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Earnings Call

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Call Participants

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ATTENDEES

Stefan Neely

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Presentation

Operator

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

I'll now hand over to your host, Stefan Neely with Vallum Advisors, to begin. Please go ahead, Stefan.

Stefan Neely

Thank you, operator. On behalf of our entire team, I'd like to welcome you to our second quarter 2025 results conference call. Leading the call today is MEC's President and CEO, Jag Reddy; and Rachele Lehr, 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. During the second quarter, we remained focused on executing our MBX value creation framework. Notably, our adjusted EBITDA margin expanded by 130 basis points sequentially despite a 2% decline in net sales. These results underscore the effectiveness of our cost management initiatives and our team's disciplined approach to improving operating leverage.

As previously announced, we completed the acquisition of Accu-Fab at the beginning of July. This transaction represents a significant milestone in our transformation as we continue to execute our commercial growth strategy. We remain focused on increasing share of wallet with existing customers and expanding into high-growth adjacent end markets to diversify both our revenue base and customer mix.

The addition of Accu-Fab provides diversification into the critical power and data center end market. These are 2 segments with compelling long-term secular tailwinds. While the transaction will be modestly accretive to earnings this year, a broader opportunity lies in market access and platform leverage, addressing unfulfilled demand. This acquisition increases our estimated serviceable addressable market by approximately 60% to approximately $8 billion.

In addition, we see meaningful near-term opportunities to drive both revenue and cost synergies by leveraging our proven integration playbook and implementing our MBX framework. We have already begun executing with strong momentum as the team has deployed lean events at both locations. For reference, over the 2-year period since we acquired Mid-States Aluminum, or MSA, our implementation of the MBX framework has improved their adjusted EBITDA margins from approximately 20% to over 30%. This is well ahead of our initial expectations.

Furthermore, MSA has been a source of growth within our business even in the current environment, as sales have grown an average of 8.4% through the first 2 quarters of 2025. Given Accu-Fab's high-value commercial opportunities within rapidly growing end markets, we look forward to unlocking the growth and value creation through this acquisition.

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Looking ahead, we have updated our 2025 financial guidance to reflect both the contribution of the Accu-Fab acquisition and the demand environment in our core end markets. Since our last earnings call, customer orders in the majority of our key end markets have remained soft. Many customers, particularly in the commercial vehicle, powersports and agriculture markets, continue to scale back production capacity. Although channel inventory levels in select end markets have shown modest improvement over the past 6 months, soft end-user demand is prolonging the duration of the destocking cycles.

In the commercial vehicle market, specifically, elevated inventory levels persist amid ongoing uncertainty surrounding 2027 EPA regulations and pre-buy timing, that was previously expected later this year. Reflecting this, the most recent ACT forecast projects 2025 commercial vehicle production at approximately 252,000 units, a 24% decline compared to 2024. This weaker outlook is consistent with the order patterns we are currently seeing from our customers.

Given these trends, we are no longer expecting a second half recovery in market demand. That said, we remain focused on what we can control. We have recently launched initiatives aimed at further reducing our fixed cost base, rationalizing asset capacity to optimize our manufacturing footprint. These actions are intended to improve our operating leverage over time without compromising our workforce and ability to scale production once demand begins to recover.

Turning now to an overview of substantial new business wins during the second quarter. I am pleased to share that our team is tracking ahead of pace to achieve our annual goal of $100 million in new business awards for the year.

First, we are excited to share that we have secured our first cross-selling win after the acquisition of Accu-Fab. We were able to quickly capitalize on the strength of the market, securing an award for data center fabrications. This will launch in the third quarter and generate revenues for MEC this year. Building on strategic wins last quarter, we further expanded our market share with our Access customer as they shift their global supply base. Our U.S. manufacturing footprint near this customer remains a key differentiator.

In the quarter, we secured additional commercial vehicle wins tied to the 2026 and 2027 model updates, driven by the upcoming regulation changes. We expect to capture further market share in the quarters ahead. Within the critical power end market, we continue to see additional wins related to power generation, securing multiple awards for engine programs launching during the fourth quarter.

