S&P Global
Market Intelligence

Mayville Engineering Company, Inc. NYSE:MEC

Earnings Call

Wednesday, November 5, 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

Gregory William Palm
Craig-Hallum Capital Group LLC, Research Division

Michael Shlisky
D.A. Davidson & Co., 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, everybody, and welcome to the Mayville Engineering Company Third Quarter 2025 Earnings Conference Call. My name is Elliot, and I'll be coordinating your call today. [Operator Instructions]

I would now like to hand over to Stefan Neely, at Vallum Advisors. Please go ahead.

Stefan Neely

Thank you, operator. On behalf of our entire team, I'd like to welcome you to our third 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 contain a 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 third quarter results reflect the discipline and focus of our team as we navigated persistent demand challenges across our legacy end markets. Despite continued softness from our OEM customers, results were in line with our expectations, and we are reaffirming our full year 2025 financial guidance.

We have also made significant progress integrating the Accu-Fab acquisition, which closed at the beginning of the third quarter. Our sales team has already engaged Accu-Fab's customer base and is leveraging MEC's domestic manufacturing footprint to position us as a preferred partner for leading data center and critical power OEMs. These customers are actively seeking reliable domestic supply chains to support accelerating demand from data center and critical power investments.

The integration of Accu-Fab into MEC now offers a scalable solution that simply was not available 6 months ago. Our pipeline of qualified opportunities within this market has grown substantially well above initial expectations and continues to expand as we demonstrate our ability to deliver rapidly and at scale. Today, we are bidding on more than $100 million in qualified opportunities, many of which extend across our broader MEC footprint.

Unlike our traditional markets, where projects typically take over a year or longer to reach production, data center and critical power programs can move from bid to revenue in as little as 8 to 12 weeks. To support this momentum, we are repositioning capacity and resources. This is a clear demonstration of the flexibility and strength of our vertically integrated operating model. Looking ahead, this opportunity represents a meaningful shift for MEC.

Our revenue synergy expectations from Accu-Fab have now increased to between $20 million and $30 million in 2026. We also expect this business to yield gross margins of approximately 10 percentage points above our historical average of 15% to 20%. While our legacy end markets remain in a cyclical trough, the emerging opportunity in the data center and critical power market represents an important inflection point as we seek to diversify our revenue base and strengthen our long-term growth profile.

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

Driven by the underlying market growth, significant capital investments in data center and critical power and our opportunity pipeline, we see a path for this end market to represent 20% to 25% of our total revenues in the coming years. At that level, it has the potential to become one of our largest end markets, representing a meaningful step in our strategic diversification of our business toward faster-growing and higher-margin end markets.

Importantly, growth in this end market is expected to be incremental to our legacy market. We fully expect to continue to meet the needs of our long-standing legacy OEM customers as end market demand recovers. Taken together, we believe this positions MEC for greater resilience and profitability through end market cycles.

Now turning to a review of our legacy market. Commercial vehicle demand has continued to soften in the third quarter with net sales to this end market declining 24% versus the prior year period. ACT now projects a 28% decline in Class 8 production in 2025 followed by an additional 14% decline in 2026 as tariffs and regulatory uncertainty delayed fleet replacement.

In contrast, our Construction & Access market revenues increased 10.1% year-over-year during the quarter. This is supported by the Accu-Fab acquisition and strong nonresidential activity. Organic net sales growth in this market was 6.2% in the quarter. We are expecting to see this level of growth continue through the fourth quarter and into 2026.

In the powersports market, net sales grew 6.4% year-over-year, driven by transient aluminum-related demand. Agriculture net sales declined 21.8% amid elevated interest rates and lower farm income. Across all our end markets, customer engagement remains strong. During the third quarter, we secured $30 million in new project awards with the data center and critical power customers. Year-to-date, total award across our legacy markets reached $90 million, nearing our full year target of $100 million as we entered the fourth quarter.

Within our legacy end markets, we have continued to expand our share with our commercial vehicle customers as they prepare to launch their next-generation models ahead of upcoming EPA regulatory changes. Many of these products support future growth and are scheduled to begin production in 2026 and 2027. In addition to the future expansion in commercial vehicle revenues, we secured a significant award for a next-generation product in our aluminum extrusion business, along with additional tube components for a major power generation customer.

