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*Earnings Call*

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# Call Participants

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*President, COO, President of  
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# Presentation

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## Operator

Hello, and welcome to EnerSys Q4 and Full Year 2026 Earnings Webcast and Conference Call. [Operator Instructions] Now I would like to turn the call over to Lisa Hartman Langell, Vice President of Investor Relations. Please go ahead.

## Lisa Langell

*VP of Investor Relations & Corporate Communications*

Good morning, everyone. Thank you for joining us today to discuss EnerSys Fourth Quarter and Full Fiscal Year 2026 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 fourth quarter and fiscal year 2026 results and our 10-K with the SEC, which are available on our website. We also posted slides that we will 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-K 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 May 20, 2026.

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. During today's call, we will review our fourth quarter and full-year fiscal '26 results, update you on our EnerGize strategic framework and demand trends, and close with guidance for the first quarter of fiscal year '27. Please turn to Slide 5. In the fourth quarter, we delivered our highest quarterly adjusted EPS with and without 45X on our second highest quarterly revenue and strong free cash flow, driven by favorable price/mix, ongoing OpEx discipline, and the impact of our accelerated stock buybacks.

We ended the year with full-year record sales, Adjusted Gross Profit, Adjusted Operating Earnings, and Adjusted Diluted Earnings per Share, all before the benefit of 45X. It is notable that our ability to generate this level of earnings during the year in which demand in the electric forklift and transportation markets was down a testament to the effectiveness of our EnerGize strategic framework, the strength of our diversified business, and our renewed ability to perform across varied demand conditions going forward. We have structurally enhanced our business and are well positioned to deliver further value.

Please turn to Slide 6. In fiscal '26, we implemented our EnerGize strategic framework and are seeing meaningful benefits across the business, starting with optimizing our core. This quarter, we announced the closure of our Tijuana, Mexico facility and the shift of production to our Springfield, Missouri plant, which we expect will generate approximately \$20 million of incremental 45X benefits beginning in fiscal '28.

We also substantially completed our previously announced plant closure in Monterrey, Mexico, which we expect to yield approximately \$19 million of savings in fiscal '27 and have already seen early realization of related incremental 45X benefits this quarter. These 2 projects will further optimize our manufacturing footprint, maximize 45X tax benefits, support the continued transition to our higher-margin, higher-performance solutions, and mitigate future risks associated with tariffs, all while better serving our customers.

We are also invigorating our operating model to improve execution speed and strengthen alignment across the organization. As an example, our Centers of Excellence delivered early working capital improvements through better collaboration of our supply chain and purchasing teams, contributing to our strong Free Cash Flow. Additionally, work progressed to accelerate our growth through new product developments and deeper service and software capabilities.

Two top priorities on our road map, our lithium data center solution and Battery Energy Storage Solutions for warehouse operators, both advanced into customer commissioning this quarter. As these launches gain traction in upcoming years, we expect the driver of our earnings improvement to shift increasingly from margin expansion toward top-line growth. Over the past year, we have refined our overall go-to-market strategy to bring new products to market faster through customer-focused projects, optimized product design, streamlined supply chains, and the competitive advantage of our technology stack, particularly for our lithium solutions.

As part of this evolution, we have rescoped the strategy for our lithium cell factory in Greenville, South Carolina, with an increased focus on applications for customers that value secure, domestic FEOC-compliant supply chains, particularly within aerospace and defense markets. The growing need for electrification across defense platforms, drones, counter-drone systems and soldier power applications continues to reinforce the strategic importance of trusted U.S.-based battery manufacturing capabilities. We have made meaningful progress in discussions with the Department of Energy regarding our revised plan and are now in the final stages of the grant process.

Our updated approach leverages more established and commercially-proven cell technology, which we believe significantly de-risks the program, reduces complexity, enables a faster path to production. While we cannot disclose additional details on the planned facility until the award process is complete, we are currently expecting a more focused manufacturing footprint aligned with our competitive advantages and our customer-value proposition. As such, we believe that the extra time will ultimately work to our shareholders' advantage.

