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Earnings Call

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CALL PARTICIPANTS	2
PRESENTATION	3
QUESTION AND ANSWER	7

Call Participants

EXECUTIVES

Jagadeesh A. Reddy
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Natalia Bak

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*William Blair & Company L.L.C.,
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ATTENDEES

Stefan Neely

Presentation

Operator

Good morning. Thank you for attending today's Mayville Engineering Company Second Quarter 2024 Earnings Conference Call. My name is Tamia, and I will be your moderator for today's call. [Operator Instructions].

I would now like to pass the conference over to your host, Stefan Neely with Vallum Advisors.

Stefan Neely

Thank you, operator. On behalf of our entire team, I'd like to welcome you to the Mayville Engineering Second Quarter 2024 Results Conference Call. Leading the call today is MEC 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 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. During the second quarter, we continued to demonstrate strong strategic execution, which drove robust net sales growth, margin expansion and free cash flow conversion. During the quarter, our team successfully executed on new project start-ups in our commercial vehicle and powersports and markets. These new projects grow nearly 7% year-over-year organic sales growth well above the growth trends in our end markets. Our teams continue to focus on implementing our MBX lean initiatives drove \$0.9 million of year-over-year self-help adjusted EBITDA improvement during the second quarter. Since the beginning of the year, our structured approach to operational excellence and lean manufacturing has resulted in approximately \$2.5 million of sustainable year-over-year margin improvement.

As we move into the second half of the year, our team's continued successful execution on key commercial growth and operational excellence initiatives combined with improving utilization at our Hazel Park facility will be important catalyst for outperforming our end markets. While customer demand remains steady throughout the first half of the year, our customers' outlook for the second half of the year has softened in a few of our key end markets. However, with our robust strategic execution, combined with our market share gains, we continue to expect that we will deliver growth for 2024. With that in mind, we are reiterating our 2024 financial guidance for net sales and adjusted EBITDA, which projects full year net sales growth of between 5% and 9% and growth in adjusted EBITDA of between 9% and 15%.

As it relates to free cash flow, our strong performance in the first half of the year has outpaced our expectations. As a result, we are increasing our expected full year 2024 total free cash flow guidance to between \$45 million and \$55 million. Turning now to a review of market conditions across our primary end markets. Let's begin with our commercial vehicle market, which represents approximately 37% of our trailing 12-month revenues. During the second quarter, commercial vehicle revenue increased by 10.8% on a year-over-year basis. This is primarily due to strong strategic execution on new project launches and strategic pricing initiatives, which more than offset a 0.3% decrease in North American Class 8 production during the quarter.

Currently, ACT Research forecasts that Class 8 vehicle production to decrease 9.4% year-over-year in 2024 to approximately 308,000 units. ACT expects build rates to soften materially in the second half of the

year, declining 17% in Q3 and 23% in the fourth quarter. For MEC, we expect our new CV project launches to continue ramping into the second half of the 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 1% compared to 2024 and having continued growth of 11% from 2025 to 2026, which supports our organic growth expectations for the next 2 years.

Next is the construction and access market, which represented approximately 17% of our trailing 12-month revenues. Construction and access revenue increased 2.7% on a year-over-year basis in the second 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 due to infrastructure related equipment demand and ongoing new customer wins. The powersports market represented approximately 18% of our trailing 12-month revenues and increased by 26.3% on a year-over-year basis in the second quarter. We continue to benefit from market share gains, which include new customer programs on high-end models and were modestly offset by softening consumer discretionary demand.

As we have stated in the past, we believe that our growth rate in this end market will slow relative to the prior year comparisons, but the momentum from our market share gains in this end market will continue to drive growth for the year. Our agricultural market represented approximately 9% of trailing 12-month revenues and increased 8.9% on a year-over-year basis during the second quarter. Our second quarter results for this end market reflect contributions from the MSA acquisition, offset by softening demand within our legacy large Ag market. The outlook for Ag has been increasingly uncertain due to the impact of lower crop prices and elevated inventory levels. Given this uncertainty, we expect our markets to be soft in the second half of the year, but still outperformed the overall ag market due to market share gains with key customers.