Lastly, the $30 million within the data center and critical power market secured during the third quarter includes $25 million in cross-selling wins. We achieved significant awards with 2 major Accu-Fab customers covering battery backup cabinets and panels, static transfer switch components and busway components.

Operationally, our teams have been working diligently to respond to shifting demand within our legacy end markets while positioning to meet demand from the developing data center and critical power project pipeline. We are working closely with legacy customers to manage production schedules and capacity commitments. In select cases, we are adjusting pricing and requesting additional volumes to secure capacity availability for future demand.

These actions will help mitigate near-term underutilization, though we anticipate certain legacy market demand to remain a headwind through mid next year even as new data center and critical power programs ramp. During this transitional period, we expect additional margin pressure as we balance the resources needed for accelerating near-term demand.

Turning to capital allocation. Third quarter free cash flow was impacted by $3.5 million in nonrecurring items. However, we expect strong cash flow in the fourth quarter and have reaffirmed our full year free cash flow guidance. Consistent with our strategic framework, our top priority remains reducing debt and lowering leverage.

In summary, I am encouraged by the progress our team has made by executing our strategy. While legacy markets remain soft, our agile operating model is enabling us to capitalize on high-growth opportunities, all while maintaining financial discipline and operational focus. I am confident that our

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

continued execution will drive improved profitability, enhanced diversification and sustainable value creation for our shareholders.

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

Rachele Marie Lehr
Chief Financial Officer

Thank you, Jag, and good morning, everyone. Total sales for the third quarter increased 6.6% on a year-over-year basis to $144.3 million. Excluding the impact of the Accu-Fab acquisition, organic net sales declined by 9.1% compared to the prior year period. Our manufacturing margin rate was 11% for the third quarter of 2025 compared to 12.6% for the prior year period.

The decrease in our manufacturing margin rate was due to $1.2 million of nonrecurring restructuring costs and inventory step-up expense associated with the Accu-Fab acquisition and lower customer demand in the legacy commercial vehicle and agricultural end markets. This was partially offset by higher margin net sales contribution from the Accu-Fab acquisition.

Excluding the costs, our manufacturing margin rate would have been approximately 12% during the quarter. Other selling, general and administrative expenses were $10.5 million or 7.3% of net sales for the third quarter of 2025 as compared to $7.6 million or 5.6% of net sales for the same prior year period.

The increase in these expenses primarily reflects $0.9 million of nonrecurring costs and $1.6 million in incremental SG&A expense, each associated with the Accu-Fab acquisition. Long term, we continue to anticipate SG&A to remain at a normalized range of between 4.5% to 5.5% of net sales as end market demand recovers.

Interest expense was $3.4 million for the third quarter of 2025 as compared to $2.7 million in the prior year period. The increase was driven by higher borrowings resulting from the Accu-Fab acquisition, partially offset by a lower interest rate relative to the prior year period.

Adjusted EBITDA margin was 9.8% in the current quarter as compared to 12.6% for the same prior year period. The decrease in adjusted EBITDA margin was attributable to lower legacy customer demand, partially offset by the impact of the Accu-Fab acquisition.

Turning now to our statement of cash flows and balance sheet. Free cash flow during the third quarter of 2025 was a negative $1.1 million as compared to a positive $15.1 million in the prior year period. As Jag mentioned, free cash flow for the third quarter reflects $3.5 million of nonrecurring costs.

As of the end of the third quarter of 2025, our net debt, which includes bank debt, financing agreements, finance lease obligations, net of cash and cash equivalents was $214.9 million, up from $114.1 million at the end of the third quarter of 2024. Our increased debt resulted in a net leverage ratio of 3.5x as of September 30.

Now turning to a review of our 2025 financial guidance. We are reaffirming our 2025 financial guidance supported by growth in select legacy end markets and stronger-than-expected demand from the data center and critical power end market. We 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.