Lastly, we continue to see some additional wins related to specific applications for additional battery thermal management units. We have continued to build out this product line as our relationship with this customer continues to grow. These wins further reinforce the strength of our comprehensive offering and fully domestic manufacturing footprint.

Despite broader market softness, we continue to secure new awards and have not lost any significant customer programs. As we deepen relationships within Accu-Fab's customer base, we see meaningful opportunities to accelerate growth in high-value markets that remain underserved.

Our continued emphasis on working capital efficiency generated $12.5 million in free cash flow, resulting in free cash flow conversion of 92% of adjusted EBITDA during the second quarter. Consistent with our capital allocation framework, we deployed this cash flow towards the repayment of debt and planned share repurchases.

Following the closing of the Accu-Fab acquisition, our pro forma net leverage increased to approximately 3.1x, up from 1.4x at the end of the second quarter. Our primary focus will be on utilizing free cash flow to repay our debt, targeting below 2x by end of the year 2026. We repurchased $2.9 million of common stock under our share repurchase program during the quarter. Year-to-date, we have repurchased $4.6 million. This is near our previously announced annual commitment of $5 million to $6 million, offsetting 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.

Before turning it over to Rachele, I want to address our 2026 financial targets. Given the current macroenvironment, we are withdrawing the 2026 targets issued at our 2023 Investor Day. These prior

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targets assumed a normalized market demand environment. That said, we continue to believe the financial profile implied by those targets is achievable once demand normalizes, even before factoring the strategic benefits of the Accu-Fab acquisition.

Looking beyond 2025, we are focused on building MEC into a scaled, diversified domestic fabricator. We believe our platform can ultimately achieve $1 billion in revenue and adjusted EBITDA margins exceeding 15%. We believe this long-term profile reflects the earnings power of our current platform, supported by organic growth, disciplined M&A and consistent operational execution. As we gain better visibility into a recovery across our core markets, we will share a comprehensive update to our multiyear targets and strategic priorities.

In the meantime, we are excited by the progress we're making with our Accu-Fab acquisition. Customer engagement has been strong, revealing opportunities we had not originally anticipated. As a result, we expect to recognize $5 million to $10 million of revenue synergies from the acquisition in 2026, 2 years ahead of schedule. By 2028, we expect that the acquisition could generate $15 million to $20 million in total revenue synergies. This is driven in part by the double-digit growth that we expect in the critical power and data center end markets. These early results reinforce the efficacy of our strategy.

Our legacy customer relationships continue to provide foundational strength, while our expansion into high-growth, high-value adjacent markets is accelerating the transformation of MEC into a more balanced, high-margin platform. With reshoring trends gaining momentum, we believe our U.S.-based manufacturing footprint provides us with a durable competitive advantage. As we exit this down cycle, we are confident that MEC is uniquely positioned to deliver above-market growth and profitability.

I'm incredibly proud of the progress our team has made and remain confident in our ability to deliver sustainable long-term value for both our customers and shareholders. The MBX framework is enabling us to improve our operating leverage and prepare for the next phase of growth.

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 second quarter decreased 19.1% on a year-over-year basis to $132.3 million. Soft customer demand across most of the company's key end markets and channel inventory destocking was partially offset by volume from new projects and demand for aluminum extrusions in the other end market and increased aftermarket demand in the military end market.

Our manufacturing margin was $13.6 million in the second quarter as compared to $22.3 million in the same prior year period. The decrease was primarily driven by lower customer demand, partially offset by cost reduction activities. Our manufacturing margin rate was 10.3% for the second quarter of 2025 compared to 13.6% for the prior year period. The decrease in our manufacturing margin rate was attributable to lower fixed cost absorption from lower sales, partially offset by cost reduction actions.

