

S&P Global
Market Intelligence

EnerSys NYSE:ENS

Earnings Call

Thursday, August 7, 2025 2:00 PM GMT

CALL PARTICIPANTS	2
PRESENTATION	3
QUESTION AND ANSWER	9

Call Participants

EXECUTIVES

Andrea J. Funk
Executive VP & CFO

Lisa Hartman
*Vice President of Investor
Relations*

Shawn M. O'Connell
*President, COO, President of
Energy Systems Global & Director*

ANALYSTS

Alfred Shopland Moore
*ROTH Capital Partners, LLC,
Research Division*

Brian Paul Drab
*William Blair & Company L.L.C.,
Research Division*

Noah Duke Kaye
*Oppenheimer & Co. Inc., Research
Division*

Presentation

Operator

Good morning, ladies and gentlemen, and thank you for standing by. My name is Kelvin, and I will be your conference operator today. At this time, I would like to welcome everyone to the EnerSys Q1 Fiscal Year 2026 Earnings Webcast and Conference Call. [Operator Instructions] Thank you.

I would now like to turn the call over to Lisa Hartman, Vice President of Investor Relations. Please go ahead.

Lisa Hartman

Vice President of Investor Relations

Good morning, everyone. Thank you for joining us today to discuss EnerSys first quarter results. On the call with me today are Shawn O'Connell, EnerSys' President and Chief Executive Officer; and Andrea Funk, EnerSys Executive Vice President and Chief Financial Officer.

Last evening, we published our first quarter results with the SEC, which are available on our website. We also posted slides that we'll be referring to during this call. The slides are available on the Presentations page within the Investor Relations section of our website.

As a reminder, we will be presenting certain forward-looking statements on this call that are subject to uncertainties and changes in circumstances. Our actual results may differ materially from these forward-looking statements for a number of reasons. These statements are made only as of today. For a list of forward-looking statements and factors which could affect our future results, please refer to our recent Form 8-K and 10-Q filed with the SEC.

In addition, we will be presenting certain non-GAAP financial measures, particularly concerning our adjusted consolidated operating earnings performance, free cash flow, adjusted diluted earnings per share and adjusted EBITDA, which excludes certain items. For an explanation of the difference between the GAAP and non-GAAP financial metrics, please see our company's Form 8-K, which includes our press release dated August 6, 2025.

Now I'll turn the call over to EnerSys' CEO, Shawn O'Connell.

Shawn M. O'Connell

President, COO, President of Energy Systems Global & Director

Thank you, Lisa, and good morning. Please turn to Slide 4. Here's what we'll cover today. First, I would like to introduce EnerGize, our strategic framework to transform and grow our company. Second, we will provide an overview of our first quarter results. Third, we will provide an update on potential tariff impacts. Fourth, we will report out on our capital allocation actions. And finally, we will provide color on our Q2 guidance.

Please turn to Slide 5. In the first quarter, we launched EnerGize, our strategic framework to shape the next era of growth for EnerSys. EnerGize builds on the hypothesis we have developed to unlock EnerSys' value. This framework focuses on 3 pillars: optimizing our core, invigorating our operating model and accelerating growth.

Optimizing our core consists of restructuring our organization to enhance our operational efficiency and effectiveness with a focus on maximizing returns on capital. We recognize that we need to be faster and more efficient to lead the way in our markets. And so we recently announced a strategic organizational realignment. Through this program, we are reducing 11% of our nonproduction workforce, generating \$80 million in annualized savings beginning in fiscal year 2026.

With this effort well underway, we expect to realize \$30 million to \$35 million in savings in the second half of this fiscal year. More importantly, this isn't just about cost savings. This restructuring is about speed and focus. We've reduced layers of management to make our teams more agile and decision-making

more direct. We are also shifting our manufacturing organization from a centralized model to 3 centers of excellence, or CoEs, aligned to our core technologies: lead acid, power electronics and lithium-ion, which require very different skill sets.

These teams are designed to drive operational clarity and deepen functional competency that will be managed within the lines of business for stronger alignment of sales. By removing management layers and taking manufacturing supply chains out of the corporate silo, we are reducing complexities and sharpening skills to drive better and faster decisions to better serve our customers while lowering cost of operations.

