S&P Global
Market Intelligence

Mayville Engineering Company, Inc. NYSE:MEC

Earnings Call

Wednesday, May 7, 2025 3:00 PM GMT

CALL PARTICIPANTS	2
PRESENTATION	3
QUESTION AND ANSWER	7

Call Participants

EXECUTIVES

Jagadeesh A. Reddy
President, CEO & Director

Rachele Marie Lehr
Chief Financial Officer

ANALYSTS

Edward Randolph Jackson
Northland Capital Markets, Research Division

Natalia Bak

Ross Riley Sparenblek
William Blair & Company L.L.C., Research Division

ATTENDEES

Stefan Neely

Copyright © 2025 S&P Global Market Intelligence, a division of S&P Global Inc. All Rights reserved.

Presentation

Operator

Hello, everyone, and thank you for joining the Mayville Engineering Company First Quarter 2025 Earnings Call. My name is Sami, and I'll be coordinating your call today. [Operator Instructions]

I would now like to hand over to your host, Stefan Neely with Vallum Advisors to begin. Stefan, please go ahead.

Stefan Neely

Thank you, operator. On behalf of our entire team, I'd like to welcome you to our First Quarter 2025 Results Conference Call. Leading the call today is: MEC's President and CEO, Jag Reddy; and Rachele Lehr, our 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. Our first quarter results reflected the team's strong execution and operational discipline. This allowed us to deliver 12% sequential sales growth, margin expansion and positive free cash flow despite softer customer demand amid continued inventory destocking. Our team's commitment to the MBX framework, culture of continuous improvement and cost discipline contributed 140 basis points in sequential adjusted EBITDA margin improvement. These efforts to create a leaner cost structure allows us to operate more efficiently in this dynamic demand environment and create a platform to respond better when customer demand returns.

Rachele will discuss the outlook in more detail shortly, but I would like to mention that we are maintaining our full year guidance. Our outlook is driven by strong year-to-date execution and stronger-than-expected demand within our less cyclical Military and other end markets. That said, we are closely monitoring the evolving regulatory and macroeconomic environment, which could impact demand in the second half of the year. At MEC, we are proud to be the largest domestic metal fabricator with approximately 95% of our sales and 92% of our sourcing coming from within the United States.

As we await more clarity on the long-term direction of U.S. trade policy, our business is well positioned to remain highly competitive as policy shifts occur and should be relatively insulated from the direct impact of tariffs. Our domestic footprint also enables us to benefit from OEM reshoring activity, a trend that is being accelerated by the ongoing changes in U.S. trade policy. We have recently been engaged with numerous new and existing customers who are exploring options to reposition their supply chain. Given the dynamic nature of our current trade policy, we expect that this trend will take time to develop.

Turning now to a more detailed review of market conditions across our primary end markets. Let's begin with our commercial vehicle market, which represents approximately 38% of our trailing 12-month revenues. Net sales to this market were $50.9 million in the first quarter, a decrease of 13.7% versus the prior year period. Our net sales outperformed the broader commercial vehicle market by 300 basis points as evidenced by a reported 16.7% year-over-year decrease in North American Class 8 truck production

Copyright © 2025 S&P Global Market Intelligence, a division of S&P Global Inc. All Rights reserved.

according to ACT Research. Our outperformance was driven primarily by new project launches. As we look forward to 2025, ACT Research currently forecasts the Class 8 vehicle production to decrease 22.9% year-over-year in 2025 to approximately 256,000 units.

Uncertainty around the impact of tariffs, possible regulation changes and freight rates are expected to weigh on demand in 2025, pushing out the recovery into 2026. That said, both our current guidance and ACT's forecast for 2025 do not fully reflect the potential impact to the commercial vehicle demand that would result from a recession or the repeal of EPA emissions requirements. Looking out to 2026, the latest ACT forecast also continues to show full year production growing by 18.3% relative to 2025. This is driven by demand for new vehicles ahead of the deadline for compliance with EPA emissions regulations in 2027.

The Powersports market represented approximately 16% of our trailing 12-month revenues and decreased by 26.5% on a year-over-year basis in the first quarter. Performance during the quarter continues to be driven by customer channel inventory destocking and soft customer demand. This was partially offset by the impact of new project ramp-ups. Due to the current economic landscape and uncertainty around tariffs, we remain cautious on spend for high-ticket customer discretionary items.