Please turn to Slide 7. While the macro environment remains dynamic, we've taken actions needed to manage related exposures. Over the past year, our Tariff Task Force has worked across the business to diversify supply chains, increase sourcing flexibility, and prioritize manufacturing in region-for-region. Our total tariff exposure remains stable at around 22% of U.S. sourcing and an annualized estimate of around \$70 million before mitigations as we believe additional Section 122 tariffs announced in February will have an impact roughly equal to the reversed IEEPA tariffs.

We have filed for reimbursement on all IEEPA tariffs we are currently able to and begin receiving funds for this month. Those refunds are not included in our guidance and will not be presented in lines of business earnings. We are beginning to see both direct and indirect impacts from the conflict in the Middle East, consistent with what others across our markets are experiencing. Although we do not have operations in that region, we saw some direct impact in the form of elevated freight and other inflationary pressures emerge in the fourth fiscal quarter and would expect to continue as long as the conflict persists.

While we are confident in our ability to mitigate those higher costs, there may be some temporary pressure until costs are recovered. The more significant risk remains the effect of heightened economic uncertainty on customer buying patterns, of which we experienced a bit this quarter. Across both trade policy and geopolitical disruption, our focus remains the same; actively manage what we can control, mitigate both direct and indirect costs and preserve the flexibility to respond as conditions evolve. Please turn to Slide 8. All of our end markets are showing encouraging signs, yet conditions remain dynamic.

We are seeing strong underlying momentum in data centers, communications and defense applications while navigating softer but improving forklift and transportation markets. While volumes are down overall of a strong prior-year comp, Q4 posted our highest book-to-bill in nearly 4 years at 1.1 with all lines of business Q4 orders outpacing revenue. The early signs of improving trends we mentioned in our previous earnings call for Motive Power and transportation have continued with Q4 representing a sequential and year-over-year improvement in orders for both businesses.

The geopolitical factors that could impact customer purchasing behavior remain, but deferred investment in aging fleets and battery replacements is not sustainable, thus the strength in order activity we're beginning to see. We're cautiously anticipating orders to continue to trend positively, gradually increasing through our fiscal '27 with a return to growth expected in both markets as the year progresses, led by Motive Power. In Communications, we saw strong orders and record shipments for our broadband power supplies, driven by continued DOCSIS 4.0 build-out as the need for additional power is driving network refreshes.

We anticipate these encouraging demand trends to persist as customers modernize network infrastructure, replace aging equipment, and invest in more reliable backup power and resiliency capabilities to support growing data traffic and connectivity needs. In data centers, we continue to see healthy demand as customers invest in AI infrastructure and data center expansion. Today's data centers have an increasing need for higher energy density and faster demand response.

Our TPPL technology is more suited to these high-rate, short-duration discharges that can exceed the capabilities of traditional lead-acid designs. While a majority of greenfield data centers are adopting lithium, robust demand remains for lead-acid solutions where we have a leading market position as evidenced by our high-teens fiscal '26 year-on-year growth. Our new data center lithium battery will enable us to capture incremental and accelerating share of wallet while delivering solutions to our customers that best fit their needs regardless of technology.

Within Aerospace and Defense, we saw particular order growth in munitions and space this quarter and continue to see robust underlying demand with increasing global defense budgets and a compelling long-term trajectory. We enter fiscal '27 cautiously optimistic around the broader demand environment while continue to focus on areas within our control, including executing with ongoing operational rigor, driving manufacturing and supply-chain efficiencies, and accelerating our targeted high-value new product launch initiatives.

Reflecting on my first year as CEO, I am proud of our accomplishments. Our enhanced focus on our core end-markets, where our deep customer relationships and leading market share positions afford us the right to win provides clarity on the targeted growth opportunities where we are doubling down to expand our share-of-wallet. EnerSys is ideally positioned to address global secular trends, including limited availability, increasing cost of both energy and labor, AI acceleration, and increasing defense spending, all of which require reliable, integrated stored energy solutions.

During our Investor Day on June 11, we look forward to sharing an update on our strategic priorities, our technology road map and how our focused team is accelerating our profitable growth opportunities. I want to thank the entire EnerSys team for the dedication and execution they bring every day in delivering the solutions and performance our customers depend on.

