

Mayville Engineering Company, Inc. NYSE:MEC

Earnings Call

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Call Participants

EXECUTIVES

Jagadeesh A. Reddy
President, CEO & Director

Todd M. Butz
CFO, Secretary & Treasurer

ANALYSTS

Andrew Alec Kaplowitz
Citigroup Inc., Research Division

Joseph Grabowski

Lawrence Tighe De Maria
William Blair & Company L.L.C., Research Division

ATTENDEES

Noel Ryan

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Presentation

Operator

Good morning. Thank you for attending today's Mayville Engineering Company Fourth Quarter 2022 Earnings Conference Call. My name is Alicia, and I'll be your moderator for today's call.

[Operator Instructions] I would now like to pass the conference over to your host, Noel Ryan with Vallum.

Noel Ryan

Thank you, operator. On behalf of our entire team, I'd like to welcome you to our fourth quarter '22 results conference call. Leading the call today is MEC's President and CEO, Jag Reddy; and Todd Butz, Chief Financial Officer.

Today's discussion contains forward-looking statements about future business and financial expectations. Actual results may differ significantly from those projected in today's forward-looking statements due to various risks and uncertainties, including the risks described in our periodic reports filed with the Securities and Exchange Commission. Except as required by law, we undertake no obligation to update our forward-looking statements.

Further, this call will include the discussion of certain non-GAAP financial measures. Reconciliation of these measures to the closest GAAP financial measure is included in our quarterly earnings press release, which is available at mecinc.com. Following our prepared remarks, we will open the line for questions.

And with that, I would like to turn the call over to Jag.

Jagadeesh A. Reddy
President, CEO & Director

Thank you, all, and welcome to those joining us. Today, I will provide a high-level review of our fourth quarter and full year performance. This will be followed by an update on demand conditions across each of our end markets and the progress update on our MBX initiative.

During the fourth quarter, we continued to build on the momentum evident across our business, highlighted by 13.8% year-over-year net sales growth and 26.2% year-over-year adjusted EBITDA growth.

Total sales volumes increased 13.3% on a year-over-year basis in the fourth quarter, driven by broad-based demand across most end markets, but partially offset by continued disruptions in our customers' supply chains.

We also benefited from targeted commercial price increases in the period, which more than offset general inflationary pressures on labor and other product content.

For the fourth quarter, our adjusted EBITDA margin increased 240 basis points to 10.5% when compared to the year-old period when excluding the impact of the planned production ramp at our Hazel Park facility.

For the full year 2022, we delivered significant year-over-year growth in net sales, adjusted EBITDA and net income. These improvements were driven by a combination of volume growth, fixed cost absorption, commercial price discipline and operational improvements. We achieved these strong full year results despite the continued supply chain disruptions impacting our customers' production schedules, which resulted in deferred sales volumes for MEC throughout 2022.

Our team remains committed to improving business transparency through robust external reporting. Following recent discussions with coverage analysts and investors, we have begun to provide revenue mix data by end market, detailed revenue and EBITDA bridges that highlight our period-over-period performance and broken out the revenue impact of raw material pass-throughs. We believe these incremental disclosures should prove helpful to understand our business and performance better.

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Turning now to a review of our market conditions across our 5 primary end markets. Let's begin with commercial vehicle market, which represented 39% of 2022 revenues. Commercial vehicle revenue increased 36% on a year-over-year basis, driven by freight strength and fleet upgrades.

Based on current customer demand/requirements, we expect steady demand during the first half of 2023, followed by a slowing in the second half of the year going into 2024 as the industry navigates an emissions regulation change. While the potential for prebuy exists, we believe this will be of moderate impact to 2023. Currently, ACT Research forecasts the Class 8 vehicle production to decline 3.1% year-over-year in 2023 to 305,259 units.

While supply chain constraints have continued to impact some commercial vehicle customers, we expect to see this continue to improve during the next several quarters.

OEMs still have sizable backlogs and used equipment prices have remained elevated, which gives us confidence in our current production schedules. We continue to monitor a potential softening in freight fundamentals and remain ready to adapt to any market changes.