Next is the Construction and Access market, which represented approximately 15% of our trailing 12-month revenues. Our Construction and Access revenue decreased 31.4% on a year-over-year basis in the first quarter. This reflects soft demand across both nonresidential and public infrastructure markets, partially offset by ongoing new customer wins. We are closely monitoring nonresidential and infrastructure demand trends if a better-than-anticipated economic environment or lower interest rates can drive a recovery in construction activity, we would expect demand to recover. We do see the risk that an economic downturn could possibly prolong the current softness that we are seeing in this end market.

Our Agricultural market represented approximately 8% of trailing 12-month revenues and decreased by 26.9% on a year-over-year basis during the first quarter. Our results reflect weakness in both large and small agricultural markets. The outlook for Ag remains increasingly uncertain as interest rates and inventory destocking have slowed demand. While Agriculture customers are farther along with inventory destocking than customers in other segments, the impact of trade policy on crop demand has created uncertainty for farmers and the outlook for equipment demand.

Turning now to an overview of substantial new business wins during the first quarter. Our team continues to execute well on our commercial growth initiatives and are already progressing well toward our annual goal of $100 million in new business wins. We have continued to expand our share with our commercial vehicle customers as they launch their next-generation models leading into the EPA regulation changes. Many of these products support future growth and will be launching in 2026 and 2027.

After some strategic wins last quarter, we continue to expand our market share with our access customer as they continue to evaluate their global supply base. Our U.S. manufacturing facilities located near the customer remains a key differentiator, consistently delivering the best value within their supply chain. In the quarter, we were able to secure a significant program update from our aluminum extrusions business, extending a multiyear contract. This project is priced utilizing our updated value pricing model, which will expand profitability over the life of the program.

Within our powersports market, we are seeing customers focus on introducing their next-generation products, which we expect will be a catalyst for additional commercial growth in the coming quarters. In the quarter, we secured multiple new model update wins with a primary construction customer as we further expand share with this customer across multiple product lines.

Our team's execution of the MBX framework continues to deliver measurable results. We have been focused on implementing pricing improvements and disciplined cost management to strengthen our overall financial profile. The effectiveness of our MBX initiatives is particularly evident in our working capital efficiency, which has resulted in consistent operating cash flow generation. During the first quarter, we generated $5.4 million in free cash flow, resulting in free cash flow conversion of 44% of adjusted EBITDA. This comes during a quarter where we typically experience net working capital pressure.

Copyright © 2025 S&P Global Market Intelligence, a division of S&P Global Inc. All Rights reserved.

Over the past few years, we have instilled lean manufacturing practices into our business, focusing on high-return, capital-light automation advancements, supporting our planned growth and improved efficiency. These enhancements, combined with our other MBX initiatives drove consistent profitability. This helped us execute on our capital allocation strategy, which prioritizes debt repayment, opportunistic share repurchases and strategic accretive acquisitions.

During the first quarter, our net leverage was 1.4x. Excluding any M&A activity, we expect to be below 1x net debt leverage by the end of 2025. Additionally, we repurchased $1.7 million of our common stock under our share repurchase program. Over the course of the last 2 years, we have returned $9.6 million of capital to shareholders through repurchases, totaling more than 646,000 shares. With more than $17 million remaining under the existing authorization, we remain committed to consistent share repurchases.

At a minimum, we plan to repurchase $5 million to $6 million to offset the dilution from our annual stock compensation awards. Beyond our minimum repurchase threshold, we will evaluate additional repurchases using a returns-based approach that takes into consideration opportunities to grow our business and create value through acquisitions. M&A remains a cornerstone of our value creation strategy as we seek to expand into high-growth adjacent end markets and diversify our customer base. Our team has cultivated a pipeline of acquisition targets that align with our strategic criteria. While we are actively pursuing these opportunities to build upon our market-leading capabilities, we remain disciplined and committed to driving long-term shareholder value.

In summary, I am extremely proud of our team's strategic execution as seen by our strong first quarter performance. We have adapted to shifting end market demands by recalibrating our cost structure and improving our operational efficiency. As the largest vertically integrated value-added manufacturing partner in the U.S., we offer a comprehensive suite of solutions that make us a true one-stop partner. We support our customers throughout the entire product life cycle from concept to full-scale production.

