

EnerSys NYSE:ENS

Earnings Call

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Call Participants

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Presentation

Operator

Hello, and thank you for standing by. My name is Bella, and I will be your conference operator today. At this time, I would like to welcome everyone to EnerSys' Q3 Fiscal '26 Earnings Webcast and Conference Call. [Operator Instructions] I would now like to turn the conference over to Lisa Langell, Vice President, Investor Relations and Corporate Communications. You may begin.

Lisa Langell

VP of Investor Relations & Corporate Communications

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

Last evening, we published our third 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 metrics, 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 February 4, 2026.

Now I'll turn the call over to our 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. During the call today, we will provide an overview of our third quarter results, share progress on our energized strategic framework, update you on the latest demand trends we are seeing in our diverse end markets and provide guidance for our fourth quarter.

Please turn to Slide 5. We delivered strong earnings in the third quarter with adjusted diluted EPS ex 45X of \$1.84, up 50% year-over-year and a company record for our third fiscal quarter. Net sales were up 1%, in line with the low end of our guidance range as strong price/mix and favorable FX offset lower volumes. Earnings growth outpaced revenue growth, driven by favorable product mix, pricing discipline and our cost improvement efforts resulted in adjusted operating earnings up 34% and adjusted EBITDA up 30%, both excluding 45X.

We continue to be excited about mounting growth catalysts across all of our end markets, though near-term softness persists in Motive Power & Transportation. A few highlights from our lines of business. Energy Systems delivered its first double-digit AOE margin on modest sales growth. Despite slightly lower year-on-year sales, Motive Power margins remained in line with prior year. And finally, Specialty delivered remarkable performance improvement with sales up high single digits and AOE more than twice that of prior year, resuming double-digit AOE margins for the first time in 3 years. Free cash flow in the quarter was also particularly strong, and we are pleased to return \$94 million in capital to our shareholders this quarter through share repurchases and dividends.

Please turn to Slide 6. Through our energized strategic framework, we are continuing to further optimize our core, invigorate our operating model and accelerate our growth. We are capturing realignment savings as planned, and our centers of excellence are continuing to improve execution, speed and consistency. We are also progressing on some of our key growth verticals. The reduction in force actions we announced in July are now largely complete, and we are committed to preserving these savings by disciplined cost management going forward.

The closure of our Monterrey battery plant is substantially complete with all manufacturing transition to our Richmond, Kentucky facility in November, 1 month earlier than planned. We expect to begin realizing the benefits mid-fiscal '27 as the savings work their way through our inventory. We've turned the corner on our services improvement, having delivered revenue and margin expansion over the past 2 quarters in this important growth vertical. This is a direct result of improved execution enabled by deploying new project management tools to bring real-time visibility, clear communication and tighter project control.

We are also seeing encouraging momentum in our new product development pipeline, aided by our invigorated operating model in which we have enhanced alignment between our engineering teams, centers of excellence and lines of business. This renewed collaboration is helping us accelerate innovation, focusing on expanding our share of wallet in our core markets where we have a right to win. From battery energy storage systems to next-gen power electronics, TPPL and lithium solutions with embedded software, we are developing products that solve our customers' most critical energy challenges.

Although the progress on optimizing our core is already becoming evident in our financial results, I am most excited about the speed and focus we're making on our new product development initiatives. While this work won't materially impact revenue in the next few quarters, the milestones achieved represent important building blocks for our future growth. We will have more to share on our long-term technology road map during our Investor Day on June 11. We have also made notable progress aligning our planned lithium cell factory with current administration priorities, and we believe we are close to finalizing our updated plan with the Department of Energy.

Progress has been slower than anticipated, but we believe the extra time will result in very favorable outcome adapted to current market dynamics. We will provide updates when our plans are finalized. Please turn to Slide 7. We continue to manage the impact of tariffs on our bottom line. In the third quarter, we fully offset the tariffs realized in our P&L through proactive supply chain actions and pricing strategies.

While we anticipate continuing policy shifts, our total exposure remains stable at around 22% of U.S. sourcing with our estimated direct tariff exposure unchanged from last quarter at around \$70 million annualized for fiscal '26. Our task force and lines of business continue mitigating risk and enhancing supply chain optionality.