Overall, our second quarter net sales growth included nearly 11% growth associated with the Mid-States Aluminum acquisition, which closed early in the third quarter of last year. The majority of MSA revenues are represented in our other end markets. For 2024 as a whole, we continue to see MSA generating between \$20 million to \$30 million of incremental net sales. On the commercial front, we continue to build our momentum, cross-selling MSA's capabilities to our existing customers. We expect that these efforts will be significant catalysts for above-market growth in 2025. On the pricing front, our team's efforts continue to bear fruit, particularly as new project volumes ramp up. During the second quarter, our commercial pricing initiatives drove \$0.6 million in incremental adjusted EBITDA year-over-year, net of inflationary pressures. We continue to target between \$1 million and \$2 million of adjusted EBITDA growth from our pricing initiatives through the end of the year.

Turning now to an overview of substantial new business wins during the second quarter. We have continued to gain additional market share with our commercial vehicle customers as they plan their vehicle updates going into the emission regulation changes. We expect to continue to grow share over the next 2 years with the amount of change that is expected to occur. During the second quarter, we continued to expand share with one of our new powersports customers supporting their next-generation product lines. These wins support additional growth over the next year and expect additional organic opportunities in the quarters ahead. In the quarter, we expanded share within our primary military customer, expanding share on current product, bringing us additional diversification across platforms.

During the quarter, we received multiple awards for engine 2 products in the agriculture market driven by model updates based upon regulatory emissions changes that will be occurring in the years ahead. We also grew share with one of our industrial customers, supporting material handling equipment in the quarter as they look to launch new products into the market. As part of our ongoing strategic success, our operations team has continued to build momentum with the execution of our MBX framework on the culture of continuous improvement that has begun to permeate the company. These initiatives have been driven by our rigorous approach to MBX lean implementation highlighted by over 200 MBX kaizen events since launching the MBX program in late 2022.

In summary, the execution of our commercial and operational excellence initiatives has been quite successful as represented by our financial performance thus far in 2024. These results give us further

confidence in our ability to drive ratable improvements to our financial profile and deliver sustainable long-term shareholder value. As you will recall, we expect to deliver between \$750 million and \$850 million in revenues, expand adjusted EBITDA margin to between 14% and 16% and generate free cash flow of between \$65 million and \$75 million by the end of 2026. Given our strong strategic execution, it is evident that we are making meaningful progress toward achieving these goals. In terms of capital allocation, our strong free cash flow generation has allowed us to reduce our net leverage by nearly 1 turn over the course of the last year. At the end of the quarter, our net leverage ratio stood at slightly below 1.7x.

Given the strong year-to-date cash flow generation, we now expect to be at the lower end of our targeted net leverage ratio range of between 1.5x and 2x by the end of 2024. Additionally, during the second quarter, we repurchased \$1 million worth of common equity under our \$25 million share repurchase program with \$24 million remaining under the existing authorization. Going forward into the second half of the year, we intend to repay additional debt in order to further reduce our cost of capital. Additionally, we're also actively evaluating a more structured approach to our share repurchase strategy, which aligns with our existing authorization. Strategic M&A has always been a key part of our multiyear growth and business transformation strategy. Our top priorities include lightweight materials fabrication and complementary bolt-on acquisitions of accretive assets.

As we have been making solid progress towards our leverage goal, we are increasing our focus on evaluating key opportunities to build on our market-leading capabilities and further position the company to capitalize on multiyear secular growth trends in energy transition and OEM outsourcing. Ultimately, we are taking a philosophical approach to capital allocation that is centered on deploying capital in a manner that creates the greatest return for the company and for our shareholders. We believe the highest opportunities for return are through debt reduction, strategic M&A and share repurchases and will continue to allocate our capital prudently based on these opportunities. In summary, I am very proud of our team's ongoing commitment to excellence and strategic execution. Their hard work and commitment have positioned us to navigate the impending softening of end market demand and to deliver above-market growth with sustainable value creation both in the near term and over the coming years.

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 second quarter financial performance, followed by an update on our balance sheet and liquidity. Total sales for the second quarter increased 17.7% on a year-over-year basis to \$163.6 million. This increase was driven by a combination of the MSA acquisition, strong strategic execution and continued organic sales growth, partly offset by ongoing softness in our legacy agricultural end market and the expected roll-off of certain military aftermarket programs at the end of 2023. When excluding the MSA acquisition, organic net sales growth was 6.9% on a year-over-year basis. Our manufacturing margin was \$22.3 million in the second quarter as compared to \$15.1 million in the same prior year period. The increase was primarily driven by organic volume growth, execution of our MBX leading manufacturing initiatives, commercial pricing and the acquisition of MSA.