With a strong presence in the industrial heartland and robust end-to-end capabilities, we are uniquely positioned to support OEMs accelerating their onshoring efforts in response to shifting U.S. trade policies and the global rebalancing of supply chains. Despite a dynamic and uncertain macroeconomic environment, I remain confident in our ability to expand market share, capitalize on emerging tailwinds such as domestic manufacturing incentives and tariff structures and maintain disciplined execution.

Importantly, as we continue to work closely with our OEM partners, we remain acutely focused on monitoring macroeconomic and regulatory developments across our end markets. In anticipation of potential demand shifts, our teams have developed a comprehensive set of contingency plans that can be deployed swiftly to preserve profitability and operational agility. These plans include flexible production scheduling, targeted fixed cost reductions and the consolidation of certain manufacturing processes to improve efficiency. Should we begin to see material regulatory changes or recessionary pressures, we are well positioned to take decisive action to manage through the cycle while safeguarding our margin profile. Our continued focus remains on driving consistent profitable growth and creating sustainable long-term value for our shareholders.

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

Rachele Marie Lehr
Chief Financial Officer

Thank you, Jag, and good morning, everyone. Total sales for the first quarter decreased 15.9% year-over-year to $135.6 million. This decrease was due to softer customer demand across the majority of the company's key end markets and customer channel inventory destocking. This is partially offset by volume from new projects in our other end market and increased aftermarket demand in our Military end market.

Our manufacturing margin was $15.3 million in the first quarter as compared to $20.9 million in the same prior year period. The decrease was primarily driven by the corresponding decrease in net sales. Our manufacturing margin rate was 11.3% for the first quarter of 2025 compared to 13% for the prior year period. The decrease in our manufacturing margin rate was attributable to lower fixed cost absorption from lower customer sales, partially offset by cost reduction actions.

Copyright © 2025 S&P Global Market Intelligence, a division of S&P Global Inc. All Rights reserved.

Other selling, general and administrative expenses were $8.7 million for the first quarter of 2025 or 6.4% of net sales as compared to $7.8 million for the same prior year period or 4.8% of net sales. The increase in these expenses during the first quarter primarily reflects normal wage inflation and higher costs related to compliance requirements, market analysis studies and other consulting expenses. These costs will ease as the year progresses. And as customer demand returns, we expect that our SG&A will revert to our long-term targeted range of between 4.5% to 5.5% of sales.

Interest expense was $1.6 million for the first quarter of 2025 as compared to $3.4 million in the prior year period due to a reduction in borrowings and lower interest rates relative to the first quarter of last year. Adjusted EBITDA for the first quarter was $12.2 million versus $18.5 million for the same prior year period. Adjusted EBITDA margin percent decreased by 250 basis points to 9% in the current quarter as compared to 11.5% for the same prior year period. Our adjusted EBITDA margin decrease was attributable to lower sales, partially offset by cost rationalization initiatives.

Turning now to our statement of cash flows and balance sheet. Free cash flow during the first quarter of 2025 was $5.4 million as compared to $7.9 million in the prior year period. The decrease in free cash flow as compared to the prior year reflects the impact of lower sales, offset partially by net working capital efficiencies. As of the end of the first quarter of 2025, our debt, which includes bank debt, financing agreements and finance lease obligations was $80.6 million, down from $143.1 million at the end of the first quarter of 2024 and resulted in a net leverage ratio of 1.4x as of March 31.

Now turning to a review of our 2025 financial guidance. We are maintaining our 2025 financial guidance, which we introduced earlier this year. We continue to expect net sales of between $560 million and $590 million; adjusted EBITDA of between $60 million and $66 million; and free cash flow between $43 million and $50 million. This guidance incorporates shifting market expectations as the outlook has improved for some but softened for others.

For our Commercial Vehicle end market, we expect sales to decrease low single digits. The Construction and Access market to be flat-to-down low-single digits. The Powersports market is expected to decrease mid-single to low-double digits. The Agricultural market to be down by mid-20%. The Military market is now expected to be a mid-teens increase, and we expect our Other end markets to be a high-teens increase.

