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CORPORATE PARTICIPANTS

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Robert Kamphuis, *Chairman, President and Chief Executive Officer*

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CONFERENCE CALL PARTICIPANTS

Joe Kabaski, *Baird*

Lawrence De Maria, *William Blair*

PRESENTATION

Operator

Good morning. Thank you for attending today's Mayville Engineering Company First Quarter Earnings Call.

It is now my pleasure to pass the conference over to our host, Nathan Elwell with Investor Relations.

Mr. Ewell, please proceed.

Nathan Elwell

Thank you.

Welcome, everyone, and thank you for joining us on today's call.

A few quick items before we begin. First, please note that some of the information you'll hear during this call will consist of forward-looking statements within the meaning of section 21-E of the Securities Exchange Acts of 1934 as amended. Such statements express our expectations, anticipations beliefs, estimates, intentions, plans, and forecasts. Because these forward-looking statements involve risks, assumptions, and uncertainties, our actual results could differ materially from those in the forward-looking statements. For more information regarding such risks and uncertainties, please see our filings through the securities and exchange commission, including therefore filing on Form 10-K for the period ended December 31, 2021. We assume no obligation and do not intend to update any such forward-looking statements, except as required by Federal Securities Law.

Second, this call will involve a discussion of certain non-GAAP financial measures, reconciliation of these measures to the closest GAAP financial measure is included in the earnings press release, which is available at mecinc.com.

Joining me on the call today are Bob Kamphuis, Chairman, President, and Chief Executive Officer; Todd Butz, Chief Financial Officer; and Ryan Raber, the EVP of Strategy Sales and Marketing.

First, Bob will provide an overview of our performance, then Todd review our financial results and guidance.

With that, I'll hand the call over to Bob. Please go ahead.

Robert Kamphuis

Thank you, Nathan. Good morning, everyone.

Before we begin discussing our results, I want to touch on the retirement announcement we made at the end of March. After more than 16 years leading the Company, I decided to retire from MEC on September 30 of this year. The timing of the announcement allows a full six months for the Board to complete the search with the able assistance of Heidrick and Struggles and ensure a smooth transition.

Having successfully navigated the pandemic, today MEC is in a strong financial position with a positive outlook and numerous growth opportunities in its future. I believe it is the right time for me to step aside and let a new leader take the reins.

Over the past 16 years, we've produced tremendous growth and have been recognized as the largest fabricator in the United States by *The Fabricator* magazine for the past 11 years in a row. More importantly, I've been fortunate to work with and put together an outstanding and dedicated team. I'm confident in the future of the Company and I look forward to ensuring a successful transition in the coming quarters. As a meaningful shareholder myself, I look forward to watching the Company's continued success for many years to come.

With that said, let's turn to the quarter.

Year to year net sales increased approximately 21% to \$136.3 million, and net income increased 50% to \$3.8 million compared to last year. Basic earnings per share increased \$0.06 to \$0.19 per share.

We delivered Adjusted EBITDA \$14.8 million, as supply chain disruptions that impacted our customers' schedules during the fourth quarter of 2021 merely deferred our volumes into the first quarter. We also continued to recover general inflationary pressures on raw materials, labor, and other product content through contractual material price adjustments and increased commercial pricing.

In summary, we delivered a much better performance when compared to the same period last year. We continued to execute effectively and manage through the ongoing supply chain constraints that are impacting many of our customers.

Our operations team has done a tremendous job in maintaining MEC supply chain, which is 98% focused in the U.S., while working to adapt and overcome the challenges. While the Omicron surge caused some manufacturing companies to falter, we were able to maintain our production capacity.

First, since the pandemic began, we provided a clean and safe environment for our employees. Second, when we have seen increased absenteeism through illness, we've worked to minimize the impact by

moving employees to other locations and finding ways to still deliver. Agility and adaptability are still part of our mantra.

