

Mayville Engineering Company, Inc. NYSE:MEC

Earnings Call

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CALL PARTICIPANTS 2

PRESENTATION 3

QUESTION AND ANSWER 7

Call Participants

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Mircea Dobre
Robert W. Baird & Co. Incorporated, Research Division

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ATTENDEES

Noel R. Ryan
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Presentation

Operator

Good morning, and a warm welcome to the Mayville Engineering Company First Quarter 2023 Earnings Call. My name is Candy, and I will be your coordinator for today's call. [Operator Instructions]

I would now like to hand the conference call over to our host, Noel Ryan with Vallum. Please go ahead.

Noel R. Ryan
Vallum Advisors

Thank you, operator. On behalf of the entire team, I'd like to welcome you to our first quarter 2023 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. Reconciliations of these measures to the closest GAAP financial measure is included in our quarterly earnings 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, Noel, and welcome to those joining us on the call and webcast. Our first quarter results demonstrated continued progress on our commercial and operational priorities, actions that position us to drive incremental margin expansion and profitable growth over the long term. We delivered solid organic sales growth in the first quarter, driven by continued momentum within our commercial vehicles, military and power sports markets together with year-over-year growth in manufacturing margin. Net sales increased by 4.7% on a year-over-year basis, driven by solid demand in our commercial vehicle, military and powersports markets.

Last quarter, consistent with our commitment to business transparency, we began to report quarterly revenues for each of our end markets and have provided relevant historical market data this quarter. While demand conditions were stable in the first quarter, near-term supply chain disruptions and fixed cost under absorption at our new Hazel pork facility impacted adjusted EBITDA and adjusted EBITDA margin rate.

Fixed cost of under-absorption at Hazel Park alone impacted the first quarter by $1.8 million and 120 basis points. Excluding the impact of the Hazel Park ramp-up, our normalized adjusted EBITDA has increased by 10 basis points to 10.9%.

Turning now to a review of market conditions across our 5 primary end markets. Let's begin with our commercial vehicle market, which represents 4.5% of our trailing 12-month revenues. During the first quarter, commercial vehicle revenues increased 16% on a year-over-year basis driven by strong demand and elevated build rates. Customer demand requirements continue to indicate strong demand through the middle of the year, followed by a slowing in the second half of the year and into 2024 as the industry navigates regulatory changes as well as a general slowing in economic activity.

Currently, ACT Research forecast the Class 8 vehicle production to decline 1% year-over-year in 2023 to 312,000 units. While supply chain constraints have continued to impact our commercial vehicle customers, we expect to see this improve as we move through the year. Importantly, while current production schedules are supported by a diverse space of Tier 1 OEMs, we continue to discount these schedules given

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expectations for a broader macro slowing into the back half of the year, which is contemplated within our current financial guidance. Given this backdrop, we are prepared to further align our fixed cost structure with shifting demand conditions should the need arise.

Next is the construction and access market, which represented 19.8% of our trailing 12-month revenues. Construction and access revenue declined 11% on a year-over-year basis in the first quarter given weaker fundamentals within the residential housing market, which continues to be impacted by the elevated interest rate environment. We expect this trend to continue through the year as residential new construction demand will be partially offset by volume growth across our infrastructure and energy markets.

The powersports market represented 16.3% of our trailing 12-month revenues and increased by 7% on a year-over-year basis in the first quarter. The benefit of market share gains, which includes new customer programs were partially offset by accruing in consumer discretionary spending. Given current market conditions, we anticipate customers will seek to bolster demand through rebates and incentives over the course of the current year. On balance, we see the opportunity to grow our share of wallet in the current year, positioning us to drive incremental sales growth in the powersports market.

Our agricultural market represented 10.4% of trailing 12-month revenues and decreased 5% on a year-over-year basis during the first quarter. The decrease during the quarter was primarily driven by a decline in small ag equipment demand while large ag demand held firm. This trend is in line with our expectations as global food stocks remain tight and crop prices remain elevated, while 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, which should mitigate the softness in small ag demand.

Our military market represented 5.6% of trailing 12-month revenues and increased 66% on a year-over-year basis in the first quarter, driven by new program wins and build rate increases. Our customers have solid contractual backlogs with the U.S. government, and we continue to see good volumes based on new vehicle introductions and related programs.

