within selling and administrative expenses were $400,000. Income tax expense for the quarter was $2.8 million, down from $6.2 million in the prior fiscal year quarter. In the quarter, we realized the lower valuation allowance for U.S. deferred tax assets of $2.4 million compared to $6.5 million in the prior fiscal year quarter. Third quarter adjusted EBITDA was $7.3 million, down $5 million from the same period last fiscal year. Third quarter adjusted net loss was $13.1 million, a $5.9 million change from the third quarter of fiscal 2025 attributable to the decrease in gross profit and increase in selling and administrative expenses partially offset by a lower income tax expense. Third quarter adjusted loss per diluted share was 37 cents compared to a loss of 21 cents in the prior fiscal year third quarter. Please turn to slide nine. where I will discuss the progress made with our disciplined capital allocation strategy. We ended the quarter with $133.7 million in cash, which was up $30.1 million compared to the end of fiscal 2025. Operating cash generation in the third quarter was $15.4 million. Third quarter free cash flow was $10.1 million compared to $19.6 million in the fiscal third quarter 2025. Although down year over year, we continue to generate robust free cash flow amidst a challenging operating environment with a free cash flow of $16.5 million year to date as we continue to operate with strong capital discipline. Net debt was down $16.9 million compared to the same period last year. Moving forward, we remain committed to driving strong cash flow generation to further pursue our capital allocation priorities of net debt reduction, selective high growth investments, business improvements, portfolio alignment, as well as returning value to our shareholders through dividends. Turning to slide 10. Again, please note that fiscal 2025 was a 53-week fiscal year and fiscal 2026 is a 52-week fiscal year. Our guidance also does not reflect the sale of DataMate or our Harwood Heights, Illinois facility. For fiscal 2026, we have narrowed our net sales guidance, raising the low end of the range by $50 million to now be $950 million to $1 billion. The increase primarily reflects the benefit of foreign currency translation, which totaled approximately $25 million through the first nine months of fiscal 2026. For the full year, we anticipate foreign exchange to provide an approximate $30 million benefit relative to our prior assumptions, which is largely driving the increase in our midpoint. In addition, we have lowered our adjusted EBITDA outlook to be in the range of 58 to 62 million dollars compared to our prior range of 70 to 80 million dollars. The reduction is primarily concentrated in North American auto and reflects updated cost assumptions related to multiple customer program delays and higher expenses associated with the transformation of our Mexico facility, including wages and professional fees. For fiscal year 2026, we continue to expect positive free cash flow in the fourth quarter and for the full year compared to an outflow of $15 million in the previous fiscal year. With that, I will hand it back to John for closing remarks.

John DeGainer | President and Chief Executive Officer of Method Electronics:

Thanks, Laura. To close, while the near-term environment remains dynamic and our improvement trajectory is not linear, we are taking deliberate actions to strengthen the company. We are stabilizing operations, refining the portfolio, aligning our footprint and cost structure, and reallocating resources toward higher growth power solutions opportunities. There is more work ahead, particularly in Mexico and within North American Automotive, but the foundation we are building is real. At the same time, we are maintaining a sharp focus on cash generation and balance sheet discipline. We believe the actions we are taking today position methods for improved performance and more consistent value creation over the long term. With that, operator, please open the line for questions.

Operator | Conference Operator:

Thank you. Ladies and gentlemen, 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 John Fransreb with Sedoti & Company. Your line is live.

John Fransreb | Analyst at Sedoti & Company:

Good morning, everyone, and thanks for taking the questions. Good morning, John. John, I would like to start with Mexico. Can we just kind of review what's going on there and how far along are you on the process and maybe timeline when you think it will be completed?