We expect the fourth quarter to reflect normal seasonality and continued softness in certain legacy markets, most notably commercial vehicle. As a reminder, we have reduced manufacturing days during the fourth quarter due to the holidays. Combined with the ongoing reduction in commercial vehicle production schedules and retaining resources to support the ramp of new data center and critical power programs, we anticipate some margin pressure during the quarter. Despite this, we expect to generate positive free cash flow in the fourth quarter. Consistent with our capital allocation priorities, we plan to use that cash to reduce debt.

Looking ahead, we anticipate that softness across certain legacy markets will moderate the pace of debt repayment in 2026. To be clear, we do not expect sustained negative free cash flow. However, as we ramp

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

data center and critical power production, working capital will temporarily increase, and we may make selective capital investments in equipment to support these programs. Together with fixed cost under absorption from subdued commercial vehicle demand through the first half of next year, we now expect to achieve a net leverage ratio of 3x or lower by the end of 2026.

Importantly, we view this as a transitional period. As cash generation strengthens, with the recovery in the commercial vehicle market and continued growth in our high-margin, high-velocity markets, we expect to accelerate debt repayment and return to a net leverage profile consistent with our stated long-term target of below 2.5x.
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] First question comes from Ross Sparenblek with William Blair.

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

Jag, we started this year and you guys pulled forward your productivity initiatives and realize that's a delicate process, especially when demand cycles are volatile. But how do you feel with the rollout thus far? And do you feel that the organization is well positioned for when demand does begin to turn?

Jagadeesh A. Reddy
President, CEO & Director

Absolutely, Ross. The team has been relentless in driving MBX programs across our plant network throughout the year. Every single plant has had increased number of lean activities throughout the year as we reconfigured our capacity to position data center products into existing footprint. We have done a lot of adjustments to resources, a lot of adjustments to our equipment, a lot of adjustments to how we think about shift schedules.

So all of these actions are not only helping us in the short-term to navigate the soft end market demand, but absolutely will position the company for a significant margin expansion, significant productivity once the volumes return, right? So I'm really excited about all the things that we have done this year, though it may not be reflected in our actual financial results. But as we start putting in volumes back into the plant, even with the data center products, right, we should see going into Q1 and beyond a good uptick in our productivity.

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

Okay. And if I was to put that into a spreadsheet here and just thinking through margins, decrementals were down over 30% in the quarter. What is kind of your time line for closing that gap to keeping a sustained decremental under 20% through cycle looking forward?

Jagadeesh A. Reddy
President, CEO & Director

I would say -- yes, obviously, we're not providing any guidance for 2026. Having said that, I would say by midyear, we should see a decent readout coming out of all the actions that we have taken.

Let me address a big elephant in the room. We are taking a conservative approach to our 2026 CV forecast. You could look at our 2 large OEMs, they're public and they know what they have said publicly for 2026 guidance in terms of volumes, and you can look at ACT. ACT is around 205. And if you average what the customers have said, that's probably somewhere in the 245 to 250 range. So the difference is what is going to be, I guess, really make a difference next year for us. We have taken the conservative approach of using the ACT for planning purposes. So if the volume turns about the ACT number next year, that's an upside for us, not only in terms of productivity and margin expansion, but also significant revenue increase next year.

Operator

We now turn to Greg Palm with Craig-Hallum.

Gregory William Palm
Craig-Hallum Capital Group LLC, Research Division

Can you just give us some sense on what's occurred in the last 4 months since Accu-Fab? I mean it just sounds like overall activity, it's been a lot higher. It's occurred much faster than initially thought. And

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

what types of internal changes or investments do you have to make? Are you making to capitalize on this opportunity within data centers?

Jagadeesh A. Reddy
President, CEO & Director

Really good question, Greg. We have been extremely busy and active in not only bringing our new customers to Accu-Fab, but also a lot of new customers to legacy MEC locations. We have hosted every top customer in data center and critical power segment in many of our plants, and they continue to be impressed with the level of capacity and automation and the skill sets that MEC can bring to this end market.

So as we came out of Q3, we continue to build on that pipeline. We said in our prepared remarks, our pipeline exceeds $100 million. This is qualified active pipeline. We have won $30 million out of the $30 million, it's really $25 million is the cross-selling synergies that we're actively putting into existing plants. A lot of the programs are going into our defense plant, which is primarily a CV plant. A lot of programs are going into Mayville that is a primarily agriculture and power sports plant.

