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Earnings Call

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Presentation

Operator

Good morning, everyone, and welcome to the Mayville Engineering Company First Quarter 2024 Earnings Conference Call. My name is Chad, and I'll be your moderator today. [Operator Instructions]

I'd now like to pass the conference over to your host, [Stefan Neely], to begin. Stefan, please go ahead.

Unknown Executive

Thank you, operator. On behalf of our entire team, I'd like to welcome you to our first quarter 2024 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.

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

Jagadeesh A. Reddy
President, CEO & Director

Thank you, Stefan, and good morning, everyone. Thank you for joining us today. The first quarter was a strong start to the year for our team, one highlighted by a robust net sales growth, margin expansion, and free cash flow generation. Our first quarter results continue to reflect the success of our MBX framework and the impact of our culture of continuous improvement. Demand within our end markets remains healthy, supporting organic sales growth, while our teams execute on new project startups in our commercial vehicle, powersports, and other end markets.

Over the last year, our team has demonstrated measurable progress with sourcing optimization and our labor utilization, resulting in $1.6 million of year-over-year self-help adjusted EBITDA improvement during the first quarter alone. We continue to see significant opportunities to further increase plant utilization, while driving improved operating leverage. For example, at our Hazel Park facility, we expect to achieve a $100 million annual revenue run rate by year-end 2024, consistent with our prior expectations.

Looking to the remainder of 2024, I am encouraged by the opportunities we see to further improve our commercial reach and operational productivity. However, given broader market volatility, we continue to manage our business with discipline and conservatism. Through this lens of cautious optimism, we anticipate a steady, ratable cadence of growth and margin improvement through the balance of the year, all of which reflects the expected timing of new project starts, together with pockets of demand softness in select end markets. With that in mind, we are reiterating our 2024 financial guidance, which projects full year net sales growth of between 5% and 9%, and growth in total free cash flow of between approximately $11 million to $21 million when compared to 2023.

Turning now to a review of market conditions across our 5 primary end markets. Let's begin with our commercial vehicle market, which represents approximately 37% of our trailing 12-month revenues. During the first quarter, commercial vehicle revenue decreased by 0.3% on a year-over-year basis. This is primarily due to softening end market demand. As ACT Research reported, North American Class 8 production fell 1.9% year-over-year in the first quarter. Our performance during the quarter reflects softening overall demand on weaker freight markets, as well as general slowing in the academic activity.

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However, this was offset by new project launches, which we expect will be a tailwind for MEC through the rest of this year. Currently, ACT Research forecasts the Class 8 vehicle production to decrease 10.4% year-over-year in 2024 to 305,000 units. ACT expects build rate declines of nearly 10% during the second quarter and falling to over 15% during the second half of the year. For MEC, we expect our new CV project launches to continue ramping into the middle of this year, which will help us maintain comparable sales to this end market relative to 2023. It is also worth highlighting that ACT currently expects Class 8 production to recover in 2025, growing 5.1% compared to 2024 with continued growth of 8.1% from 2025 to 2026, which supports our organic growth expectations over the next 2 years.

Next is the construction and access market, which represented approximately 18% of our trailing 12-month revenues. Construction and access revenues increased 7.3% on a year-over-year basis in the first quarter. This reflects the steady demand in nonresidential and public infrastructure markets, which more than offset softness within residential markets. We expect this trend to continue through 2024, supporting our overall outlook for flat net sales to this end market, supported by the demand from infrastructure-related projects and new customer wins.

The powersports market represented approximately 17% of our trailing 12-month revenues and increased by 25.7% on a year-over-year basis in the first quarter. We continue to benefit from market share gains, which include new customer programs on high-end models and were modestly offset by a cooling in customer discretionary spending. We continue to expect growth in net sales to this end market to moderate somewhat through the year, but still remain positive compared to 2023 due to the momentum from market share gains.

Our agricultural market represented approximately 10% of trailing 12-month revenues and increased 3.5% on a year-over-year basis during the first quarter. Our first quarter results for this end market reflect market share growth and contributions from the MSA acquisition, offset by softening demand within large ag and turf markets. As we move through the year, we expect that new project wins will continue to firm up any potential softness in this end market.