John DeGainer | President and Chief Executive Officer of Method Electronics:

Yeah, so, John, a couple of things. Thanks for your question, and Laura will chime in here as well. As we said on previous calls, the transformation in Mexico is probably about six months behind where we are with Egypt. And we are making progress there, but one of the challenges that we have is in Egypt we have year-over-year revenue growth on top of performance improvement, whereas in Mexico we have year-over-year revenue shrinkage. Most of the roll-off of our past programs is in Mexico, and the primary impact of program delays is also in mexico so the what we're spending to prepare and launch new programs as well as a transformation there isn't getting any benefit from tailwinds of increased revenue we're seeing we're spending the money to get the launches ready and we're seeing the delays the the team has been completely rebuilt over the last six months and i'm really pleased with the progress that we're making on our day-to-day execution But we're six months behind where we were with regard to Egypt.

Laura Kowalczyk | Chief Financial Officer of Method Electronics:

Yeah. And, you know, as John mentioned, the decrease year over year in revenue, which results in the bottom line decreases, as well as under absorption. We have some additional S&A expenses related to changing out the management team and wages, as well as additional resources. that we brought in to help with the operational performance. But despite this, we are seeing improvements in scrap and direct material cost as a percent of sales through our supply chain initiatives.

John Fransreb | Analyst at Sedoti & Company:

Got it. Thank you for that. Now, we had three great months of commercial truck orders. I'm curious, have you seen that flow through, you know, your P&L yet or, you know, many purchasing orders or anything? And also, does that impact the Mexico facility at all? Can you just maybe talk to that?

John DeGainer | President and Chief Executive Officer of Method Electronics:

So, John, it does impact the Mexico facility, and it's the impact of we're actually still seeing it as a headwind with regard to orders. Both what we've seen from DTNA and PACCAR in – is more of second half of calendar 26 as to where the volumes start to come back. And what we're seeing the impact, and we talked a little bit about it, is the trade-off between commercial vehicle volumes in lighting and some of the North American automotive programs. So we have a mixed impact as well as volume impact. We do see some future growth. later in this quarter and probably more into early of our fiscal 2027, but we aren't yet seeing it.

John Fransreb | Analyst at Sedoti & Company:

Okay, good. Okay, got it. And one last question on DataMate. How much in revenue or annualized revenue did that business contribute, and was it profitable? Maybe you can give us, you know, maybe the scale of profitability.

John DeGainer | President and Chief Executive Officer of Method Electronics:

So it's roughly $18 million worth of revenue. It was profitable, but what I can say is in roughly $3 million worth of profitability. But what we can say, John, is the ability to pay down debt, the ability to exit a underutilized facility, and to continue just our overall rationalization of structural cost, we believe we can largely offset that profitability. We think overall it's an accretive decision.

John Fransreb | Analyst at Sedoti & Company:

All right. I got it, John. I'm going to get back into Q&A. Thank you. Great. Thanks, John.

Operator | Conference Operator:

Thank you. Our next question is coming from Luke Junk with Baird. Your line is live. Good morning.

Luke Junk | Analyst at Baird:

Thanks for taking the question. Maybe I'll jump off there. John, can you just remind us of some of the key products and applications for that data-made business? And I guess one of the obvious questions strategically is just why it wasn't too complementary with the core power business and data center.

John DeGainer | President and Chief Executive Officer of Method Electronics:

So this is more of a data over copper, you know, system. It's a small... electronic data over copper product. It's not complementary with our data center activity whatsoever. And, you know, really the judgment for this, Luke, was it's a good business, but as you think about the opportunities that we have, and you and I have talked many times about return on effort, what it would take to make that grow materially, because it's been

relatively flat in the $15 to $18 million for revenue for a long period of time. As we looked at it, it was a good business. It is a good business, but in order for us to make it grow versus putting more effort into our base data center business or some of the other areas where we can drive growth and really return for the shareholders, our decision was there probably is a better owner for the business than Method.

Luke Junk | Analyst at Baird:

Got it. Sticking with data center, if I look at the chart that you guys provided, which is helpful. Just trying to extrapolate the data center piece in fiscal 26 specifically. Seems like it's trending fairly flat this year. Now, I understand some of the reasons for that. I know you were implementing the VMI. There's some other things going on under the hood there. But just, yeah, trying to understand, you know, certainly there's been a lot of CapEx growth this year. Should we perceive that there's been effectively like a little bit of a growth Because I'm just trying to get comfortable then stepping into, I think you said, the $120 million run rate on a go-forward basis, given some clarification.