Next is the Construction and Access market, which represented 21% of 2022 revenues. Construction and Access revenues increased 21% on a year-over-year basis driven by fleet restocking demand amid lower dealer inventories. Our construction and access end market is currently experiencing the impact of higher interest rates on the residential housing market.

Looking out to the remainder of 2023, we believe soft residential new construction demand will be partially offset by volume growth across our nonresidential, infrastructure and energy markets. Low dealer inventories, aging equipment and the growing need to restart fleets are factors that play in our favor, providing a volume growth offset to softening residential construction.

The powersports market represented 16% of 2022 revenues and declined 3% on a year-over-year basis. This decline was primarily the result of softening of demand due to the discretionary nature of consumer spending, offset somewhat by dealer restocking. However, customer inventories remain low and some level of restocking of the dealer channel will occur in 2023.

As we have mentioned previously, we expect recent share gains within powersports will position us to outpace potential softness that may occur in this market over the coming year. Our agricultural market represented 11% of 2022 revenues and increased 15% on a year-over-year basis. Global food stocks remain tight, leading to elevated crop prices. Meanwhile, the inventory of both new and used machinery remains slow. Given elevated crop prices, we believe producer demand will increase in 2023, supporting further large ag equipment demand. Small ag is expected to be flat to a modest decline with ample inventory and slowing demand after higher volumes the last couple of years.

Our military market represented 5% of 2022 revenues and increased 3% on a year-over-year basis, driven by new program wins and new vehicle introductions.

Our consumers have solid contractual backlogs with the U.S. government, and we continue to see good volumes based on new vehicle introductions and related programs.

Customer quoting activity and order rates remained strong, though we remain mindful of the potential for softening in the broader macroeconomic outlook this year. However, currently, we are seeing no indications of slowing in our customer space of activity. While supply chain disruptions continue to impact several of our customers, we anticipate these issues will ease as we move through 2023.

Shifting now to an update on the recent progress we have made with our MBX initiative. We announced the launch of our MBX initiative during the third quarter of 2022. At its core, MBX is an operating system that we're leveraging to drive both operational and commercial excellence. MBX represents a key area of strategic focus for our team as we position MEC to achieve consistent above-market performance through the cycle.

MBX is founded on achieving commercial and operational excellence through continuous improvement. Operationally, our focus is to achieve increased standardization, lean manufacturing and automation

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of our various production processes, which in turn lead to improved execution, better productivity and the reduction of costs across our value chain. Additionally, we plan to leverage MBX in other areas that support our operations such as sales, purchasing and finance.

We continue to hold our quarterly President's Kaizens. In the fourth quarter, we held an event at our Byron center facility in Michigan. Dedicated teams drove multiple lean events focused on improving operational value streams, increasing utilization of stamping capital and enhancing procurement strategy.

At the commercial level, we continue to see meaningful opportunities to capitalize on multiyear trends towards reshoring and outsourcing by OEMs. Not only will these trends benefit us from a volume and utilization perspective, they also position us to be more strategic in our approach to pricing, as customers pivot toward domestic skilled labor pools that can provide an on-time quality product.

At the same time, we are focused on commercial expansion, which for us, amounts to targeted expansion within high-growth adjacent markets, while continuing to build our share of wallet with existing customers who value our full suite of design, prototyping, manufacturing and aftermarket services.

We made significant progress during the second half of 2022 as we grew our share of wallet with existing customers and explore emerging growth opportunities with new customers. We also further improved our productivity as we seek to better optimize our capacity.

Allow me to share some of the commercial progress we have made in recent months. During the fourth quarter, we continue to make significant progress working with a large public company customer, making components for thermal management of electric vehicle batteries and battery enclosures. We continue to win new business and expand with this recently acquired customer.

We're also engaged in an outsourcing project of current business with the same customer that involves support for building infrastructure. We expect this project work to continue to grow and evolve in 2023.

Given the impending changes to vehicle emissions regulations, beginning in 2024, we are working on multiple projects with current commercial vehicle customers, supporting vehicle updates that are slated to occur during the next 12 months.