Please turn to Slide 8. Our diversified business model is proving its resilience as positive demand signals across most of our end markets help offset near-term softness in tariff-sensitive industries such as forklifts and Class 8 trucking. Both Q3 orders and backlog were up sequentially and year-over-year in all business segments, except Motive Power & Transportation, illustrating the near-term dynamic conditions we are seeing market to market.

In Motive Power, industry data for forklift orders in December were up 40% versus prior year, a leading indicator for us, which gives us optimism. However, we are not yet confident a firm recovery is underway as our battery orders were up only 1% sequentially, and thus, we expect the slowness may continue into mid-fiscal '27. In Transportation, Class 8 trucking is still at the bottom of the cycle, but we are managing the impact through pricing, cost improvement and aftermarket growth.

Based on conversations with our customers in both trucking and logistics, we understand that fleets are aging and investment is being deferred through delayed ordering cycles, which translates into pent-up demand. This underinvestment is unsustainable and when our customers need to ramp up swiftly in future quarters, we will be prepared to address the demand associated with the technological deficit that has been created. In communications, our customers are updating their networks and planning upgrades.

We are continuing to see constructive momentum as they review the need to replace aging equipment across their installed base and improve capabilities to meet the expanding consumer and government demand for quicker and more reliable data delivery and backup power. Our data center business remains strong with Q3 sales up 28% over prior year. Despite the acceleration we've seen to date, the data center market remains in the early stages of a multiyear growth cycle, driven by the rapid expansion of AI workloads and a rising need for energy resilience.

Our customers rely upon our solutions to help safeguard essential energy infrastructure. While deployment timing can vary by affecting quarterly trends, we look forward to continuing to benefit from the critical role our products play in the AI development super cycle and compounding that impact with new product offerings in the future. The dynamic geopolitical environment continues to drive an increase in global defense budgets and demand for next-gen power technologies for both tactical and mobile software applications as well as military drones. As such, A&D activity remained robust in the quarter.

Overall, we're pleased with our earnings strength and margin performance, reflecting our renewed disciplined execution and operational rigor. As we look ahead, our teams are aligned around the actions that will drive long-term value, including organic innovation and strategic opportunities to expand our capabilities. We are highly confident in our focused growth strategy, supported by durable secular demand trends, including the growing need for energy security and high-performance energy storage solutions.

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 10. Net sales came in at \$919 million, up 1% from prior year, driven by a 3% benefit from price/mix, a 2% benefit from foreign currency translation, partially offset by a 4% decrease in organic volumes. We achieved adjusted gross profit of \$278 million, down \$22 million year-on-year, but up \$19 million or 8%, excluding 45X benefits. Note that 45X credits in the third quarter of last year were \$75 million and included a onetime catch-up of \$36 million compared to \$35 million in the third quarter of this year. The prior year catch-up impacts the year-over-year comparison of our adjusted gross margins and adjusted earnings, clouding the impressive year-on-year improvement, excluding these benefits.

Q3 '26 adjusted gross margin of 30.2% was up 110 basis points sequentially and down 280 basis points versus the prior year. Excluding 45X, adjusted gross margin was up 150 basis points sequentially and up 170 basis points versus prior year. OpEx in the quarter improved as a result of our cost reduction initiatives. As expected, we realized approximately \$15 million in Q3 from these actions and anticipate similar savings in Q4. Our adjusted operating earnings were \$142 million in the quarter, up \$13 million versus the prior quarter and down \$13 million versus the prior year with an adjusted operating margin of 15.5%.

Excluding 45X benefits, adjusted operating earnings increased \$28 million or 34% with a record adjusted operating margin of 11.7%, up 290 basis points versus the prior year. Adjusted EBITDA was \$160 million, a decrease of \$12 million versus prior year, while adjusted EBITDA margin was 17.4%, down 150 basis points versus prior year. Excluding 45X, adjusted EBITDA of \$125 million, a company high, was up \$29 million or 30% year-on-year with a company record adjusted EBITDA margin of 13.6%, up 300 basis points versus the prior year.