Other selling, general and administrative expenses were $10.3 million for the second quarter of 2025 or 7.8% of net sales as compared to $8.3 million for the same prior year period or 5% of net sales. The increase in these expenses during the second quarter primarily reflects non-recurring costs associated with the Accu-Fab acquisition and CFO transition.

As part of the ongoing integration efforts, we expect that our operating expenses during the second half of the year will reflect approximately $2 million in integration expenses.

Outside of these onetime costs, we continue to target our long-term SG&A to remain in a normalized range of between 4.5% to 5.5% of sales.

Interest expense was $1.4 million for the second quarter of 2025 as compared to $3 million in the prior year period due to a decrease in borrowings and lower interest rates relative to the second quarter of last year.

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Adjusted EBITDA for the second quarter was $13.7 million versus $19.6 million for the same prior year period. Adjusted EBITDA margin percent decreased by 170 basis points to 10.3% in the current quarter as compared to 12% for the same prior year period. The decrease in our adjusted EBITDA margin was attributable to lower customer demand, partially offset by cost rationalization.

Turning now to our statement of cash flows and balance sheet. Free cash flow during the second quarter of 2025 was $12.5 million as compared to $19.2 million in the prior year period. The decrease in free cash flow as compared to the prior year reflects less cash generated from operating activities, partially offset by a reduction in capital expenditures. As of the end of the second quarter of 2025, our debt, which includes bank debt, financing agreements and finance lease obligations, was $72 million, down from $125.4 million at the end of the second quarter of 2024 and resulted in a net leverage ratio of 1.4x as of June 30th.

Additionally, on June 26th, we entered into the first amendment to our amended and restated credit agreement. The first amendment provides for an additional $100 million of availability under our credit facility by exercising the previously available $100 million accordion feature. I would also note that our credit agreement includes a 4-quarter leverage holiday following an acquisition, increasing our maximum net leverage ratio to 4x for the next year.

Now, turning to a review of our 2025 financial guidance. We are updating our 2025 financial guidance to reflect the expected impact of the Accu-Fab acquisition and the current demand environment within our legacy end markets. We now expect net sales for the full year of 2025 to be between $528 million and $562 million, adjusted EBITDA of between $49 million to $55 million and free cash flow of between $25 million to $31 million. Our updated guidance range includes the expected $28 million to $32 million of incremental revenues and $6 million to $8 million of incremental adjusted EBITDA associated with the Accu-Fab acquisition.

I would also note that beginning in the third quarter of this year, we will begin reporting revenues in the critical power and data center end market. We expect this newly reported end market will be approximately 10% of our trailing 12 months revenue. Additionally, this end market will include a portion of Accu-Fab customer sales, along with a portion of MEC's legacy customer sales currently captured within our other end market. As it relates to our legacy end markets, our updated guidance reflects the expectation of demand to remain muted in the majority of our key end markets throughout the remainder of the year.

Sequentially, we expect the third quarter revenue to decline low single-digits, followed by a high single-digit decline in the fourth quarter. Furthermore, embedded within our 2025 adjusted EBITDA guidance is the benefit of $1 million to $2 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 remain in the range of between $13 million and $17 million.

Additionally, our free cash flow guidance includes $5 million to $6 million of non-recurring costs related to the CFO transition and the Accu-Fab acquisition, which will be added back to adjusted EBITDA for reporting purposes. Of these costs, we expect approximately $2 million will be incurred in the second half of the year related to the acquisition. As we previously mentioned, our pro forma net leverage following the completion of the Accu-Fab acquisition was approximately 3.1x. We intend to prioritize the repayment of debt with our available free cash flow currently targeting below 2x by the end of 2026.

Lastly, I would like to expand upon Jag's comments regarding our fixed cost reduction initiatives and footprint optimization.

Earlier this month, we began the process of consolidating 3 warehouses and one manufacturing facility into our existing footprint. These actions will occur over the next 6 to 18 months, aimed at rationalizing our asset capacity, without compromising our workforce, while enhancing operational flexibility as volumes recover. These 4 facilities are currently leased, and we expect onetime costs between $5 million and $7 million that will yield annual fixed cost savings of approximately $2 million.
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] Our first question comes from Mike Shlisky from D.A. Davidson.