The second pillar of our strategy is to invigorate our operating model. This includes enhancing our strategic planning processes and operational excellence metrics throughout the organization, enabling decisions to be made with greater urgency, accountability and coordination. We are confident these changes will enable us to bring new products to market faster, increase our productivity and be more focused with our capital allocation choices.

These first 2 pillars are part of a transformation that will fuel our ability to accelerate growth. We believe we are uniquely positioned to leverage our leading market positions in diverse end markets to deliver new products and services that play a key role in solving 2 of our customers' biggest common challenges: energy security and labor scarcity.

We will be focused on accelerating new product development that our customers are asking us for, such as battery energy storage systems, predictive analytics and services in markets that we know well and have a right to win. We will be rigorous with capital allocation choices tied to returns and future cash flow with a focus on accelerating our growth in current and adjacent end markets.

To help lead this next chapter, we've officially named Mark Matthews our Chief Technology Officer. Mark joined EnerSys in 2016 and has over 30 years of experience in energy storage and battery technology, specializing in lithium-ion solutions. Mark codeveloped breakthrough BESS technologies earlier in his career and has a proven customer-centered approach to new product development.

Mark brings stronger alignment with sales and an outside-in perspective with his customer experiences. And he knows what it takes to bring high-performance solutions to market fast. As interim CTO, he has already realigned our engineering team to better focus on growth. We're excited about what's next under his leadership.

Now I'd like to share a few more details on our Center of Excellence or CoEs. Please turn to Slide 6. Our CoEs will serve as a cornerstone for how we operate. There are unique needs and expertise required to win in each of these technologies, which, when operated centrally, left value on the table in terms of cost and speed we are now looking to unlock.

Our lead acid CoE will drive global operational excellence and consistency across our lead acid and TPPL plants as well as strategic sourcing, supply chain and distribution activities to improve productivity and enhance delivery reliability to our customers. This team will implement standard work, benchmark performance and continuously balance production requirements to optimize our more stable, capital-intensive lead acid manufacturing team.

Our power electronics CoE will manage contract manufacturing, assembly operations, strategic sourcing and supply chain management of our power electronics offerings into one cohesive, highly skilled structure. This team will leverage strong external partnerships across our entire organization to accelerate speed to market and optimize the nimbleness and working capital requirements of this highly technical asset-light portion of our company.

And the third, our lithium-ion CoE will enable us to leverage deep lithium expertise and customer relationships we have across the company to accelerate innovation and improve execution in this high-tech landscape. This team will be focused on developing and aligning the evolving sourcing, engineering and manufacturing skills required, especially as we prepare for future investments like our planned lithium cell facility. Their mission, deliver the next generation of products our customers are already asking for.

Please turn to Slide 7. The value of this new organizational design is visible in the strategic bolt-on acquisition we completed in June, Rebel Systems. While new to the market, the team at Rebel has quickly become a trusted solutions provider to the U.S. military, specializing in cost-effective technology-driven lithium-ion-based hybrid power and energy storage systems and communication solutions for the defense industry.

Combined with our 2024 acquisition of Bren-Tronics and leveraging EnerSys' leading position in the defense sector, we now offer a fully integrated portfolio designed to meet the evolving demands of modern military operations. This strategic acquisition will not only provide an additional product stream in the A&D portion of our Specialty LOB, but is also an example of how we are leveraging disciplined M&A to enhance our talent and skills that will benefit us across the company in both our new lithium CoE and our battery energy storage systems product development.

Overall, we are committed to ensuring our transformation initiatives and refresh strategy deliver stronger organic growth, higher margins and higher returns on invested capital. We will continue to provide updates on EnerGize over the next several quarters.

Please turn to Slide 8. Net sales were up 5% year-over-year with a book-to-bill greater than 1. Adjusted operating earnings were up 8% and adjusted EBITDA was up 2%. Excluding 45X benefits, adjusted diluted EPS on our base business was down versus prior year on FX and the anticipated impact of lower organic volumes, which are temporarily pressured by tariff uncertainty.

Year-over-year revenue growth in the quarter was driven by strength from the Bren-Tronics acquisition, which once again outperformed and is increasing our wallet share of the defense market. We also saw early recovery in U.S. communications end market and continued strong Data Center deployments. These increases were partially offset by softer macro conditions in EMEA across most of our businesses, additional pressure on already soft transportation market as well as lower volumes among forklift customers where tariff uncertainty disrupted customers' buying behavior.