Adjusted diluted EPS was \$2.77 per share, a decrease of 11% over prior year. Excluding 45X, adjusted EPS was \$1.84 per share, up 50% versus prior year and also a third quarter record. Our Q3 '26 effective tax rate was 14.9% on an as-reported basis and 22.4% on an as-adjusted basis before the benefit of 45X compared to 23.3% in Q3 '25 and 23% in the prior quarter on geographical mix of earnings, which can vary quarter-to-quarter. We continue to expect our full year tax rate on an as-adjusted basis before the benefit of 45X for fiscal year 2026 to be in the range of 20% to 22%.

Let me now provide details by segment. Please turn to Slide 11. In the third quarter, Energy Systems revenue increased 3% from prior year to \$400 million, primarily driven by strong price/mix and a positive

FX impact, partially offset by the anticipated softer volumes due to the customer pull-ins we noted last quarter and some deferred year-end CapEx spend, both of which included lower-margin product sales that propped up this segment's third quarter margins. Adjusted operating earnings increased an impressive 67% from prior year to \$42 million, reflecting the benefits of favorable price/mix from a richer mix of products, OpEx savings from our restructuring efforts and the service margin improvements Shawn noted earlier on the call. Adjusted operating margin of 10.5% increased 400 basis points versus prior year.

While we expect some variability in margins quarter-to-quarter due to the project nature of this business, the overall trajectory of this segment remains very encouraging. Motive Power revenue decreased 2% from prior year to \$352 million with lower volumes from ongoing market softness more than offsetting FX tailwinds and favorable price/mix. Motive Power adjusted operating earnings were \$53 million, roughly flat to prior year, resulting in adjusted operating margins of 14.9%, up 20 basis points versus prior year with OpEx savings mostly offset by the lost leverage from lower volumes.

Maintenance-free product sales increased 5% year-on-year and were 29% of Motive Power revenue mix compared to 27% in Q3 of '25. As the pause in capital investments for many in the logistics market continues, we expect improving but still soft volumes in Q4 with this trend likely continuing into the first quarter or 2 of fiscal '27. Longer term, Motive Power remains well positioned for growth, supported by electrification, automation and strong demand for our maintenance-free and charger solutions.

Specialty revenue increased 8% from prior year to \$168 million, driven by a 4% benefit from price/mix, a 2% increase in organic volumes, a 1% FX tailwind and a 1% contribution from the Rebel acquisition. As Shawn mentioned, Specialty's Q3 '26 adjusted operating earnings of \$20 million were more than double that of prior year. Adjusted operating margin of 11.8% was up 560 basis points as this quarter reflected ongoing strength in A&D and transportation aftermarket growth, helping offset the Class 8 OEM softness as well as benefits from manufacturing cost improvements and restructuring efforts. As we've shared previously, this segment is capable of sustained double-digit margins and our efforts to accomplish this are taking hold with additional opportunity in front of us.

Please turn to Slide 12. Operating cash flow of \$185 million, offset by CapEx of \$13 million, resulted in strong free cash flow of \$171 million in the quarter, an increase of \$114 million versus the prior year same period. This increase was aided by the expansion of the company's receivable purchasing agreement during the quarter. Free cash flow conversion in the quarter was 190%. Excluding the benefit of 45x to earnings and cash, free cash flow conversion was 300% and without the impact of the expanded receivable purchasing agreement, still over 120% free cash flow conversion.

Primary operating capital decreased slightly to \$934 million versus prior year on the benefits of our expanded receivables purchasing agreement with our working capital efficiency measured internally by primary operating capital as a percentage of annualized sales, improving 70 basis points versus prior year after absorbing the impact of tariffs in our inventory and accounts receivable balances. As we continue to invigorate our operating model, our COEs are focused on further enhancing working capital discipline, which we expect will unlock additional value for our shareholders over time.

As of December 28, 2025, we had \$450 million of cash and cash equivalents on hand. Net debt of \$743 million represents a decrease of approximately \$38 million since the end of fiscal '25. Our leverage ratio remains well below our target range at 1.2x EBITDA. Our balance sheet is strong and well 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 choices and to remain nimble to absorb any macroeconomic dynamics that may impact us.

Please turn to Slide 13. During the third quarter, we repurchased 672,000 shares for \$84 million at an average price of approximately \$128 per share. We also paid \$9.6 million in dividends. We have approximately \$931 million in our buyback authorization as of February 3. We continue to be judicious in our share buyback activity. Our buybacks in addition to the dividend, underscore our long-standing commitment to returning value to our shareholders. Our M&A pipeline for small and midsized tuck-in acquisitions remains active, supporting continued growth and innovation across the business. We are focused on ensuring alignment with our disciplined strategic and financial criteria of any M&A.