Michael Shlisky
D.A. Davidson & Co., Research Division

I guess -- let's start with Accu-Fab. It's only been about 1 month. You've owned them a little over 1 month now. Jag, can you tell us a little bit about maybe, have you gone through the facility, talk with the folks, talk with customers, a little more closer to [now that] you own it, see the books closer to [now that] you own it? Kind of how do you feel about the lift ahead of you to integrate the company and then get some synergies culture-wise, just your overall impressions of Accu-Fab now that you're the owner?

Jagadeesh A. Reddy
President, CEO & Director

Yes. As we were planning the close of the transaction, Mike, we put together a playbook for a 30, 60 and 180-day plan for integration. All the integration activities are on track, and I have been to both the facilities multiple times since the announcement of the transaction. And I've seen both the facilities already working on lean Kaizens and value stream maps and already planning for operational efficiencies and trying to get more productivity out of these [plants].

I could not be more excited about Accu-Fab sitting here. This will be one of the most consequential M&A transactions the company would have done over our last 80-year history. The opportunities commercially that are in front of us have been incredible. We -- As we're looking at not just getting more out of current Accu-Fab facilities, we're also continually talking to our customers, Accu-Fab customers on how they can leverage our existing MEC footprint. We talked about the commercial synergies or cross-selling synergies just now.

The way we're thinking about Accu-Fab is that we could see Accu-Fab revenues to get to approximately $100 million by 2028. And cross-selling synergies to exceed $20 million by 2028. So, if we execute our plan as we laid out internally, this will be a home run for us. And just the commercial opportunities that our commercial team has been involved with, even I have been involved with Accu-Fab customers, have been really energizing and really exciting for us. So sitting here, I could not be more excited.

Michael Shlisky
D.A. Davidson & Co., Research Division

Great. I also wanted to just touch on some of the end market outlook and some of the reasons why the outlook was reduced a bit here. As I go through some of the -- your customers' earnings calls in the last few weeks, and there are a few to go, including one or 2 big ones still left, but whatever has gone out there so far, no one has really reduced their outlook all that much. I mean, no one has been all -- certainly not positive. But I haven't seen any kind of major shift downward.

So I'm kind of wondering -- and it's definitely negative, but just not that bad. I'm kind of wondering if you've got any thought -- if you can just give us some thought as to how you came to the conclusion that things were kind of declining a bit here? Is it coming from the OEMs themselves? Is it coming from, I guess, you have ACT [indiscernible] forecast? So just kind of some of the basis and background as to how you came to this conclusion?

Jagadeesh A. Reddy
President, CEO & Director

Absolutely. The biggest change in our outlook, Mike, is in the commercial vehicle market. When we started the year and what our guidance was based on, was approximately 320,000 trucks being produced in 2025. And that is closely related to what ACT forecast was at that time. As you know, today, the ACT forecast is

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down to 252,000 units. I recognize that many of our customers did not publicly indicate their view of this softness in the marketplace.

But at the same time, we have had numerous conversations with our customers. We have seen the order trends not only in their bookings through monthly reports from ACT, but also our internal EDI feeds and our internal demand that we're seeing from each of these customers.

So let me give you a couple of examples. In the month of July, one of our largest CV customers took out approximately 35% of their capacity through down days. Similarly, another customer took out about a little over 2 weeks of production in July. And then a third customer out of their Mexico facility took out all but 2 days of supply in the month of July. They were essentially shut down the entire month of July.

And in August, sitting here in the first week of August, we're seeing a similar already, within the first week, this top customer has taken out 9 production days in the month of August, and we expect them to take out more production days in the month of August. Similarly, if you look at last year, this one customer was producing in one of their facilities approximately 170 trucks a day. Today, at least in June of 2025, they produced 138 trucks per day. So what the customers are really doing is that they're taking out significant number of production days. And on top of that, they're reducing their run rates in each of their plants.