We believe these new launches position MEC to gain additional share of wallet, representing an important organic growth catalyst. In addition to the upcoming emissions changes, many of our commercial vehicle customers are continuing to develop their battery electric vehicle offerings.

Outside of our current components being used on these vehicles, we are working on battery electric vehicle specific parts and expect to expand our content per vehicle.

In summary, we remain focused on driving above-market growth through ratable EBITDA margin expansion. Our volume growth comes from existing and new customers and in new and adjacent markets. We expect to achieve margin expansion through productivity improvements, including capacity optimization and improved price discipline.

From a capital allocation perspective, our top priorities include inorganic growth and debt repayment followed by investments in organic growth. In 2023, capital expenditures are expected to be between $20 million to $25 million, representing a more than 50% decline from the full year 2022.

Given the decline in expected CapEx, we anticipate an increase in free cash flow generation during 2023, positioning us to self-fund smaller strategic growth investments.

While today, our fabrication expertise is mainly within steel. We will look to expand our expertise within lightweight, next-generation materials such as aluminum, plastics and composites.

As a vertically integrated Tier 1 supplier of scale, MEC remains uniquely equipped to deliver a one-stop solution that combines design, prototyping, manufacturing and aftermarket services expertise across the entire product life cycle.

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Before turning the call over to Todd, I want to provide an update on our Hazel Park facility and the ongoing litigation with our former fitness customer.

As we announced last quarter, we commenced production at our Hazel Park facility on time and in line with our plans. We will continue the ramp-up of production at Hazel Park through 2023 and into 2024. While we expect the facility will be a margin headwind for us, while production ramps up in 2023, Hazel Park represents an important and exciting component of our growth strategy. The facility provides us with state-of-the-art operations and market with a stable labor pool and the much needed capacity to support incremental customer demand. We're also leveraging the facility as part of our operational excellence initiatives in our efforts to realign our manufacturing footprint to better meet customer needs and improve efficiencies.

As we look forward to 2024, we expect the facility will no longer be a drag on our margins and will exit the year with a run rate of $100 million in annual revenues, half of which will come from new customers and the other half coming from new and existing programs with current customers.

On August 4, 2022, the company filed a lawsuit against Peloton Interactive, Inc. in the Supreme Court of the State of New York, New York County. In the lawsuit, the company alleges that Peloton reached the March 2021 supply agreement between the parties pursuant to which MEC was to manufacture and supply custom component parts for certain of Peloton's exercise bikes. In January 2023, in response to Peloton's motion to dismiss, the court allowed the company's breach of contract claim to proceed. The lawsuit is ongoing and is in the discovery phase.

With that, I will now turn the call over to Todd to review our financial results for the fourth quarter and full year.

Todd M. Butz
CFO, Secretary & Treasurer

Thank you, Jag. I'll begin my prepared remarks with a detailed overview of our fourth quarter and full year financial performance, an update on our balance sheet and liquidity, and conclude with an overview of our financial guidance for the full year 2023.

Total sales for the fourth quarter increased 13.8% on a year-over-year basis to $128.5 million, driven by a combination of improved sales volumes and continued price discipline.

Our manufacturing margin was $13 million in the fourth quarter as compared to $9.4 million in the prior year period. The increase was driven by improved demand, increased commercial pricing and better absorption of manufacturing overhead costs, offset by a $900,000 decline in scrap income.

Our manufacturing margin rate was 10.1% for the fourth quarter of 2022 as compared to 8.3% for the prior year period. The increase of 180 basis points was primarily due to the reasons discussed above.

Profit sharing, bonus and deferred compensation expenses were $4.1 million for the fourth quarter of 2022, which is above the $3.5 million recorded for the same prior year period, primarily due to the decision to provide additional profit sharing to employees versus contributions to the ESOP plan.

Other selling, general and administrative expenses were $6 million for the fourth quarter of 2022 as compared to $5 million for the same prior year period. The increase is primarily due to increased professional fees, wages and other expenses.