As Jag mentioned, there are many evolving dynamics within our end markets. We recognize the rising degree of uncertainty in these markets individually and across the broader economic environment. While we are continuing to monitor developments closely with our OEM customers, our guidance currently does not reflect a potential recessionary environment later in the year or any commercial vehicle emissions rule changes that could impact demand later in the year. In anticipation of the potential for a recession or possible changes in the commercial vehicle regulations, we have created a playbook to navigate each of these scenarios. For each, we have plans to swiftly scale our operating activities in response to demand and tactically reduce our fixed costs to preserve our margins.

With respect to tariffs, we expect minimal direct financial impact to MEC as our contracts and pricing mechanisms enable us to pass through increases in raw material costs to our customers. While these pass-throughs are expected to be modestly margin dilutive, the impact is minimal and has been fully contemplated within our current guidance.

Furthermore, embedded within our 2025 adjusted EBITDA guidance is $1 million to $3 million of cost improvement driven by our MBX operational excellence and strategic value-based pricing initiatives, net of inflationary pressures. As it relates to free cash flow guidance, we expect that our capital expenditures for the year will be in a range between $13 million and $17 million. Based on our free cash flow guidance and excluding any M&A activity, we expect to be below 1x net debt leverage by year-end.
With that, operator, that concludes our prepared remarks. Please open the line for questions as we begin our question-and-answer session.

Copyright © 2025 S&P Global Market Intelligence, a division of S&P Global Inc. All Rights reserved.

Question and Answer

Operator

[Operator Instructions] Our first question comes from Ross Sparenblack from William Blair.

Ross Riley Sparenblek
William Blair & Company L.L.C., Research Division

Maybe just to kick it off here, as we think about kind of the cadence of the end markets for the second half, can you maybe just kind of walk us through anything that stands out? It looks like maybe Commercial Vehicles had a slight ramp in the second half, whereas Powersports, Ag may be more steady on the top line?

Jagadeesh A. Reddy
President, CEO & Director

Yes, that is correct, Ross. Our current guidance, as we indicated earlier in March when we released our guidance includes a slight uptick in the CV market in the second half. That is related to potential 2027 regulation changes and prebuys in both 2025 and 2026. We also said in March that our first half is going to be approximately equal to the second half of last year, 2024, and that we expect a modest increase with potential prebuys and also potential interest rate changes in the second half of 2025.

In related -- and as it relates to Powersports, right, that market continues to be highly interest rate dependent, and we don't expect any significant changes in demand forecast in Powersports. And similarly, in Agriculture, we do not expect any recovery in 2025 and expect the recovery to take some shape in 2026.

Ross Riley Sparenblek
William Blair & Company L.L.C., Research Division

Okay. Maybe just touching on the tariffs and potential for reshoring. Are you seeing opportunities? And if so, are any end markets that stand out?

Jagadeesh A. Reddy
President, CEO & Director

We continue to have good discussions with both existing customers and new customers as it relates to tariffs. We have provided a number of customers with quotes and pricing on potential opportunities. Given the dynamic nature of current tariff discussions and our customers are being very conservative, and they are not in a position yet to make significant decisions because if the tariffs sort of magically go away in 3 months, right, they don't want to be stuck with a different price structure in their supply chain. So I think just like all of us, our customers are also watching day-to-day the developments -- and if there is a significant tariff impact, I think MEC is well positioned to capture those opportunities.

As we mentioned in our prepared remarks, we're 100% domestic manufacturer; 92-plus-percent of our inputs are U.S. sourced. If you include some of the Canadian purchases of aluminum that we get, which we're actively sourcing back to the U.S., it's almost 95% to 96% of our inputs are domestically sourced. Given that and our locations that are really favorable to our customers' operations, we're really well positioned to take advantage of any increased tariff regime we might see in the long run.

Ross Riley Sparenblek
William Blair & Company L.L.C., Research Division

Okay. So if we were to assume that tariffs are structural, what is like the average onboarding time line for a customer? Just to get a sense of it could be 2025 or if it would be 2026?

Jagadeesh A. Reddy
President, CEO & Director

Copyright © 2025 S&P Global Market Intelligence, a division of S&P Global Inc. All Rights reserved.

I think by -- let's say, by middle of the year, we see some really structural tariff regimes in place. We could start up a program as quickly as 3 to 4 months. And depending on the size of the program, it could even be shorter than that. So there is a potential if we see a static tariff regime by middle of the year, there is a potential for us, certainly late-Q3, early-Q4 for us to see some incremental benefit and tailwind to MEC.