We're putting products into other locations as well where we see immediate benefit as soon as we ramp these data center products, immediate benefit in terms of volume and productivity in those plants that are lacking in volume today. At the same time, we continue to host new customers in the space. We continue to navigate some of the accelerated product launch time lines. If you recall, our legacy programs take between 12 and 24 months once we win them to start up and see revenue.

Data center products are 8 to 12 weeks. Once they make a decision and award that purchase order to us, within 8 to 12 weeks, where we're making product and shipping this product, right? That means we are repositioning resources. We're repositioning capital. We're repositioning machinery. We're moving machines from plant to plant to fully be prepared for this increase in volumes that we're expecting out of the data center end market.

Gregory William Palm
Craig-Hallum Capital Group LLC, Research Division

Okay. Appreciate that color. And I guess maybe can you help us understand like what constitutes a pipeline just versus nonqualified opportunities? And I'm curious, if you look at, you have a slide that's talking about actual orders. I'm curious in terms of the customer characterization, how many of those are from new customers? What would these orders have looked like under Accu-Fab as a stand-alone if they were existing customers? And just thinking about the future potential for follow-on orders if some of these are sort of initial orders from new customers. I'm curious just to get your thoughts there, too.

Jagadeesh A. Reddy
President, CEO & Director

Yes, that's a really good question. Accu-Fab Raleigh location, which was primarily the data center and critical power location, they were sold out. So pretty much everything that you're seeing on this slide, the $25 million of cross-selling synergies, most of that, they would not have had capacity to actually produce, right? So that is the exciting part here is that battery backup cabinet, they might have been able to handle $1 million to $2 million at best in that plant, right? Now we're able to completely take over that program.

And we expect that program to continue on, even though we have a purchase order for $10 million, we expect that to increase as the year goes along next year. So that's the same case with power distribution units. Extrusion panels and busway components. Busway components are really around aluminum extrusions, which data -- sorry, Accu-Fab did not have any capacity for. We're going to produce these out of our Fond du Lac facility, right?

So this is the exciting part about this acquisition is that we're capturing everything Accu-Fab could capture. And then all of this is really icing on the cake because we're able to then now put all of these programs into MEC legacy plants. Also, some of these products here in the pipeline, as an example, products that Accu-Fab has never made. So those products, we are able to manufacture because of either

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

size limitations, capability limitations, machinery limitations that Accu-Fab would not have even bid on in the past. So now MEC is able to bid and win in the future, some of these larger programs and larger physically in size and complexity.

Gregory William Palm
Craig-Hallum Capital Group LLC, Research Division

And are you able to sort of tell us like what types of customers are they? How big are they? Like how much data center stuff are they doing themselves? And just to be clear, what we're talking about here, how many is new versus legacy customers to Accu-Fab?

Jagadeesh A. Reddy
President, CEO & Director

I would say that a significant number of maybe 3 quarters of what we have won here or more are legacy Accu-Fab customers. And in the opportunity pipeline, I would say at least 1/3, if not higher, are new logos to Accu-Fab and MEC. So we're not stopping at just capturing incremental share of wallet from existing Accu-Fab customers. We're actually expanding our logo list, if you will, and going after new customers in that space.

So as an example, this data center customer on this slide, you're looking at, right, the one customer, that's a $20-plus billion in sales customer. The extrusions, the 2 customers, they're each of them, one is probably a couple of billion in size. The other one is $20-plus billion in revenue. Critical power, the 6 customers, these are multibillion-dollar revenue customers, right? So these are large customers significantly expanding their presence in the data center and critical power space and looking for additional capacity to continue to grow.

Gregory William Palm
Craig-Hallum Capital Group LLC, Research Division

Okay. Perfect. Last one for me because you provided some good color by segment for fiscal '26, but there's a lot moving along around in this data center critical power segment. So just given the organic growth, Accu-Fab, synergies, I mean, you're at an annualized $90 million rate in Q3. What is your expectation for revenue in this segment in fiscal '26?