So the days out equates to approximately 25% reduction in their capacity and then the run rate reduction equates to about 11% reduction in their capacity.

So you do that math and look at the ACT forecast, look at their bookings, look at our EDI feed, we don't have a choice but to adjust down the forecast for the CV market. It's 38% of our business. So in good faith, I cannot sit here and then say that this market is going to be okay, but also recognize that many of these OEMs have finance arms. They have spare parts businesses. They have international sales. So, they have other levers they could pull. And perhaps that may be the reason why they didn't want to come off.

But certainly, right, that is not our expectation. We feel really good about where we are in terms of our forecast for the year. And given the uncertainty with the tariffs, given the uncertainty with freight and freight volumes and freight rates and more importantly, 2027 regulations, we do not expect a pre-buy in 2025. Even though we're not providing guidance for 2026, we do not expect a pre-buy in 2026 as well. All of these data points plus other macro headwinds really prompted us to take the actions on footprint consolidation that we announced today to take place, right?

So we're doing everything we can to control our future, and we feel really good about how hard our team is working, really proud of all the actions we're taking and really positioning the business for better leverage, better profitability once the volumes recover. Sorry, that was a long answer.

Michael Shlisky
D.A. Davidson & Co., Research Division

No, I really appreciate that. And I wouldn't mind a little expansion on a little more answer. Can you just give us some similar commentary on Powersports, Construction & Access and Ag? Are the outlook similarly in the same boat? Or were they already down and kind of staying that way?

Jagadeesh A. Reddy
President, CEO & Director

Yes. So they're a little bit better. Let me get to one at a time. Construction & Access, we feel like we're seeing some level of increases in some product lines. I believe that though the infrastructure funding hasn't really started to flow to the States, we feel good about where our access revenues look like. And also, we feel pretty good about some of the data center construction work that's happening across the country, that's driving demand for construction equipment.

Agriculture, I think we're absolutely in the trough. And we have had numerous conversations with our customers. We feel like the recovery is probably 2026, perhaps even mid-2026, given the crop prices and the farmers' income, et cetera. But I don't expect agriculture market to deteriorate any further.

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And then last but not least, Powersports. It looks like the powersports OEMs have stabilized their inventories in their channels. Even though they have a little bit of work to do, they have at least aligned their consumer demand with their production volumes. So that's really good news. And ag, as you know, already, many of the customers have done that. So there's no more channel inventory to be drawn down in agriculture or construction markets.

So those 3 markets, we feel pretty good. A little bit of rate cuts later this year could spark a powersports recovery. And as I talked about construction and agriculture, we do expect that to be stable for construction and agriculture for a recovery next year.

Operator

Our next question comes from Ross Sparenblek from William Blair.

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

You guys called out SKU rationalization, at least within powersports. It looks like there's maybe a $60 million organic decline in the guide for the second half. Can you maybe just help us size what would be potential SKU rationalization that might not come back versus just normal cyclicality?

Jagadeesh A. Reddy
President, CEO & Director

I am not aware of that, Ross, on that comment. Let us come back to you. But let me just generally address. I think one of our customers might have introduced a brand new product in powersports, a lower price side by side and they might be working on some product line rationalization. But we're not aware of anything specific, but we're happy to get back to you on that.

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

Okay. Yes. It was mentioned in the K with the press release. I was wondering. And then just, kind of thinking about destocking, it sounds like you guys have confidence that you have been destocking, or you have been building below your customers' destocking rates in the last couple of years or quarters. I mean we've absorbed probably $100 million of organic decline. So just trying to get a sense of where the bottom is? Because -- I can appreciate tariff uncertainty, and I don't have enough historical context to see how quickly this could turn on a dime if your customers come back tomorrow and demand picks up with rates or Big, Beautiful Bill or whatever.