Through the end of the first quarter, customer coating activity and order rates remained strong, though we remain mindful of the potential for softening in the broader macroeconomic outlook later this year. At this time, we see no indications of slowing in our customers' pace of activity. At the end of the first quarter, our total labor expense represented 11% of our cost of sales with approximately 1,800 production-related FTEs. Importantly, due to labor constraints within our markets, we have met customer demand by utilizing over time and in some cases, temporary workers.

Given the broader cyclicality of our end markets, we have continued to manage our business to further optimize both our financial and operational agility. Although we are a business of scale, we have the ability to move quickly when it comes to aligning our fixed cost with a changing demand environment. While we have multiple cost reduction levers available to us, an obvious choice was building a workforce with contract and temporary labor to meet near-term increased demand, which will ensure we maintain its skilled workforce while providing us flexibility in the event of a declining economic environment.

For context, our overtime and temporary worker costs last year were approximately 16% higher than prior to the pandemic despite similar volumes. To the extent that we see volumes decline, we will be able to quickly alleviate margin pressure through eliminating some of the premium labor we are currently employing.

Shifting now to an update on our MBX initiative. During the first quarter, we continued to advance the implementation of our MBX value creation framework. I am pleased to report that we are on track to achieve the objectives we laid out last fall when we first announced MBX initiative. MBX represents a key area of strategic focus for our team as we position MEC to achieve consistent above-market performance throughout the cycle and capitalize on multiyear reshoring and outsourcing megatrends among major OEMs. At the commercial level, our focus remains on expanding our integrated solution suite within both existing customer accounts together with targeted growth in higher value, growing adjacent markets, including clean tech and energy transition.

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Allow me to share some of the commercial milestones we achieved during the first quarter. During the first quarter, we continued our focus on battery thermal management products, expanding our relationship with our customer as they grow their electric vehicle battery systems and enclosures. Leveraging the significant growth in the powersports market we had in 2022, we received additional orders for parts on the new products that we are supporting, driving further market share gains. With the impending changes to vehicle emissions regulations beginning in 2024, we continue to work on multiple projects with current commercial vehicle customers supporting vehicle updates that are slated to occur going into next year. We believe these new launches position MEC to gain additional share of wallet, representing an important organic growth catalyst.

Many of our commercial vehicle customers are continuing to develop their battery electric vehicle offerings. While many of our current structural components will be used on battery electric vehicles, we are working on battery electric vehicle specific parts and are starting to build market share as our customers look to expand their volumes. The other pillar of MDX is operational excellence where our focus is to achieve increased standardization, lean manufacturing and automation of our various production processes, which in turn leads 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 have continued our rigorous implementation approach centered around our quarterly [President Kaizens], supplemented by monthly operational and commercial excellence guidance. During the first quarter, we finalized the full rollout of company-wide KPI targets and uniform processes for continuous improvement. Overall, our team is tracking to the savings and KPI target improvements that underpin our 2023 financial expectations. Later this year, we intend to provide MBX-led multiyear performance targets at our first ever Investor Day in late 2023 at our Hazel Park, Michigan facility. Our IR team will provide more details on this event over the coming months.

Another key pillar of our MBX strategy is the development of high-performance business culture. To that end, in March, we appointed Ms. Rachele Lehr as our Chief Human Resources Officer. We are very excited to have Rachel as part of our organization and the key role that she will play in our talent strategy as we focus on key initiatives that will support our long-term growth.

In summary, we remain laser-focused on driving other market growth during a period of macro uncertainty. We delivered first quarter results that were generally in line with our expectations. Our full year 2023 outlook remains unchanged, although we are ready to take action around our cost structure, should we see demand softness exceed our current cautious expectations. From a capital allocation perspective, our top priorities include complementary bolt-on acquisitions of immediately accretive assets and high-return quick-hit investments in organic growth. Our inorganic growth focus continues to lean towards assets that expand our fabrication capabilities within lightweight next-generation materials such as aluminum, plastics and composites.

While our capital spending in the first quarter was light, we continue to expect that our total CapEx for the year will be in the $20 million to $25 million range. Notably, our first quarter CapEx does highlight our ability to flex our pace of discretionary spending as required.