Jagadeesh A. Reddy
President, CEO & Director

In data centers?

Gregory William Palm
Craig-Hallum Capital Group LLC, Research Division

Yes.

Jagadeesh A. Reddy
President, CEO & Director

Okay. We don't -- obviously, we're not providing any guidance for '26. And I'm not trying to be flippant about it, Greg. Every single day, a new program is -- every single week, right, a new program is being added to that qualified pipeline. It has been so dynamic. We did not expect to win $30 million of new business in Q3, right? And here we are, right? We already won some more in October, right? We expect to win some more in Q4.

So at a -- I would say, if I were to take a rough guess, we expect the data center and critical power end market to be at least 20% of our overall sales in 2026, right? Obviously, the caveat there is what is the CV market is going to do because that's a significantly large end market. If CV stays around 205 number, we expect data center to be a 20% end market for us next year.

Operator

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

We now turn to Mike Shlisky with D.A. Davidson.

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

I want to follow up on a couple of the comments you made so far, Jag, on the CV market for 2026. The ACT Research forecast, the 2 OEMs you mentioned. I want to throw out there that all the end users of trucks that I've heard from, not one has mentioned buying less trucks in 2026. That's mostly vocational. But even on the freight side, a lot of folks just set out 2025 and there was bought 0 trucks. So any one truck next year would be an increase for a lot of those players.

I guess I wanted to figure out, have you talked to any of the OEMs? And could you maybe share at a very high level what their actual comments have been directly to you about what to make sure you're ready for in 2026?

Jagadeesh A. Reddy
President, CEO & Director

Good question, Mike. We have been burned by this end market in the last 12 months significantly burned by this end market, right? So if we're being a little gun shy, if we're being a little conservative, right, hopefully, you guys can give us some grace on that. Because if I were to listen to everything the OEM has said to us over the last 9 months, right, we would have been in much worse situation than we ended up in 2025.

I know that we called as we saw it coming out of Q2 and many of you, right, picked on us a little bit that we were being too conservative. In the end, MEC was right about this end market. Because we get to see daily, weekly EDIs. We get to see the build rates on a daily, weekly basis and what the OEMs are actually doing, right?

So I mean, your numbers that you referenced, what they have publicly commented, all 3 of them, 3 public OEMs, do I trust those numbers? I don't because I don't see that in the current forecast. I don't see that in the current EDI. I don't see that in their build rates. I don't see that in their production rates, right? So look, if I'm wrong about 205 and if the market ends up being 240 or 260, one of those numbers, great. That's an upside for MEC, right? So -- but what this has done for us is to -- over the last 3 months, right, since our last earnings call, we were able to go in and take out cost out of our factories, 6 CV-focused plants that we have.

We were able to take costs out. We were able to take shifts out. We were able to take other resources out and redirect resources and capacity to data center end market, right? So as I mentioned, a couple of plants that we're putting data center products in, those are CV plants, right? So this has given the opportunity for MEC to reconfigure our production capacity, reconfigure our resources. And if the volumes come back next year, great, right? That's just an upside for us.

So I still feel the call we made at the end of Q2 and the call we're making on ACT number today might be conservative, but it has really helped MEC to look at our cost structure, look at our capacity and reorganize us as a company.

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

Got it. That's great color. I really appreciate that. And perhaps a very similar question on the ag sector as well. Your comments on it being a back half 2026. Just any comments you heard. I guess the EDI isn't suggesting a good start to the year, at least what you've learned so far. Is that true? And again, heard anything from the OEMs directly as to what you should be preparing for and being ready for?

Jagadeesh A. Reddy
President, CEO & Director

Right. At least the good news on the ag side is, if there is any, the OEMs are at least being honest and the OEMs are at least being transparent with us on what they see, and they don't see a recovery in 2026,

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

perhaps maybe a little bit of flattening out in second half. But still, right, we're calling a low single-digit decline in ag next year, and that is consistent with the information that we have received from our ag OEMs.