As you will recall, we acquired Mid-States Aluminum at the beginning of the third quarter of 2023. And as of the beginning of the current year, MSA has been fully integrated into the MEC platform. During the first quarter, revenues associated with MSA drove 9.8% of our top-line growth year-over-year, with the majority of these revenues being in our other end market. For 2024 as a whole, we continue to see MSA generating between $20 million to $30 million of incremental net sales, with revenue synergies beginning to ramp up in the second half of the year.

On the commercial front, our sales team continues to have success cross-selling MSA's capabilities. We have earned multiple supplier quotes from legacy MEC customers and our [quote] pipeline continues to grow with multiple strategic projects being negotiated.

On the pricing front, our commercial team has been working tirelessly over the last year to implement our programmatic value-based pricing model. During the first quarter, we continue to see the fruits of these efforts as commercial pricing initiatives, net of inflationary pressures, yielded $0.8 million in year-over-year adjusted EBITDA growth. Particularly as new project volumes come online, we expect to see continued margin expansion from our pricing initiatives through the rest of the year.

A few substantial new wins during the first quarter include the following. We were able to win significant content with 1 of our top military customers for the JLTV product line, expecting incremental growth during the program transition between OEMs. During the first quarter, we continue to expand share with 1 of our key powersports customers supporting their next-generation product lines, as well as expansion into some of their other product offerings. These wins support additional growth over the next 2 years and expect further organic and cross-selling opportunities in the quarters ahead.

In the quarter, we expanded share within our primary EV customer related to battery thermal management products, which continues to be driven by our available capacity at Hazel Park. During the quarter, we received significant awards for engine tube products with multiple customers, driven by expected regulatory emissions changes that will be occurring in the years ahead. We have continued to gain additional market share as our commercial vehicle customers plan for their vehicle updates, both our

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next-generation products and battery electric vehicle platforms. We expect to continue to grow share over the next 2 years with the amount of change that will occur in this industry.

As I mentioned earlier, our operations team has been very focused on sourcing optimization, improving labor utilization, and improving overall inventory efficiency. These initiatives have been driven by our rigorous approach to MBX lean implementation highlighted by over 150 MBX kaizen events since launching the MBX program in late 2022.

In summary, the execution of our commercial and operational excellence initiatives remain on track, and we are confident in our ability to recognize near and long-term benefits from these various self-help initiatives. Recall that by the year end 2026, we expect to deliver between $750 million and $850 million in revenues, expand adjusted EBITDA margins to between 14% and 16%, and generate free cash flow of between $65 million and $75 million. Given our strong strategic execution on the current multi-year demand outlook, we remain confident in our ability to achieve these targets.

In terms of capital allocation, we remain very focused on aggressively reducing our outstanding borrowings to achieve our previously stated goal of a net leverage ratio of between 1.5x and 2x by the end of 2024. Given the strong free cash flow generation during the first quarter, we were able to reduce our net leverage to 1.98x. Going forward in the year, we remain committed to continued debt repayment with free cash flow generation as our top priority for capital deployment. In addition, we are also continuing to evaluate opportunistic share repurchases under our existing $25 million authorization.

Strategic M&A remains a key part of our multi-year growth and business transformation strategy as we look to expand our capabilities to meet the rapidly growing demand for lightweight materials fabrication. As we are able to achieve our targeted net leverage levels, we will be selective in pursuing accretive M&A that continues to build on our market-leading capabilities and positions the company to further capitalize on multi-year secular growth trends in energy transition and OEM outsourcing.

In summary, I am very proud of our team's ongoing commitment to excellence and strategic execution. We have come a long way as an organization over the last 18 months. I continue to expect that our execution positions as well for ratable growth for the remainder of 2024 and above market growth as we move through the cycle.

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 13.1% on a year-over-year basis to $161.3 million. This increase was driven by a combination of the MSA acquisition and improved organic sales volumes, partially offset by expected softening demand in our legacy agriculture end market and the expected falloff of certain military aftermarket programs at the end of 2023. When excluding the MSA acquisition, organic net sales growth was 3.3% on a year-over-year basis.