Interest expense was $1.2 million for the fourth quarter of 2022 as compared to $440,000 in the prior year period, primarily due to higher interest rates. We anticipate that at current interest rates, interest expense should remain at a similar quarterly level for the foreseeable future.

Adjusted EBITDA increased $11.6 million versus $9.2 million for the same prior year period. Adjusted EBITDA margin percent increased by 90 basis points to 9% in the quarter as compared to 8.1% for the same prior year period. The increase is attributed to improved volumes, offset by Hazel Park launch costs and lower scrap income. Excluding the impact of Hazel Park launch costs, adjusted EBITDA margin was 10.5% in the fourth quarter of 2022.

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Turning now to full year performance. Total sales for the full year 2022 increased 18.6% on a year-over-year basis to $539.4 million, driven by customer raw material price pass-throughs, volume increases, improved price capture and end market demand resulting from customer inventory replenishment. Excluding raw material pass-throughs, total sales increased 12.4% on a year-over-year basis in 2022. As Jag mentioned, the strong revenue growth came despite continued disruptions within our customers' supply chain.

Manufacturing margin was $61.1 million for the year ended December 31, 2022, as compared to $51.4 million for the same prior year period. The 18.9% increase was driven by volume increases, commercial pricing increases and improved absorption of manufacturing overhead costs, offset by Hazel Park transition and launch costs, continued customer supply chain issues and a $1.8 million decline in scrap income in the second half of the year. Our manufacturing margin rate finished at 11.3%, consistent with the prior year period.

Profit sharing bonus and deferred compensation expenses for the year were $8 million as compared to $11.5 million for the prior year period. A decrease of $3.5 million is primarily due to a reduction in deferred compensation expense.

Other selling, general and administrative expenses were $24.7 million as compared to $20.4 million during 2021, driven by higher consulting, legal and professional fees, CEO transition costs and wages and benefits due to continued inflationary pressures.

Interest expense for 2022 was $3.4 million as compared to $2 million for 2021 due to higher borrowing levels and interest rates.

Income tax expense was $3.7 million on pretax income of $22.4 million as compared to an income tax benefit of $1.9 million on a pretax loss of $9.4 million for 2021.

Our federal net operating loss carryforward was $21.2 million as of December 31, 2022. The NOL does not expire and will be used to offset our future pretax earnings. We continue to anticipate our long-term effective tax rate to be approximately 27% based on current tax regulations.

Adjusted EBITDA finished in line with our guidance for the year at $60.8 million after adding back the first half repositioning impact from our Hazel Park facility, our CEO transition costs and legal expenses related to our former fitness customer versus $46.2 million for 2021.

Adjusted EBITDA margin for the year increased by 110 basis points to 11.3% as compared to 10.2% for the same prior year period. The increase was driven by greater demand and improved commercial pricing, offset by a $3.3 million unfavorable impact from the ramp-up of Hazel Park facility and a $1.8 million decline in scrap income during the third and fourth quarters.

Next, I will cover cash flow and liquidity figures. Capital expenditures for 2022 were $58.6 million as compared to $39.3 million during 2021. The increase is due to the repurposing of assets at our Hazel Park facility, with the remainder being for continued investments in technology and automation for new customer wins and existing production processes.

During the fourth quarter, capital expenditures were $19.8 million as compared to $12.7 million during the fourth quarter of 2021. The increase in CapEx during the quarter related to investments in our Hazel Park, Michigan facility.

As of the end of 2022, our total outstanding debt, which includes bank debt, financing agreements and finance lease obligations was $74.9 million as compared to $71.4 million at the end of 2021. The increase in debt principally related to the increase in capital spending discussed above. Furthermore, as of December 31, our net leverage ratio was 1.3x, which is below our long-term net leverage target of at or below 2.5x.

Turning now to a discussion of our full year 2023 financial guidance, which is current as of the time provided. Although customer supply chain challenges persist, we anticipate sales volumes will increase on a year-over-year basis in 2023.

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Our new business pipeline remains solid as we build new relationships and strengthen our existing relationships with customers that Jag highlighted earlier on the call. As a result, we currently expect full year 2023 net sales of between $540 million and $580 million, adjusted EBITDA of between $62 million and $71 million and capital expenditures of between $20 million and $25 million.

