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Jefferies & Julien Dumoulin-Smith Hosts: The Growing Role of UPS and BTM Energy Systems: EnerSys CEO & CFO Share Their Outlook | Jefferies | March 31, 2026

Julien Dumoulin-Smith:

Good afternoon. Thanks everyone for the time and the opportunity to connect with so many of you here. Really appreciate the opportunity here. Joined with Shawn O'Connell, Andi Funk, and Charlotte Murnan over at EnerSys. And look, it's a great opportunity to chat with you guys. Really appreciate the opportunity here to walk through the story with you guys. Again, as usual, folks on the line here, ping myself or Dushyant Ailani on the team with any questions or comments. We're going to try to moderate and facilitate a dialogue with you guys real time here. So standby on chat or email if you guys like. But maybe Shawn, with that, appreciate the opportunity to connect with you. It's a pleasure to make this come together here. And more to the point, Shawn, why don't I let you introduce the subject at hand, introduce nurses as far as the background, what you guys are planning to do? And then more to the point, we'll get into some of the details here in a moment.

Shawn O'Connell:

Yeah. Thank you, Julien. Pleasure to be here. And as you mentioned, I'm joined by my CFO, Andi Funk and Charlotte from our IR team. Listen, EnerSys is a longtime provider of stored energy solutions at a time when they're all the rage. We've been quietly doing this for decades and into some of the most important applications on the planet. We have a full technology stack, certainly starting with the core energy storage unit, the battery. We started as a traditional lead asset battery company, but we've migrated well beyond that. We make some nine chemistries of lithium batteries today for various applications. Then we have the power of electronics that keep those batteries charged and disperse energy to the end applications. We have software systems to help manage those systems and aggregate power and help users remotely do this without a lot of human content. And then we have our own service company when human content is needed and we can help our users with that. And these are EnerSys employees, not subcontracts.

So we're in amazing opportunity right now. As you know, we're exposed to really two of the best super cycles of our time, energy security. And also, we're the largest supplier to the US military for energy storage systems and battery. We have really at the core of what we're doing, two strategic pillars. One, this energy security issue, we know that our users are facing both power famine and rising costs of energy. And the other is labor scarcity, whether that's elective or I'll put a spin on Larry Fink's words and say, "The data center space is going to run out of electricians before electrons." So we purport to solve both of those issues through our systems, through efficient power systems. And I just want to point out too that we really operate in niche markets where we have a one or two market leading position.

We are not involved in the EV space and we're not involved typically in open CI. We're in places where we have deep customer intimacy and we can do application stacking. Let me give you a couple ideas where we're at. We have a network and infrastructure segment of our business. These are communications service providers, internet service providers, data centers as another lane, and network and infrastructure, and then power utility, largely backing up switch gear and control arrays and power utility. The next part of our business is warehousing logistics. We're predominantly involved in the electrification of forklift fleets and Class 8 over the road truck applications, and also solving for the total

power demand of those warehouses in which those fleets operate with things like battery energy storage systems and forklift power back to best to manage that whole environment.

Our final space is aerospace and defense, our specialty business. And we have a multiple of applications in this space, satellite batteries, submarine powering systems, unmanned vehicle, drone, soldier power, and so we're very diverse and also munitions. And the collected business is what makes us the largest supplier to the US military and several of the allied militaries around the world. So those are the markets that we serve. And just to get on how we win, we are not an open CNI. So if we go into a warehouse, for example, we know exactly how that forklift battery is operating. In fact, we know how all the OEMs forklift trucks are operating. So we have a primary knowledge there from decades of experience, the communication interface, how you achieve that battery, what the optimum operating condition is that we then bundle with our charging systems, our battery energy storage systems. So it's a real knowledge base there that we have that some of the new market entrants for mass energy storage don't have.

And in fact, because we're niche markets, in some cases, our total SAM and TAMs just aren't large enough to catch the attention or to garner the investment from some of those other players. Julien, I'm about a year on the job. I'll be a year on the job in May. And since I joined, I launched a program called EnerGize and EnerGize is all about doing a couple of things really well. One, I think we're really strong. The research will tell you companies are stronger when you start with your core and lean out sequentially from your core. So the first pillar of this program was optimizing our core business, flattening management layers, cutting out extraneous costs and things that we shouldn't be doing. The next pillar of this system was what we call optimizing our core and invigorating our operating model, I should say. And that's about putting in centers of excellence operationally and the operating rigor that enables us to execute. And then the final pillar is accelerating our growth. Incidentally, EnerSys is a net positive cash generator, extraordinary track record and cash generation.