The end markets we serve continue to forecast strong demands over the mid- and long term. While the commercial vehicle market has seen the largest impact from supply chain disruption today, and continues to expect disruption through 2022, we have seen sequential improvement due to the ongoing strength and freight demand and robust backlogs at the OEMs. This leads us to believe this will continue to be a strong market for MEC over the medium to long term.

Powersports continues to be a strong and growing market for us. Overall strengthened retail demand coupled with low dealer inventories are leading to increased volumes as customers work to restock over the course of 2022.

The construction and access end markets have continued to show strength, with residential construction maintaining its stability, and with non-residential also showing some signs of improvement. We believe that we'll continue to see increased volumes in the future based on low dealer inventories and the need to restock fleets.

In the ag market, we continue to see strengthening demand here: advancements and equip productivity combined with low machine inventory, low global crop inventories, and strong crop prices will continue to drive volume growth over the mid- to long term. Farmers are making a positive margin dollar.

Concluding with military segment, which remains a stable market for us. Our customers have a solid backlog for U.S. Government contracts and we continue to see opportunities based on upcoming vehicle updates and unique opportunities, such as a new two-year aftermarket program we are working on for a top customer.

While supply chain disruptions persist, pandemic related issues have declined since February, and we anticipate volumes will gradually improve as 2022 progresses. Importantly, our new business pipeline remains strong: we continue to build relationships and convert on new opportunities to expand our customer base and the markets we serve with the capabilities and product offerings we already have.

Our sales team continues to see business opportunities with new and existing customers coming from, number one, new model and program launches; number two, new product line offerings by customers; number three, outsourcing by OEMs; number four, reshoring by OEMs; and number five, takeover business with several top power sports customers.

I'll walk through some of the more exciting and noteworthy opportunities we see today. We continue to launch new programs and products in the commercial vehicle market, leading to market share gains. In the most recent quarter, we focused on model changeovers, particularly with the future greenhouse gas emissions regulatory standards and related vehicle updates.

We've been working closely with another major OEM on a long-term outsourcing project, which leveraged our acquisition of DMP as a significant cross-selling synergy opportunity. The powersports market continues to be a very active space for us. We see reshoring activity where we are able to leverage our footprint with a leading powersports customer to gain market share. We continue to work on outsourcing projects plus take over a new model launches with some of our newer customer.

In the agricultural space, we see opportunities on numerous new programs as our customers update their equipment to the latest technology for farmer productivity improvement, while also seeing increased opportunities in the small ag and turf care space for takeover business.

In the military end market, our market share on tactical wheeled vehicles continues to expand with our customers launching their next generation of products and new product development activities that have the potential to bolster revenues in the coming years.

Overall, the new business pipeline remains robust with numerous projects being actively pursued. We are excited about the multiple app avenues for growth with both current and potential new customers, and we'll continue to provide updates in the coming quarters.

We can also continue to see a pipeline of interesting M&A opportunities and focus on analyzing potential targets that could open up new end markets, expand product offerings, develop new relationships with new blue-chip customers and possibly extend our geographic reach.

Strategic fit and rational valuation, though, remain our top considerations and we will continue to pursue logical deals as the year progresses.

As we mentioned in our last call, we are in the process of repurposing our investments in Hazel Park, Michigan, and investing in redeployable automation and capacity to support the growth of our base business.

We will be ramping up in the second half of this year to support meaningful volume from new projects and growth with current customers. We remain very bullish about the location, the technology-skilled workforce in Southeast Michigan, and we're pleased with the speed and amount of changes we've already made over the past two months, which bodes well for the future.

Speaking of Hazel Park, I would just like to reiterate our position regarding the fitness customer. As we outlined during our last call in February, our fitness customer informed us that it does not forecast any demand for any products or parts that are the subject of our agreement with that customer for the remainder of the agreement's term, which ends in March of 2026.