Jagadeesh A. Reddy
President, CEO & Director

Yes. That's a good question, Ross. In construction, agriculture, I believe the channel inventories have been drawn down and that the end-user demand is aligned with the current production rates for our customers. In powersports, there might be a little bit of work left, but I would say less than a quarter's worth of work left for our customers to completely align with the end market demand in powersports. We're already seeing some green shoots for a couple of our customers in powersports. So our expectation is that even a small decrease in -- maybe even a 50 bps by end of this year in interest rate cuts could help the powersports market going into next year.

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

Okay. And then just one last one for me. Margin cadence for the second half. You guys had good decrementals, around 19%, tracking towards your kind of 17% threshold of MBX, but the guide at the midpoint seems to imply a 35% decline. I don't think this business has ever produced a 35% decremental. So maybe just some of the moving parts as we think about MBX and volume coming in?

Rachele Marie Lehr

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Chief Financial Officer

Sure. Certainly, volume absolutely plays a significant part on that, and we haven't seen this level of volumes or decline in volumes in a while. So, as that plays through, we are seeing that degradation happen on our decrementals, but we do see that they will return as we look ahead into the future.

Operator

Our next question comes from Ted Jackson from Northland Securities.

Edward Randolph Jackson
Northland Capital Markets, Research Division

The main topics I wanted to dig into have been dug into. But let's circle back to commercial vehicles. I mean, the Trump administration has really thrown the whole industry a curveball. And it's going to take a while for it to dig out. Is there a chance that we would be able to see dealer inventories within commercial vehicle normalize in 2026? And if you think that's the case, how long do you think it would take for that to happen? So I guess what I'm getting around is, as you talk to your commercial vehicle customers and pay attention to that market, like how bad is the dealer inventory level? And what's the current view in terms of the timeline it will take for it to normalize? And this question assumes that we do not see a pre-buy come in 2026. So that's my first question.

Jagadeesh A. Reddy
President, CEO & Director

Yes. Good question, Ted. Our CV customers are frantically working to align their channel inventories with end user demand. One of our customers in their public comments mentioned that even though their channel inventory numbers look like they're high, but a lot of that inventory is actually sitting at the body builders. So, that gives me comfort that they can quickly align their production rates to end-user demand, particularly, as I mentioned, all of their production base that they're taking out in their factory. So that's the intention to quickly align.

So I suspect by end of this year, right, many of our CV customers will get their production aligned with end-user demand. The bigger question for us is, is there going to be a pre-buy in 2026? We already called out it will not be in 2025. So, it remains to be seen what the EPA regulations in '27 will do. So, we will have to watch that. I don't have a prediction for 2026. Our internal assumption is that there will not be a 2026 pre-buy. But if there is a pre-buy in 2026, that will be an upside for us.

Edward Randolph Jackson
Northland Capital Markets, Research Division

So your current view, though, would be that commercial vehicle channel inventory by the time we enter 2026 will be roughly aligned with market demand. And then that would mean that we'll have conceptually a soft second half of commercial vehicle. And, then for lack of a better term, some kind of [rebound] as we go through '26, assuming that, that plays out, as you said. Not -- doesn't involve any kind of pre-buy. It just means that they'll start producing back to end market demand, and we could see your business maybe go back to kind of what you were seeing in the first half or something else? But it's just a scenario?

Jagadeesh A. Reddy
President, CEO & Director

Yes. That is correct. We were forecasting no recovery in the second half for the CV market.

Edward Randolph Jackson
Northland Capital Markets, Research Division

Okay. And then my next question, just kind of as we're going around the different sort of verticals. I was actually a little surprised with the revisions to Military and Other in the second half. And I just kind of wanted a little more color into what caused the shift in the outlook for both of those businesses?

Jagadeesh A. Reddy

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President, CEO & Director

I think it's just lapping up some of the programs. And other than that, there's nothing major for us to call out in the Military segment or the Other segment. Other segment, as you know, we pulled out -- we will be pulling out some of the data center and critical power revenues out of the other market and then putting them into the newly called out critical power and data center end market. Let me add to the other market...