We have a lot of dry powder, very low leverage ratio. So accelerating our growth is about investing internally in the right things, using that dry powder, and also being opportunistic with things like M&A and share buybacks where necessary to get us to where we want to be, but we're focused on growth. And I'll sum that up so we can get to your questions, but by just saying, we have a really invigorated management team, some of the most talented people you'll find in our industry and any industry, I think, but I'm biased. And they are working together to solve our biggest challenges, pick bets together and full ownership on executing on them. And there's never been a ... I started doing this in the '90s. Never been more time in our industry, in our company where there's more opportunity and really thrilled to be here in this position.

Julien Dumoulin-Smith:

That's awesome. Thank you so much. I appreciate that. Look, maybe just at the top, you probably got to lead with this question, how do you think about the company seizing the data center opportunity here? Just a little bit more specific. You kind of framed it a little bit there. You touched on it. Let me ask you to double down if you don't mind on that statement.

Shawn O'Connell:

Yeah. So I'd love to go heavier into data centers. So EnerSys has been, if you look at our lead asset position, we've got 55% market share in the US in powering data center historically. And that started decades ago when data centers were largely positioned towards financial institutions. Now with the hyperscalers, that business has just grown for us very, very well. But our position in the data center to date has been centralized UPS support. So some of the large UPS OEMs, names you would know, Vertiv, Schneider, Eaton, these are our customers, as well as the hyperscalers themselves. We have a seat at

the table with the hyperscalers. And Julien, these are high trust environments. So having a product is one thing, having the knowledge and the experience and the space, being able to deploy at the pace that the customer needs you to deploy being ... Our industry council is called the seven by 24 exchange, just implying that you always have to be available. The systems have to be available and you have to be available to the customer.

EnerSys does this, and we wrap that all in a service experience, again, with our own service company. So our opportunity is this. If we have 55% market share in lead and we're only now deploying our lithium battery, lithium is now every bit of 60 to 70% of greenfield data centers for AI. So our lead battery business is going to grow at about 20% this year, but we know that the real robust growth and breakout growth for us will be in the lithium space. So we're really, really pleased that we have now this month launched our first customer trials of our lithium battery offering into data center. And again, because of that high trust, because of our right to win, customers are already so enthusiastic. Now it's just about validating the product, making sure it communicates well with the UPS and in the environment, and then we're confident that we'll be able to get into the deployment cycle.

Julien Dumoulin-Smith:

Now, you talk about getting the deployment cycle. How do you think about what this looks like in terms of order activity here real quickly? I mean, you kind of lay out a timeline there. And then separately, not that we've talked about, the industries talked about this 800 volt DC transition and the architecture there. How does that impact you guys as well? Just think about that in tandem with what you guys are kind of scoping out here as well. So there's industry size changes that are ongoing, but also you kind of lay out a little bit of timeline dynamics yourself there implicitly.

Shawn O'Connell:

Yeah. So let me start with the timeline piece first. So I said these are high trust environments, they are, and we have that trust, but it's trust in the Reagan sense of the word, trust but verify. So what'll happen is we will go into these customer trials. It'll take time to validate the system, make sure everything's working the way that they want it to work. And as soon as that happens, then we can get into the order side of it. We are level setting expectations with our investors that because we're April to March, by the way, so we're about to start our '27 fiscal year. We think that the lift will begin to show up in the sales for lithium and data center in fiscal '28, just to kind of give you an idea what that timeline looks like. That being said, we're already

Shawn O'Connell:

... Quoting some of these systems even as we validate. And with that being said, the nice thing is when you hear things like transformers having a two-year lead time, batteries are usually ordered towards the end of the cycle. So we typically aren't waiting the full lead time as maybe the UPS system itself or the transformers or switchgear or some of the other ancillary items.

Now the other part of your question, 800 volts DC. Now you have to understand a little bit the architecture of the UPS system. And Julian, I know you're very knowledgeable in this space. If you look at the old architecture of double online conversion, you had AC power coming in, a rectifier changed that to DC, that's when our battery came in. And then on the other end, an inverter changed that back to AC for the loads. So if you look at it, EnerSys has always been providing a DC system from the battery perspective.

The only difference is traditional architectures were 480 volts. To get the efficiencies we need now and to cut down on the copper and all the things we want to do, we have to go to 800 volts. But what that

means for EnerSys is we're going to sell more cells. So we see that basically as a lift in volume and a creative lift in volume. And we're very excited about it. For us, it's more battery.

Julien Dumoulin-Smith:

That was awesome. I mean, how do you think about the traction? You talk about, I think the term of art is trust but verify, but also the fact that you have these entrenched relationships. How do you think about scaling? How do you think about taking this to the next level? How do you think about having this position, gaining maybe a share wallet or maybe that's the expression you want to use here if you think about it.

Shawn O'Connell:

Yeah, you know-

Julien Dumoulin-Smith:

Pivoting from timeline.

Shawn O'Connell:

We don't want to approach it from a position of hubris, but I would tell you that we have deep customer relationships and in many cases, global contracts with all of the hyperscalers that are buying lithium. So they know us and they have a very long track record. In many cases, we've got all the master agreements done, which sometimes you get the lawyers involved and that could be a long tent pole. We have all that done.