We view this variability as near term and expect improving clarity in public policy to support more stable market dynamics beginning in the second quarter and improving further as the fiscal year progresses. As typical in our first quarter, free cash flow was lower due to timing of annual payments as well as an increase in inventory despite lower sales to support our expected ramp-up in revenue throughout the year.

Yesterday, we announced the Board approval for a \$1 billion increase in our share repurchase authorization to be executed over the next 5 years. This authorization provides us flexibility to repurchase our shares when undervalued as we did in Q1, while balancing our free cash flow generation with disciplined capital allocation to create shareholder value.

During this period of macro uncertainty, we intend to keep our leverage below the low end of our target range, retaining a prudent level of dry powder for future capital allocation optionality.

Please turn to Slide 9. First, a few comments on public policy items impacting our business. With the passage of the One Big Beautiful Act, we saw favorable outcomes to EnerSys as 45X remains largely intact, along with the enactment of other favorable tax policies.

With regard to tariffs, approximately 22% of our U.S. sourcing is affected by direct tariff costs. Our tariff task force continues to proactively mitigate direct and tertiary exposure, enhance supply chain optionality, and assess our competitive positioning impact on demand. We remain confident we will be able to fully offset the impact of tariffs to our P&L.

Please turn to Slide 10. I will now provide some additional detail on demand trends and the dynamics across markets we serve, while Andi will provide more detail on the performance of our business segments later in the call.

In Q1, orders and book-to-bill were up year-over-year with strength beginning to accelerate across the business. Backlog has moderated since the peak levels we saw in fiscal '24, but has remained stable with a quarterly backlog coverage of 1.1, consistent with our historical trends. These order patterns are indicative of ongoing steady growth but with limited visibility beyond the next quarter.

We are seeing communications orders picking up, and we expect customer spending behavior to continue growing at a measured pace. We see some network build-outs emerging, but we expect customer investments to be more disciplined than prior cycles and more closely tied to their specific growth plans.

Data Centers, where we enjoy a large share of the U.S. market for lead acid-based uninterruptible power supplies, or UPS, is still in the early phases of a growth cycle. While orders can be uneven quarter-to-quarter, demand remains robust and we expect that to continue. The timing of our deployments tends to align with the later stages of build-outs, which are often faced by energy availability and infrastructure readiness.

The dynamic geopolitical environment is driving an increase in global defense budgets and demand for next-generation power technologies for both tactical applications and mobile soldier power applications. A&D activity is accelerating, but in the quarter, our U.S. A&D revenue, excluding Bren-Tronics, was flat as actual spending was temporarily delayed by changes in U.S. personnel involved in procurement. We see this as a significant growth opportunity moving forward.

Now a few comments on our operations. In our Missouri plants, our output is improving and our new assembly lines implementation and performance schedule is on track. As we shared last call, the first assembly line is now running and the second line is planned for the fall. However, realization of the financial benefits will be delayed due to suppressed transportation volumes. As part of our transformation efforts, our lead CoE team is refining our plant load balancing cadence to ensure that we maximize productivity and efficiency across our manufacturing facilities.

Our plans for a new lithium factory remain on hold and upcoming discussions with the relevant government officials are scheduled later this month. We expect to have more to report on this important effort next quarter.

In closing, we're taking clear, decisive steps to improve operations and position EnerSys for growth. While the full impact of our energized strategic framework will take time, we're moving fast and seeing early progress. We're confident in our team, our solutions and our ability to deliver for customers and shareholders.

Now I'll turn it over to Andi to discuss our financial results and outlook in greater detail. Andi?

Andrea J. Funk
Executive VP & CFO

Thanks, Shawn. Please turn to Slide 12. First quarter net sales came in at \$893 million, up 5% from prior year, driven by a 4% positive impact from the Bren-Tronics acquisition, a 1% gain from positive price/mix and a 1% increase from FX tailwinds, partially offset by an expected 1% decrease in organic volume as continuing Data Center robustness and recovery in communications was more than offset by decreases in the forklift and Class 8 OEM markets.