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 \$988 million, up 1% from prior year, driven by a 4% benefit from price/mix, and a 3% benefit from foreign currency translation, partially offset by a 6% decrease in organic volumes. As a reminder, our prior-year Q4 was positively impacted by some customers pulling in volume in advance of the announced tariffs. In Q4 '26, all lines of businesses saw sequential volume improvement with total company volumes up 7% quarter-over-quarter.

We achieved Adjusted Gross Profit of \$292 million, down \$12 million or 4% versus a particularly strong prior-year period as higher freight, tariffs and inflationary costs weighed on performance. Q4 '26 Adjusted Gross Margin of 29.5% was down 170 basis points with 45X and 190 basis points without 45X versus a very strong prior-year comp. Gross margin in the quarter was in line with recent historical averages despite the margin dilution of the pass-through of tariffs and higher freight costs, which were up \$20 million year-on-year, net of having produced more products in region-for-region.

OpEx in the quarter improved as a result of our cost reduction initiatives with a net reduction of \$14 million year-over-year. Our Adjusted Operating Earnings were \$154 million in the quarter, up 1% versus the prior year with an Adjusted Operating Margin of 15.6%. Excluding 45X benefits, Adjusted Operating Earnings were roughly flat versus prior year with an Adjusted Operating Margin of 10.9%.

Adjusted EBITDA was \$173 million, an increase of \$6 million or 3% versus prior year, with adjusted EBITDA margin up 40 basis points. Excluding 45X, adjusted EBITDA was \$126 million, up \$3 million or 3% year-on-year, with an adjusted EBITDA margin of 12.8%, up 20 basis points from the prior year. Adjusted diluted EPS was a record of \$3.19 per share, a 7% increase over prior year, which had been our previous record earnings.

Excluding 45X, adjusted EPS was \$1.96, also a record, up 5% versus prior year. Our Q4 '26 effective tax rate was 22% on an as-reported basis, higher than prior periods on a one-time impact from restructuring and tax law changes and 20.4% on an as-adjusted basis before the benefit of 45X compared to 18.9% in Q4 '25 and 22.4% in the prior quarter on geographical mix of earnings, which can vary quarter-to-quarter.

We expect our full-year tax rate on an as-adjusted basis before the benefit of 45X for fiscal year 2027 to be in the range of 21.5% to 23.5%. Full-year net sales of \$3.8 billion, an all-time high, were up 4% year-over-year. We generated adjusted operating earnings of \$540 million, including \$159 million benefit from IRC 45X tax credits. Excluding the 45X benefits, we generated record adjusted operating profit of \$382 million and realized our highest full-year adjusted operating margin at 10.2%. Adjusted diluted EPS was \$10.56 per share, an increase of 4% and adjusted diluted EPS before 45X benefits was a record \$6.41 per share, an increase of \$0.82 versus prior year.

Let me now provide details by segment. Please turn to Slide 11. In the fourth quarter, Energy Systems revenue increased 7% from prior year to \$426 million, driven by strong price/mix, a positive FX impact, and volume growth in Power Electronics. Adjusted operating earnings increased 23% from prior year to \$42 million, primarily reflecting the benefits of favorable price/mix from a richer mix of products and OpEx savings from our restructuring efforts.

Adjusted Operating Margin of 10% increased 130 basis points versus prior year, bolstered by record sales of our flagship XM products, which we expect to continue, although perhaps not at the elevated levels we saw in Q4. Longer-term, we anticipate continued data center growth and ongoing network investments to support incremental data traffic stemming from AI, both of which we are well positioned to benefit from, although the project nature of this business can cause fluctuations quarter-to-quarter.

Motive Power revenue decreased 6% from prior year to \$370 million with lower volumes from ongoing market softness, partially offset by FX tailwinds and favorable price/mix. Motive Power Adjusted Operating Earnings were \$53 million, down 21% from prior year, resulting in Adjusted Operating Margins of 14.2%, or a 280-basis-point decline versus prior year. OpEx savings and improvements in price/mix were offset by loss leverage on lower volume and higher freight and tariff costs.