Please turn to Slide 14. As we navigate the current environment of mixed end market demand trends, we remain optimistic but cautious about the near-term outlook. Year-over-year, our Q4 outlook reflects continuing positive price/mix, the benefits of OpEx improvement from realization of our restructuring efforts, healthy demand in data center and A&D, steady improvement in communications and continued volume softness in Motive Power & Transportation relative to the underlying market needs. For the fourth quarter of fiscal 2026, we expect net sales in the range of \$960 million to \$1 billion with adjusted diluted EPS of \$2.95 to \$3.05 per share, which includes \$37 million to \$42 million of 45X benefits to cost of sales.

Excluding 45X, we expect adjusted diluted EPS of \$1.91 to \$2.01 per share, up 10% year-on-year at the midpoint of the range. Our CapEx expectation for the full year fiscal 2026 remains approximately \$80 million. While we are encouraged by the company's overall trajectory and momentum in several key growth areas, we continue to see the impact of a dynamic macro environment on customer buying patterns. Consistent with our fourth quarter outlook and expectations we set at the beginning of the fiscal year, we expect full year adjusted operating earnings growth, excluding 45X benefits to outpace revenue growth, supported by ongoing OpEx savings, sustained price/mix strength and improving though still soft Motive Power volumes.

Operational efficiencies aligned with our energized strategic framework are taking hold with continued progress in process optimization, capital allocation discipline and manufacturing performance. These actions are positioning the business for long-term top line growth and margin expansion. In closing, this quarter showcased the strength of our operating model and the discipline of our team, delivering record results, advancing our strategic priorities and positioning us well for fiscal year '27. We have clear priorities, aligned leadership and momentum in the areas that matter most to our long-term value creation.

With this, let's open it up for questions. Operator?

Question and Answer

Operator

[Operator Instructions] your first question comes from the line of Noah Kaye with Oppenheimer.

Noah Duke Kaye

Oppenheimer & Co. Inc., Research Division

Let's start with data center. You commented on the growth in the quarter, but also what you said is sort of healthy demand. I think looking at the pretty eye-popping CapEx expectations from the hypers and some of the orders growth rates we're seeing, healthy feels like an understatement. So can you talk about your own data center pipeline and how you think about that scaling in the quarters ahead?

Shawn M. O'Connell

President, COO, President of Energy Systems Global & Director

Yes. So Noah, it's Shawn. Good to hear your voice. Listen, we're very excited about this opportunity, obviously. And if we look at it from a lead acid perspective, let me start there. We have a commanding market share in data center. It's over 50% in the United States as an example. And we serve those same hyperscalers around the world. And we're seeing grower demand -- growing demand for higher density products. And so TPPL for us in this space is doing very well. What we're most excited about, though, for all of that strength and all of that growth, we have yet to release a lithium battery product into the marketplace. So for over 50% market share in the lead acid for all the greenfield data centers that are going lithium, today, we have 0% market share.

So our product teams under Mark Matthews are doing a tremendous job to get that product over the finish line. We're not being very public about dates and that kind of thing because we'd rather have done it and told you about it than foreshadow something that we didn't deliver on. But that is a massive growth opportunity for us. And it's the exact same customers that we're serving with that great growth in lead acid. So it's just a lot -- a tremendous amount of upside for us and a tremendous amount of willingness on the side of the customer because with EnerSys, you get -- it's not just the product, you get the before and after sales services and care, the logistics support, the staging support. So our customers are very keen to get us involved in that. And it's probably our largest opportunity to date.

Noah Duke Kaye

Oppenheimer & Co. Inc., Research Division

That's helpful. A hat tip to the team on the Energy Systems margins getting above 10%. I think the slide deck talks about sort of normalized margin improvement in 4Q. Maybe we can sort of put a little bit more context around what that normalized means? I know you don't quantitatively guide to segment margins. But just help us think about some of the puts and takes of what normalized could look like given some of the comments around product mix shift and the like.