Our manufacturing margin rate was 13.6% for the second quarter of 2024 as compared to 11.6% for the prior year period or an increase of 200 basis points. Other selling, general and administrative expenses were \$8.3 million for the second quarter of 2024 as compared to \$7.4 million for the same prior year period. This increase was primarily driven by an additional \$500,000 of legal expenses relating to our former business customer, incremental expense associated with MSA and increased costs related to compliance requirements. Interest expense was \$3 million for the second quarter of 2024 as compared to \$2 million in the prior year period due to higher borrowings under our credit facility. The increase in borrowings is due to the acquisition of MSA, which closed on July 1, 2023.

Our focus on reducing our debt leverage, combined with strong free cash flow through the second quarter of 2024, has allowed us to achieve our net leverage goal of between 1.5 and 2x, which is ahead of our year-end target. Going into the second half of the year, we will continue to repay debt in order to reduce our interest expense, which is variable based on net leverage. Adjusted EBITDA increased to \$19.6 million

versus \$15.3 million for the same prior year period. Adjusted EBITDA margin increased by 100 basis points to 12% in the current quarter as compared to 11% for the same prior year period. The increase in our adjusted EBITDA margin was primarily due to the increased organic volume, the MSA acquisition, MBS initiative and the benefit from our commercial pricing activities. Our second 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 balance sheet. Free cash flow during the second quarter of 2024 was a positive \$19.2 million or \$0.94 per share as compared to a negative \$3.7 million in the prior year period. The improvement in free cash flow year-over-year was due to improved working capital efficiency, resulting from our MBX initiatives and a onetime \$17.6 million payment of deferred compensation expense in the second quarter of last year. Our strategic execution has been the primary driver of our improved free cash flow conversion thus far in 2024. As a result of our MBX [win] initiatives, our day sales outstanding and inventory days have both declined by more than 15% as compared to a year ago. As of the end of the second quarter of 2024, our net debt, which includes bank debt, financing agreements, finance lease obligations and cash and cash equivalents was \$125.1 million as compared to \$89.7 million at the end of the second quarter of 2023.

Our debt reduction resulted in a net leverage ratio of slightly below 1.7x as of June 30 and will provide for a 30-basis point rate reduction in the third quarter. In light of our second quarter results and our current outlook for the remainder of the year, we are reiterating our financial guidance for net sales and adjusted EBITDA, while increasing our financial guidance for free cash flow. For 2024, we continue to expect the following: net sales of between \$620 million and \$640 million and adjusted EBITDA of between \$72 million and \$76 million. For free cash flow, we now expect full year free cash flow will be in the range between \$45 million to \$55 million as compared to our original expectations of between \$35 million and \$45 million.

Our outlook for the full year continues to reflect a risk-adjusted view of overall demand for the second half of the year. During the first half of the year, we have experienced strong growth and margin realization through our strategic execution. However, as Jag mentioned, we have seen softening demand in some of our end markets, particularly commercial vehicle, powersports and agriculture. These end market dynamics are in line with the risk-adjusted view of the year, even as our growth in execution during the first 2 quarters outpaced our expectations. Overall, when combined with evolving end market dynamics, our guidance continues to reflect organic net sales growth as compared to 2023 of between 1.5% and 2.5% due to new product wins.

With that, operator, that concludes our prepared remarks. Please open the line for questions as we begin our question-and-answer session.

Question and Answer

Operator

[Operator Instructions]. The first comes from Mircea Dobre with Baird.

Mircea Dobre

Robert W. Baird & Co. Incorporated, Research Division

Congratulations to the team on really good performance and champion environment. So that's great to see. My first question is on the free cash flow guidance. And Todd, maybe you can help me better understand what content you to raise that guidance even though the other elements have stayed unchanged. Is this just a function of kind of converting some of that inventory into cash. Are there any other working capital items to be aware.

Jagadeesh A. Reddy

President, CEO & Director

I'm going to quickly pass on to Todd here. But I just want to reiterate that our sustained efforts in continuing to drive MBX across our enterprise that's in both operations and the rest of the functions and driving better days in payables, better days in receivables, inventory reduction, better forecasting, SIOP implementation, all of these actions that we've been pursuing for the last 1.5 years has shown in the first half, what the power of MBX is and that is really what gives us the confidence to raise our guidance for the year.