Operator

Our next question comes from Ted Jackson from Northland Securities.

Edward Randolph Jackson
Northland Capital Markets, Research Division

First of all, congratulations on just being able to control the things that you can control. My question is -- sorry, I'm in an airport, so I'm a little [windy in] here. When you went through the outlook for your different segments, I didn't catch quite everything. What did you say for Agriculture? And what did you say for Powersports?

Jagadeesh A. Reddy
President, CEO & Director

Yes. Agriculture, we expect Ag market, at least our revenues to be down mid-20s. And Powersports, we expect to be down somewhere between low-single digits -- sorry, mid-single digits to mid-teens.

Edward Randolph Jackson
Northland Capital Markets, Research Division

Okay. The guide surprised me. I mean the color coming out of anyone who has any exposure within the Commercial Vehicle marketplace is -- I mean, it's just -- honestly, it's terrible. And I think that the tenor is that perhaps going to get worse before it gets better. And the ability for you to offset with things like Military and Other is impressive. So with that in mind, could you maybe provide a little more color about what's driving the improved outlook for both of those segments?

Jagadeesh A. Reddy
President, CEO & Director

Yes. So let me address the CV market first, Ted. As we mentioned in our prepared remarks, we are qualifying our guidance maintenance on 2 factors; given that CV is almost 40% of our revenues. First one is recession. We're not building in any recession in the second half into our guidance. In fact, as we said, we're expecting a slight pickup in the second half revenues. That's number one. Number 2 is, we're not building in any potential impact of potential cancellation of EPA regulation changes.

So let me get into that a little bit more. The current guidance incorporates some level of prebuys in second half of this year and also going into 2026. If for any reason, EPA decides to change the new regulations that are set to come in, in 2027, there are 2 effects to that regulation change. The first one is what's called the GHG changes, Level 3, GHG # 3 changes. That really doesn't impact any of our commercial vehicle customer volumes. That regulation only requires that the industry produce -- sorry, that GHG 3 regulations, [Phase 3] regulations imply that the industry has to produce more electrical vehicles. So if that gets canceled, we don't expect our customers to see any significant volume impact. That means we won't see any significant volume impact.

The second part of the 2027 regulation changes is what's called as NOx changes. Today, the current engines are allowed to produce up to 200 milligrams of NOx emissions, whereas the 2027 regulations require the engine makers and the CV OEMs to get down to about 35 milligrams of NOx emissions. That is currently set in law. So let me repeat that. That is currently set in law to go into effect in 2027. That is a significant lift for the administration to change that. It has to go and change the law and then suspend the 2027 regulation changes.

If that happens, that is a material event for the industry. So I want to caution that it's a heavy lift to change that. But if it does happen, then it's a material change to the industry, and that will affect the prebuys in 2025, that will affect the prebuys in 2026. But if you take a long arc of a 3-year period, right,

Copyright © 2025 S&P Global Market Intelligence, a division of S&P Global Inc. All Rights reserved.

the volumes are just going to normalize. The volumes are not going to disappear. It's just they're going to normalize versus the peaks and valleys we normally see in the CV market, right? So that is really where we are.

So as we sit here, we're maintaining our guidance with those 2 caveats of no recession in the second half and no 2027 NOx changes from EPA. If we find that these changes are going to happen in the coming months, we're happy to revisit our guidance, and we're happy to inform all of you what the impact might be on our 2025 and 2026 revenues.

Rachele Marie Lehr
Chief Financial Officer

And I would just add, this goes back to your opening statement, Ted, control what we can control. And so that's where we have developed our playbook of the different scenarios. And so should any of these events take place, we have the playbook lined out so we can execute swiftly and control our margins, manage our margins.

Edward Randolph Jackson
Northland Capital Markets, Research Division

And I was remiss in not welcoming you to the quarterly calls. I look forward to working with you.

Operator

Our next question comes from Andrew Kaplowitz from Citigroup.

Natalia Bak

This is Natalia Bak on behalf of Andy Kaplowitz. So I guess first question that I want to ask is like based on your team's -- based on your commercial team's engagement, how would you characterize the tone of customer conversations today versus 3 to 6 months ago? Are customers in a more reactive wait-and-see mode? Or are they still proactively exploring new projects?