Our manufacturing margin was $20.9 million in the first quarter as compared to $16.4 million in the same prior year period. The increase was primarily driven by increased organic volumes, MBX, commercial pricing initiatives, and the acquisition of MSA. Our manufacturing margin rate was 13% for the first quarter of 2024 as compared to 11.5% for the prior year period for an increase of 150 basis points.

Other selling, general, and administrative expenses were $7.8 million for the first quarter of 2024 as compared to $7 million for the same prior year period. The increase was primarily driven by an additional $0.3 million of legal expenses related to our former fitness customer, incremental costs related to the acquisition of MSA, increased costs related to compliance requirements, and annual wage inflation.

Interest expense was $3.4 million for the first quarter of 2024 as compared to $1.7 million in the prior year period due to higher interest rates and higher borrowings under our credit facility. The increase in borrowings is due to the acquisition of MSA, which closed on July 1, 2023. We continue to expect debt

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reduction during 2024, which may provide for further interest rate stepdowns as we achieve our net leverage goal of between 1.5x to 2x by year end.

Adjusted EBITDA increased to $18.5 million versus $13.8 million for the same prior year period. Adjusted EBITDA margin percent increased by 180 basis points to 11.5% in the current quarter as compared to 9.7% for the same prior year period. The increase in our adjusted EBITDA margin was primarily due to the increased organic volumes, the MSA acquisition, MBX initiatives, and the benefit from our commercial pricing activities. Our first quarter results demonstrate the continued progress towards our 2026 adjusted EBITDA margin goal of 14% to 16%.

Turning now to our statement of cash flows and the balance sheet. Free cash flow during the first quarter of 2024 was a positive $7.9 million as compared to a negative $8.5 million in the prior year period. The improvement in free cash flow year-over-year was primarily due to the $14.3 million increase in cash from net working capital.

The progress of our MBX program can be seen in many parts of our financial statements. On a year-over-year basis, direct MBX savings generated 100 basis points of manufacturing margin improvement, and the team's lean focus has improved our working capital free cash flow by $14.3 million, and has allowed us to increase the capacity and utilization of existing assets.

Please note that we continue to expect our full year MBX savings to be between $2 million and $4 million as the year-over-year comparisons moderate throughout the year. As of the end of the first quarter of 2024, our net debt, which includes bank debt, financing agreements, finance lease obligations, and cash and cash equivalents, was $142.8 million as compared to $83.7 million at the end of the first quarter of 2023, and resulted in a net leverage ratio of 1.98x as of March 31.

In light of our first quarter result and our current outlook for the rest of the year, we are reiterating our financial guidance for the full year 2024. For 2024, we continue to expect the following: net sales of between $620 million and $640 million, adjusted EBITDA of between $72 million and $76 million, free cash flow of between $35 million and $45 million. The assumptions behind our risk-adjusted guidance for the year are also unchanged and reflect organic growth of between 1.5% and 2.5% due to the new project launches, including the ramp-up of Hazel Park, offset by expected end-of-life projects, and slowing of macroeconomic demand in a few of our end markets.
With that, 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 Mig Dobre from Baird.

Joseph Michael Grabowski
Robert W. Baird & Co. Incorporated, Research Division

It's Joe Grabowski on for Mig this morning. I guess, my first question, 3% organic sales growth in the first quarter. Maybe how does that break down between -- you've got Hazel Park ramping up, you've got new customer and project wins, but then maybe some end market headwinds. How does kind of the moving pieces split out to get to the 3% organic sales growth you had in the first quarter?

Todd M. Butz
CFO, Secretary & Treasurer

Thanks, Joe. Yes. So when you look at the 3% organic growth, a big driver of that certainly is a continued strong CV market relative to the last year, and then powersports wins. We really started launching those in the back, in the fourth quarter of last year, and we've seen the benefit of it. You can see that a pretty significant year-over-year incremental lift in sales as it relates to powersports of 25-plus-percent in the quarter versus last year. So, it's really a new project wins, and the market itself is kind of behaving as we had expected in the first quarter. So there wasn't many surprises that occurred. In fact, I think things are, as we look forward, are really shaping up as we expected when we came up with guidance just a few months ago.