Maintenance-free product sales were 30.4% of Motive Power revenue mix compared to 29.3% in Q4 fiscal '25. 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 \$192 million, driven by favorable price/mix, particularly in A&D, early contributions from the Rebel acquisition, and FX tailwinds, partially offset by lower transportation volumes.

Specialty Adjusted Operating Earnings were \$18 million, up 20% versus prior year, driven by continued strong performance in our A&D business. Adjusted Operating Margin of 9.4% increased 90 basis points year-over-year, while being impacted by lower transportation volumes, indicative of the market dynamics we previously discussed. While transportation sales were down high-single digits, orders were up over 30% year-on-year, providing indications of an early but bumpy start to the recovery in demand.

We continue to have confidence in reaching sustained mid- to high-teens margin performance within this segment, although the progression may not always be linear due to the timing of recovery in transportation and project nature of A&D. Please turn to Slide 12. Operating Cash Flow of \$144 million, offset by CapEx of \$13 million, resulted in strong Free Cash Flow of \$131 million in the quarter, an

increase of \$26 million versus the prior-year same period. Free Cash Flow Conversion in the quarter was 170%.

Excluding the benefit of 45X to earnings and cash, Free Cash Flow Conversion was 459%. For the full-year, Free Cash Flow was \$468 million with conversion of 159%. Excluding 45X, Free Cash Flow was also impressive at 236%. Our Q4 and full-year cash flow conversions were elevated in part by accrued expenses recognized in our GAAP earnings related to the cost-optimization initiatives we undertook this year.

Primary Operating Capital decreased to \$877 million versus \$932 million in the prior year on improved receivable collections and inventory efficiency measured internally by POC as a percentage of annualized sales, improving 170 basis points versus prior year after absorbing the impact of tariffs and tariff pass-through in both 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 March 31, 2026, we had \$440 million of Cash and Cash Equivalents on hand. Net Debt of \$684 million represents a decrease of approximately \$100 million since the end of fiscal '25. Our leverage ratio of 1.1x EBITDA remains well below our target range of 2x to 3x. Please turn to Slide 13. Capital expenditures were \$13 million in the quarter, ending fiscal year '26 with \$80 million in spend and an expectation of about \$70 million in fiscal year '27 as we've completed our heavier investments in TPPL capacity flexibility, and we continue to selectively focus on the highest-return, highest-impact investments.

During the fourth quarter, we purchased 410,000 shares for \$69 million at an average price of approximately \$171 per share. We also paid \$9.6 million in dividends. We have approximately \$876 million in our Buyback Authorization as of May 20. 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 with a total of \$409 million returned during the year.

Please turn to Slide 14. As we look ahead to fiscal year 2027, we are encouraged by the strength we are seeing in data centers, communications and aerospace and defense. We maintain cautious optimism in forklifts and Class 8 transportation as we've started to see encouraging demand conditions and anticipate seeing volume recovery improving through the year. Our Q1 outlook reflects typical seasonality with strength in price/mix and continued benefits from our EnerGize strategic framework, but also lingering market hesitation in forklifts and transportation in response to the macro environment.

For the first quarter of fiscal 2027, we expect net sales in the range of \$915 million to \$955 million, with Adjusted Diluted EPS of \$2.80 to \$2.90 per share, which includes \$42 million to \$47 million of 45X benefits to cost of sales. Excluding 45X, we expect Adjusted Diluted EPS of \$1.61 to \$1.71 per share. For the full year, we continue to expect Adjusted Operating Earnings growth, excluding 45X benefits to outpace revenue growth, supported by ongoing OpEx discipline, sustained price/mix strength and strong or improving markets across our businesses.

We remain focused on strengthened execution, operational rigor, and driving long-term shareholder value. While the broader macro environment continues to present some variability in certain end markets, we are encouraged by the momentum we are seeing across the entire company. We believe the actions we have taken to simplify the organization, improve manufacturing and supply chain efficiency, and prioritize high-return growth initiatives have positioned the company well for the future.

Supported by our strong balance sheet, healthy cash flow generation and disciplined capital allocation, we remain confident in our strategy and our ability to capitalize on long-term opportunities and deliver incremental shareholder value. We look forward to sharing more with you at our upcoming Investor Day 3 weeks from today at the New York Stock Exchange. With this, let's open it up for questions. Operator?