We achieved gross profit of \$253 million, up \$15 million year-on-year and up \$9 million, excluding 45X benefits. Q1 '26 gross margin of 28.4% was up 40 basis points versus the prior year. Excluding 45X, gross margin was mostly flat. Our gross margins in the quarter were temporarily pressured by lower volumes and mix resulting from our customers' uncertainty regarding U.S. policy and hesitation to make significant investments, particularly in Motive Power, which I will discuss in more detail shortly.

Our adjusted operating earnings were \$114 million in the quarter, up \$9 million from prior year with an adjusted operating margin of 12.8%. We benefited from \$38 million from 45X. And excluding these benefits, adjusted operating earnings increased \$3 million or 4% with an adjusted operating margin of 8.5%, roughly in line with the prior year.

Adjusted EBITDA was \$123 million, an increase of \$2 million versus prior year, while adjusted EBITDA margin was 13.8%, down 40 basis points versus the prior year. Adjusted EPS for the first quarter was \$2.08 per share, an increase of 5% over prior year. Excluding 45X, adjusted EPS was \$1.11 per share, down 6% versus prior year, primarily due to the impact of FX, which added \$0.15 of pressure below the line.

For the first quarter of fiscal '26, our effective tax rate was 12.5% on an as-reported basis and 21.4% on an as-adjusted basis before the benefit of 45X compared to 20.8% in Q1 of '25 and 20.4% in the prior quarter.

Let me now provide details by segment. Please turn to Slide 13. In the first quarter, Energy Systems revenue increased 8% from prior year to \$391 million, primarily driven by greater volumes, price/mix and positive FX. Adjusted operating earnings increased 44% from prior year to \$27 million, reflecting the benefits of increased volume and favorable price/mix. Adjusted operating margin of 7% increased 170 basis points versus the prior year.

As Shawn mentioned, we exited the quarter with encouraging order trends in this business. We expect year-over-year margin expansion as revenue increases driven by Data Center demand and ongoing communications recovery, though partially offset by continued softness in EMEA. Structural improvements should also continue to support performance.

Motive Power revenue decreased 5% from prior year to \$349 million as lower volumes more than offset slightly favorable price/mix and FX tailwinds. Motive Power adjusted operating earnings were \$47 million, down \$9 million versus the prior year on the lower volumes and higher inflationary costs. Adjusted operating margins were 13.4%, down 190 basis points versus prior year.

Market-wide tariff disruptions disproportionately affected smaller, higher-margin customer sales and installations of new distribution centers, which typically include higher-margin charger sales. Along with the low-cost leverage and the volume pressure, these dynamics temporarily weighed on margins sequentially and versus prior year.

However, maintenance-free product sales increased 9% year-on-year and were 27.1% of Motive Power revenue mix compared to 23.8% in Q1 of '25, providing optimism that margins will recover in Motive Power once the macro uncertainty settles. We expect new lift truck demand to improve, though Q2 will remain impacted as customers continue to navigate this trade uncertainty. Longer term, Motive Power is well positioned for growth, supported by electrification, automation and strong demand for our maintenance-free and charger solutions.

Specialty revenue increased 18% from prior year to \$149 million, driven by a 24% positive impact from the Bren-Tronics acquisition as well as a 1% increase from FX, which more than offset a 7% decrease in organic volumes, primarily from transportation and flat price/mix. Q1 '26 adjusted operating earnings of \$10 million were nearly double that of the prior year when we entered the transportation down cycle.

Adjusted operating margin of 6.5% was up 260 basis points. We see the fastest opportunity for margin expansion in Specialty, driven by robust A&D demand and ongoing TPPL cost and delivery gains from automation under our lead CoE.

Please turn to Slide 14. Positive operating cash flow of \$1 million offset by CapEx of \$33 million resulted in free cash flow of negative \$32 million in the quarter. As our seasonally lowest cash flow quarter, Q1 was roughly in line with prior year, though impacted by higher primary operating capital.

As a reminder, even though the dynamics of our business caused quarterly and annual volatility in cash generation, EnerSys has generated an average free cash flow conversion rate, excluding 45X benefits of 105% over the past 5 years, and we expect to continue delivering at these levels over time.

Primary operating capital increased to \$993 million during the quarter due to higher strategic inventory investments in anticipation of recovering volumes in the upcoming quarters. Improving primary operating capital over time is one of the positive outcomes we expect to realize with our new CoEs.