With that, I will now turn the call over to Todd to review our financial results.

Todd M. Butz
CFO, Secretary & Treasurer

Thank you, Jag. I'll begin my prepared remarks with an overview of our first quarter financial performance, followed by an update on our balance sheet and liquidity. Total sales for the first quarter increased 4.7% on a year-over-year basis to $142.6 million, driven by a combination of improved sales volumes and continued price discipline. Our manufacturing margin was $16.4 million in the first quarter as compared to $14.9 million in the same prior year period. The increase was driven by improved demand, increased commercial pricing and better absorption of manufacturing overhead costs, offset by a $300,000 decline in scrap income.

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Our manufacturing margin rate was 11.5% for the first quarter of 2023 as compared to 10.9% for the prior year period. The increase of approximately 60 basis points was due to the reasons just discussed. Profit sharing bonus and deferred compensation expenses were $3 million for the first quarter of 2023, which was similar to the prior year. Other selling, general and administrative expenses were $7 million for the first quarter of 2023 as compared to $5.7 million for the same prior year period.

The increase was attributable to increasing salaries, wages and benefits, recruiting fees and higher professional fees related to the company preparing to be Sarbanes-Oxley Section 4 floor compliant for 2024 as the emerging growth company status will no longer be available. Due to these reasons, we feel that SG&A expenses on a go-forward basis will be approximately 4.5% to 5.5% of sales.

Interest expense was $1.7 million for the first quarter of 2023 as compared to $567,000 in the prior year period, primarily due to higher interest rates. We anticipate that at current interest rates, interest expense should remain relatively stable, depending on our debt balance. Adjusted EBITDA decreased to $13.8 million versus $14.8 million for the same prior year period. Adjusted EBITDA margin percent declined by 114 basis points to 9.7% in the current quarter as compared to 10.8% for the same prior year period.

While on its face, it appears that our base business EBIT declined, but when you factor all the impact of Hazel Park, our base business EBITDA actually increased to $15.6 million in the current quarter from $12.9 million in the prior year, even with $1.3 million of added SG&A costs. Our EBITDA percentage would have been 10.9% in the current quarter versus 9.5% in the same prior year period.

Turning now to our statement of cash flows and balance sheet. Cash flows used by operating activities during the first quarter of 2023 was $6 million as compared to a cash use of $425,000 in the prior year period. The expected increase in operating cash flows used was primarily due to a decrease in accounts payable from the timing of payments clearing as it relates to our heavy 2022 capital spending, which was partially offset by a decrease in inventory. We continue to expect that cash generation will improve during the second half of the year based on our normal seasonal cadence of the business.

Capital expenditures for the first quarter of 2023 were $2.4 million as compared to $13 million during the first quarter of 2022. The decrease in capital expenditures is a result of the completion of the initial capital investment in the Hazel Park Michigan facility, which was finished in the second half of 2022. As of the end of the first quarter of 2023, our total outstanding debt, which includes bank debt, financing agreements and finance lease obligations was $83.8 million as compared to $86.8 million at the end of the first quarter of 2022. The decrease in debt primarily relates to lower capital expenditures in the first quarter of 2023 due to the completion of the investment in the Hazel Park facility. Furthermore, as of March 31, our net leverage ratio was 1.4x, which is below our long-term net leverage target of at or below 2.5x.

Today, we are reiterating our financial guidance for the full year 2023. For the full year 2023, we continue to expect the following: 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. In reaffirming our financial guidance, we continue to take a risk-adjusted view of the year, which assumes general stability in our end market demand, but also considers the potential for some macro softening into the back half of the current calendar year.

Finally, a word on our ESOP. In recent quarters, we have taken action to diversify and accelerate the release of shares to employees with the goal of improving liquidity within the market. We have taken this action to improve the available shares within our free float, which has historically been constrained by high ESOP ownership. In April of 2023, we distributed approximately 1.6 million shares to employees, thereby reducing ESOP ownership to approximately 20% of our total outstanding shares. Our long-term goal is to add between 10% to 15% employee ownership, which keeps strong alignment of our employees with the interest of shareholders.
With that said, 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] Our first question comes from the line of Mig Dobre of Baird.