So really for us, it's about adding products to our existing agreements where all of our service companies have been vetted, they've been vetted at the sites, they've got all their certifications for the safety and the data center and this kind of thing. So really the reality for us is that we're at a much expedited position once the customers are happy that ... And it's more that they've tested the system, they've done some discharges, and the communications are where they need to be So they're getting all of the data back at where the monitoring location will be or at the knock to make sure that the system's functioning, is communicating with the downstream gear. So those are really the longer tent poles for us. It's just getting that validation.

But the ones that would traditionally hinder a new market entrant are the areas where we have a real advantage. And I'll tell you one more thing. Customers are asking us for this. So it's not like we're on the hunt to go out and see if one of these folks will talk to us. It's been the other conversation, which has been very telling for me as a new CEO saying, "Hey, O'Connell, hurry up. We need what you bring to the party in this space."

Andi Funk:

And Julien, as far as lead time on orders you mentioned, some of these very large data centers can take up to 10 years to build, but the lithium versus lead decision is typically made about 12 to 18 months before completion, and the orders for us come in about three months. So while there's very long lead times, we're able to get into the mix, even though it'll probably take about a year until we get through validation, et cetera, as Shawn mentioned.

Shawn O'Connell:

Yeah, thank you.

Julien Dumoulin-Smith:

Awesome. Excellent. Thank you both very much. Appreciate that.

Maybe let's talk about ... We pivot at this point over to the ... Well, let's talk about power quality before we move away from this, because there's another angle here. There's EPS, there's a signal conditioning angle here. How do you think about your all's contribution to that front, any angles that you flag in particular here? And then ultimately, how do you think about competitive positioning and rollout of products writ large, whether it's tailored to the DCN market or otherwise? Again, Shawn, new in the role, how would you set expectations on what is to come, if you will, given whether it's tied to UPS and signal conditioning otherwise?

Shawn O'Connell:

We're very excited about this. So just starting on power quality, the batteries and battery technology is the absolute best capacitor that we're going to have to address this variability of load of AI. It's the only near-term solution until some of the other ones come online downstream, which might be years away. So we see this as a real opportunity. It's not an insignificant issue that a large language model center could go from 100% load to 20% load in milliseconds. So this is a big deal for us.

We deploy power systems in a variety of applications where we are addressing power quality, where we are removing those surges, spikes, where we are cleaning up that. If you looked at some of these utility feeds coming in under an oscilloscope, we call it dirty power, right? I mean, it's not a nice clean sine wave. So EnerSys systems do that today and the battery is the first and best line of defense.

So for us, that variability does a couple of things. One, when you have the battery clean that up, it is taking life out of the battery, the best of technologies. I don't care what it is. Lithium, long-life lead, sodium, whatever these are, every time that battery is used in power quality, it's like using some of the ... Not like, it is using some of the battery's capacity. So what that means for us is that it'll hasten end of life and certainly sell more batteries in the aggregate.

The other thing though, where EnerSys believes we have a real right to win and a niche area and something we're looking at very carefully, we make rapidly deployable smaller scale power systems that we are already participating in the edge, and we've been doing so through our telecommunications and cable and broadband business. So as we start looking at enterprise-level inference models for AI data centers, these are smaller systems where EnerSys has a real long legacy and experience where we think we can deploy these systems because we're doing it in other markets very quickly, very elegantly.

And then we have all of the service companies involved that can do the public right-of-way, that can get things connected in and get them installed. Sometimes that's the long tent pole. So we're excited about it, that the power quality issue for us is very good, and we believe it's opening up some other applications where we got a right-to-win.

Julien Dumoulin-Smith:

That is awesome. Well, look, why don't we talk about, speaking of right-to-win, how do you think about the lithium strategy here? You guys talk about lead asset, et cetera. How do you think about what this gigafactory ramp and roadmap looks like? You talk about 28 here in South Carolina. How do you think about what that looks like? What does that do to maybe Andi tag in here as well, talk about the financial side of it too, but where does this go? What does this look like over time? And we'll go from there.

Shawn O'Connell:

Yeah. So let me start with a bit of the strategy piece and what's gone on there, and then Andy can give you some of the modeling. But this factory, when we started, it was under the Biden administration, and everything at that time was around EV and a little bit different experience.

When the Trump administration came in, everything changed to foreign entity of concern. And so the EV credits went away. The original premise for our facility went away, but then by merit of our Bren-Tronics and Rebel acquisition and our position with the Department of War, we actually began to pivot those conversations to, could we face this entire facility towards helping the US government with its domestication goals for the US military? And those are the types of discussions we've been having. I can tell you that they've been very positive right now, and we've said publicly, this is aspirational until we have a definitization with the government, but it's going very well.