As of June 29, 2025, we had \$347 million of cash and cash equivalents on hand. Net debt of \$964 million represents an increase of approximately \$183 million since the end of fiscal '25 as we've returned \$159 million to shareholders through share repurchases and dividends, and continue to invest in our business.

Our leverage ratio remains comfortably below our target range at 1.6x. While we still have not received our fiscal year '24 U.S. tax refund of \$137 million, we are accruing interest that mostly offsets our

incremental borrowing costs. Recent updates from the IRS tax technician assigned to our return indicated our return is officially processed and posted into the IRS system with the submission for payment to be released in early September, which will further reduce our net leverage.

Our balance sheet remains strong and positions us to invest in growth and navigate the current economic environment. During this period of heightened geopolitical uncertainty, we anticipate maintaining our net leverage at or below the low end of our 2 to 3x target range, providing us with ample dry powder for our capital allocation decisions and to absorb any macroeconomic dynamics that may impact us.

Please turn to Slide 15. During the first quarter, we repurchased 1.7 million shares for \$150 million at an average price of \$86.20 per share. We also paid \$9.1 million in dividends. As Shawn mentioned, our Board of Directors approved a \$1 billion increase to our buyback authorization to be executed over the next 5 years, bringing our total remaining authorization to nearly \$1.1 billion.

This increased authorization allows us to be more aggressive in our opportunistic share buyback activity, particularly during these volatile market conditions while still targeting leverage below the end -- low end of our 2 to 3x target range. Additionally, the Board has increased our quarterly dividend by 9% to \$0.2625 per share. All of these actions represent our confidence in the growth and strategy of our business as well as our continued commitment to returning shareholder value.

We continue to evaluate accretive bolt-on acquisition opportunities like Bren-Tronics and Rebel that align with our disciplined strategic and financial criteria and are focused on strengthening customer intimacy, expanding share of wallet with our leading positions in exciting end markets and advancing our transformation progress.

Please turn to Slide 16. As anticipated, our seasonally lower first quarter was further burdened by the impact of tariff uncertainty on volumes and mix. We continue to expect this will mark the low point of earnings for the fiscal year with increasing clarity to dissipate these pressures over the course of the year.

For the second quarter of fiscal 2026, we expect net sales in the range of \$870 million to \$910 million, with adjusted diluted EPS of \$2.33 to \$2.43 per share, which includes \$35 million to \$40 million of 45X benefits to cost of sales. Excluding 45X, we expect adjusted diluted EPS of \$1.34 to \$1.44 per share, up 8% at the midpoint of the range.

Before I close, I would like to provide some additional details on the impact of our recently announced cost reduction program. The actions underway represent \$80 million in total annualized savings, a 10% reduction in fiscal year '25 OpEx of \$70 million and a \$10 million reduction to cost of goods sold. We expect to incur onetime charges of \$15 million to \$20 million, primarily in Q2 and Q3, and to see material net benefits beginning in the third fiscal quarter with \$30 million to \$35 million of net savings in fiscal year 2026.

We remain confident in the earnings power of our business and our ability to navigate through evolving policy and macroeconomic conditions. Our diversified business model is helping offset the near-term softness in tariff-sensitive segments such as forklift trucks and Class 8 transportation.

In defense, future demand for both our organic and acquired technologies is strengthened by global customer needs. We are seeing continued signs of recovery in communications and sustained strength in Data Centers and industrials. While we are encouraged by momentum in these key growth areas, we believe it is prudent to keep our full year quantitative guidance paused until there's greater clarity around public policy, macro trends and more importantly, the downstream effects on our customers' behaviors.

We continue to expect full year adjusted operating earnings growth, excluding 45X, to outpace revenue growth. We are excited about the impact EnerGize will have on our accelerating achievement of our long-term top line growth opportunities and margin expansion through streamlined operations. With this, let's open it up for questions. Operator?

Question and Answer

Operator

[Operator Instructions] Your first question comes from the line of Chip Moore of ROTH Capital.

Alfred Shopland Moore

ROTH Capital Partners, LLC, Research Division

I wanted to ask on Energy Systems, encouraging to hear communications seeing some comeback. Just maybe expand on that, what you're seeing and how you're thinking about rest of the year and cadence of that recovery?