Mircea Dobre
Robert W. Baird & Co. Incorporated, Research Division

Really appreciate all the additional disclosures that you provided here in your slide deck. I guess my first question is on the demand side. You highlighted the construction vertical has seen some contraction for you. And I guess I understand the comment on residential, but what you guys are seeing is a little bit different than I think what some of the OEMs have reported in their case, we've seen production increase quite a bit, and everyone is talking about very nice growth in the first half of '23. So I'm kind of curious as to why you're experiencing different trends in that vertical? And are there any specific equipment categories that you're seeing pull back maybe more than others.

Jagadeesh A. Reddy
President, CEO & Director

Mig, thanks for the call and the question. Particularly when we're referring to construction, right, we have seen the general commentary around residential and nonresidential and infrastructure markets. But beyond that, approximately 50% of our revenues come from access, particular access product lines, right, as you are aware, that particular customer had some supply chain disruptions that they would convey to us in Q1 that resulted in lower pull-through to our plans.

Mircea Dobre
Robert W. Baird & Co. Incorporated, Research Division

And do you view this as temporary recovery down the line? It sounds temporary in the way you just described it.

Todd M. Butz
CFO, Secretary & Treasurer

We hope it is temporary. But at this point, given other macro conditions in other residential and nonresidential construction, we are cautiously optimistic that it was just a pause in Q1, and then we are hopeful that the customer can pick up their pace in the remaining quarters of the year.

Mircea Dobre
Robert W. Baird & Co. Incorporated, Research Division

Maybe more broadly, when you sort of look at the production schedules that are being shared with you by customers and you look at where you are now versus 3 months ago? Have there been any material changes either up or down? I understand you're reiterating your outlook. But within that outlook, I'm wondering if certain end markets are progressing differently than you expected 3 months ago?

Todd M. Butz
CFO, Secretary & Treasurer

Outside of what we have provided in our presentation deck, right, the post on our Investor website. We're not seeing anything significant to highlight or call out at this point. Most of our customers are publicly traded companies. They have indicated no reduction in their demand publicly, and then that's exactly what they have communicated to us.

Jagadeesh A. Reddy
President, CEO & Director

The other comment I would make, may get at a high level, right, when you look at Q1 of this year, we had about a $10 million negative impact of material price pass-through, meaning steel prices came down

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versus Q1 of last year at this point. So when you factor that out, our top line sales show of 4.7% at the macro level, but really stripped that out, it's closer to 12% growth year-over-year. So we have seen an uptake in demand across the board.

Mircea Dobre
Robert W. Baird & Co. Incorporated, Research Division

No, I appreciate that. And I guess, really, the nature of my question was maybe not with a negative tilt the way you kind of framed the [Indiscernible] more along the lines of we're seeing companies actually increased guidance, right? Like many of your customers are able to raise their revenue outlook for 2023. They have a lot of backlog and they're finally starting to convert to backlog. So at least to my thinking, that vented an incremental business for you?

Jagadeesh A. Reddy
President, CEO & Director

That's a fair question, Mig. As Todd indicated, right, we did see a pickup in our actual volumes in Q1. We did pick up share gains in power sports, as we indicated. We continue to see good strength in large ag small ag, we were talking to our customer who is pretty heavy in small ag, they're constrained, what they indicated to us was really lack of inventory on their dealer lots, right? So they said, "Hey, if we have more small ad products on the lot, actually, they can increase their market share. So generally speaking, you're correct that there are good positive signs so far. The reason for our cautiousness is really twofold, right? No one can really predict what the second half is going to look like given the macroenvironment we're in. So that's part of our caution.

The second one is the drag on our P&L right now, as we indicated, with Hazel Park, right? So we're being cautious and hoping to overcome potential drag from Hazel Park throughout the rest of the year and cautiously optimistic about maybe a softer landing in the second half.

Mircea Dobre
Robert W. Baird & Co. Incorporated, Research Division

Okay. Understood. Then my final question is around margin. Your full year guide at the midpoint cost for EBITDA margin just shy of 12%. Obviously, we're not there in Q1, less than 10. Can you talk us through how you think about the cadence here? What has to happen in the second quarter and maybe the second half to kind of get us to your guidance.