And the premise would be there are some, let's call it 42 programs for soldier power or radios or things embedded on the soldier that all originate, the vast majority originate in China. So the number one pure threat in the world from a military perspective is your number one supplier battery. It makes little sense for the government of the United States. So what they want to do is consolidate those down to less than 10 programs, because a lot of these are very similar in size and scope and have that come out of one facility. EnerSys believes we can help with that. And the really nice thing about that, Julien, is that we have a customer ... these are program sales, so we're not out in the open commercial market competing with the next drop in a lithium pack price based on electric vehicle. So there's a lot of de-risking that goes into that equation for us.

Now in commercial markets, what I'd like for you to know, first of all, EnerSys makes nine chemistries of lithium today for different applications, but in areas where commercial markets won't pay a premium for a higher quality cell, they just need the base unit of the cell, we have no problem having a make and buy strategy, and we can buy those cells on the open market. Here's why, because by the time we get done, taking that cell, putting the power system around it, the BMS, the logic, the communications, making that system, in the case of a forklift, communicate with the forklift, or communicate with the telecommunications power system, all of the regulatory stuff, it's all different than EV. Everything we do from the battery forward is the rest of our value add. And again, our industry is bite of the elephant's a meal for us, our SAM and TAM is just not big enough to get the attention of Tesla or BYD or some of these other bigger guys and have them make all that investment for this size of a market.

So we really believe that our right-to-win is preserved. We don't mind having make and buy. And if we have our way, the gigafactory would be totally positioned for the US government and military. And Andi, do you want to add any comments about the financial aspects?

Andi Funk:

Yeah, I'm probably going to disappoint you a little bit, Julien, but I don't want to get too far ahead of the DOE with our revised plans. So we will be providing updated financials, both when that is communicated as well as our investor day that we're going to be holding on June 11th at the New York Stock Exchange.

The only two things that I think are worth mentioning is we had been given a $200 million grant through the Department of Energy, and that's what we're looking to reaffirm. It is a grant, not a loan. It's a cost share program. So depending on the scope change, there may be adjustments there, and that's what we're waiting on, the finalization of that announcement.

Then the state of South Carolina also gave us about $200 million of incentives. There's a little longer term in nature, but this is solving a critical need and we're very excited about it.

Julien Dumoulin-Smith:

That's awesome. Thank you both again. I appreciate it. I mean, when you think about milestones here, whether it's with DOE, Army, et cetera, sort of on this venture here, what would you be flagging or pointing out? Whether you talk about this, you alluded to this earlier. If you think about tangible data points here, what are the next pieces to really watch for as far as it goes? Even if the financials per se, we got to hold out for June here are forthcoming, what would the critical milestones here be?

Shawn O'Connell:

Yeah, everything is about when a battery factory stood up, we did a lot of pre-work on the environmentals, so we were able to do that. So we think we can expedite that. Construction cycles being equal, so the building hasn't gone up yet until the environmentals get done. So you'll want to keep an eye on that.

We will talk as we release more information, we'll talk about how we think we've been able to expedite time to first article where we're putting out minimal scrap rates and very high OEE, but that's the whole game in lithium, is achieving that scale and getting to that production level. The good thing is we have a customer that wants us to do it yesterday, and we believe we will take a technology position that will help us get there quickly, but the big things I can tell you about now are look for what we release publicly about technology partners, how that'll expedite construction, but more importantly, how that'll expedite getting to the OEE we need to achieve that profitable scale for the government in the fastest amount of time.

Julien Dumoulin-Smith:

Nice. Let me ask you just a quick elaboration here. So FEOC, there's been some talk about FEOC being a little less, being more workable for other parties here. How do you think about FEOC and where kind of initial guidance is landed? I know that not everything's resolved here, but how do you think about that relative to the competitive landscape? How would you frame that out? What are we waiting for? And how do you think about the overall supply and demand of domestic and global battery alternatives and both the qualification and the [inaudible 00:58:40] as well as how does that fit against your own efforts where obviously you're targeting such a niche player because at times people are focusing on all these headlines around the landscape and also focusing on what FEOC means specifically here. I threw it all together. I figured it made sense. Take any piece you want there.

Shawn O'Connell:

Yeah. Yeah. No, it was very elegant framing actually. As I said, because we're going after niche markets, we have a customer that needs to move as quickly as possible because they've really exposed at the moment. So even before you start talking about domestic economic security, domestic security for the war fighter, I think we have very close relationships on the hill and it's bipartisan, by the way. So it's great because the last thing we'd want to do is build a plant and then have an administration change and have somebody say, "This isn't a good idea." We get broad bipartisan support, but the military is very mindful that the world went ahead and allowed 96% of the supply chain for all materials to get tied up in one country. And that's a reality. I think they're taking an eyes wide open approach right now. So what we're seeing is they're going to phase the requirements of how deep they go in the supply chain over time to sort of slowly get to where they want to be to have total domestication.