Jagadeesh A. Reddy
President, CEO & Director

Yes. Just to add to that, Joe, CV market is expected to be down over 10% this year. It's a huge testament to our commercial team and our operations teams that we're basically flat in CV in Q1 versus a market decline of 10% for the year, right. Similarly, powersports, as Todd mentioned, our significant wins and startups and ramp-ups in powersports are continuing to propel our sales forward in the quarter.

Joseph Michael Grabowski
Robert W. Baird & Co. Incorporated, Research Division

Great. Maybe I'm going to ask a similar question for the remainder of the year. Your assumption is that organic sales moderate a little bit the final 3 quarters of the year but stay positive in aggregate over the 3 quarters. So, again, as you look through the remainder of the year, how much do new project wins in Hazel Park offset maybe some, as you mentioned in the slide deck, some selective softening of end markets?

Jagadeesh A. Reddy
President, CEO & Director

Yes. I think that ag market, as an example, right, that demand in that market continues to be fluid. We do expect that uncertainty to continue the rest of the year. In terms of powersports, we feel pretty good about the trajectory of the ramp. And similarly, in access and construction, mostly it's access that we're seeing a good uptick in demand, and construction continues to be driven by mostly nonresidential and infrastructure demand even though the residential continues to be soft, right.

So given all those dynamics, right, we feel pretty good about these end markets. For CV in particular, we expect CV to soften somewhere as a market in the middle of the year and pick back up in Q4 as an end market. But given our product launches and ramp-ups throughout the year, we continue to expect to remain flat to last year in the CV end market.

Joseph Michael Grabowski
Robert W. Baird & Co. Incorporated, Research Division

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Okay. And if I could sneak in 1 more on EBITDA margin, really nice EBITDA margin from MSA. It looks like from the waterfall maybe mid-20% EBITDA margin from MSA. If you back out MSA, maybe 40, 50 basis points of year-over-year EBITDA margin improvement. So, maybe any headwinds in the quarter that maybe limited the core EBITDA margin expansion that maybe dissipate as we progress through the year?

Todd M. Butz
CFO, Secretary & Treasurer

I wouldn't call that any headwinds in remaining non-MSA core businesses. Also, let me remind you that MSA is fully integrated. So, yes, we're calling it out separately as we roll through the second quarter. Then we'll lap that and then we'll continue to show remaining core business margin expansion. Yes, MSA had a fantastic Q1, no doubt about that. At the same time, every single one of our other parts of the business continue to show margin progression. Even Hazel Park, yes, it was a slight headwind in Q1, but that's much better than the last couple of quarters last year. We continue Hazel Park to continue to get better. The rest of the businesses continue to expand margin. Sitting here, we feel very good about our core business and how we're performing and how we continue to expand margin and remain on track to our 14% to 16% margin target in the coming years.

Operator

The next question is from Vlad Bystricky from Citigroup.

Vladimir Benjamin Bystricky
Citigroup Inc., Research Division

Thanks for all the color here today. I thought the commentary and updates around the value-based pricing initiatives were quite positive. So, can you talk about -- is there a way to think about how much of your overall portfolio today has made that transition to value-based pricing and sort of the runway that you see for continued value-based pricing tailwinds going forward, if you will?

Todd M. Butz
CFO, Secretary & Treasurer

Yes. I would say, it really took root probably mid to third quarter of last year where we started really implementing that. It took us a while to get going, to be honest. So I would say that in the last 6 months or so, every new program win would be under that framework. So, a lot of those wins, we haven't really started producing those products. So that means we haven't really seen that impact in our margin profile.

So what that means is, less than 5%, I would say, or maybe 10% at max, is under that framework. It will take some time for rest of the business to catch up to that framework. These are annual wins that will continue to lap, and maybe it takes a couple of years for us to continue to implement that value-based pricing framework across our portfolio. Having said that, for 2024, we expect $1 million to $2 million of pricing -- price capture, a net of inflation. So it's a really good start, a net of inflation, $1 million to $2 million in this environment, is a pretty good start for us on that journey. And I expect that to continue to get better as we progress.