Todd M. Butz

CFO, Secretary & Treasurer

Joe, to Jag's point, it really is driven by the MBX initiatives. I mean if you look back 12, 18 months ago, we were at 6x terms, rather. Today, we're at just overnight as we finished second quarter. In addition to that, we've been working very hard on our terms and conditions with customers, our collection efforts, I mean across the board, it's been very, very positive. So, when we look into the back half of the year, which historically to Q4, our fourth quarter is one of our strongest cash flow quarters, we do expect now that, again, be in that range of \$45 million to \$55 million. And that's why we feel confident that we can achieve that and therefore, we raised the guidance.

Mircea Dobre

Robert W. Baird & Co. Incorporated, Research Division

But again, looking back historically here, I think in 2021, you had a big cash drag from an inventory build kind of search into my memory here, I think that might have had something to do with challenging supply chain and all the disruptions that existed in the industry at the time. My real question here, is there room to improve on the performance that you're delivering this year? Should we expect another you made a \$5 million worth of potential release of working capital as we can going forward.

Jagadeesh A. Reddy

President, CEO & Director

So, when you think of 2021, it was supply chain, we're also building inventory for the expected launch of our former Fitness customer. So, a bit of a unique gas situation there. As we move forward, definitely this year, we do expect to unlock continued working capital, whether it be through receivables, payables, our payments as well as inventory. But I will note that, that rate of progression will moderate a bit when you think of going from 6x or 6 turns rather than 9, there's a lot of, let's say, low-hanging fruit that we can get after going from 9 to 10 or 10 to 11 is a little more difficult. Now we still remain confident we can achieve that, but it will take a little more time to do it. But in the near term, we do expect in the next 6 months that we'll continue to see good working capital progression and favorable free cash flow.

Mircea Dobre

Robert W. Baird & Co. Incorporated, Research Division

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Two questions on end markets. I guess the first one is on commercial vehicles in your prepared remarks, you talked about the sort of hear into the third and the fourth quarter. But as I understood it, you said that you still expect to be flat year-over-year from a revenue standpoint in commercial vehicle. I'm curious as to what gives you the confidence that you're going to be able to hit that guide. And I understand that you all perform relative to build by about double digits in Q2, but the degree of outperformance, especially as we look into Q4 relative to build would be much more significant than what you've done thus far. So, is it that these customers are ramping through the year? These new contracts are ramping through the year? Or is there something else to be aware of here?

Jagadeesh A. Reddy

President, CEO & Director

On commercial vehicles, the first half, our customer bills outperformed our expectations. And we do expect the second half our customers to slow down their build rates. And that's what we have planned from the beginning. Our confidence in hitting our forecast for second half really relies on our customers build the right projections and ACT forecasts are 308,000 vehicles for the year, given that even though we do expect some softness in the deceleration of build rates, given our new program launches and some of the share gains we've been talking about, those increased sales to our end customers gives us confidence that we can hit our forecasted targets.

Mircea Dobre

Robert W. Baird & Co. Incorporated, Research Division

But to be clear here, you expect to be flat revenue in commercial vehicle, even in the fourth quarter on a 23% build decline?

Jagadeesh A. Reddy

President, CEO & Director

Let me reiterate. We expect to be flat for the full year in 2024 to 2025 results in our CV market.

Mircea Dobre

Robert W. Baird & Co. Incorporated, Research Division

And then finally, on agriculture. You already mentioned that large agriculture is under pressure. I think small Ag is under pressure as well, and there's pretty material production costs that are coming across from old OEMs somewhere in the high 20s, low 30s in some cases. So, I'm curious here as to how you think about this vertical specifically, especially as you differentiate between Q3 and Q4 because the pressure on build rates seems to be varying between these 2 quarters by OEMs. So based on your customers, I'm curious as to how you're looking our progression.