Todd M. Butz
CFO, Secretary & Treasurer

I would say the biggest thing, Mig, is really the launch of Hazel Park, right? So as we talked earlier in the year, the first half, we had about 60-40 weighted, the dilutive impact that nasal part would have. I mean it's a large facility. We're ramping up a number of projects there. Unfortunately, in the first quarter, we saw some pullback and delays from the customer on some of those things. So the cost were a little bit higher than we expected in Q1. We would expect kind of a similar run rate maybe into Q2. But really, as we get into the back half, starting to get that fixed absorption and that benefit of volume in that location will then pick up that cadence. I mean, the base business is improving.

So if you look at Q1 of last year to Q1 of this year, even a margin percentage if you hit back to our Hazel Park, has improved significantly, right? So we're going to continue that progression. It's really a matter of timing with Hazel Park launch.

Jagadeesh A. Reddy
President, CEO & Director

Yes. Just to add to that, Todd, is absolutely right. If we think of base business outside of Hazel Park, on every single metric, whether it is revenue growth, whether it's manufacturing margin growth, whether it's EBITDA margin growth, right? The team has done a fantastic job of managing with our MBX, right, driving additional productivity through the company in our base business. So our drag is really all around -- centered around Hazer Park and even with customer interruptions of our production schedules with their

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supply chain challenges, the team has been really driving additional productivity. So I'm really pleased with how the base business is performing and the improvements we have made over the past year, and we continue to focus on driving Hazel Park execution as we look to the rest of the year. But to be clear, the swing in margin, which, to me, that would imply margins in the back half to be essentially about 12%. And that is entirely old to Hazel Park first half versus back half margin swing?

Todd M. Butz
CFO, Secretary & Treasurer

Well, it's twofold, right? As Jag mentioned, there is an expectation that hopefully as the year progresses that the supply chain issues within our customer base will subside, which should give us some benefit. And then it is the launch of Hazel Park. I mean that is a significant cost. I mean it had a $1.8 million negative impact in the quarter, right? And that's just the cost side of it, right? You think about it any volume going through there is in getting the normalized 12% to 15% EBITDA, right? So there's also the profit side of it until we get past that -- get that absorption benefit, it's going to take some volume here for that really sort of turn on profit for us.

Jagadeesh A. Reddy
President, CEO & Director

Yes. In addition to Hazel Park, we have a couple of other large programs that are bringing online in the second half. We talked about a [borsports] customer program that's going to start late Q3 only Q4. We also talked about a CV customer program that we're investing significant CapEx in our Atkins facility to bring on new diesel tanks for ACV customer. So that program will kick in, in Q3 as well. These incremental volume increases, right, will help us leverage better our existing assets and absorption.

Operator

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

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

Just sort of staying on the same line of question to some degree here. You maintained your guide with 66.5 adjusted EBITDA at the midpoint in the sale of 0 to plus 8. We don't see any of your markets going up in your charts now actually shifted a little bit. Small agÃ¢â‚¬â„¢s week, you called out a weaker second half in truck. And I guess the way we see this adjusted EBITDA needs to go up 15% on average the next 3 quarters at the midpoint. So can you kind of help us with a bridge to get these numbers because here, obviously, they seem aspirational, but obviously, you would have some underlying points to make and why you can hit at least, let's say, the midpoint.

Jagadeesh A. Reddy
President, CEO & Director

Yes. We're happy to provide additional color on each of the markets, Larry. Commercial vehicles, right? ACT indicates that approximately the year is going to be flattish or negative 1% on the volume. As I just mentioned, we're gaining share in the CV market. Even though the market may be flat, we expect our sales to be up in 2023 with new programs coming online in the second half. Construction access, we did touch on that and construction access, we're going to be slightly down year-over-year. But in Power scores, as an example, we're gaining significant share. We've got new programs that are coming in not only with existing customers, but also with new customers that are coming online in -- throughout the year. Current customers are continuing to ramp them up in Hazel Park. In new customers, as I just mentioned, coming online late Q3, early Q4 with the incremental business in power sports, we expect to be up in power sports, even though the market is going to be down.

Ag, I believe I mentioned both strength in large ag, but also potential upside in the small ag in the coming months. Military has been a strong performer for us. So given all of that, we feel pretty good about our demand growth and hitting our revenue numbers for the year.