If they did it today, it'd be impossible they wouldn't get any material. Even some of the other Asian countries like Korean manufacturers are sourcing anode and cathode materials in China. So again, 96% is a big number, but for us, everything is around foreign entity of concern. Everything is geared towards

starting the process to build to that eventuality where we can get everything domesticated. Now, there are resources that are available to us. And I will just give you, for instance, most of our nine chemistries of lithium that we're building today have predominantly domestic supply chains and domestic sources. The issue is some of these are so specialized, like our munitions weapons batteries. We make standoff weapons and hypersonic weapons batteries. We're talking about much smaller quantities than the quantities we would produce in the gigafactory or quantities that you're seeing being produced in EV factories, even if they're being repurposed for energy storage.

So the question is, how do you achieve scale in those quantities in rare earths and cobalt and nickel and these other things? And that's what's going to take a little more time. But as I told you, I think the folks within the apparatus, within the customer are being very mindful about how to pace that so that they don't over stir the sauce and leave themselves without the ability to source material on the front end, even if the goal on the backend is complete domestication.

Julien Dumoulin-Smith:

Excellent. And then how do you think about the scaling? I mean, this is a question that's come in from others out there, is how do you think about the confidence in getting the milestones? At times we've seen folks out there just face a protracted ramp of storage-related manufacturing. Again, I think you probably know what I'm getting at in some other cases here. How do you think about getting to a quality product and feeling confident about that, where you are today?

Shawn O'Connell:

Yeah, we feel very good about it. I'll give you, a lot of people have tried to go this alone and they've tried to take novel approaches and that usually doesn't go well. And I don't know why they did because Elon showed us all, in spite of him, with all the pictures of him sleeping in the middle of the factory with the sleeping bag and all that, the reality is is he went to Japan and got one of the best partners on planet Earth that knew how to get the system up to OEE and knew how to spec the equipment and put it in. And he partnered with them from day one and they brought in their electrodes and they began stuffing cells as he began to determine how he would do his own coding and some of the other parts of the process. That's the right model. We think that's the right model.

We would purport to take a similar technology approach to where we're not going it alone. So what that allows you to do, and I don't want to give away too much of our secret sauce here, but what that allows you to do is to start building a product using help from a partner and content from the partner as you are developing some of the other high tent pole competencies that usually result in high scrap and low EEE, it allows you to do them in tandem so you can begin producing high quality sales sooner. And we'll be releasing more of this strategy over time, but you'll see us taking an approach like this where we're not going it alone, where we're not, I'll call it taking a missionary stance in the marketplace where we're going to use a very tried and tested partner to help us out.

Julien Dumoulin-Smith:

I'm sorry, can I go back? I don't know how to think about ... Try to answer this because someone's asking more from a higher level perspective. How do you think about, you kind of frame this military approach and specifically kind of a soldier approach, how much content, if you think about it like in content dollars, how do you think about like a single soldier battery pack and think about like what you're contributing from a content dollar perspective? Any thoughts or perspectives, heuristics even that you would use? I mean, I don't want to get ahead of your update here coming up, but how would you try to tackle that?

Shawn O'Connell:

Yeah. Well, it's interesting because of the fact that we've been quietly assembling more and more parts of the supply chain and vertically integrated, our content has increased dramatically. So if you look at our Bren-Tronics acquisition that we made a little over 18 months ago, what that is, what that organization does and that outfit does is they assemble batteries into the end packs. So they're assembling cells into the end packs that then power the various applications. They also make the charging systems that go along with it, and these can be vehicle mounted, soldier mounted. There's a lot of optionality there.

So what we're really going to purporting to do today, those are all purchases for us when we purchase the cells and integrate them into the packs. After the plant's online, we'll just be basically solidifying the end-to-end piece of the supply chain where we begin with the Cell and with the pack. And that pack business for us is highly value add. Now we'll control the supply input of the battery cell itself. So it's really, in this case of the battery, it's getting now moving towards 100% of the content.

The other thing that we did by merit of the Bren-Tronics acquisition is we bought a company called Rebel and Rebel uses Bren-Tronics batteries as its core energy storage device. And what Rebel is a hybrid power system that is now, from the information we're receiving,

Shawn O'Connell:

...is now the number one forward operating base hybrid powering system for rechargeable drones. And so we have a massive uplift coming for our Rebel systems. And again, with the Bren-Tronix battery pack assembly, when the plant comes online, making the core element of the cell itself that are going into these packs, and the Rebel system powering it will have end to end the entire supply chain for deploying energy, and recharging it at the most forward edge of battle for the biggest growing application on the planet in drones for that space.