Shawn M. O'Connell

President, COO, President of Energy Systems Global & Director

It's Shawn. I'll start and maybe turn it over to Andi. We're definitely seeing good activity across the board in telecom and broadband. We're seeing some early-stage build-outs that we were tracking over the course of the last year beginning to materialize. Certainly, broadband is early in their DOCSIS 4.0 tech upgrades, and those require more power. And so there are incremental power adds. And certainly, that those operators are also looking at their energy footprint and the utility networks that they exist in. So we're seeing activity there.

We're also seeing -- if you think about the telecommunications folks, with all the robust data activity going on, the telecom operators are also looking at their point in managing and being distribution networks for that data. So we're seeing some very encouraging macro upgrades occurring that we're able to leverage and take advantage of. And we expect that to be a continuing trend throughout this year and subsequent years.

Andrea J. Funk

Executive VP & CFO

Yes, I can add maybe a little bit to that as well, Chip. I think we had a little bit more of some pre-tariff buy-ins in Q4 than we had anticipated that pressured Q1 a little bit. So if you look at Q4 and Q1 together, I think you see a little bit more of that steady ongoing progression versus year-on-year, volumes up 5%, 2% price mix. As Shawn mentioned, Data Center is very robust, up 14% year-on-year in the first quarter. And we continue to see that ongoing steady improvement to continue going forward throughout the course of the year.

Alfred Shopland Moore

ROTH Capital Partners, LLC, Research Division

Great. Very helpful. If I could ask one more just on the cost optimization underway, pretty substantial. Any way to help us frame potential margin trajectory across the business? And then maybe Energy Systems in particular, just how do we think about future up cycles and down cycles, what you can do there?

Andrea J. Funk

Executive VP & CFO

Sure, Chip. And I missed a little bit of the first part of your question. I don't know if you -- I think you maybe were talking -- you're talking about full year or second quarter?

Alfred Shopland Moore

ROTH Capital Partners, LLC, Research Division

Yes. No, just in general, and more so on next year when you get the full benefit, just margin trajectory with those savings ramp.

Andrea J. Funk

Executive VP & CFO

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

The savings that we have, sure. So I'll go through a little bit of color maybe on our full year projections and give you just some general momentum of what we're seeing. And I think in Q1, obviously, the bottom line results were not as exciting as we'd like, but were in line with what we expected. And I think we managed the uncertainty well coming in with the sales above the guidance and adjusted EPS in line with our expectations. Obviously, that implies some margin uncertainty in the Q1, some margin erosion.

In Q1, we had a little more volume than we thought with some -- with a little bit of price mix hit, particularly in Motive Power, which we can talk about further. We absolutely believe Q1 is going to be the low point, and Q2 and beyond will be tracking back towards the record Q4 levels that we had with upside, albeit tempered by the macro.

Underlying businesses remains really good. We look at full year AOE growth, excluding 45X, to outpace the revenue growth. The cost reduction program, is \$70 million of net full year OpEx savings and \$10 million of manufacturing savings. I think we'll see about \$30 million to \$35 million of that in fiscal year, largely underway, but it will start to materially impact in the second half of the year. And we'll have about \$15 million to \$20 million of onetime charges from that.

I can go through some trends in each one of the lines of businesses, if you're looking for that as well.

Alfred Shopland Moore

ROTH Capital Partners, LLC, Research Division

Yes. No, that was helpful. And maybe just on the savings in the second half of the year, Andi, that \$30 million to \$35 million, is that relatively equally spread or more so in Q4? Any thoughts there?

Andrea J. Funk

Executive VP & CFO

A little more in Q4 than Q3. So it will start to -- you'll see some of it in Q3 and then a little bit more going into Q4.

Operator

Your next question comes from the line of Noah Kaye of Oppenheimer & Co Inc.

Noah Duke Kaye

Oppenheimer & Co. Inc., Research Division

Yes. I think just to follow up on Chip's question, affecting the whole \$80 million savings on a run rate basis, that's a couple of hundred bps of structural margin expansion right there. And I would assume that your mix uplift from comms and some of the other business elements returning will help support some underlying margin expansion as well. So I mean, I guess if you can just sort of first confirm that, that perhaps heading into next year tracking towards mid-teens EBIT margins on an all-in basis that seems a reasonable starting point. So I would love your feedback.