Jagadeesh A. Reddy
President, CEO & Director

I would say that the customers in certain end markets like Ag and Powersports, they are continuing to focus on destocking and continue to alter their production volumes to make sure that the channel inventories get cleared out. So in those end markets, the conversations have been slightly muted, even though in our prepared remarks, we talked about winning new business in construction, winning new business in powersports, et cetera. So we are actively engaged with every one of our customers, but we also recognize that our OEMs have their own challenges that they're trying to deal with. And we're standing by them to support their activities, whether it's new product introductions, whether it is channel inventory reductions or preparing for 2027 launches.

As we said also in our remarks, we're on track to win approximately $100 million of new business. In fact, and as I sit here end of April, we're ahead of our schedule in terms of winning new business even in this environment. But mind you that, a lot of those programs we're winning right now are either 2026 starts or even 2027 starts, right? So we're always focused on long-term business development and long-term growth for the company, while, as Rachele mentioned, trying to control what we can control in the short term.

When it comes to Commercial Vehicle customers, we all follow ACT forecast. ACT forecasts have been more conservative than what our OEMs have indicated, both publicly and what we see in our forecast from them, right? So we're taking a cautious approach to the CV end market, because we know that there are some unanswered questions, particularly around EPA regulations that we just talked about. So with all of that, we're continuing to work with our customers, continuing to look for opportunities to support them. And we're engaged with a couple of Powersports customers where they're evaluating how much of their Asia-made components they want to bring back to the U.S., right? So -- and we -- our teams have been extremely busy in answering inquiries around reshoring and onshoring opportunities.

Copyright © 2025 S&P Global Market Intelligence, a division of S&P Global Inc. All Rights reserved.

So it's an exciting time for us because, yes, there seem to be some dark clouds on the horizon, but our team is highly engaged with our customers. We're trying to control our cost structure. And we're cautiously optimistic about some sort of settlement towards this tariff regime, whether it's structural or not, we'll have some clarity in the coming months. And we're still planning on our second half being slightly positive compared to our first half.

Natalia Bak

Got it. That's helpful. And then just 2 follow-up questions to that. I guess first question, as a follow-up, could you help us better understand like your revenue mix in terms of long-term recurring programs versus short-cycle project-based work? Like has that mix shifted over time? And does it influence your visibility into the second half of this year and conceptually 2026?

Jagadeesh A. Reddy
President, CEO & Director

So generally speaking, depending on the size of the program, it might take us 3 months to start up a small program to 18 months to start up a really large program. So given the mix that -- of new business we're winning, a significant portion of the new business we're winning right now is perhaps '26 or '27 start-ups. And the rule of thumb is if we don't have that business in our bag by middle of the year, that's generally a 2026 start-up, right? So having said that, the tariff regime has opened up some opportunities for us. We're actively working with them as we speak that could be potential second half start-ups.

We're encouraged by some of those activities. And as they materialize more, we'll be happy to share more about them. And by the way, so some of those opportunities, as I said, are in Powersports. Some of them are in Electrical Infrastructure. Some of them are related to Data Centers. So some of these non-legacy end markets as well are coming to fore where we're really excited to support these new customers.

Rachele Marie Lehr
Chief Financial Officer

And those new opportunities are the place where we're able to put in our strategic value-based pricing model. And so, as we look to the long term in '26, '27, you'll see more of that in place as you look to our margins versus what you're seeing now because probably now only 5% to 10% of our programs are under that, and we'll have far more in '26 and '27.

Natalia Bak

Okay. Got it. That's really helpful. And then, last question for me. Just focusing on the Agricultural end market, ag being down mid-20s this year that you are forecasting. How should we think about timing for recovery? Are you modeling 2026 as a bounce back year or expecting more of a gradual return?

Jagadeesh A. Reddy
President, CEO & Director

It still continues to be a dynamic environment. Current tariff regime doesn't really help. As farmers are looking at potential recovery in crop prices and exports, current high tariffs from countries like China do not really help U.S. farmers. Having said all of that, the latest Purdue University Ag survey for the first time in a long time, indicated a positive uptick in farmer sentiment. That is something that really for us to watch as we go through 2025.