Julien Dumoulin-Smith:

I mean, you talk about this massive growth, right? And certainly I would imagine even independent of a secular acceleration in adoption, probably militaries themselves are accelerating procurement given the backdrop today. People want to know, how do you think about acceleration of that back to your core financials, and business prospects? Again, I know we're knocking on the door here of what's coming up, but how do you kind of marry that up into your outlook? I mean, you guys had this pretty successful, meaningful acquisition earlier. You talk about being deeply entrenched here in the right places. I mean, being tied into drone tech, and batteries is a pretty interesting neat place to be. You say yourself, don't use the word massive, try to quantify that a little bit more.

Shawn O'Connell:

Yeah. So, if you follow any of the substack stuff that comes out of the hill, there was a great one over the last weekend for Bruce Mellman, and the future is electric. And what's gone on in the Ukrainian conflict has demonstrated to the whole world the real future of warfare, and what it's going to look like, and it's drones. So, for us, it's a very large opportunity. In terms of how we're going to approach it, without giving you too much dimensionality around numbers, but how we're going to approach it is this. A couple of things. One, we mentioned, or we may not have mentioned, we have a lot of dry powder. We have a one, two leverage ratio. Most of our investors tell us they're comfortable with three, and under. So, we have a lot of room. I mentioned our cash generation, and we want to put that to work. We still think there are some really nice targets out there for us that we're looking at. The nice thing is we have a lot of sponsorship from the government customer to help us consolidate. They're actually, in times past,

you'd be worried about some of these deals getting blocked. Now we feel like a lot of support. The other thing is part of that energized strategy I told you about is we launched centers of excellence. And what that means is, as you might imagine, the asset heavy operational structure, procurement structure that goes into managing lead acid is completely different from the asset light manufacturing apparatus for power electronics, and microprocessor supply chains, which is entirely different from manufacturing a lithium battery, believe it, or not, and advanced technology. We've now cannonized that. We've made that official where we have groups in our company that specialize in each of these cases.

So, in the case of advanced power systems, we make advanced power systems for cable, and broadband for telecommunications for a variety of our markets. So, now what we have the ability to do is when we have the government come in, and say, "Hey, listen, we like a platform." Could be, I'm not specifically talking about the Rebel platform, but it could be, we can now pop that right into our operations, and other places where we already have the ability to scale, react very quickly. All of the expertise is there, and we can deploy rapidly. And everything you hear out of the Pentagon with Hegseth, and the whole crew is about how do we disrupt the centuries long program sale, big budget, over budget, how do we get people to think entrepreneurially, act like startups, even if they're big companies. And EnerSys has spent a lot of time over the first year of my tenure sort of inbreeding that entrepreneurial spirit, imbounding that ability to react, and move quickly, and execute. We feel pretty good about it.

Julien Dumoulin-Smith:

That's awesome. Nice stuff. And I don't know if it's an indie question, or what have you, but you want to talk about the cash piece in M&A? I mean, how do you think about use of cash, and capital allocation here? And then again, Shawn admittedly, someone else wants to ask. I mean, can you be a little more specific? How are you thinking about this? I mean, I know you just spoke to it a little bit, but [inaudible 01:11:00] size, scale, et cetera, but both kind of go in the same direction.

Shawn O'Connell:

Yeah. I'll let Andi kick it off with the capital allocation piece.

Andi Funk:

I'll take a first crack there, Shawn. Thank you. So, our first priority is always to invest internally, but fortunately our lead asset plants are, we've done all the necessary expansions that we need there. So, you're probably talking between 75, and $100 million of CapEx on an ongoing basis before you get to the new lithium plant that we're looking at. So, lower than our depreciation, which is certainly a nice position to be in. We have a dividend that grows with the earnings excluding 45X. We didn't talk about 45X. We could talk about that more. But after that, we are big on acquisitions. We've done over 36 acquisitions since we went public in 2004. It's certainly a big piece of our growth strategy. Bren-Tronics acquisition, which Shawn just mentioned was really an ideal type of acquisition for us. That 100 to $300 million range, we could easily absorb one to two of those a year with our current cashflow, something that is in a growth market, and is margin accretive.

We're not looking for turnarounds. We're not looking for real startups. We want something that really makes sense. Why EnerSys? And the nice thing is we're in a lot of growth markets, so there's a lot of opportunities out there, although we are disciplined to make sure that the valuation is appropriate. And after that, we're buying back stock. Our board announced a billion dollar buyback program. We've been buying back pretty aggressively. We think our stock is a nice deal. So, at 1.2 times, we've got a lot of room to get to our two to three times levered. I always look at it excluding 45X because I don't want to go too far out in my skis, and I want to leave some dry powder to act quickly.

Julien Dumoulin-Smith:

Yeah, that 45. Do you want to talk about the 45X recognition here, and how that scales as well here as far as... Go for it.