Jagadeesh A. Reddy

President, CEO & Director

That's a good question, Mig. We expect the overall ag market to be down mid-teens based on the programs we're on and the visibility we currently have, that breaks down approximately 15% of so for large ag and approximately 10% or so for the small ag, that's for the end market. For us, we're currently projecting we're going to be down for the year approximately 5% overall. That's because of some share gains we talked about. There is also lapping of some MSA ad revenues that came into the first half. If you put all of that together, year-over-year, we will be down approximately 5% in the ag end market. But also, let me remind you that overall, ag is only approximately 9% to 10% max of our overall sales. It is still one of our smaller end markets, slightly larger than our military market, which is approximately 6%. So even though the headlines, we see the headlines, we read our customers' public comments. But given where we are in the cycle, given our program wins, given our share gains, we feel like we can continue to outperform the agricultural end market.

Mircea Dobre

Robert W. Baird & Co. Incorporated, Research Division

If I can squeeze one more. On the military. Just as a quick reminder here, is your exposure in military predominantly on the JLTV or are there other programs that you have in there as well?

Jagadeesh A. Reddy
President, CEO & Director

So, we have JLTV, FMTV are the 2 main programs we're on.

Operator

The next question comes from Ted Jackson with Northland Securities.

Edward Randolph Jackson
Northland Capital Markets, Research Division

Congrats on the quarter, guys. I got a handful of questions; I'll try to run through really quick. First of all, on the commercial vehicle, when you were giving the market data for growth, I caught the 11% growth with regards to 2026, but I missed what you said for 2025. Do you have that in your head, Jag?

Jagadeesh A. Reddy
President, CEO & Director

We expect the 2025 to be approximately 1% up versus 2024.

Edward Randolph Jackson
Northland Capital Markets, Research Division

And then when I think about that, I mean, that's market data, you would expect at a minimum to grow in line with market. So, I'm not saying that that's your guidance. I'm just saying like if the market data and the projections hold true, that it would stand to reason that you would expect to see some modest growth in commercial vehicle in '25?

Jagadeesh A. Reddy
President, CEO & Director

Even though obviously, we're not providing any guidance for 2025. With that caveat, we expect to outperform the commercial vehicle market in 2025.

Edward Randolph Jackson
Northland Capital Markets, Research Division

My second question goes over into the powersports market. You've just nailed it there. The market's as weak as anything you could imagine and the project wins for you have allowed you to pull through on that. When we finish off this year and get into '25, is there more stuff that would allow you to continue to, let's just call it, outperform market? I'm not going to ask for you to talk about market share kind of market growth and stuff. But would you view '25 of being an arena where you would grow more in line with the market? Or is there still some tail from all the new activity that you brought through your business in '24 that will carry forward into '25 and allow you to continue to, say, grow faster than that market in aggregate? Because you're ramping a lot of this stuff through this year and kind of like how does it tail into '25 is where I'm going with this?

Jagadeesh A. Reddy
President, CEO & Director

So, the discretionary nature of significant spend in the market and the interest rates have had an effect on customer purchases. At the same time, our customers have built up significant inventory in the channels as well. It's been a really great first half for us in powersports market as we ramp up new customers. We do expect the second half to moderate a bit our growth rates in the market. We will still grow and outperform the market. It will be interesting to see what happens with interest rates and channel inventories with our customers as we go into 2025. There is a good possibility that we will outperform the

market even in powersports next year. But sitting here, it's a little challenging to predict, how that is all going to play out, given the interest rate environment we're currently in.

Edward Randolph Jackson

Northland Capital Markets, Research Division

I listened to all those calls, and there's -- I mean, the new product stuff they talk about is nice, but the market itself is just horrible. A question that I think will come close to your heart, Jag, and maybe somewhat fun. I want to maybe to have you unpack a little bit about where you are in your journey for value-based pricing. You highlighted a lot. You've talked about how it's improving your margin structure. So, if we think about MEC and the revenue base that it has, maybe how much of your revenue have you converted over to this new pricing model? And how far can you take it, kind of what do you see it in terms of the trajectory as we roll through '25 and beyond?

Jagadeesh A. Reddy

President, CEO & Director

As we indicated last time, Ted, probably 15%, maybe less than 20% of our total sales are probably under the quote unquote new pricing regime, i.e., value-based pricing. So that gives us a good 3- to 4- to 5-year runway to continue to convert existing core business to the new pricing model. So, it's going to have some legs at the same time, right? It's going to take some time as well. And it's both positive as well given that we can continue to leverage our pricing for the foreseeable future.