Vladimir Benjamin Bystricky
Citigroup Inc., Research Division

That's really helpful color. I appreciate it. And then, just on the capital allocation side, can you talk about the $7 million to $10 million of investment in high-return capital-light growth advancements that you've called out on the slide? Can you give some examples of what these investments entail and how we should think about the potential pace of these kinds of investments looking beyond 2024?

Todd M. Butz
CFO, Secretary & Treasurer

Yes, I'll give you a couple of examples. This year, in particular, we are focusing on cobots, right? Cobots are -- they are similar to robots, but they sort of work with humans a lot more flexibly than a regular robot. So when we think about automation, we're looking to deploy numerous instances where we could

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actually use a cobot, and that could eliminate not only a human operator, but also the cobot can run lights out 24/7. So, we're trialing that technology in multiple locations, in multiple plants, in multiple applications. That would be 1 example.

The second example would be, as we look to replace old equipment, we will look to automate, use newer technology, and continue to look for productivity improvements in terms of labor, but also in terms of capacity utilization. How can we run the machine 24/7 is really how we think about these automation investments. Many times, these are not expensive. A cobot, just the gear itself, is like $70,000, and fully implemented, maybe $100,000 to -- you push it $120,000, right? If that $120,000 cobot can eliminate 1 operator in 3 shifts, it's a quick payback. So that's how we think about these automation investments, and then continue to deploy automation to drive productivity and expand capacity.

Operator

[Operator Instructions] Our next question is from Ted Jackson of Northland Securities.

Edward Randolph Jackson
Northland Capital Markets, Research Division

Congratulations on the quarter. My kind of easy questions were all asked, or actually have been answered in your presentation, so let's ask more like kind of conceptual things. So let's start with MSA. And you did talk a bit about the customer cross-pollinization, but can you give us an update in terms of the capacity utilization at MSA today? I mean, when you bought the company, it was at 80%. You had about 20% of that to fill. Where does that stand now? When do you think you'd get that at 100%?

Jagadeesh A. Reddy
President, CEO & Director

Yes. When you think of MSA, initially that utilization rate was around that 80%. We've opened up excess capacity through our MBX over the last, let's call it, 3 quarters. So I would say today that's more like 70%. So it provides us even more opportunity to cross-pollinate that facility. Our pipeline remains very strong. We're very encouraged by the number of opportunities that we're seeing. And it unfortunately takes a little more time in some circumstances when customers model changeovers, and just their timing of launch doesn't always align with where we'd like it to see it. But generally speaking, everything there is really shaping up as we expected. And again, you can see by the performance in the quarter, they're all performing given our initial expectation. And a lot of that is surrounded by really adapting that MBX culture.

Edward Randolph Jackson
Northland Capital Markets, Research Division

Okay. Then getting away from MSA and also Hazel Park, the rest of your facilities, can you give us an update in terms of where utilization rates are in there and where you think you can get them in the next 1 year and 2 years?

Todd M. Butz
CFO, Secretary & Treasurer

Yes. As we discussed, Ted, Hazel Park will be a $100 million revenue plant for us in 2025. We have the demand to fill that plant, and we continue to ramp our product launches in the plant. And we are optimistic that we'll hit that target by end of this year going into 2025 to make Hazel Park a $100 million plant for MEC in 2025 and beyond. And after that, how much more can we expand capacity at Hazel Park with MBX and productivity initiatives? We'll focus on that once we get into 2025. But at this point, we're focused on ramping the plant to hit our targeted revenue for 2025.

Edward Randolph Jackson
Northland Capital Markets, Research Division

Jag, actually I was asking for the non-Hazel Park plants, the ones that you've been very upfront with regards to Hazel Park itself, although it does take a question. I think I recall with -- maybe it was, I think

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it was the last call, you were on track for $100 million, you had $75 million of what you expected to run through there, like in the books, and you had $25 million more to go. So just since we're on Hazel Park, is it fair to assume that you've kind of circled on the rest of that business that you needed to fill that plant in terms of your guidance? And then again, kind of more a question in kind of where is capacity outside of Hazel Park and MSA and kind of where you see the trend lines for that?