## Question and Answer

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### Operator

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

### Noah Duke Kaye

*Oppenheimer & Co. Inc., Research Division*

I was looking back at last year's 4Q presentation, just thinking through the comps, and then took a little time to read the strategic priorities that were laid out at the time. And so I'll just start off by saying nice job in the first year, folks. I just want to acknowledge that. A question on Energy Systems. I think the point that you called out about the tough prior year comp on volumes is well taken, right? Volumes were up 8% last year.

But just trying to understand how still we got to flat volumes this year, given the comments around record XM shipments and what I assume was continued strength in Data Center. Just where were there any offsets? And then I think going forward, I mean, volume comps are still a bit elevated for the next couple of quarters. How are you thinking about the profile of growth as we move into fiscal '27?

### Andrea J. Funk

*Executive VP & CFO*

Noah, I'll be happy to take that. Thanks. Yes I think the thing that's important to keep in mind with Energy Systems is that it's very much a project business. So while we look at our growth and there's a lot of opportunities to continue to grow, it's not always going to be linear quarter-to-quarter. If you look at Data Centers in the fourth quarter, it was actually flat year-on-year because we had a very strong Q4 of last year.

So for the full-year, we're up really high single digits, but it was just a tough comp on the Data Center piece that dragged down even though we know on an ongoing basis, I think we shared we've got 36% higher orders year-on-year. So the momentum is certainly strong; I think it's just the project nature. And keep in mind also, Q4 of last year was right after tariffs were announced. And so it was before they were in effect. And as we said last year on the call, too, we think there was some pull-in of orders that came into Q4 of last year that also made that Q4 comp a little bit of a tough comp.

### Shawn M. O'Connell

*President, COO, President of Energy Systems Global & Director*

Noah, for me, I would only add to that, while a step back in volume is never something to celebrate for sure, where I give my team internally a lot of credit. I've been in the EnerSys universe since 2003, so prior to the IPO. And I couldn't remember, and I asked the team, did they ever remember a time where the company could set records and do what we did with Motive Power being in a recessionary position.

And we couldn't think of any. So we really feel good about the company's ability to continue to deliver for shareholders, even with such a primary segment for us taking a step back. So -- but we -- to your point, every bit of our focus is on growth, and we have -- we believe we have a lot of really good sales in the wind to generate that.

### Noah Duke Kaye

*Oppenheimer & Co. Inc., Research Division*

Okay. And then, Shawn, I'm sure this is going to be a big focus at Investor Day. But I noticed in both the press release and your prepared remarks, the phrase in commissioning referring to both the data center UPS product and Warehouse B. So just to kind of put a little bit finer point on that, the difference between customer validation and customer commissioning, is there anything that we should read into that in terms of commercial readiness? Because when I think about commissioning, I think about a product actually

being deployed in the field, going through commissioning, and recognizing revenue. So I would just love to kind of understand what exactly has been going on.

**Shawn M. O'Connell**

*President, COO, President of Energy Systems Global & Director*

Yes, that's a great question. And you're right about the quantitative differences in those words. We actually -- when we set out to deploy this product a year ago, it didn't exist a year ago. We said, listen, we're not going to do something like an engineering launch or a soft launch. We've set our team that they don't get any credit unless they're shipping a product to a customer. So that's exactly what we've done.

So in this case, you could see it both ways, validation and commissioning. They're using that battery. But we have a lot of work to do. And the reason we've tempered that you won't see revenue lift until fiscal -- meaningful revenue lift until fiscal '28. We have the OEM handoffs to get done, the communication. So it's not just one OEM's GPS. It's -- there's all the large primary providers, the names you would know.

We need to make sure that they feel comfortable with the communication there that -- and then on top of that, you have the large hyperscalers who have their own validation process for the product. So there's a lot of work to do once you've shipped the product. So, that should help kind of offer a little clarity there. But we are -- it's not an A-sample or a B-sample. We've shipped a finished product to the customer.

**Operator**

And your next question comes from the line of Greg Lewis with BTIG.