Andi Funk:

We get about $40 million a quarter of 45X benefits. It's treated as a reduction of cost of sales, not subject to tax. A lot of that we haven't yet monetized. When we look at our free cashflow conversion, there is some seasonality in our cash flows. We tend to look at it over a multi-year, multi-quarter period. We're above 100% free cash flow conversion historically. So, our business does kick off a lot of cash. With the 45X, we right now are not paying federal income tax because our credit is bigger than our federal tax liability. And then we've received our one refund last year, and we are due to receive about $120 million as a refund, which should come, and it's due this month, but if it's delayed, it would be received with interest. So, that's our 45X. And we use the 45X as the law intends to invest in our internal capacity of qualifying batteries.

We had closed our Monterey plant, and moved that production to Kentucky. We also have just announced a closure over Tijuana plant, moving that production mostly to our Missouri facilities. We've expanded our capacity in Missouri. And then of course, as you know, the lithium plant that we're looking to build as well.

Julien Dumoulin-Smith:

Awesome. Yeah, I hear you on that front. I mean, what does your pro forma footprint look like after you get the build out done? I mean, just to summarize there, you got a lot of moving pieces. Someone asked me earlier, it's probably the right time to throw it in here. Do you want to speak to that real quickly? I mean, you want to keep the mic there, and we'll pivot back to Shawn in a second?

Andi Funk:

Sure. We have about 15 gigawatts of capacity right now. So, the plant would be incremental to that, if that's the question. And that's all on, of course, right now it's mostly on the lead asset side, and the additional lithium plant would be on lithium capacity.

Shawn O'Connell:

Julien, it might be just a good reminder to interject if any of the folks on the call didn't know. We received initially a Department of Energy grant for this plant, which was on the order of magnitude approaching $200 million. It's a cost share model, but also the state of South Carolina had another group of incentives up to another about 200 million in things like tax incentives, and that. So, even though we're not going to release the financials of the plant today, if you think about all that 45X money coming in on top of 400 million in cash to build this plant, and with a pretty solid roadmap of the types of equipment we need, and being able to really keep that controlled, this is something that we feel is going to be when the plant's up, and running, really quickly a creative shareholders, and the model will look very good.

Julien Dumoulin-Smith:

Awesome. Excellent. Actually, someone asked me earlier, Shawn, why don't you lay out of this point? I mean, we talked about strategic a second ago. You came into the business, and you laid out your own

kind of turnaround aspirations a bit ago. Do you want to talk about where you are against those targets you articulated a little bit ago, and how you think about scaling on that, right? Does that make sense?

Shawn O'Connell:

Yeah. Well, I'll give you an answer. Tell me if it's on track. So, I would tell you that everything we've set out to do has exceeded my expectations. I've been a little blushing a bit at the increase in the stock price. That's been a real surprise, a pleasant surprise. We knew with a billion dollars in buybacks, taking out 80 million in cost, operating more effectively, getting OEE up in our plants. We would have demonstrative shareholder benefit. All of those things are firing. All those cylinders are firing. And with my internal team, we dimension these things in terms of what we can control. So, if our transportation market's exposed to the great freight recession, we can get market share, but in the end, we can't increase the overall aggregate market until that turns around. Or if mode of power's got pressure because of a variety of industry factors, those are non-controllables for us.

Well, what our controllables are is being mindful of our OPEX, placing the right bets on where we're putting capital in ROIC. And I can tell you those things are going extremely well. And then the other thing that's going extremely well, to go from a year ago, and say, we are going to deploy our own battery energy storage systems by the end of the year into these customers where it's, as I said, it's niche market. So, it's less than 4% of the open CNI market. We will go from zero to customer trials. We will also go from zero to customer trials with a lithium data center battery, and we would have the ability to monetize internet of things, real time monitoring of these systems. We are being successful in all of these areas. So, it shows you that the strategy's working, the operating environment's working. We socialized in our second quarter.

In order, we were able to go after for 5G macro sites that the customer came to us, and said, "Listen, if you could redesign the power cabinet, the power distribution, make some changes for us, give us a first article inspection within a couple of weeks, and you can deliver in the quarter, you can get the order." So, you saw a big uplift in sales from us in Q2. That came from executing on that order before at Enersys, that would've been an 18-month process. This time we had that cabinet redesigned, we had the power distribution redesigned, we had those first articles to them in a couple of weeks. They placed the order, and we were able to execute in the quarter. So, for me, all of the plumbing we've been building to give EnerSys the ability to execute is going extremely well, we need the markets to cooperate.

And then of course I would share with our investors, and prospective investors. You got to look at us over the course of a year, or an extended period because every one of these markets, even data center that's going like gangbusters, there are build cycles. And so you'll have this sprint, and this lag, the sprint, and this lag. So, on a quarter by quarter basis, the comps get a little goofy in cyclical businesses, but in the aggregate, I'm very pleased to where we are. We're ahead of where I thought we would be. That's a credit to my team, not the CEO, and the amazing people that we have working with us, but very, very bullish on the EnerSys future based on the execution I've seen so far less than one year into my tenure.