Todd M. Butz

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CFO, Secretary & Treasurer

And on the margin profile, I mean we do not have to average 15% in the next 3 quarters to average out to the 12% at the midpoint, as you called it. We will see and do expect as Hazel Park again, continue to launch the things that Jag just mentioned related to the other facility launches, we do expect to see that margin dollar increase quarter-to-quarter. And so our expectation is, as you think of that midpoint, we reiterated or reaffirmed our guidance, and we feel confident that we can still achieve it.

Certainly, supply chain, as we -- you mentioned [Indiscernible] last question, supply chain normalization does have a significant impact on our business. And so the expectation is that we'll improve in the back half. And again, that's going to allow us to be much more efficient and that will save those dollars to our bottom line. So we still feel good on our guidance and really think as we look to the next few quarters as markets -- if they stay as we expect or improve and potentially, I think just maybe upside to that.

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

And with 15% EBITDA growth in the next few quarters, not margin. But maybe put another way, can you give us a help on the split of first half or second half EBITDA?

Todd M. Butz
CFO, Secretary & Treasurer

So when you think of -- again, we don't do quarterly guidance, so I don't want to kind of go down that. But when you think of 67 million is like you indicated was the midpoint. I would say it's maybe a 40-60 split, 45-55, thinking first half versus second half. Again, the impact of Hazel Park, the launches and the alleviation of supply chain issues at our customers are really the gating factors, right? Those are the wild cards. We feel confident in our execution. We're hoping that those things will continue to progress, and we'll see that nice margin pickup in the back half.

Operator

[Operator Instructions] Our next question comes from the line of Tim Moore of [Indiscernible].

Tim Moore

I appreciate it. And it was nice to see the sequential expansion of your gross margin and your EBITDA margin. And like it was said earlier, it was very helpful to get those year ago quarterly sales figures for your end markets. So thanks for sharing that. I just want to hone in on a point that you've alluded to and commented a bit on, and we know that maybe you're being more conservative for commercial vehicles and maybe some of the end markets for the second half of the year. But can you kind of just maybe reiterate or elaborate what would be the main swing factor between the high end and the low end of your sales guidance range? Is it really whether or not the commercial vehicles slow down enough in the second half of the year? Or is it more so the ramp-up of the cadence at your Hazel Park facility, possibly in the fourth quarter?

Jagadeesh A. Reddy
President, CEO & Director

[Indiscernible] Tim, I think significant growth for us to hit the upper end of the range, we'll have to come through 2 avenues. One, customers continuing to forecast better. Right now, the reason why our range is so wide is many of our customers continue to see significant downtime in their production lines because they can't get parts. Last quarter, as an example, one of our CV customers had their large structural rail shortage, right, from Mexico. They shut down their production line for a number of days, right? But they're going to catch up. That's not a lost sale, it's just a delayed sale. We have similar situations across our customer base, and that's what we continue to struggle to forecast. And that, of course, results in under absorption within our plans.

The second one is around our larger macroeconomic environment, will incentives in powersports markets increase the end-user demand where our or customers can continue to pull more volumes through our

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factories or not, right? So those type of situations, right, will help us hit the higher end of the range if they swing to the positive. On the other side, if we continue to see higher interest rates and continued supply chain disruptions, we think we'll be towards the lower end of the range. But net-net, sitting here, right, we feel pretty good that we can stay in the range and continue to drive additional growth through new program wins and Hazel Park ramp-up.

Hazel Park ramp up by itself. I don't expect that to swing a significant amount of whether we're going to be in the range or out of the range, right? So yes, it will have some impact. To me, the focus on our hazard part is really around hitting our margin numbers, hitting our EBITDA targets versus can we stay within the range of the demand or rather revenues.

Tim Moore

Great. Jag, that was very helpful color. My next question is a 2 [parter] around your MBX initiative. You mentioned in the previous remarks that you rolled out the key performance indicators already. So the 2-part question is, are you close to finishing the rollout of the Kaizens to all your plans? And have you visited each of the top customers to discuss your goal of commercial excellence and maybe some catch-up pricing lever? Because it seems like maybe you might have been a little bit behind on pricing versus cost inflation. I'm just wondering if that could be a driver over the next 12 months on the pricing side.