Edward Randolph Jackson

Northland Capital Markets, Research Division

My last question for you all is just maybe an update on the sports equipment litigation, where are you with regards to that process, maybe any change in terms of how you see it in terms of its resolution? Just an update on that front.

Jagadeesh A. Reddy

President, CEO & Director

The discovery process continues with the litigation, and we expect the discovery phase to conclude in Q3 and anticipate potentially a trial to big in either later this year or early 2025. We remain confident in a positive outcome for MEC. Beyond that, we will not comment on the pending litigation.

Edward Randolph Jackson

Northland Capital Markets, Research Division

Congrats again on the quarter. I'll talk to you guys soon.

Operator

The next comes from Ross Sparenblek with William Blair. The following question comes from Natalia Bak with Citigroup.

Natalia Bak

Congrats on the quarter. This is Natalia Bak on perhaps Andrew Kaplowitz from Citigroup. So, my first question that I want to ask is with leveraging out below 1.7 turns and you're raising your free cash flow guidance for the year, how are you thinking about the potential for incremental M&A activities? So, what impact does recent market volatility and current macroeconomic uncertainty, how you and [before] think about M&A in the current environment?

Jagadeesh A. Reddy

President, CEO & Director

It's a really good place to be Natalie. We are ahead of our schedule on our debt repayments. And as interest rates work in our favor, as we indicated, 30 basis points of interest rate reduction in Q3 for us given our leverage ratio and potentially future interest rate cuts by Fed gives us confidence that we can

continue to pursue our capital allocation strategy. As indicated in our prepared remarks, we will put together a structured buyback program as well as we continue to reengage with potential M&A targets. Our pipeline remains strong, and we continue to stay close to the market. Given that the multiples have remained consistent, we expect to pursue some attractive targets in our adjacent markets to beef up our offerings to our end customers, either in lightweight materials, energy transition and other attract to end markets that will also help us with the diversification in our end markets.

Natalia Bak

And then just turning on your construction and access end market, can you remind us of your mix of exposure to resi versus risk commercial construction equipment? And how are you thinking about trends in resi versus commercial impacting your outlook for the construction portion of your business going forward?

Jagadeesh A. Reddy

President, CEO & Director

I don't think I can break down on the call resi versus infrastructure. We have not given that breakout in the past. Having said that, our access versus construction is approximately 45% to 55%. That's the breakdown. In construction, we are seeing some modest signs of growth in our resi exposure to market and infrastructure, particularly the development and public infrastructure could be a tailwind in the second half of 2024. But we need to watch our OEM inventories in the channel and then see how that continues to translate into sales and production for our end customers. Access market, though continues to be strong. Our access customer has strong backlog, which we expect to support our 2024 forecast.

Natalia Bak

And then just focusing on powerstores. Can you just talk about what you're seeing, hearing from more of your consumer-facing customers in the end market?

Jagadeesh A. Reddy

President, CEO & Director

All of our end market customers have both consumer-facing products and also what we call as utility products. The utility demand has been stable and strong. We have gotten on new platforms and programs with multiple customers. As we discussed last time, we brought on some new customers to make this year. All of that is helping us stabilize and grow in this end market with a pretty sizable contraction in actual end market sales. We see that discretionary spend, i.e., the recreational side of the market continues to be soft, and our customers continue to have excess inventory in the channel. We all can see the marketing programs that are running to clear the channel inventories. So, we'll have to see how it plays out. And our expectation is that if there is any movement in interest rates in the coming quarters, that will only be a tailwind for us either in Q4 or going into 2025.

Natalia Bak

And then one last question for me. You mentioned how the continued ramp-up of new project work should help offset some of the expected softness in a few end markets in the second half. So maybe can you talk about how these new projects should help flow through the P&L over the coming quarters? And how we should think about that potentially impacting top line and reported profitability over the next few quarters?

Jagadeesh A. Reddy

President, CEO & Director

So, when you think about the markets, right? We've said on the last call, we've made significant gains in powersports. We made significant gains in CV, which will, again, offset or mitigate some of the declines that we're seeing on the end market demand. On the top line, given that CV is 38% of our overall sales, we do expect sequentially going from second quarter to third quarter, we will see about maybe 6% to 8% decline in top line revenue versus a 20-plus percent decline in that CV market alone. And then when you look at Q4, more of a modest decline, maybe 1% to 3%. From a P&L perspective, the fundamental building blocks that we've put in place already as it relates to MBX, other lean initiatives on commercial

pricing are there, right? And they're really -- you can see the result in Q1 and Q2 to have a very positive impact on our bottom-line financial performance.