As such, we have taken and will continue to take steps to reduce operating costs and capital investment for this project wherever appropriate. It is important to reiterate that we remain confident in the protections provided by our agreement with this customer and continue to vigorously pursue this matter to ensure the terms are honored.

Our first quarter results reflect the stable to improving volume trends we are experiencing, which in conjunction with the commercial pricing increases we have implemented led to improved results. We continue to observe positive demand signals across all of our customers and end markets.

We see the potential for significant new business opportunities and remain ready to increase our production volumes as needed. We are investing in the right technologies and facilities that will allow us to successfully address this demand.

I'd now like to turn the call over to Todd to discuss our financial results in more detail.

Todd.

Todd Butz

Thanks, Bob.

I'll begin with a look at our first quarter. We recorded first quarter net sales of \$136.3 million, a 21% increase over first quarter of last year, which was primarily driven by contractual raw material price pass throughs to customers, commercial price increases, and improved volumes.

Manufacturing margins were \$14.9 million for the quarter, in line with last year and inclusive of commercial price and increases, which were slightly offset by Hazel Park transition costs of \$1.9 million during the quarter.

Manufactured margin percentages were 10.9% versus 13.1% the same prior year period. The decline was primarily due to Hazel Park transition cost and the dilutive impact of material price pass throughs to our customers that increase sales, but do not impact margin dollars.

SG&A expenses were \$5.7 million for the first quarter of 2022 as compared to \$4.7 million for the same prior year period. The increase stems from higher labor and information technology costs, consulting and professional fees, and return to more normal life spending patterns.

For the first quarter, income tax expenses \$1.2 million on pre-tax income of approximately \$5 million. Our federal net operating loss carryforward was approximately \$18.5 million as at quarter end, which was driven by pre-tax losses incurred in prior years.

The NOL does not expire and will be used to offset future pre-tax earnings. We continue to anticipate our long-term effective tax rate to be approximately 27% based on current tax regulations.

Adjusted EBITDA was \$14.8 million for the first quarter as compared to \$13 million for the same prior year period. Adjusted EBITDA margin percent decreased by 80 basis points to 10.8% in a quarter due primarily to the dilutive impact to material price passes.

Basic earnings for share were \$0.19, a \$0.06 increase over last year.

Now let me address our capital expenditure, balance sheet, and liquidity mix. Overall capital expenditures for the first quarter were in line with our expectations at approximately \$13 million as compared to \$5.6 million for the same prior period. The increase primarily relates to the final capital payment related to our former fitness customer, the repurposing of Hazel Park, Michigan, facility and continuing investment in new technology and automation.

As of March 31, 2022, total outstanding debt, which includes bank debt capital lease and finance agreements was \$86.8 million as compared to \$49 million at the same point last year. The increase in debt relates to working capital increases due to higher steel prices and production levels, as well as capital spending.

Now I'd like to discuss 2022 guidance. We reiterating the financial (inaudible) we first provided in February and continue to expect net sales between \$480 million to \$530 million, Adjusted EBITDA between \$58 million and \$70 million. Again, it's worth repeating that our outlook assumes no revenues or recoveries associated with the fitness customer.

As we noted last quarter, we were still assessing our capital plans and layout changes in our customer base. As you saw on the release, we are now providing that information, as promised.

For 2022 we expect our capital spending to be between \$55 million and \$65 million, which will be focused primarily on investments in new technology and automation, adding equipment related to new programs with existing customers, and the repurposing of assets at the new Hazel Park, Michigan facility.

While supply chain disruptions persist and we continue to keep a watchful eye on COVID risk, end market demand remain strong. We believe our bonds will gradually improve as we move through second half of 2022 as our customer supply chain challenges begin to improve.

We continue to expand our existing relationships and convert new business opportunities as companies seek our market leading operational expertise and unparalleled flexible production capabilities. The low end of our 2022 outlook represents considerable projected growth over recent years results and what equips our record performance in 2019.

I will now turn the call back over to Bob.

Robert Kamphuis

Thank you, Todd.