Andrea J. Funk

Executive VP & CFO

Sure. Noah, this is Andi. Nice to hear from you. Consistent with what we've said in the past, as you know, our Energy Systems business is very project oriented, which also has some mix opportunities that can cause it not to be a pure linear progression. And as we talked about in Q3, we both had some pull-ins into Q2 that we had talked about on our last call. And then we had a couple of customers that pushed out one customer in particular in order at the end of the calendar year into our Q4. So that put a little bit of pressure on our volumes in Q3 in Energy Systems, but also aided the margins a little bit.

So what I would look at is if we normalize for that, we would continue with the improvement trajectory, but probably a little bit of that 10.5% OE margin in ES, some of that probably should have propped up Q2 a little more and propped up Q4. So if you normalize for that, you would continue to see an improvement and we might be sub-10%, but not much. It will still be in that -- trending in that direction. But I would

expect probably a little bit of a step back in Q4, but a continuation of the improvement that we've seen so far to date. Does that make sense?

Noah Duke Kaye

Oppenheimer & Co. Inc., Research Division

It does. It's very helpful. And maybe for the last one, just to touch on Motive Power. We have seen some really strong demand trends in e-commerce and warehouse automation trend that seems like it should play into your wheelhouse. So when do you think kind of this destocking ends? And when do you think you start to see some inflection in Motive order rates?

Shawn M. O'Connell

President, COO, President of Energy Systems Global & Director

It's -- I'll take that again. Noah, it's Shawn. This is why we've been so reticent for full year guidance because it's just all the leading indicators have been tough for our forklift manufacturer OEMs, let alone us on how to gauge this market. And of course, there was tariff exposure particularly in heavy steel and then there were the interest rates and just all sorts of things that affect these heavy capital purchases. With that being said, as we said in the prepared remarks, we know for sure, this is pent-up demand that as these trucks age, if there was 0 growth in logistics, which there won't be, that just to keep the fleet moving today that exists, they have to order trucks.

We saw evidence of this in December. We mentioned a 40% increase in December in the Americas in the trucking orders. To put that in perspective, about 22,000 units. That's a record December. We've never seen that kind of number. And it's not that the market just decided to grow that much. That's that pent-up demand. So where we're being careful, though, is we saw earlier this year, we talked about some strength coming back in. And historically, when Motive turns, it's basically a linear climb out. This has been a little more choppy for us. But that 40% new truck order number is a big one for us. And typically -- and the reason we're saying, hey, it may take a couple of quarters of fiscal '27 to iron out, that's usually the lag time between trucks being ordered and our batteries being ordered, but it's a very positive sign for us.

Andrea J. Funk

Executive VP & CFO

Adding a little bit to what Shawn said as well, Noah, if it's okay. One thing, while we're not thrilled with obviously the volume being down, what I do feel good about is we know that we are outperforming the market. It's not lost share. Our industry data that we received showed that while our volume was down high single digits, the industry indicators were down low double digits in the quarter. So I think we're doing better than the market. Motive Power is not a segment I really worry about. Chad does a tremendous job managing it. We know over time, as long as materials are moving, our products are needed. And there's -- as Shawn mentioned, it will come back. It's a question of when, and I think the team does a great job managing through it.

Operator

Your next question comes from the line of Chip Moore with ROTH Capital.

Alfred Shopland Moore

ROTH Capital Partners, LLC, Research Division

Maybe I could ask about lithium battery. I know you're limited on what you can say, but you sort of alluded to expecting -- I think it was a favorable outcome. Just anything you can share there and how we might think about how the strategy has evolved and when we might see a final decision?

Shawn M. O'Connell

President, COO, President of Energy Systems Global & Director

Yes, I'd be happy to do that. Thank you, and good to hear from you. We are very encouraged, I'll just say that, of where we're at in our discussions with the Department of Energy and the overall administration. If you recall, and we go back to the beginning of this administration, what we saw were grants being

canceled, projects being canceled. And we didn't know at the time that the batteries would survive the One Big Beautiful Bill Act. And all that is sort of ironed out, the government priorities being clarified and then putting the people in place that they wanted to put in place on their side to get these initiatives across is what's taken all the time.

But I'll tell you that our grant has remained intact. It was never canceled. And we had a really strong audience with the government to talk about their new priorities. And what is that? It's secure domestic supply chains free from foreign entity of concern, content, particularly for the U.S. military and the Department of War. And of course, grid resiliency and electrification is still there, U.S. manufacturing and job creation. But the really interesting thing for us is this has been a bipartisan supported issue.