But as you enter the second half, given that CV does have a pretty sizable downturn that will impact some of our larger facilities. So, we will have a little bit of maybe a tempered margin progression in the second half as these facilities would be slightly underutilized due to overhead absorption. But generally speaking, when we think about margin progression in our 14% to 16% goal, we feel we have the pieces in place to build upon the continued margin progression even in a down market, albeit it will be very tempered, I would say, in Q3 and Q4.

Natalia Bak

Congrats on the quarter, and thank you for taking all my questions.

Operator

The final question comes from Ross Sparenblek with Wiliam Blair.

Ross Riley Sparenblek

William Blair & Company L.L.C., Research Division

You can hear me, apologies for technical difficulties there. Maybe sticking on the margins, as we think about the second half being a little bit softer on the end market, but you have done excellent work with MBX. What would expectations be for maybe decremental given the work that has been done if it's maybe a little bit worse than expected in the second half of the year?

Todd M. Butz

CFO, Secretary & Treasurer

No, I wouldn't characterize -- I think the decremental will be a little bit -- our historical decremental is around 17.5%. And I would say that we're at or maybe slightly below that as we stand today. I would expect and we do expect to continue to see the positive impact of MBX and commercial pricing and other initiatives in the second half. But like I just mentioned, that will buffer, be mitigated by, unfortunately, the pressure of underutilization in a few of our larger facilities. But generally speaking, I would expect margin progression to continue in Q3 and Q4, but at a much lower pace than what we saw from Q2 to Q3.

Jagadeesh A. Reddy

President, CEO & Director

Just to add to that, Ross, we are actively looking at all the levers we have at our disposal as we expect the volumes to come down, particularly in some large facilities and significant operations, we're looking at every level, including cutting back on over time, really following strict checkbook processes to make sure that our variable spend is down. We're looking at resizing our workforce in a couple of our facilities that are either seeing or expected to see some significant volume reduction. So, we're taking all the actions necessary for the second half for us to continue to drive the revenue and margin progression as we laid out.

Ross Riley Sparenblek

William Blair & Company L.L.C., Research Division

And then maybe just on capacity. When we think about excess, I think maybe there's \$10 million left to go get a Hazel Park, but just a company as a whole, where do you guys stand in the day? And how should we frame all the wins in the second quarter as more contributing in the next 4 quarters, the revenue trying to support that outcome.

Jagadeesh A. Reddy

President, CEO & Director

So, the first point I would add is, we are continuing to make good progress with the ramp-up of Hazel Park. That gap that you highlighted, we continue to work that gap down. The pipeline that our sales team has developed is really strong, and we are continuing to focus on closing those opportunities to be able to

add to that gap that you mentioned. So, sitting here, we feel pretty good about our exit rate out of Hazel Park in 2024.

Ross Riley Sparenblek

William Blair & Company L.L.C., Research Division

And then just one more if I can on Hazel Park. Is there anything that we should call out in the model as you think about the cadence of these 4 end markets ramping? Powersports is obviously having a good year this year. Is ag maybe a 25%, 26%? Or as you think, with that cadence that we should be aware of?

Jagadeesh A. Reddy

President, CEO & Director

I wish I could predict the ag market downturn or the duration of the downturn, right? We'll just have to watch it really closely. And then as we exit the year, we'll have a better idea where interest rates stand and where yields and crop prices stand at the end of the year. But also, I want to remind everyone that ag is only 9% of our overall business, right? Yes, the headlines are very negative, but at the same time, it's still a small portion of our overall business.

Ross Riley Sparenblek

William Blair & Company L.L.C., Research Division

So, the ramping of these programs isn't fully insulated from the overall market? Does it take away whereas powersports, it clearly is.

Jagadeesh A. Reddy

President, CEO & Director

Yes, I agree.

Ross Riley Sparenblek

William Blair & Company L.L.C., Research Division

Also, guys congrats in the quarter.

Operator

Thank you. There are currently no other questions at this time. I will pass it back over to the management team 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 counsel. This concludes our call today. You may now disconnect.

Operator

This concludes the conference call. Thank you for your participation. You may now disconnect your lines.

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