John DeGainer | President and Chief Executive Officer of Method Electronics:

So, Luke. What we've said to you and said to the investors is that as we move to an EDI-based sales forecast versus just a, if you will, a contract-by-contract sales forecast, that we would give you transparency as soon as we knew it. This run rate that we're talking about is that transparency. This is backed with EDI. So you're right that on a total year basis, it looks like it's relatively flat. Part of that was due to some of the sales gap that we had moving from where we recognize the sale when the parts leave the boat in Shanghai to moving to vendor managed inventory, which created a six to eight week revenue gap. So the most important thing here is a relatively flat year over year, but a Q4 run rate of $120 million with EDI that gives us great confidence in what we see on year over year growth and what we see into the future. The other aspect is, I think you made a comment about CapEx growth. We have not had significant CapEx growth. It's actually down year over year. And there's been no material CapEx that's been invested for the data center business whatsoever. As a matter of fact, we're using some core competencies and some capabilities from other investments as we rotate into Mexico. So we have really used our capabilities, we rotated with this VMI, and it is creating the momentum that we said it would, and the 120 million run rate reinforces that.

Laura Kowalczyk | Chief Financial Officer of Method Electronics:

Yeah, Luke, our CapEx, just to jump in here, our CapEx was 42 million for FY25, and we're at 16 and a half, right under 17, approximately, this year.

Luke Junk | Analyst at Baird:

Yeah. That 120, you also mentioned, John, you have a line of sight to 50% kind of growth in the medium term. I think if I try to extrapolate what you're implying in the chart, it's maybe about 85 million a data center this year. Is that, what kind of base number should we use for that 50% opportunity?

John DeGainer | President and Chief Executive Officer of Method Electronics:

And that's what we have said pretty consistently is 80 to 85 million, it's a basis in our guidance. And as we talked about on the last earnings calls, that considered the impact of VMI but what we're seeing here is a run rate that's actually, that's actually higher, much of which will be setting, setting us up into 2027 fiscal 2027.

Luke Junk | Analyst at Baird:

Um, and then last question for me, me and Mexico understand some of the challenges there. I think you had some initial improvements, but obviously things that are cutting against you as well. Um, it just feels like maybe there's been some things that have cropped up that you, weren't anticipating, I guess, is it some more contagion across launches and the fact that just, I know you had whatever, something in the range of 20 launches this year, just that as you're spending to those that, you know, Stellantis was pretty visible, but are there more launches that are becoming problematic at the margin?

John DeGainer | President and Chief Executive Officer of Method Electronics:

Yeah, so I think the way to think about this is As you bring new people in with fresh eyes, we do see some things from a performance perspective, but as Laura said, our scrap rates and our premium freight and other items that are really controllable performance-based items are better year over year. What we have seen with regard to the new launches is we've spent the money both from a capital standpoint and from an engineering standpoint to prepare for the launches, and we've had further delays even from what we said in the last quarter. So because those launches were primarily EV-based power application launches for North America, and many of our customers have further delayed their programs, that's where the challenge is. So we just don't have the revenue that that we would expect it as these launches, as these programs start and ramp up. We're not seeing those. So as we've talked about, we are dealing with it from a class standpoint. We're also dealing with it with going back to customers for recoveries on where we have those delays. I will leave it there for now. Thank you. Great. Thanks, Luke.

Operator | Conference Operator:

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

Gary Prestapino | Analyst at Barrington Research:

Hi, good morning, John, Laura.

Operator | Conference Operator:

Good morning, Eric.

Gary Prestapino | Analyst at Barrington Research:

Yeah, I just want to follow up on this EV issue. These are delayed programs. Is there any programs that have been outright canceled? Yes. Okay. Okay.

John DeGainer | President and Chief Executive Officer of Method Electronics:

Gary, just to answer that, as we talked about there, we have talked about some Stellantis program cancellations as well as other programs that are delayed. And we've mentioned what we've done with regard to previously about going back to customers and particularly Stellantis with regard to dealing with cancellation claims. So those are ongoing. None of the customer negotiations are in this guide. I think it's important to note that neither the data mate transaction nor the hardwood height transaction nor any customer recoveries are in this guide.