And I've said previously that if we could -- in terms of what the plant does and what its purpose is, if we could point the whole thing at a secure supply chain for the military, we would. I'm not saying that, that's where we're going to end up. And I don't want to get in front of the administration and determining yet what that looks like. What I can tell you right now is it's very positive. We believe we're in the final stages. We were hoping to have some information by -- a little more concrete by this call, but we can only go as fast as the customer on the other side, which in this case, is the government, but we remain very optimistic about where this is trending.

Alfred Shopland Moore

ROTH Capital Partners, LLC, Research Division

Understood. I appreciate all that color. And just maybe for my follow-up, just maybe more of a follow-up on Noah's question for Motive and some of the pent-up demand. I mean maybe a similar dynamics for Class 8, I think, that you called out. Just maybe talk about your ability in both those markets, how you think about the back half of next fiscal year if some of that demand starts to come back?

Shawn M. O'Connell

President, COO, President of Energy Systems Global & Director

Yes. Well, we are well positioned. The actions we've taken in our factories to be more efficient, to increase the effectiveness of our supply chains, the work we've done through tariff mitigation, we're ready. I mean there's no question about it. And just to give you -- you mentioned Transportation, I didn't really give that color. We have a fleet operator, who is one of the largest in the U.S., and they operate over 400,000 tractors. And they told us today, they have -- they told us if they had to order today, they have some 50,000 tractors to order just to maintain the fleet as it is without any additional growth. Think about that.

So they've just delayed and nobody wants to go first because they don't know when this is going to turn back on. But they told us all of their conversations now with the OEM tractor providers and Class 8 OEMs is how fast can you restart? What does that look like? What does that pipeline look like? Because they know -- and they represent just a bit of color, that 412,000 tractors or 450,000 -- whatever that number is, they represent a number approaching 20% of their portion of the market. So it just gives you an idea of the dimensionality of the number of tractors that need to be ordered now just to sustain the fleets out there due to the aging issue, let alone growth. So we're ready. We have ample capacity. We've got Missouri up and running. We've hit all of our milestones there that we committed to. We've got scrap coming down, productivity increasing. OEE looks good at our bottleneck points. So when those drivers turn back on for us, we can execute pretty quickly.

Andrea J. Funk

Executive VP & CFO

Yes. I'll just add a little bit more on to that. One thing that's interesting, Chip, and good to hear from you is you mentioned Transportation right after Motive Power. With invigorating our operating model, one of the things that we've been looking at is having Chad, who does a great job leading our Motive Power business, also begin to look at synergies that we have with our Transportation business. And there's immense synergies there because as you can imagine, you've got warehousing and distribution. You have both forklifts and trucking in there. We actually had a really nice quarter for Transportation with the market still being soft. And I think that's aided by some of the benefits from this invigorated operating model as well as the improvements the COE are having in our manufacturing costs, both absorption with

a little bit of the volume pickup we had and Shawn's monthly trips that he's taking out to Missouri, I think you're really seeing improvements across the board.

And only other thing I'd mention since we're talking about Transportation as you get into the whole specialty line of business, we couldn't be more pleased with our A&D business. That's an area where we mentioned our A&D backlog, I think, up 27% year-on-year. Munitions, in particular, has had a 230% growth in their backlog year-to-date, really a 29% CAGR since we acquired the business in fiscal '19. So lots of opportunity in front of us with the geopolitical environment continuing to drive this increase in defense budgets as well. So bright spot there for us.

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

I just wanted to talk about the Energy Systems segment first and the outstanding growth that you're seeing in data center, I think you said up 28%. If I look at that segment and think about, I think data center revenue for you is over \$400 million on an annual run rate now. I think, Shawn, that you had said it was around \$425 million. If data center is up 28%, I guess that implies or tells us that the balance of the Energy Systems segment was down maybe low single digits to mid-single digits. And I'm just -- that's being driven, I guess, mainly by dynamics in telecom and broadband, but I don't know if I missed it, but I didn't hear a lot of comments today yet on the call around telecom and broadband. So I'm just curious what is happening in those end markets? And what's the outlook in those end markets?