Andrea J. Funk

Executive VP & CFO

Yes. I mean we don't have -- obviously, we haven't provided full year guidance let alone next year, Noah. But for sure, I mean, \$80 million of cost savings equates to \$1.60 a share. If you apply that on our fiscal '25 actuals, that alone would take our AOE margin, excluding 45X, from about 9.5% to 11.7%. So it should have a significant impact. But I think the important part to mention is these actions were not taken in response to any short-term macro conditions.

I mean we see the pressures that we saw in Q1 as being very temporary and will start to abate in Q2 and throughout the rest of the year. It's just the timing. This was some choices that -- hard choices because people are affected, but that we weighed heavily before any of this macro downturn occurred. And a lot of it is really about quicker speed, more customer focused, removing layers of management. Our revenue has been stagnant and our customers are asking more for us.

So doubling down on our core business where we have the right to win, being more customer focused in both engineering and operations. And we'll be refreshing all of our long-term targets, including both the savings impact as well as additional growth that we expect. But we think this is much larger than a cost reduction plan.

Noah Duke Kaye

Oppenheimer & Co. Inc., Research Division

Yes. Yes. And that's a perfect I think transition to what I really want to get after, which is how we should think about this new strategic growth framework. And I want to take it in 2 parts. One is really around where -- apart from what have you done lately, strategic cost reduction announcement, where the early wins can be on the margin side, where you see opportunities maybe around, I don't know, better sourcing, procurement, throughput at the factory? Are there material COGS opportunities you really see the opportunity to go after?

But then to pick up on your point on the organic growth side, I think you just mentioned the customers are looking for more from EnerSys and looking for the company to go faster. Can you maybe give us some insights there on where you think you can help accelerate the growth through this focus?

Shawn M. O'Connell

President, COO, President of Energy Systems Global & Director

Yes. So Noah, it's Shawn. Nice to hear your voice. I think that I'll start and then turn it over to Andi, if we want to get deeper into margin discussions. As you look at -- and I'll just remind you of a call or a comment that I made in the earlier remarks. We believe that we have substantially and will substantially mitigate all tariff exposure to the P&L. That's a pretty bold statement. And we do meet weekly on that. But how it pertains to your question, and we've done some great work there.

If you think about just the supply chain efforts and the rules of the road that may go into buying lead and plastics and dealing with that supply chain versus a shifting global electronics supply chain with microprocessors and how dynamic that is and the level of specialization required to get that right.

And early stages here, the CoE focus are allowing our supply chain folks that specialization and that broad and deep visibility into how they could administer those purchases and those supply chains. And that is how we're able to tell you that we were mitigating that tariff exposure. So that's some real early wins. And we expect -- again, we're 10 weeks in. We expect that to continue to unlock value for us and continue to help us be extremely competitive on costs and expand margin, to your point.

The second part of your question, I think, is about growth and where customers -- how we see that manifesting. And I'll just give you, for instance, our maintenance-free journey for a very large retailer in the United States has already demonstrated, one, that they could have substantial labor reductions; two, that they could make substantial investments or -- I'm sorry, advancements in sustainability. Moreover, they're asking us for additional -- to essentially embed additional revenue streams for us in doing real-time monitoring of their sites.

And also, once we get our battery energy storage systems launched for warehouse and logistics, they want to add that into that power management at the site in addition to the forklift battery. So it's really effectively deeper wallet share, deeper mining and existing customer relationships right in our core, right where we have a right to win, where customers are asking us to do this. And incidentally, we began in the first quarter shipping IoT-enabled capability on every battery in Motive Power. So we are already building the plumbing to be able to do that. But that's a very emblematic example of how we're going to find growth in our core business.

Operator

Your next question comes from the line of Brian Drab with William Blair.

Brian Paul Drab

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

My first question is just on the buyback, which is really interesting and pretty exciting or bold announcement. I'm just wondering, does that mean that we should have any takeaways about your capital allocation philosophy? And what I mean is, I don't know if I'm supposed to be thinking that this might be laying the foundation for a plan B regarding the funds coming from 45X in the event that the lithium plan ends up not making sense to move forward on. It's just \$1 billion is a really big figure, and it kind of lines up with the tax credit over the decade.

Shawn M. O'Connell

President, COO, President of Energy Systems Global & Director

Yes. Brian, it's Shawn. I'll start and then I'll turn it over to Andi for more on the financial piece. On 45X, first of all, we have maintained always and will maintain that we're going to use those proceeds as the law intends. And so those investments are into our ability to produce batteries that are needed domestically at the right cost and the right technologies for our customers.