While supply chain disruptions persist, pandemic related problems have stabilized somewhat, and we anticipate volumes on a per day basis will gradually improve as we move through 2022. We continue to build relationships and convert new business opportunities to expand our customer base and the markets we serve.

We see meaningful opportunities for growth in our future and believe we are well positioned to address them in the years ahead. All in all, the near- and long-term future prospects look very bright for MEC. As I look towards the last five months of my tenure with MEC, I know I will be leaving a market leading company and well experienced team that's well positioned for many years to come.

Operator, we'd like to open the call for questions now.

Operator

Absolutely. Thank you. Our first question comes from the line of Mig Dobre with Baird.

Mig, you may proceed.

Joe Kabaski

Good morning, guys. It's Joe Kabaski (phon) on for Mig this morning.

Robert Kamphuis

Hi, Joe.

Todd Butz

Hi, Joe, good morning.

Joe Kabaski

Good morning.

Your Q1 sales were well ahead of our expectations EBITDA margin was about in line with what we were expecting. You maintained your guidance, which makes sense after only one quarter; was wondering how Q1 compared to your own internal forecast and expectations.

Robert Kamphuis

Well, I guess from an internal standpoint I think we met our internal expectations. I think from a sales standpoint, we probably started the year expecting to see material price adjustments going down a bit from where it ended the year, and it did modestly, but perhaps less so than one would imagine. We performed as we expected.

And Todd, maybe you have some additional color to add to that.

Todd Butz

No, I was just going to mention that the material pricing was kind of in line with what we expected in the first quarter and as Bob mentioned, certainly demand and market demand remains strong and we met our internal expectations.

Joe Kabaski

Got it. Maybe asking about those material pricing pass throughs, we did see steel take another leg up in the first quarter. Just wondering how the pass throughs worked in the first quarter and where you're at as far as any maybe lags that might have existed in the quarter?

Robert Kamphuis

Yes, I think we adjusted as needed, and as the market changed, we adjusted with it.

Ryan, maybe you have a comment further on that.

Ryan Raber

Yes. Joe, just to reiterate, those are generally addressed at a macro level on a quarterly basis. Coming out of the fourth quarter, which is really the peak, kind of a slow decline in steel prices over the quarter, it did bounce back up a little bit with the conflict going on in Europe. But as we look ahead in the future, that'll soften up again.

We'll continue to maintain our activities when it comes to material price adjustments with the customer. The lag last year really there was a really sharp, steep trajectory that happened that this year there will be some softening mainly as we go into the second quarter the way the contracts work, and then likely some modest increases that occur again in the third quarter.

Joe Kabaski

Got it all. Okay. Thanks, that's helpful. Then my last question, maybe drilling into commercial vehicle. Classic truck orders have been quite negative the past six months; productions also been negative, but to a lesser degree; backlogs are still up year over year. I guess what are you hearing from your classic customers regarding demand for your products going forward over the next couple quarters?

Ryan Raber

Yes, I mean, our outlook is still strong demand, when we think about this sequentially coming out of early fourth quarter of last year when we saw more severe supply chain disruptions. The first quarter certainly got much better. I think the question now is how can build rates be increased more so than worry about

weeks or days out of the schedules due to part shortages and things like that. You're correct that overall net orders are down, but I think that's also at the backdrop of a backlog that's pretty full through '22 and OEM's really limiting their ability or limiting the order intake. There hasn't been anything from our side that would lead us to believe there's any softening in the overall market. The backlog remains strong, OEM still have the desire to increase their daily line rates.

Joe Kabaski

All right. Thank you very much.

Operator

Thank you for your question, Mig.

Our next question comes from the line of Larry De Maria with William Blair.

Larry, you may proceed with your question.

Lawrence De Maria

Thanks. Good morning, everybody.

Robert Kamphuis

Good morning, Larry.

Ryan Raber

Good morning, Larry.