Our initial assumption is that 2026 will be a gradual recovery for ag. But given the changes in global trade policy and potentially some increased farmer sentiment, it is possible that we could see a bounce back, but that's not something that we are planning at this point, but we're closely watching it.

Operator

[Operator Instructions] Our next question comes from Ross Sparenblek from William Blair.

Ross Riley Sparenblek
William Blair & Company L.L.C., Research Division

Copyright © 2025 S&P Global Market Intelligence, a division of S&P Global Inc. All Rights reserved.

Just a couple more here, if you don't mind. Thinking on the new business opportunities and the $100 million target, can you just update us on the progress year-to-date? And what the mix has been between new and existing customers?

Jagadeesh A. Reddy
President, CEO & Director

I think we're on -- by end of April, Ross, we're somewhere between $35 million and $40 million of new business booked. That's a little bit ahead [and I ask that you --] to do the linear math, right? It's a little bit ahead time line-wise to our $100 million target. Our sales teams are really active with existing customers. That is our first focus. And we're continuing to see a good set of wins in the CV market and also Powersports. And we've mentioned as well Construction and Access market. So I would say that in all of these end markets, we're making good progress. What I call as farming versus hunting. Our team is excellent in farming. We're from the Midwest, right? We know how to do that really well.

But at the same time, we have had a significant focus since last year to look at new opportunities and new customers and new end markets. So we're continuing to engage with new customers in Data Center and Electrical Infrastructure and Other end markets that are seeing secular growth. So those are the end markets we're excited about. We're having good conversations with them. I would say the $35 million to $40 million I just mentioned to you, a significant portion of that is existing customers with a sprinkling of new customers, but our pipeline is really strong, and I'm fully confident that our teams will hit the $100 million new business target this year. And I do expect, as we go into the second half, that we will see some new customers added to our list.

Ross Riley Sparenblek
William Blair & Company L.L.C., Research Division

Yes. No, that's great to hear. Maybe just kind of conceptualizing this growing program funnel. Do you think that there will be some momentum here? I mean, is there a chance we could exit the year at $120 million, $160 million -- or is this just more of a seasonality to the start of the year?

Jagadeesh A. Reddy
President, CEO & Director

It's hard to tell. Look, as you mentioned earlier, right, if the tariffs are going to be structural, right, that's a huge advantage for MEC. So we will wait and see. Of course, right, like many of us, we want more U.S. manufacturing. We want a certain level of competitiveness for U.S. companies. So given all of that, I'm optimistic that with even some small structural changes, we will be able to gain ground and gain more business in the second half.

Ross Riley Sparenblek
William Blair & Company L.L.C., Research Division

Okay. Well, just understanding the potential for kind of a lower for longer scenario here in some of the core markets. I mean, it would be great to gauge your confidence level today around maybe achieving just the lower end of the 2026 revenue targets, thinking kind of the contribution of new business opportunities versus what would be required for the macro recovery?

Jagadeesh A. Reddy
President, CEO & Director

That's a great question. As we talked about in our last earnings call, our view has not changed about 2026. We still see a line of sight to low end of our 2026 range -- revenue range at the same time, right, unless the bottom falls off and there's a huge recession and a significant change to EPA regulation, those are the 2 caveats I'll continue to mention. If we don't see those 2 things, then yes, we still see a line of sight to low end of the range in 2026.

Ross Riley Sparenblek
William Blair & Company L.L.C., Research Division

Copyright © 2025 S&P Global Market Intelligence, a division of S&P Global Inc. All Rights reserved.

Okay. But even with like the push out of the regulations, I mean that's maybe $50 million of business, right? So yes, $700 million is still kind of a win in this environment?

Jagadeesh A. Reddy
President, CEO & Director

Yes, I would agree with you. At the same time, right, we also -- no one has asked us, so I'll just volunteer, right. We continue to look for M&A opportunities. We continue to be active and given our balance sheet and given our free cash flow generation capabilities. And we'll see how the rest of the year materializes. There's a good possibility that we could enter some end markets that could provide additional growth for us through M&A as well.

Ross Riley Sparenblek
William Blair & Company L.L.C., Research Division

Yes. And that's actually a great segue here. Just thinking about kind of the pipeline for M&A, how are you guys prioritizing end market diversification versus maybe geographic reach or additional manufacturing capabilities? Is there a top topic for you right now?