So, for example, expanding Kentucky and closing Monterrey and accelerating that to gain those benefits is one such example, our expansions in TPPL and that capability. And certainly, we still feel very confident based on our discussions with the government about our lithium plant while the end size or how exactly we achieve that could shift a little with this administration, nothing we're hearing is negative on that.

We -- part of our strategy, just overall, is we're going to be very disciplined and very opportunistic with capital allocation. And so we asked our Board for that reload and that pretty strong statement to say, if we see -- we believe in our future and we believe in our opportunities. And if we see the Street undervaluing our stock and it being a buy opportunity, we're opportunistically going to buy.

The other thing we didn't want to signal here, and I hope that we did not, is that we're not going to stay -- we are going to stay on the acquisition hunt. And the Rebel acquisition is an example of a very small tuck-in. We did quickly and effectively that makes a lot of sense for us. It's -- Rebel is built on the lithium battery that's provided by Bren-Tronics. So we've taken more of that supply to the Department of Defense. And we're going to continue to do those as well.

So that's our overarching strategy that we just want to be opportunistic with our deployment of capital. Our own shares are one way to do that. And we're not going to blend or blurry it with 45X proceeds. And on top of that, just we've mentioned in the past, I'll just remind you that we've never returned 45X benefits to our lines of business, and we've never allowed them to incorporate that into their pricing strategies.

Andi, do you have anything you'd add to Brian on that?

Andrea J. Funk

Executive VP & CFO

I think you nailed it, Shawn. The only other thing that I would add is we are being very clear that we intend to stay below the low end of our 2 to 3x target leverage ratio just with the uncertainties in the market right now so that we have ample dry powder whether it's strategic tuck-in acquisitions like Rebel, which was a tremendous add to the -- our whole A&D platform or -- and also to have available capability to do things like our lithium plant.

Brian Paul Drab

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

Okay. Yes. No, that's really helpful to hear how you're thinking about all of that. One more quick question. The gross margin that we're having to put into the model for the second quarter is -- seems to be like a pretty material step up from the first quarter. So wondering if you could just comment on the near-term gross margin for second quarter.

Andrea J. Funk

Executive VP & CFO

Sure. So not giving specific numbers, Brian, but I see all of our lines of businesses beginning to close the gap versus prior year. All of our lines of business will see improvement with Motive Power closing the gap to prior year as these uncertainties begin to dissipate, although we still think we'll see a little bit of pressure from this tariff uncertainty.

And maybe just to give a little bit of color on that. A couple of things with Motive Power, volume being down, EMEA was down 15% and Americas is down 1.8%. I think this is really consistent with a lot of what you're seeing in industry data. We -- I think our smaller accounts were especially cautious. Our national accounts increased from 17% to 29% of sales in the first quarter. And I think those smaller customers were the ones that were a little more uncertain.

And there's industry data that is just really aligned with the Hyster-Yale call yesterday. They had truck lift down 19% on economic uncertainty to customers' end market order patterns, overall weaker industry book rates. But there's also some industry projections that really show some positive data in Motive Power. The industry data said forklift 0.3% in 2024 and being really flat in calendar '25. But both Global Newswire said they're expecting a 6.8% CAGR from '24 to '30 and Research Insights is projecting a 13% CAGR in forklifts from '25 to '30. And that's not -- that's even without our maintenance-free conversion.

So I think there's a lot of optimism in Motive Power. But just looking at the quarter, I think, versus prior year at our guide, revenue is largely in line with the Bren-Tronics impact and some favorable price/mix. I think volumes will be mostly flat. We have a little bit of a cushion for uncertainty and the EPS improvement will be driven by the favorable price mix more than offsetting some of the higher costs that we're seeing.

Operator

[Operator Instructions] Ladies and gentlemen, there are no further questions at this time. And with that, I will turn the call back over to Shawn O'Connell for closing remarks. Please go ahead.

Shawn M. O'Connell

President, COO, President of Energy Systems Global & Director

Thank you. We'd like to thank you all for joining us today. We are confident in our strategy, excited for our future. We look forward to updating you again next quarter, and we wish you all a great day.

Operator

Ladies and gentlemen, this concludes today's conference call. We thank you for participating. You may now disconnect.

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.