Shawn M. O'Connell

President, COO, President of Energy Systems Global & Director

Yes. And good to hear from you, Brian. We -- I think Andi went into a bit on timing and margin normalization. What I would tell you is that we see only positive signals in the rest of the segments there. Q3 to Q4 for us because we are on this April to March fiscal is always a little weird in the telecom space for us because you either have the communications folks trying to increase their year-end spend before the calendar year flip or they have -- or they're deferring CapEx based on what their CFO is wanting them to do to restart it again in the -- our fourth quarter, their first quarter. So -- and then as Andi mentioned earlier, too, we had the pull-in issue from Q2 into Q2 that if you normalize Q2 and Q3 look a little better. But all of the demand signals are good. We don't talk about it because it's a small segment for us, but we have over 50% market share in power utility. And that specific application for us is electric substation, switchgear and control. That business is up 15% and just doing very, very well.

So we see very positive demand signals. I'll tell you the engineering team, particularly under the Center of Excellence realignment is doing a fantastic job with the XM product. The broadband people are under the same pressure everybody else is under. They're trying to plan for more expensive energy, more frequent outages. And so that product achieves a lot of that for them. So we've been in trials and co-developing that with a key customer partner. So I would tell you that there's all positive demand signals for us there. You're probably just picking up on a little of that year-end choppiness and project staging.

Andrea J. Funk

Executive VP & CFO

Yes. And just to echo that, Brian, and good to hear from you. As we mentioned, this business is project driven. There are some large customers. So when you look at growth rates quarter-by-quarter, both with volatility in last year as well as volatility in this year quarter-to-quarter, you see some spikes up and spikes down. But I would expect our comms business overall in '26 will be up mid-single digits. Our data centers will probably be up high teens year-on-year. So quarter-to-quarter because of some of these, you have a customer year-end, you have budgets, you got a project that completes early or you're behind, you can have some shifts quarter-to-quarter. But the trajectory is really in good shape.

And I would say, while we're not in kind of this robust build-out like we've seen maybe in some of the past communications expansion, it's more slow and steady, continues to improve. This fiscal year, we probably won't be back at the fiscal '24 level, but we'll be trending towards it with opportunity in '27 to get above.

Brian Paul Drab

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

Okay. And the guidance for Energy Systems and -- or I guess the guidance for the revenue overall, does that imply for the fourth quarter, like would I be correct in thinking that Energy Systems revenue is up a little year-over-year and Motives down a little year-over-year? Or any detail there you can help with?

Andrea J. Funk

Executive VP & CFO

We don't guide specifically line of business by line of business, but I can give you a little bit of color on each, if that would be helpful, Brian. In Energy.

Brian Paul Drab

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

Whatever you want to give would be great.

Andrea J. Funk

Executive VP & CFO

Sure. I'll give you a little -- and hopefully, this will help. Energy Systems, we'll continue to see some growth from data centers, although, again, as we mentioned, the choppiness, prior year is probably a little bit of a tough comp. The comms network refresh will continue with the build-out to enable the AI data delivery necessary, but at this measured pace. And again, some of those pushouts that we had will be materialized, so that will benefit us. Just as the Q3 volume was pressured and margins were aided by this quarterly phasing, that will be normalized. So you'll get a little bit more of the pickup from the volumes as we talked about, but probably a little bit of pressure from the margins quarter-on-quarter. Our cost actions are holding and again, normalizing towards double-digit margins. So very pleased with the progress.

And as you know, we've talked about several quarters, service having been a headwind for us. It's now -- we believe we've turned the corner and going to start to become a tailwind, an important part of our strategy going forward. In Motive Power, again, I would use hesitant as probably the best word to describe the market. We see that continuing into fiscal '27. We had a 0.9 book-to-bill in Motive Power, but we're really returning our backlog more to pre-COVID levels. So there's more book and ship business. And again, we -- as Shawn mentioned, we definitely see pent-up demand there that it's just a question of when that's going to be unloaded.

There's going to be the Q4 seasonal volume lift that always happens. So we'll benefit from that. We continue to see customer enthusiasm in our maintenance-free solutions. And we will also see some higher cost pass-through from tariffs as our cost optimization opportunities and volume grows. Our Monterrey closure, as we mentioned, is ahead of plan. We substantially closed that 1 month early. You'll probably begin to see that benefit in -- starting around the middle, maybe second quarter or third quarter of next year as we work through the inventory that we had. But that along with the BESS opportunities.