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

Okay. You've also commented over the last few quarters about sort of getting market share, tariff-related contract pick ups or opportunities across CV and construction ag and elsewhere. [indiscernible] on do you think you could outperform the broader end markets next year with some new projects stuff in the pipeline beyond data center that maybe you can discuss that might come to the floor in 2026?

Jagadeesh A. Reddy
President, CEO & Director

Yes. If you look at the slide we have on the deck, right, on the market slide, we have consistently outperformed our end markets, right? Yes, the negative bars are not great to look at. I recognize that. But if you look at the market downturn, any of these end markets, we have outperformed the end markets, right? So that's because we continue to win new programs in CV and ag and construction and military and every other end market.

So I expect whatever the end market is going to do next year, we're going to outperform that because we have programs that are starting up in 2026 and 2027 that we're already working on. As I mentioned earlier, these are 12- to 18-month start-ups, right? So we're in the middle of a significant new program start-ups. So 2026 and 2027 will be, again, another outperformance year for MEC in some of these end markets.

So '26 will be a transition year as we navigate putting in a lot of the data center work into some of our legacy plants and reconfigure resources, we can't lay off a whole bunch of people in Q4 and then expect them to be there in Q1 when the data center projects ramp-up, right? So there's a bit of a transition here in the next 1 to 2 quarters, but we do expect to outperform all of our end markets next year.

Operator

We now turn to Ted Jackson with Northland Securities.

Edward Randolph Jackson
Northland Capital Markets, Research Division

Most of my questions have been asked, but a couple of smaller ones. And it sounds like this acquisition is going to be a winner, just going to say it. Question-wise, first of all, with regards to the CapEx spend and working capital needs to bring this data center vision to fruition. Can you talk a bit about what are the things that you need to put in place in terms of equipment and capabilities, maybe some kind of rough understanding in terms of what that means for capital spend next year and then the time line for it? I think my first question [indiscernible].

Jagadeesh A. Reddy
President, CEO & Director

Sure. We don't anticipate significant CapEx increase, Ted, next year to accommodate some of these programs. I say that with the existing -- what the existing pipeline is informing us. We might -- on the margin, we might go spend on a handful of machines that will help us produce these products faster or more efficiently. We have 90-plus percent of the assets required to produce these programs internally today. So that is the great news about the synergies with this acquisition is that we have the footprint, we have the manpower, and we have the majority of the assets required.

Having said that, even though we're not providing any guidance right now, I think we do have it on one of our slides, CapEx slides. We expect to be in the $15 million to $20 million range for our CapEx next year. So that is a bit of an increase from 2025. And we have -- as we have indicated, we're going to be at the

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

low end of the 2025 range for this year. And right now, we do anticipate a slight increase to that CapEx spend next year.

Edward Randolph Jackson
Northland Capital Markets, Research Division

Okay. Shifting over to Construction & Access. You had a nice quarter with it. I know you have a fair amount of exposure within access, mainly aerials and stuff, which is a market that looks like it's kind of bottomed out at this point. So my question is, when I look into -- or you look into that business, I mean, is what you're seeing in there like a bottoming out of the access side of things? Or is it more an improvement outside of access? Maybe some color on that and then maybe some kind of perspective in terms of what you're thinking about that with regards to relatively fourth quarter and into '26? Because I listen to a lot of these OEMs, and it sounds like there's been a lessening of pricing pressure, at least within the larger construction equipment market and the inventories are lined up reasonably well with demand. So kind of just maybe some soft color with regards to your outlook there beyond the fiscal year [indiscernible].

Jagadeesh A. Reddy
President, CEO & Director

Yes. In Construction & Access, we're roughly 50-50, 45-55, right? In access, in particular, I think some of the demand is being driven by nonresidential construction and data center construction. Some -- if you listen to the rental companies, I think out of the 3 rental companies, one of them is on a heavy capital spend. I believe that is one of the reasons why we saw a demand increase from our OEM. At the same time, 2 other rental companies, right, they're going through some transition, one trying to come to the U.S. with an IPO. And so other acquisition transition, inventory cleanup. So we have to wait and see what the other 2 rental companies are going to do.