Julien Dumoulin-Smith:

That's awesome. I mean, that's a nice way to start to accommodate the conversation. I mean, how would you set, just for those listening, what are the breadcrumbs? What have folks got to listen for at this analyst day? How do you think about what vision you're looking to articulate here? A year into it, what's the purpose [inaudible 01:20:36] if that's another way to ask the question?

Shawn O'Connell:

What was the last question? I'm sorry, Julien.

Julien Dumoulin-Smith:

What's the purpose, if you will? Why are you doing it? And I don't mean to be facetious about it. I mean, how would you set expectations, or thoughts around a year in? What kind of milestones do you want to lay out for yourself?

Shawn O'Connell:

Yeah, our purpose is very clear. I talked about these deep relationships, and they're so deep. Our customers, we make them members of the family, and friends. And because these are high consequence environments, and friends don't let friends down, our job with the world is shifting on them as much as it is anybody else. Our job is to help them in novel ways solve for this energy security issue, and help them do it with less people. And so when you are listening to our story, and let me hopefully stitch it together. When you hear that we're deploying a data center battery, it isn't just deploying a data center battery. When you hear that we are now, customers have ordered it, and validated it, and we're taking first orders for that, you'll know that we're being successful in helping them do that. When you hear about battery energy storage systems working in tandem with a forklift fleet in a warehouse, because if you're a warehouse operator, you're not Microsoft.

You can't go restart Three Mile Island to get more power. You have far less options. So, to solve for power famine, you need help. Our systems can help with that. So, when you hear us talk about, "Hey, we've got a flagship customer, and they are deploying best in conjunction with forklift batteries to offset the power." You know EnerSys is being successful that that story is resonating. Even our cable, and broadband business, we talk about that much. If you look at cable, and broadband, hybrid fiber, coaxial networks, we have 96% market share in the United States for the powering systems for hybrid fiber coax. Well, they have to expand their data capabilities if they're going to stay in the game because right now today, they're responsible for 80% of the backhaul of internet traffic from wireless traffic. Well, think about what we're talking about in data center.

It's AI use cases. You, and I as the consumer are not going to accept a world where we don't get that AI use case to our handset. That means those guys have got to provide more data. So, they're concerned with things like DOCSIS 4.0, the data over the cable internet cable interface, and our systems are going to enable that. Here's the problem, DOCSIS 4.0, it's more power hungry, and the broadband company needs to save energy. So, you'll see our new systems. When you hear about our new systems reducing the power consumption, or the actual total energy consumption, or spend, even as we increase the bandwidth, and capability, and you hear that trial being successful, and you hear about that customer, and that success story, you'll know EnerSys is firing on that cylinder, and that market to enable exactly our strategic premise. And that's a big sail to be, to use a maritime analogy, that's a big sail out there in the wind for us, and something to keep an eye out for.

Julien Dumoulin-Smith:

Nice. All right. Well, we're basically at the top of the hour here. That was a nice way to call it. Anything else that you guys want to add? I think that was a fine moment to end this thing on.

Shawn O'Connell:

I was at another conference, Julien, very recently, and somebody said to me, "Listen, you guys are in battery, Tesla's in battery, CATL is in battery. How do you win against those guys?" We're in different

games. We're in different games. And I hope what came across is our application stacking in these niche markets that they're a meal to us, even though they're a bite of an elephant, but our total SAMs, and TAMs are just not big enough, and meaningful enough for those guys to put the investment in to come after our markets because the juice won't be worth the squeeze for them. It'll be very worth the squeeze for our shareholders. And I just want people to know Enersys is in a different ballgame than those guys. We, at some point, if their sell's cheap enough, we may buy it, but all of our value add comes after that, and we're going to make a lot of our own sales too. So, that's what I would have people know about us. Totally different. It's apples, and oranges, totally different applications that we're pursuing.

Julien Dumoulin-Smith:

Yeah. Thanks for clarifying that. I know that at the surface level, someone might conflate that, but your point is very well-made on the niches, and making it worth their while. So, well, look, maybe with that, thank you, Shawn, Andi, Charlotte, thank you all for jumping on with Dushyant, and I. And again, I got to stress, thanks everyone on the line for sending in your questions, and reactions, and comments through the whole conversation here. So, it was great. It was a pleasure, rather. Wish you guys the best of luck both into you, and the preparation for the stateless day, and frankly beyond that.

Shawn O'Connell:

Thank you so much. It's really a pleasure for us to join you. Appreciate it.

Andi Funk:

Thank you, Julien. A pleasure to talk with you. Thanks.

Julien Dumoulin-Smith:

Absolutely guys. All the very best. Have a wonderful day. Take good care.

Andi Funk:

Bye, Dushyant.