Please note that our risk-adjusted outlook assumes general stability in end market demand, but also takes into account the potential for some macro softening as the year progresses.

Also included in our 2023 guidance are the following assumptions. For net sales, our guidance assumes that raw material pass-throughs will decline by 4% to 5% relative to 2022 as compared to growing 5% to 6% in 2022 due to stabilized steel market prices.

In addition, our adjusted EBITDA guidance reflects scrap income of $7 million to $9 million, a decrease of $4 million to $6 million as compared to 2022. Our guidance also assumes that the Hazel Park facility will have a dilutive impact to our results of $4 million to $6 million due to under-absorbed overhead costs related to the ramp-up of production throughout the year.

Lastly, our guidance also reflects a 40 to 70 basis point improvement in adjusted EBITDA margins associated with our MBX initiatives.
Operator, that concludes our prepared remarks. Please open the line for questions as we begin our question-and-answer session.

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Question and Answer

Operator

[Operator Instructions] The first question comes from the line of Mig Dobre with RW Baird.

Joseph Grabowski

It's Joe Grabowski on for Mig this morning. I wanted to mention the slide deck and the new disclosures were very helpful. I guess my first question would be, again, with the slide deck, there was a waterfall reconciling Q4 EBITDA with the prior year. I was wondering if maybe directionally, you could talk about Q4 EBITDA versus Q3 EBITDA because the way I look at it, the revenues quarter-over-quarter were down $7.7 million, but the EBITDA was down $4.6 million. And I know there's a lot of moving pieces in there. But what was kind of the delta, again, with the EBITDA Q3 versus Q4, which maybe left the margin a little below where we were expecting?

Jagadeesh A. Reddy
President, CEO & Director

Yes. So I'm going to let Todd jump in, Joe. I think one of the challenges we had in Q4 was customer supply chain disruptions. We had multiple customers that took unexpected line down days that obviously resulted in us under absorbing. And last minute, we can't just take the cost out right. So that's, I would say, primarily one of the reasons why Q4 EBITDA margins were a little softer. But overall, I'm going to let Todd to help you with the bridge. But I'm really proud of the team that executed exceptionally well in a really challenging environment in 2022. Overall, as we indicated, right, we had a tremendous performance, both in top line and EBITDA margin improvement and also EBITDA dollar improved, right? And we were able to transform our business in the second half into a better performing business coming into 2023 and more importantly, right, trying to ramp up Hazel Park and repurpose Hazel Park after what happened in late 2021. So with that, let me turn it over to Todd.

Todd M. Butz
CFO, Secretary & Treasurer

So certainly, Joe, when you think of Q3 to Q4 sequentially, just in the normal course, the fourth quarter does have holidays, you do end up with a little under absorption. So naturally, even if volumes would say are similar, you're going to see a little bit of dilutive impact because of fewer working days. You couple that with what Jag mentioned on the supply chain issues within our customer base and taking out a few extra days, that adds a little more pressure there on absorption. We also ramped up quite a bit of headcount as it relates to Hazel Park. And so as you saw between Q3 to Q4, those costs went up. It was about a $2 million impact in Q4 versus about half of that in Q3. And then you couple the scrap income decline. So you factor in those 3 things, and that's really what drove down the dollars and the percentage when we think of Q4 to Q3.

Joseph Grabowski

Got it. Great. I guess my next question, your sales guidance is, for 2023 sales would be anywhere from flat to up $40 million. I guess kind of 2 questions related to that. First of all, you mentioned Hazel Park is a $100 million run rate exiting the year. But how much do you think through the course of the year, Hazel Park will contribute? And then related to that, any thoughts on quarterly guidance -- or I'm sorry, quarterly cadence for the top line through the year?

Jagadeesh A. Reddy
President, CEO & Director

So let me take that, Joe. First of all, let me correct your statement that the $100 million run rate exiting the year is for 2024 not 2023. So that's number one. We are actively ramping as we said, in Hazel Park, right? The biggest challenge for us is really customer qualifications. Every single part we have to put through Hazel Park needs to go through detailed AQP and other quality certifications by our customers.