**Gregory Robert Lewis**

*BTIG, LLC, Research Division*

I was hoping to talk a little bit about your outlook for the Data Center opportunity. I guess a couple of questions. As we think about the fourth quarter, I'm always like -- I know we talk about it sometimes sequentially, sometimes year-over-year. Any sense to think about what that growth rate is looking like? And then just as we continue to think about the Data Center opportunity, at least in other suppliers to this megatrend, some of the things we've been hearing is some of the gating factors around the ability to sell product is supply chain. So just be curious how you're thinking about positioning the supply chain, and how that's been playing out, just given the exponential growth we're seeing in this opportunity.

**Shawn M. O'Connell**

*President, COO, President of Energy Systems Global & Director*

Yes. I'll start, and I'll turn it over to Andi for growth rates, Greg. Thank you for joining us. We have spent a lot of time and energy getting ready to perform in the area of TPPL. And this product, the way that it performs gives a -- you're sort of knocking on the bottom edge of a Lithium-like experience without any of the inherent risks of Lithium.

And what's something that standard lead-calcium can't do or the old lead technology can't do, is answer these high demand rates, so sub-5-minute rates, in some cases, sub-1 minute rates because they don't have the surface area reactivity, not to get too technical. So anyway, we've built in that capacity. And we may have had other reasons for building in that capacity in past times, but it lends itself perfectly to this product. And that's an area of very high growth we're seeing before we even talk about launching our Lithium battery. So we feel very good about that supply chain.

We also -- one of the things that we talked about on the call is the amount of dry powder that EnerSys enjoys. And when we talk to our customers and we talk to the supply base, what we're finding is that some of these items like lithium batteries and the cells or places of origin have very long supply chains.

But it's compounded by folks that don't -- that aren't putting that investment together to make sure that they're getting more to these shores and are able to react to customer issues. We're spending a lot of time making sure that's in place. It's on our strategic road map, and we feel very good at the moment about barring any more wars in weird places or further supply shocks, we feel very good about our position to be able to deliver once we have validation on those products.

**Andrea J. Funk***Executive VP & CFO*

And Greg, I'll just continue a little bit with that as well. What actually we hear is one of the biggest gating factors to the new DCs is power availability, which I think what's exciting about that is that just adds to the strengthens the value proposition we have with our BESS systems that we're planning on launching and just the importance of energy storage overall as the world is facing these power shortages. That said, in data centers, as I mentioned, we were up high teens -- mid-to-high teens this year.

And actually, if Q4 of last year was normalized as far as a percentage of total revenue, it would have been the same in Q4. So again, there's a little bit of choppiness because of the project nature. As you know, we're just selling the lead-acid batteries, which have, I would say, on an ongoing basis, it might be more like high-single to low-double-digit growth opportunities. But then as our Lithium offering that Shawn just described begins to add that, none of that is cannibalistic. That's just additional share of wallet in a fast-growing market. So, we're very excited about the opportunities going forward.

**Gregory Robert Lewis***BTIG, LLC, Research Division*

Okay. Super helpful. And then realizing that you called out some of the headwinds in Motive Power and on the transport and the forklift side. That being said, book-to-bill went back over 1, orders were up. So, just curious, is that the early signs that things are getting better? Or is maybe part of that spike in orders in the book-to-bill? Is some of that just seasonality as we start the year?

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

I think we're seeing a lot of green shoots. We're seeing a lot of positive activity. What we don't know and why we say we're cautiously optimistic, we don't have any operations in places like the Middle East that -- where we're worried about a direct threat to revenue there, but these businesses, Motive Power and transportation that have tend to correlate, not perfectly, but tend to correlate with GDP. We don't know what these things do long-term to GDP, energy prices, that sort of thing.

So we're -- all of our demand signals look good. If you've looked at the public remarks of some of the forklift manufacturers that were down mid-teens over the course of the year. They're all seeing green shoots and expect strengthening throughout the year. So at this time, we see that coming as well. And we know from talking to our customers, they delayed purchases to let this situation in time work itself out. So we have seen pent-up demand, and we know that, that is one of those things that can't be delayed forever, those purchases. So, we're, again, cautiously optimistic, but we do see improving trends throughout the year.