Jagadeesh A. Reddy
President, CEO & Director

Yes. We continue to fill that $25 million pipeline, if you will. Our pipeline is very strong. Going into 2025, I am confident that we will be able to fill that revenue gap in Hazel Park -- outside of Hazel Park, Ted. The demand continues to be strong. We continue to open capacity, even on push shifts. If you recall, we were full on push shifts. We were approximately 79% full on second shift and third and fourth shifts, right, much lower.

So, what we've done over the past year is to continue to open up capacity with MBX initiatives. We have done about 150 kaizen events in the last 12 months -- sorry, last 5 quarters. With all of those activities, we continue to expand capacity and productivity both on first and second shifts. So given that, we continue to go after new business for every single plant. I can't think of any plant that we're not able to fill at this point. So given even in a softer end market year, we continue to grow. That's a testament to our pipeline. That's a testament to the value we provide to our customers and our ability to continue to grow with not only existing customers, but also continuing to bring in new customers to MEC.

Edward Randolph Jackson
Northland Capital Markets, Research Division

So I have 1 more question, but before I ask it, I'm going to summarize what you just said to make sure I listened to it correctly. What you're telling me is that essentially I would say that maybe utilization rates today are not a good metric because your utilization, your capacity across your network of facilities is increasing as you're making them more efficient, which means that your fixed cost is staying the same. You're improving margins, but you even have more room for margin improvement as you fill this capacity because you have more capacity with the same fixed cost and you have a better runway in terms of realizing your goals as we think about your longer-term forecast. Is that kind of what you're telling me, Jag?

Jagadeesh A. Reddy
President, CEO & Director

I think you summarized it better than I could have, Ted. Just 1 more comment on that, right? Some of our large plants, such as Mayville and Defiance, have had just historically impressive volumes, revenues, and EBITDA margins and EBITDA dollars in our history of 79 years, right? So that's a testament to how we're continuing to put additional volumes into our plants, but also were able to take cost out and make these large, what we call as battleships, right, continue to be more efficient and being able to produce more.

And back to your point of, yes, it's the same fixed cost, right? If we can stuff more into some of these large plants, right, the drop-through is just incredible. So that's where majority of our MBX initiatives are focused on is to continue to expand productivity, expand capacity in some of our large plants so that we can show to our customers that we can take more volume, even when we're ramping up new capacity at Hazel Park, we continue to fill our existing plants with a lot more volume.

Edward Randolph Jackson
Northland Capital Markets, Research Division

Great. And now my last question, because I'm taking up too much time. I want to circle back to the M&A strategy and progress. And I know that in the ideal world, what you really want to do is pay off MSA, get the de-levering in place, and then be able to go and pick up whatever it might be, something in plastics, composites, or new customers in the existing businesses. That being said, when you think about M&A, it's not necessarily you get to pick your timing when your opportunities come, they come, then you've got to have to just sort of dance for the dance. Where are you in terms of your funnel? Is there anything that --

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you don't have to get into too much of specifics, but is there any chance that any of the opportunities that you are in discussions with or evaluating could come into play during this fiscal year and next? And that's my last question.

Jagadeesh A. Reddy
President, CEO & Director

Yes. Great question, Ted. We continue to prioritize debt reduction for 2024. As you've seen the free cash flow generation in Q1, we continue to focus on inventory reduction, improving inventory turns, reducing our working capital. With all of these activities, we're confident that we can reduce our debt and our leverage by end of this year. We will target the low end of that range, to be honest, to get to before end of this year with our increased focus on free cash flow generation.

Having said that, we have not slowed down on our approaches, evaluations of potential M&A targets. We have a list of targets that what we call as must-dos. We will continue to engage with those targets. We'll continue to wait for the appropriate time for these transactions to materialize, but with the first priority on debt reduction to get down to 1.5x leverage by end of this year. As we approach that low end of that range, 1.5x to 2x as we laid out, we will get more active in terms of what we can do next with our M&A capacity.

Having said all that, the chance of a transaction closing in 2024 is small. You never say never, but it will be small because we're laser-focused on our debt reduction. But we will continue to engage with potential targets. We will continue to look for ways to fill our skills gap and our offerings to our end customers.

Edward Randolph Jackson
Northland Capital Markets, Research Division

Congrats on the quarter, and I was impressed with your free cash flow. I mean, I kind of like free cash flow. Talk to you later.