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That's the biggest bottleneck. Having said that, we expect that revenue approximately between $25 million and $30 million for 2023 in Hazel Park. So that's number one. Number 2, the guidance, $540 million to $580 million that we're providing on our top line for 2023 includes a couple of things, right? Number 1, it is risk adjusted, right? What does that mean? Well, the midpoint is risk adjusted. If the economy continues to be soft and the supply chain continues to be disrupted, our customers will end up at the lower end of that range. If things improve dramatically in terms of supply chain disruptions go away and economy is stable, volumes are stable, we could be at the higher end of that guidance. Also, as Todd mentioned in his prepared remarks, right, the raw material of pass-throughs are 4% to 5% down in 2023. So what that means is take your 540-ish in 2022 and take out between 4% and 5% of that sale and then add back, right, our volume growth on top of that, right? So hopefully, that answers your question.

Joseph Grabowski

It does. That's very helpful. And I guess my final question. This is the first time I remember you guys talking about scrap income. Maybe I'm just not remembering correctly, but can you kind of talk about the dynamics around scrap income and how it kind of flows through the P&L?

Jagadeesh A. Reddy
President, CEO & Director

Certainly. So that ends up being a contra expense. So it doesn't end up in our revenue line. And the reason why we call that out, and you are correct, we have not historically called out directly, but it changed so much. And so quickly, we felt it was prudent to kind of isolate that incident in the second half because it went from over 20 some cents a pound and almost half of that in the third and fourth quarter. So it was a very steep and precipitous decline. In a normal course, scrap income is probably more net, I call it, $0.14 to $0.16 a pound. So we are unusually high in the beginning half of the year, but then it dropped really below what we would call normal market conditions in the second half. So that's why we felt that it made sense to call it out specifically in the last quarter.

Operator

The next question comes from the line of Andy Kaplowitz with Citigroup.

Andrew Alec Kaplowitz
Citigroup Inc., Research Division

Jag, I just want to understand more what you're saying at an end market level. You said you expect powersports to be a higher percentage of sales in '23 versus '22 in construction. And I think you have down a little bit in terms of percentages yet. You have the powersports market down, construction flat, ag up. Are you basically saying you expect powersports to grow much higher than the market given the share gains you've had, maybe construction we should model conservatively, and I'm not sure sort of what to make from the ag comments because I think you talked about small ag being down and large ag being up. So more color would be helpful.

Jagadeesh A. Reddy
President, CEO & Director

Absolutely. So powersports, as we indicated last time, Andy, the market is driven -- or rather market has significant impact on discretionary spend and given interest rates, right? We expect the market as a whole to be down, but we have had significant program wins with a couple of our major customers. We also added a new customer in 2023 that will ramp -- come online in second half of 2023. Given the new program wins, we're gaining significant share in the powersports market, and that's the reason why we expect that market -- that the sales in that segment to be up in 2023.

In regards to construction, construction, most of our exposure, right, is in construction access. Residential is going to be down, as we indicated. But we are seeing green shoots, if you will, in nonresidential construction areas and applications, particularly with some of the infrastructure investments flowing through. So that gives us a little bit of confidence on the construction market that even though residential might be down, it might be partially offset by nonresidential construction impact.

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Back to agriculture. We have approximately 50% of our sales in large ag and approximately 50% of our sales in small ag, including turf care, right? So small ag and turf care, as you have seen industry reports and our customer stock as well talking about these subsegments, there is significant inventory in the channel, and we're seeing that softness come through in the small ag and turf care applications, whereas large ag continues to be strong. Our customers are indicating strong demand signals, and we continue to expect that subsegment to grow for us.

Andrew Alec Kaplowitz
Citigroup Inc., Research Division

Got it. And then just flipping over to margins for a second, maybe a little more color about incremental margins in '23 and what MBX Canada is contributing. I know you gave us that 40 to 70 basis points, but you cited a fair amount of headwinds on the business. Yet, I think you're still guiding to high 20% incrementals at the midpoint. You can correct me if I'm wrong. But maybe how are you thinking about with MBX contributing now, like what that means for your normalized incrementals? Because I think, Todd, you had talked about low 20s as normalized in the past?