**Andrea J. Funk***Executive VP & CFO*

Yes. And Greg, I can just give you a little bit of data to back that. While our sales were up 5% sequentially, down 9% year-on-year is a frustration. Our orders were up sequentially 19%. Motive Power is just not a segment I worry about. I think there's a little bit of reaction to the macro going on. But looking forward, there's -- we expect some sequential seasonal Q1 step-back in volume that normally happens, but we think that actually could be muted if the early recovery begins to start taking place.

As a result, Q1 could look a lot like Q4, which is not normal within Motive Power. We should have growth coming from there. And then longer term, the opportunities that we have on things like our Motive Power BESS, which we're more and more convinced there's just a compelling opportunity there. There's going to be a lot of opportunity there, which will also spur some incremental 45X as well. And this year, we'll begin to benefit from the Monterrey closure, which should impact again both 45X as well as some savings within that segment.

**Operator**

And our next question comes from the line of Brian Drab with William Blair & Company.

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**Brian Paul Drab**

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

Andi, first, I think you just said that the first quarter for Motive could look a lot like the fourth quarter. Is that right? And do you mean -- so would we then expect volume to be up in the first quarter for Motive...

**Andrea J. Funk**

*Executive VP & CFO*

No, we don't -- I don't -- Brian, as you know, we don't give that specific of guide. But generally speaking, it's just encouraging. We're beginning to see the early signs of this recovery. Whether it happens late Q1, early Q2, it's a little hard to tell, but you can see we've got the strength in the order growth. And I'm optimistic; it just can't be that disconnected from GDP. And I think there's a pent-up demand that we're going to start to unwind as well.

**Brian Paul Drab**

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

Yes. Okay. It's just challenging to model because looking back at industry orders. We talked about industry orders in the December quarter being up 40% and then for forklifts and then the volume was -- your business was down 10% in the fourth quarter. So it's just -- everyone is trying to figure out, does this business get back to growth in terms of volume in the next fiscal year?

**Andrea J. Funk**

*Executive VP & CFO*

And I would say, I think we called that out as well. We do see that before the ending of this year, it's going to be a return to growth. I'm confident in that. It is true that a lot of the normal indicators that we look at are a little bit out of balance. There's choppiness in it. And I think a lot of that is customer buying behavior reactions to a lot of the macro volatility. But this is a good business. What we feel good about is that the volume decrease we had is less than what we see in the overall market and the market can't become disconnected from GDP. So there's some pent-up demand being created.

**Brian Paul Drab**

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

Okay. And then maybe just one more follow-up for now. Can you just go through the current situation with the lithium initiatives and lithium product rollout? You're going after Data Center and warehouse and that with lithium. But the lithium plant is still in the works. And it sounds like the cells coming out of the lithium plant are going to be at least an area of focus is defense, talk about drones and mobile soldier power being a source of demand for those cells. So I guess I'm just wondering like currently, where are the cells coming from for your lithium products? And how do you transition that over to the new plant and when eventually, I guess?

**Shawn M. O'Connell**

*President, COO, President of Energy Systems Global & Director*

Yes. So Brian, it's Shawn. Thank you for joining us. Good to hear your voice. Yes, so just to offer a little clarity there. EnerSys today makes 9 chemistries of lithium batteries throughout our Aerospace and Defense complex. We also buy lithium batteries. And for us, with the -- some of the larger lithium supply chains in the world, we will always do a make-versus-buy analysis because there's no one perfect chemistry even within lithium for every application.

And we've -- EnerSys for the entirety of our evolution, even in lead have modified the lead chemistries to support different applications. In this case, because the cell is a part of a larger system and the solution that system is providing is the point, we -- it becomes even more muted whether the cell origins EnerSys or outside. So that will be make-versus-buy. So, in some of these commercial applications where we're using these cells that are ubiquitous or readily available in the world, they still have Asian supply chains, where they are originating in places like China.

And for the foreseeable future, that will continue. I think if you look at the constituent raw materials, 99% of the lithium iron phosphate constituent material supply chain is either in or owned by China, 99% of the world, meaning if a battery was built in South Korea or Japan or in Detroit, that constituent material supply chain still originates there or if the cell was finished in China. So it's just a fact in the world that we're going to navigate until we can get that migrated over. The Greenville plant is for Aerospace and Defense.