Edward Randolph Jackson
Northland Capital Markets, Research Division

Some of that is just basically a recategorization. Okay. That kind of -- It just -- it surprised me a little bit, but that actually makes complete sense to me.

Jagadeesh A. Reddy
President, CEO & Director

In the other market, which is predominantly MSA, Ted, we are seeing, as we called out, right, almost 8% growth in the first half of this year. Significant portion of that is coming through due to the tariffs, aluminum fabrications and extrusions. A lot of our customers and new customers are redirecting some of their buys from outside the U.S. to the U.S., and we have been a beneficiary of that redirect on particularly aluminum fabrications.

Operator

[Operator Instructions] Our next question comes from Natalia [indiscernible] from Citigroup.

Unknown Analyst

So, first of all, I'll ask, given your emphasis on reshoring and domestic footprint, right, 92% material sourcing, are there any upcoming contracts or OEM relationships being reshored from competitors or anything you can disclose or comment on?

Jagadeesh A. Reddy
President, CEO & Director

Obviously, we will not publicly comment on any of our customer contracts. But as I just mentioned, Natalia, we are seeing a good amount of inflow for both steel and aluminum fabrications that are primarily driven by tariffs.

At the same time, many of our aluminum fabrications customers, given a shorter or rather narrow source of supply for aluminum fabrications, are willing to pull the trigger and make decisions on reshoring aluminum fabrications to the U.S. And now we are seeing a significant uptick in requests for quotations and also new business at our MSA operation.

At the same time, even though we have been extremely busy answering customers' request for quotations in our steel fabrications business, many of our customers are still waiting to make the decisions given the continuous change in tariff structures. A lot of our customers get their products from India. A lot of the customers get their products from Vietnam and Thailand and China and many of the other Asian locations. As the tariff picture continues to be murky, though we have provided a lot of the information -- cost information to our customers and price information to our customers, we have not seen many of them make decisions on steel side of our business.

Unknown Analyst

Got it. That's super helpful. And then, I know you mentioned you'll start reporting critical power and data center revenue contribution. But what other initiatives are you doing to diversify more meaningfully your, I guess, long-term exposure of all your verticals, right? Like are you diversifying more meaningfully toward data centers or military, defense? Like as we think long-term, what is like MEC's strategy or approach to its verticals? And how should we think about it?

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Jagadeesh A. Reddy
President, CEO & Director

Absolutely. Yes. Accu-Fab gives us a great opportunity to go explore significant growth in critical power and data center end markets. And we talked about that at length.

But let me also give you another picture. In the regular or rather base MEC business, we mentioned that we're ahead of our $100 million new business wins for the year. We ended June at a little over $60 million of new business wins for our legacy MEC business. At the same time, our pipeline, just what we're working on, is over $280 million of strategic opportunities for the MEC base business, right? That gives you a picture of how much opportunity that is in front of us that we're actively working.

At the same time, a significant number of our new wins came from either new customers or completely new divisions within our existing customer base. So, our sales team is highly focused on diversifying out of our legacy end markets. We have a lot of business development opportunities that are ongoing, that will help us get into more A&D, aerospace and defense, medical and the data center and critical power applications.

Unknown Analyst

Got it. That makes sense. And then one last question on my end. In your presentation, you said solid backlog in military, but how sustainable is that backlog? And what proportion is recurring aftermarket service versus new programs? Any color would be helpful.

Jagadeesh A. Reddy
President, CEO & Director

Most of our programs will be recurring programs. I think there will be some aftermarket. Generally, we say that approximately 5% of our total revenues are in the aftermarket space. But for the military programs, we're primarily on JLTV, FMTV and Humvee platforms. Those are our 3 large programs that we're on with both -- I guess I won't name the customers here, right? You can guess who they are. So, those 2 customers account for majority of our defense sales. Those programs continue to progress given the conflicts around the world and the continuing restocking of U.S. inventories. So we're confident that those programs will continue forward.

Operator

We currently have no further questions. 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 for 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
Thank you for joining today's call. You may now disconnect your lines.

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