Jagadeesh A. Reddy
President, CEO & Director

Yes. Really good question. As you've seen, Andy, in your past as a program like MBX takes some time to get really rooted as our daily operating system. So we've been on this journey for about 6 months now. And I can tell you the entire organization is excited, enthused. This year -- in 2023, we'll probably do between 3x to 4x as many Kaizens as we would have done in 2022, right? Just the scale of our activity has significantly increased within the company. Having said that, right, the biggest concern I have after living through this type of programs for 20-plus years in my almost 30 years in my career, right, the sustainability of those improvements is really where I am focused on. It's not the number of Kaizens we're going to do. It's really how much of those improvements can we sustain over a long period of time, right? So given that, we're being really conservative on our margin impact in 2023 because I really need to see our -- we, as a company, right, sustain those improvements. That's why when we say 40 to 70 basis points of accretion EBITDA margins for 2023, that's a risk adjusted conservative number that we're putting out there, right? We're going to really stand by that range with the expectation that we want to continue to push that number higher as we see the MBX program really take root in every plant, in every function, including finance and sales and marketing and supply chain, right? So I think that's where we are in terms of our MBX drive within the company.

Todd, do you want to talk about the incremental margins?

Todd M. Butz
CFO, Secretary & Treasurer

Yes. So historically, you are correct. I mean we've been in that 21.5% range historically. And like Jag mentioned, we would expect in the longer term once the MBX really takes hold that, that incremental margin should improve. And certainly, when you think of next year, we're very happy with the fact that you look at the midrange, the incrementals are very strong despite some continued expected headwinds. When you think of next year, we did talk about continued potential supply chain issues. We have the Hazel Park launch that is ongoing throughout the year. That will have a negative $4 million to $6 million impact. And you couple that in with the scrap decline, right? So despite all of those kind of headwinds, we're still seeing nice progression on our incremental margins year-over-year at the midpoint.

Andrew Alec Kaplowitz
Citigroup Inc., Research Division

Right. And Todd, you -- to be clear, you're talking about '23 when you say next year, right, just to be clear?

Todd M. Butz
CFO, Secretary & Treasurer

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Yes, correct.

Andrew Alec Kaplowitz
Citigroup Inc., Research Division

Yes. So let me just ask one other follow-up on Hazel Park. So Jag, I think you mentioned the ramp up -- the run rate exiting '24. Just thinking about the $4 million to $6 million of incremental costs this year, is that sort of front-end loaded so that by the end of the year, you're probably at breakeven or better? Or like how do we think about that sort of improvement possibility?

Jagadeesh A. Reddy
President, CEO & Director

Yes. So if we were to think about it, right, it's probably 60-40 split, Andy, between first half and second half. Sitting here, right, that's our current estimate. Yes, I was here -- it is a little more front-end loaded, but you still have -- that ramp happens throughout the year. And then you get into Q4, certainly, volumes and timing of days has a little bit of an impact there. So I think the 60-40 split is a fair number.

Todd M. Butz
CFO, Secretary & Treasurer

And then for the $25 million to $30 million revenue, we're pushing to get through Hazel Park this year, right? We might be slightly negative, right? So our goal, obviously, used to be at least EBITDA positive, at least breakeven rather, but that will be a bit of a challenge in 2023.

Operator

There are no further questions registered. So at this time, I will pass the conference back to Mr. Jag Reddy. Excuse me, we do have a question from the line of Larry De Maria with William Blair.

Lawrence Tighe De Maria
William Blair & Company L.L.C., Research Division

Just I want to stay with Hazel Park for a minute here. So $25 million to $35 million in '23 breakeven, maybe slightly negative EBITDA. Growth in '24 and then $100 million plus presumably in 2025. Can you help us on sort of the margin bridge 24-weekswing positive presumably on some number in between those sales brackets? And what does it look like at $100 million, the EBITDA margin? And are we cannibalizing any other plants? Or is this all incremental? And finally, how much of this is go-get versus what you have visibility on?