Gary Prestapino | Analyst at Barrington Research:

Okay. Let me ask the question another way, just so I can get an idea. In the programs that you have right now that you're actually producing for and you're actually having take rates, were the take rates... less than you had anticipated, and that has been causing you to channel down your expectations for the EV market this year? I'm just trying to get a handle on it, how this is all shaping out.

John DeGainer | President and Chief Executive Officer of Method Electronics:

Yeah, so the answer is yes. Okay. And it's primarily in North America. So if you think about it, auto is 45% of method. Mm-hmm. EVs are 41% of auto. So as a total, EVs as a percentage of method through this fiscal year is 18%. Where now, take it to the next level, which is exposure to EVs. Of that 41% of auto that is EVs, only 14% of that is North America. If we would have gone back, and I don't have the number at my fingertips, if we'd gone back when we originally set guidance, that number should have been much, much higher based on the assumption of launches from multiple programs. So the, what we're seeing is expenses, launch expenses, CapEx, building inventory, all those sort of things, in Mexico, in a place where you have big programs rolling off that we've talked about across multiple quarters, and none of the revenue coming from the EV programs.

Gary Prestapino | Analyst at Barrington Research:

What about what you're doing outside of North America? How have the take rates been there?

John DeGainer | President and Chief Executive Officer of Method Electronics:

Those take rates are relatively on track. The growth on a year-over-year basis in Egypt, the top-line growth, We have bottom line that's driven by performance. We have top line growth that's basically driven by ramp up of programs, particularly the EV programs that we launched there. And China is stable. So this is why we refer to it specifically as a North American automotive challenge and as an EV program cancellation or delay challenge.

Gary Prestapino | Analyst at Barrington Research:

Are the products that you guys produce, the EVs, are they applicable to plug-in hybrids and hybrids? I mean, can you bid on those new models that are coming out? Because it seems that's the way the market's really rolling now.

John DeGainer | President and Chief Executive Officer of Method Electronics:

Yes, and our pipeline of bids has our quoting and cost estimating teams very busy. Okay. All right. Thank you so much. Thanks, Gary.

Operator | Conference Operator:

Thank you. We have another question from John Franzrab with Sudoti. Your line is live.

John Fransreb | Analyst at Sedoti & Company:

Thanks for taking the follow-up. I'm going to stick to the launch topic here. How many programs have you launched on so far in fiscal 26, and how many remain for this year, and how does that compare to your expectations at the beginning of the year? I'm just trying to contextualize what kind of magnitude we're talking here.

John DeGainer | President and Chief Executive Officer of Method Electronics:

So, John, I don't have the exact split between what we plan to launch and what we have launched versus cancellations. Our number was 29 programs in this fiscal year. It was 56 over fiscal 2025 and fiscal 26. And because of the timing of some of these delays, we spent the money on the launches before we ended up with either a delay or a cancellation. So the number is still the same. It's just a question of whether we got the revenue from it.

John Fransreb | Analyst at Sedoti & Company:

Okay. Okay. And when you're looking at the product portfolio, you know, where does that stand? I mean, is DataMate, you know, the first of many, or are you still, like, Looking at everything, trying to decide, I'm pretty sure at one point you said there was some unprofitable businesses that you may want to exit. But can you just kind of give us an update on how that process looks at this point?

John DeGainer | President and Chief Executive Officer of Method Electronics:

So what we would say is that DataMate was an important first step. It reinforces what we have said to the shareholders that we will continue to refine our portfolio as well as refine our overhead structure. The portfolio review is ongoing. and you can expect more to come in the future.

John Fransreb | Analyst at Sedoti & Company:

Okay. All right, John. Thanks for taking the follow-ups. I appreciate it. Great. Thanks, John. Thank you, everybody.

Operator | Conference Operator:

Thank you, ladies and gentlemen. As we have reached the end of our Q&A session, this will conclude today's call. You may disconnect your lines at this time, and we thank you for your participation.