Lawrence De Maria

Hi, guys. Hi, folks.

As relates to Hazel Park, when might we get some tangible announcements on the filling of that space, kind of curious about the ramp in the second half and into next year, and you maintained your guidance, but now we have some business going into Hazel. Are we assuming some of the base business is softer and Hazel picks up some of that—some of that weakness, or how are we thinking about that?

Robert Kamphuis

Yes, the way we're thinking about it is that the work that we're moving there has already been launched. The launch risk has been very mitigated, and we're creating additional capacity then in those locations that need the additional capacity for their key customers. We're mitigating some risk, but we're also growing that capacity over time as experience happens, we'll get some more direction there, and we can talk more about it quarterly, but it's going in the right direction. We're pleased with our progress, and more to come.

Lawrence De Maria

Are there specific numbers we could point towards sort of second half Hazel in terms of maybe absolute dollars or something like this? Is there still potential for upside this year in Hazel with new wins, or is that more likely in '23?

Robert Kamphuis

Yes, it would be a ramp year this year in the second half. I think the benefit will come in '23.

Lawrence De Maria

Okay. Thanks. Then you talked about having, I guess, decent visibility on the cash repayment from the fitness customer. You just maybe delve into that a little bit more: is that likely to occur this year? How confident are you? And just help us understand the outlook there.

Robert Kamphuis

Yes. I think the right way to put it is we're actively working on that with them and there's not a lot of commentary we can add around that at this time. But as information is available, we will certainly update everyone on that progress.

Lawrence De Maria

Okay. Last question, sorry for another one. The military outlook you've called out as being positive. Can you just give us some general trends and direction on that? Maybe growth rates or dollars over the next few years, have we hit a base level that's we're going to grow from that's maybe counter cyclical to possibility of recession that we're starting to factor in?

Todd Butz

I think, Larry, going back into 2019, even during COVID, the military market has been a very stable one for us right now. We're in the process of doing some updates on customer vehicles that's allowing us to grow some shares.

There is some incremental revenue that's tapping in that space, and then long term we also feel positive with our customers, they've won some more substantial contracts with the government that we feel we'll also be participating with them as they get into the launches looking out in the mid- to late 2023 that should give us some more opportunity to grow in that space in the years to come.

Robert Kamphuis

Yes. When you think about it, Larry, I guess we're not just taking what we have and going with the market; we're getting new business, we're getting new market share, and those things certainly help that picture no matter what.

Lawrence De Maria

Okay. Thank you very much. Good luck.

Operator

Thank you for your question, Larry.

Robert Kamphuis

Okay.

Operator:

We have a follow-up question with Larry De Maria from William Blair.

Larry, your line is now open.

Lawrence De Maria

Okay. As long as there's no questions, I'll ask one more.

Just maybe on the powersports, again, similar to the question on the military and the possibility for recession, how do you think this plays out?

Ryan Raber

Yes, Larry, I don't know if you continued that question. It sounds like you cut off there at the end, but in powersports, one thing we are watching is in interest rates is that the financing side of that could have some impact on volumes. But as we follow our customers and we're in side-by-side with ATVs, the marine boat industry, motorcycles, the inventory is down still about 70% from COVID overall as an industry, very solid backlogs there. Most of those units being pre-sold.

The strong outlook at the OEM level, even some of the OEMs going so far to say they probably won't even be able to restock inventory until the 2023 timeframe. As long as retail holds up and also interest rates don't have a rapid increase, we still believe retail demand will be very strong and there'll still be a need to restock at a dealer level. But definitely looks good from a medium to long term and power sports.

Robert Kamphuis

Okay. Well, I guess with that, I think we'll wrap it up for the day.

Thank you for your time today and your continued interest in MEC. We look forward to seeing you in person at the William Blair conference next month in Chicago.

Thanks for joining our call today.

Operator

This concludes the Mayville Engineering Company first quarter earnings call. Thank you for your participation.