Jagadeesh A. Reddy
President, CEO & Director

So the key performance indicators, not just -- yes, every single plant has set of KPIs, right? It skewed it, is what we call it, safety, quality, delivery, productivity and inventory. So disputed measurements or KPIs have been rolled out late last year, December actually, to every single plant across the company, and then we track the performance of every single plant every month in our business reviews, right? So that's been rolled out.

The second one is all of our key large sites, many of them, they all have similar boards, KPI board set up. They all had significant number of kaizens that were performed or conducted in the last quarter. And we have responsibility for each and every single plant already laid out in terms of MBX team, right? So, I haven't done a kaizen in one of our small plants, but I've done Kaizens in many of our major plants are in the process of finishing major Presidents Kaizen in many of our key plans this year, right?

So I feel pretty good about our rollout. As I mentioned when we rolled this out late last year that it'll take a good 12 to 18 months for a program like MBX to take root, right? So we're making really good progress. We just came back -- the leadership team just came back from a week-long Kaizen in one of our facilities last week. Had tremendous results. We'll talk about those projects in the next quarter's call. And as we indicated in our Q1 presentation, we highlighted some of the times that we conducted. I see great momentum. I see a lot of energy around it.

First time for many of our employees, right, they're visiting other plants, right, learning from each other and taking back some of the learnings back to their home plans to implement them. So it's been a really great initiative for us, and I'm really positive, not just positive, I'm energized by every time I go spend a week in a plant and continue to drive these improvements.

Tim Moore

That's helpful color. And my next question is really about filling in Hazel Park. What type of end market programs do you expect there? Would it be more of the electric vehicle battery closures? Do you think you can be doing some power sports, recreational stuff? And then I just had an overall question if maybe -- if you haven't yet -- if you would have an estimate of maybe what electrification could be as a percentage of your sales, maybe next year when you ramp up as part more with possibly the EVs? And if you take all electrification for everything, you're on recreational vehicles, even the ag program, is it could be close to 5% of your sales next year?

Jagadeesh A. Reddy
President, CEO & Director

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We are in the process of quantifying that. It's a little bit challenging sometimes, Tim, because the same program, how do we count, right? We can count in CV market and then also in the EV market, et cetera. So we will continue to define how we keep track. I would say we're going to be right now under 5% of our content is going into better electric vehicle programs. Next year, perhaps, we'll get to a 5%. But we do think that will get to upper single digits in the coming years, but we'll have more on that topic during our Investor Day later this year.

And then you did ask me another question Hazel Park. In terms of what sort of end markets programs are going into Hazel Park, certainly, commercial vehicles, certainly, powersports, certainly agriculture. We don't expect, at this point, either military or access type products to go into Hazel Park.

Tim Moore

That's helpful. I appreciate that. My last question is, how is the search going for making inroads into lightweight next-generation products and renewables, cleaner technology. It sounds like it will be more of an inorganic bolt-on acquisition strategy. And can we expect maybe the time frame of that, something to be announced on that by the end of the year?

Jagadeesh A. Reddy
President, CEO & Director

I mean, obviously, right? No one can predict when a certain company can go acquire another company. Sitting here, I won't be able to predict that for you. But having said that, as we mentioned in our last call, right, we hired Sean Leuba, our General Counsel and Head of our Corporate Development. He was Head of Corporate Development for Caterpillar, and it's been keeping busy, right, building that pipeline and building a really good process for us to be able to execute when the right opportunity arises, right? So I'm still bullish that this is the place for us to go invest and I continue to see customer demand coming through from many of our customers, both in ag and construction and commercial vehicles for light weight frames and lightweight content. So we're pretty bullish on the future of that market, and we continue to beef up our pipeline so that we can invest in that arena.

Tim Moore

Great. Thanks a lot, Jag. I appreciate it. That's it for my questions.

Operator

Thank you. As there are no additional questions waiting at this time. I'll hand the conference back over to Jag Reddy with Mayville for closing remarks.

Jagadeesh A. Reddy
President, CEO & Director

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. Thank you.

Operator
Ladies and gentlemen, this concludes the Mayville Engineering Company's First Quarter 2020 Earnings Call. Have a great day ahead. You may now disconnect yourÃ¢â‚¬Â¦

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