There's a great article we just read about how 15% of warehouse operators costs are their operating expenses or energy, and they're asking us for these solutions. So that's on the horizon for next year. And Specialty, I think not unreasonable to expect double-digit AOE for Q3 that we saw and beyond as our A&D business continues strength, aftermarket Transportation picks up and the lead acid COE is driving cost improvements in both trans through automation and the growing benefits of the restructuring. So hopefully, that was a little color that could help.

Operator

Your last question comes from the line of Greg Lewis with BTIG.

Gregory Robert Lewis*BTIG, LLC, Research Division*

A lot has been covered. So I guess, Shawn, I'll ask a little bit about the rollout of the UPS system in lithium. I mean you mentioned that you're 50% in TPPL. I guess around the rollout, I mean, I imagine it's -- I know it's something you've been looking at since last year. As we think about the go-to-market strategy, I guess a couple of things is, clearly, there's demand. How should we think about EnerSys entering this market as a new entrant? Is this going to be -- like how competitive is that landscape? Clearly, there's a lot of growth to be had. And then just also around that, I'm kind of curious how we can think about that ramping, i.e., hey, we start having a solution maybe this spring. Are we selling out that quickly and then we ramp? Or like just if you could kind of talk about how we should be thinking about the rollout of that the lithium UPS solution later this year?

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

Thank you for calling in and joining us. It's a great question and the right question. Lithium as a technology does some very interesting things for the user, but also carries risks that lead acid does not carry. And as such, it's the adoption rate for it, to your point, I think to your question, is that you get trials in the field and these centers are so large, that the amount of power that you're generating or the amount of power that are going through the systems is substantial. So what you would expect to see for us is trials, which have already pretty much been pre-agreed by our customer base.

Again, I mentioned earlier, there's a lot of pull-through from our customers, and it's more than just the product. It's how we handle them, it's how we service them. It's our global presence. So there's a high desire for our customers. This isn't something we're going out and trying to pitch. But with that being said, we have to get through these trials. They have to get comfortable with the technology. We have to be sure that we're making the little tweaks because our battery doesn't go in isolation. It's communicating with the OEMs UPS systems, and you know the big names and who they are. So that all takes a little bit of time. So what we suspect is that when the trials come in, that will be probably a, let's call it, a 6-month period for that fine-tuning and that customer comfort and then we begin to get into the project queue.

And then, of course, the other issue there for us that we have to mitigate is that these data centers are planned a long time in advance and lead times are long. So when we get into that queue, you shouldn't expect a hockey stick ramp in the first year, but a steady growth for us climbing out. And just to give you some context, there are really only 1 to 2 other credible lithium providers in the space today. And so it's not a crowded or mature field. And again, we have a lot of pull-through from customers. But I don't want to dimension it that there will be this astronomic ramp for UPS. It will take a bit of time.

Gregory Robert Lewis*BTIG, LLC, Research Division*

Okay. Great. And then, Andi, real quick on Motive in terms of the upward price. I know you called out in the slide deck about the maintenance-free solution growing. Just kind of curious what drove that price mix? And I'm curious, was any of that kind of just tariff pass-through?

Andrea J. Funk*Executive VP & CFO*

Well, tariff pass-through would be at a lower margin, and we are starting to begin to see more of the tariff impact coming through. We had a nice margin in Q3 '26, again, at 14.9%, up year-on-year and up sequentially. A lot of the volume softness that we saw was in our flooded business. And so that mix really helped us. We think those are the smaller manufacturers, smaller warehouses that are feeling some of the pressure. And those are the ones we think that are kind of holding back and driving some of the mix benefit we're seeing. But of course, our restructuring efforts are holding.

Operator

There are no further questions at this time. I will now turn the call back over to Shawn O'Connell, President and CEO, for closing remarks.

Shawn M. O'Connell

President, COO, President of Energy Systems Global & Director

Thank you, Bella. I'd like to thank you all for joining us today. We look forward to updating you again next quarter. Hope you have a great day. Thanks again.

Operator

That concludes our conference call today. Thank you all for joining. You may now disconnect. Everyone, have a great day.

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