Jagadeesh A. Reddy
President, CEO & Director

Yes. Okay. Thank you, Larry. On the $100 million exit we talked about in 2024, obviously, right, we're not providing any guidance for 2024. Having said that, we expect Hazel Park to be EBITDA accretive or positive rather, in 2024. We expect perhaps approximately $65 million to $70 million-ish in revenues for 2024 out of Hazel Park with an exit run rate of $100 million, and it will be EBITDA positive. And in 2025, obviously, $100 million or more, as you mentioned, we agree with that.

In terms of -- out of the $100 million, approximately 50% of that $100 million will be new customers and new programs that we currently do not have. And then approximately 50% of the revenues would be current customers with some new programs and some existing programs, right? So what that means is, or the $100 million, let's say, approximately 25-or-so percent of that number is some of the volume that we're moving from other plans into Hazel Park to optimize our plant network, right? So hopefully, that answers your question.

Todd M. Butz
CFO, Secretary & Treasurer

The other comment I would make, Larry, when you think of the margin profile. And when we get to the 2025 and we're at a $100 million run rate, our expectation would be that, that EBITDA margin would be in

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line with our expectation of the 15% or even hopefully even accretive from there. So that is our goal, our expectation. And as Jag mentioned, keep in mind, there isn't really a cannibalization happen at plant. It's opening up capacity that was needed for us to bring in incremental business. So when you think of that $100 million, that will be all incremental business.

Lawrence Tighe De Maria
William Blair & Company L.L.C., Research Division

Okay. That's very clear. And that's what I was looking for. And then the second question, I think as recently as December, you guys talked about the 15% EBITDA margin that you just referenced. If we look at the guidance for '23, we have presumably, obviously, a much more stable year. I think the material pass-through as you get some benefit there. But then even if we adjust out from the under absorption in Hazel, some of the headwinds from Hazel, we're still nowhere near the 15%. So can you sort of help us bridge the gap between 15% target, which is it realistic or not and the time frame? And then where we're entering now, even if we adjust for some of those headwinds, what's the gap?

Jagadeesh A. Reddy
President, CEO & Director

Yes. So we stand by our medium-term goal of 15% adjusted EBITDA margins. The bridge to where we are at in 2023, our guidance and where we would like to be in a couple of years is really threefold, right? And it's approximately 70 to 90 basis points, some due to 100 basis points of each of those items. One is Hazel Park as we indicated. Other is scrap income, as we indicated. And the third one is customer supply chain disruptions, right? We continue to see that. That's been -- we talked about even in Q4 and in 2023, right? So those are the 3 items, approximately 70 to 100 basis points each is what we're battling to get to that 15% adjusted EBITDA margin target.

Todd M. Butz
CFO, Secretary & Treasurer

And the other comment I would make is if you look at the low end -- the low end of the guidance kind of reflects about 11.2%. As Jag mentioned, you have by about 200 to 300 basis points of headwinds. On the IM that we're at 12% to 12.5%, so when you really factor in and that potentially gets us near that 15% goal.

Lawrence Tighe De Maria
William Blair & Company L.L.C., Research Division

Okay. So realistically, medium term is probably around 2025 when we're operating in a much more productive run rate in Hazel Park?

Todd M. Butz
CFO, Secretary & Treasurer

Without really providing further guidance, at this point, I would say that's fair to say at some point potentially in '24 or '25. We are expecting to have an Analyst Day later this year. And our expectation within that meeting would obviously be providing a bridge to our future EBITDA margins.

Operator

[Operator Instructions] There are no further questions registered at this time. So I will pass the conference back to Mr. Jag Reddy. You may now proceed.

Jagadeesh A. Reddy
President, CEO & Director

Thank you, Alisha. Once again, thank you for joining our call. Should you have any questions, please contact Noel Ryan or Stefan Neely at Vallum, our Investor Relations Council. This concludes our call today. You may now disconnect.

Operator

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That concludes today's conference call. Thank you for your participation. You may now disconnect your lines.

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