Operator

The next question is from Tim Moore of EF Hutton.

Timothy M. Moore
EF Hutton LLC, Research Division

I just want to reiterate, it's always nice to see free cash flow, and it's really what I think stocks are based on in the long-term. So, great work there. It's nice to see an organic sales growth be to maybe 2%. Powersports is very impressive. Jag, I was wondering maybe if you can give 1 or 2 examples of maybe wins over the last year or so or incremental work from current customers where you're doing more of the value-added steps in the processes like painting, coding, and tackling some more of the complex assemblies, which are higher margin. Do you remind me -- if I think from maybe a year ago when we met up for lunch, I might have written this down wrong, but I thought maybe like 75% of your value-added steps -- processes were being done at only 2 of your

Plans. Is that still the case? And kind of what's the plan for that?

Jagadeesh A. Reddy
President, CEO & Director

Thanks for the question, Tim. We continue to look for opportunities where we can do more complex fabrications for our customers. We continue to look for where we can do more, whether it is finishings, sub-assemblies, logistics, aftermarket. So, all of those activities is something at the forefront of our commercial processes and approaches. So I would say that every single opportunity that we look for, and more importantly, one in our prepared remarks where we talked about quite a number of wins in the quarter, I would say pretty much all of them have multiple offerings, not just metal fabrication, but also finishing and sub-assemblies, et cetera. So, every opportunity we look for will continue to have a lot of value addition, and that's how we can show to our customers that we're the preferred supplier to our end markets.

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Timothy M. Moore
EF Hutton LLC, Research Division

That's helpful. Maybe just switching here to kaizens, which never stops -- continuous improvement definition, but it seems like -- have you uncovered a noticeable amount of extra capacity or maybe worker shift optimization in a major tour to all the plants the past year. I've got to imagine some of those supervisors and managers we met a year ago were thinking they were at full capacity, but they weren't. I'm just wondering if you could talk about that for maybe incremental margins and unlocking capacity.

Jagadeesh A. Reddy
President, CEO & Director

As I just talked about, Defiance and Mayville as an example, we continue to find great opportunities to reduce our labor content, increase our capacity, and continue to grow in every single plant. So, a lot of that comes from our focused efforts in operations to standardize, to take cost out, and have really good discipline, whether it's lean daily management, whether it is the supervisors and the ops managers and the plant managers running kaizen. Me and my leadership team, we spent 2 weeks ago a full week on the plant floor. I was in jeans and steel toe shoes and safety glasses all week working on a plant kaizen where we moved machines around, we relaid out the workflow, we did time studies. And in the end, each shift needed pre-kaizen, each shift needed 3 operators post-kaizen. We were able to consolidate all the steps, and we were able to eliminate 1 operator and we can still run the cell more efficiently, more throughput than pre-kaizen with only 2 operators.

I mean, that is the focus that we have in every plant and every cell. We're driving that level of discipline. So, we did 6 kaizens during that week in Wisconsin. I won't give you the numbers, but a significant amount of savings that we were able to unlock. But at the same time, the key is not what we did during that week, Tim, as you know. The key is to sustain those savings for the rest of the year and then beyond. So, we have also put in pretty disciplined processes where we're able to monitor those savings on a monthly basis. And if they continue to remain strong, we'll continue to monitor. If they fall back, then we have countermeasures to get those savings back online.

So, it's a very focused effort across the company. And I'm really proud of our MBX team. I'm really proud of the entire MEC team who is energized by our MBX program, but more importantly, driving day-to-day, not just when me and the leadership team are on the plant floor, but day-to-day driving improvements, and that's reading out in our results.

Timothy M. Moore
EF Hutton LLC, Research Division

Great, Jag. That's really helpful. I'm going to save my final 3 questions for offline when we talk in an hour, but thank you.

Operator

We have no further questions. I'd like to hand back to Jag Reddy for closing remarks.

Jagadeesh A. Reddy
President, CEO & Director

Once again, thank you for joining our call. We appreciate your continued support of MEC, and we look forward to updating you on our progress next quarter. 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
This concludes today's call. Thank you for joining. You may now disconnect your lines.

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