But certainly, right, one of the rental companies that is doing well and spending money right now, mostly driven by data center construction. That's what's been helpful. Certainly in our Q3, we will wait and see how that transitions going into next year. Construction, again, hopefully, with interest rate cuts in the coming quarters would help residential and other type of construction for the regular earthmovers, the yellows that you can think of in the near-term.

Edward Randolph Jackson
Northland Capital Markets, Research Division

Okay. And then my last is just on powersports. You put growth up there, but you caveated that it sounds like there was some onetime revenue that pushed the quarter. If you took that revenue out, how would powersports have performed? I mean it seems to me from listening to a lot of the guys that play around there that not that the business is bottoming, but the big declines and it seem to pass and you're starting to see kind of the RV, the side-by-side, the marine markets all sort of hit their bottoms [indiscernible]. So I guess the question is, removing your kind of onetime revenue, how did it perform? And am I correct in feeling that, that business or that market is at least finding it's, you know what I'm saying, it's foundation?

Jagadeesh A. Reddy
President, CEO & Director

Yes. Yes. I would say that, again, listening to the public comments from some of the OEMs and what we're observing is that right now, their production schedules are reasonably aligned with end-user demand. That's what we wanted to see, and I think they're finally there. So we do expect flat to up low single digits in 2026 for powersports end market. As you recall, we also brought on some new customers this year. So that's also helping us outperform the market. So if we take out a onetime transitionary order we got, so if we take that out, we still see flat to slightly up next year.

Operator

[Operator Instructions] We now turn to Natalia Bak with Citi.

Natalia Bak

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

Maybe I know that there was a few questions on your data center and critical power vertical, but just maybe a few more follow-ups. You highlighted $20 million to $30 million synergy opportunities for 2026 from Accu-Fab. What are some of the key milestones to realize that? And can you also just frame the run rate EBITDA margin profile for this vertical once these synergies are captured?

Jagadeesh A. Reddy
President, CEO & Director

Sure. What I think that we have on our slide -- let's go back. Yes, when we listed our wins, the $25 million of revenue synergies, Natalya, you can see that the battery backup cabinet starts to ramp -- actually starting to ramp in Q4 and power distribution unit and transfer switches will ramp up starting in first quarter, late January, early February. And then extrusions and busway components. So that is starting to ramp already through first quarter of 2026. So majority of these cross-selling synergies will see an impact starting in Q1 and a full ramp by Q2.

Sorry, what was the second part of your question? Margin growth...

Natalia Bak

I think it's -- yes.

Jagadeesh A. Reddy
President, CEO & Director

Yes. So all of these are 30-plus percent gross margin programs that we just won. I would say that next year, approximately 20% is what I said will be data center end market. Out of the 20%, approximately 3%, I would say, would be legacy MEC products that are in the data centers, i.e., power generation, et cetera. So those are slightly lower margin. And then the remaining here, obviously, is the higher margin.

Natalia Bak

Got it. That's helpful color. And one more question for me. I'm just curious like how are you positioning production capacity between your legacy MEC end markets like commercial vehicle, agriculture versus high-growth data center exposure? I mean there's an expectation for some of your end markets, you're saying for like recovery next year. So just curious how you balance the production capacity.

Jagadeesh A. Reddy
President, CEO & Director

Right. We're having a lot of conversation with our legacy customers. Since we closed, we have started and shared our growth objectives with them and started by requesting additional volumes because when their markets come back up, right, they need capacity today, if we reallocate that capacity to data center customers, they're not going to have access to that capacity. So next steps to that conversation, if volumes don't materialize, will involve commercial pricing. So many of these discussions are just starting and are in early stages, and we'll continue to have those conversations with these customers.

Operator

We have no further questions. So I'll now hand back to Jag Reddy for any final remarks.

Jagadeesh A. Reddy
President, CEO & Director

Before we conclude, I want to thank again our employees for their continued strong focus and execution and our shareholders for their ongoing support. While we recognize the near-term challenges in several of our legacy markets, we are confident in the progress we're making to position MEC for durable, high-margin growth in the years ahead. We look forward to sharing our continued progress with you. Thank you for joining us today.

Operator

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

Ladies and gentlemen, today's call has now concluded. We'd like to thank you for your participation. 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.