Jagadeesh A. Reddy
President, CEO & Director

Yes, great question. I think first and foremost for us, priority is diversification, particularly given many of our end markets sort of went into the same down cycle this year that really opened our eyes to the need for further diversification of our end markets. So that's probably our #1 -- not probably, that is our #1 priority is diversification; #2 priority for us is accretive margin profile.

And then I would say the third priority is being close to our customers with perhaps a different geographic exposure within the U.S. We're not going outside the U.S. We're still a U.S.-based company, a U.S.-based manufacturing company. So perhaps Southern states, all of that, as we mentioned in our M&A strategy slide that's on our website. That is still our focus. And we have enough number of targets in our pipeline that match those criteria, and we're really excited about what we can do here in the coming year.

Operator

We currently have no further questions. So I'd like to hand back to Jag Reddy for some 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
Thank you very much for joining. You may now disconnect your lines.

Copyright © 2025 S&P Global Market Intelligence, a division of S&P Global Inc. All Rights reserved.

Copyright © 2025 by S&P Global Market Intelligence, a division of S&P Global Inc. All rights reserved.

These materials have been prepared solely for information purposes based upon information generally available to the public and from sources believed to be reliable. No content (including index data, ratings, credit-related analyses and data, research, model, software or other application or output therefrom) or any part thereof (Content) may be modified, reverse engineered, reproduced or distributed in any form by any means, or stored in a database or retrieval system, without the prior written permission of S&P Global Market Intelligence or its affiliates (collectively, S&P Global). The Content shall not be used for any unlawful or unauthorized purposes. S&P Global and any third-party providers, (collectively S&P Global Parties) do not guarantee the accuracy, completeness, timeliness or availability of the Content. S&P Global Parties are not responsible for any errors or omissions, regardless of the cause, for the results obtained from the use of the Content. THE CONTENT IS PROVIDED ON "AS IS" BASIS. S&P GLOBAL PARTIES DISCLAIM ANY AND ALL EXPRESS OR IMPLIED WARRANTIES, INCLUDING, BUT NOT LIMITED TO, ANY WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE, FREEDOM FROM BUGS, SOFTWARE ERRORS OR DEFECTS, THAT THE CONTENT'S FUNCTIONING WILL BE UNINTERRUPTED OR THAT THE CONTENT WILL OPERATE WITH ANY SOFTWARE OR HARDWARE CONFIGURATION. In no event shall S&P Global Parties be liable to any party for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including, without limitation, lost income or lost profits and opportunity costs or losses caused by negligence) in connection with any use of the Content even if advised of the possibility of such damages. S&P Global Market Intelligence's opinions, quotes and credit-related and other analyses are statements of opinion as of the date they are expressed and not statements of fact or recommendations to purchase, hold, or sell any securities or to make any investment decisions, and do not address the suitability of any security. S&P Global Market Intelligence may provide index data. Direct investment in an index is not possible. Exposure to an asset class represented by an index is available through investable instruments based on that index. S&P Global Market Intelligence assumes no obligation to update the Content following publication in any form or format. The Content should not be relied on and is not a substitute for the skill, judgment and experience of the user, its management, employees, advisors and/or clients when making investment and other business decisions. S&P Global Market Intelligence does not act as a fiduciary or an investment advisor except where registered as such. S&P Global keeps certain activities of its divisions separate from each other in order to preserve the independence and objectivity of their respective activities. As a result, certain divisions of S&P Global may have information that is not available to other S&P Global divisions. S&P Global has established policies and procedures to maintain the confidentiality of certain nonpublic information received in connection with each analytical process.

S&P Global may receive compensation for its ratings and certain analyses, normally from issuers or underwriters of securities or from obligors. S&P Global reserves the right to disseminate its opinions and analyses. S&P Global's public ratings and analyses are made available on its Web sites, www.standardandpoors.com (free of charge), and www.ratingsdirect.com and www.globalcreditportal.com (subscription), and may be distributed through other means, including via S&P Global publications and third-party redistributors. Additional information about our ratings fees is available at www.standardandpoors.com/usratingsfees.
© 2025 S&P Global Market Intelligence.

Copyright © 2025 S&P Global Market Intelligence, a division of S&P Global Inc. All Rights reserved.