And we have a customer there that's willing to pay for value that is willing to pay to guarantee supply, domestic supply. And it won't be subject to something like EV cell battery pricing in the world. So we have a much a better de-risked position there. Those cells will be purpose-built for those applications. And so it will make a lot of sense there. There is downstream potential. There are areas of the market that we don't yet play in, in data center that those cells could have an application for. But for now, we're going to continue to buy those cells and incorporate for data center and BESS, and incorporate into our end systems until there's a point that it doesn't make sense to do that.

**Operator**

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

**Alfred Shopland Moore**

*ROTH Capital Partners, LLC, Research Division*

I wanted to ask maybe a follow-up there around Aerospace and Defense. I think you called out some pretty strong demand, and it was munitions and space, but just any more color around what you're seeing there and forward trends moving through the year?

**Shawn M. O'Connell**

*President, COO, President of Energy Systems Global & Director*

Yes. So I'll start, Chip, and then I'll turn it over to Andi for what we're dimensioning. But our backlog continues to grow in areas like munitions. And you only have to open Wall Street Journal and see what's going on in the world and what position the Defense Department is with the expanded munitions and some of these programs. And we are -- there's only a couple of people in the world that make those batteries.

So -- and we have this advanced technology in our lithium silicon cobalt disulfide, which is the highest energy you can get and real estate is at a real premium on a defensive standoff weapon. So, they need higher power in the same space, and we can give it to them. So we're seeing robust demand there. We're seeing robust demand in soldier power. We continue to see Bren-Tronics and process and do a great job. The Rebel acquisition that we made, the hybridized power systems, the future of the battlefield is electrified.

And now the concern is how do we get the ability to charge rechargeable drones at the forward edge of battle, and the Rebel HYPER system is right in the center of that conversation. So, we're seeing excellent demand signals there. We're seeing excellent demand signals in our space battery business, where we've got 15 billion hours or so in space without a single flaw, and the team has done a great job there. And what we've done is we've come up with the answer Pentagon's' desire to have commercially readily available products.

The team got very smart about a year ago and came together and made some standardized products that would reduce the cost and increase the speed going into satellite programs, and they're benefiting from that now. So really across the board. And then one of the things that have surprised us, we're seeing equal demand in the European Theater to some of the demand signals in the United States. That's never happened as long as I've been with EnerSys, and it speaks to some of the other Allied militaries stepping up and making those investments. So we really feel good about the space.

**Andrea J. Funk**

*Executive VP & CFO*

Yes, I could just add a little bit of color to that, too, Chip. In A&D, our revenue was up mid-20%, both year-on-year and sequentially with orders up sequentially about the same. Project nature of this business can cause some fluctuations. That's important to note both in volume and mix. But the orders are really strong, as Shawn mentioned, particularly in the munitions and space with our book-to-bill at 1.22.

And while munitions backlog are increasing, we're going to really start seeing that translation into revenue in liquid reserves throughout fiscal '27 and thermal batteries to follow late this year. It is really a hot topic. The industry as a whole is working to increase capacity, and we're really uniquely positioned. So this is just an extremely exciting business to be in right now. Other thing I'd mention is the acquisitions are just going phenomenal. We're seeing some lift as well, looking at synergies, particularly in EMEA of these 2 businesses put together as well as in the U.S. So good things ahead of us.

**Alfred Shopland Moore**

*ROTH Capital Partners, LLC, Research Division*

That's great. Super helpful and look forward to hearing about Greenville as well. Maybe for my follow-up, maybe just more on the modeling side, some of these inflationary pressures, you talked about seeing some impacts there, obviously. Just talk about lags and offsets with mix and some of the productivity benefits that are rolling through.

**Andrea J. Funk**

*Executive VP & CFO*

Sure, Chip. And I assume you're talking about overall. We -- one thing I couldn't be more proud of. One of the first things Shawn did when he took over as CEO is put together this dedicated Tariff Task Force. We're all over this. So we were early starts for filing for the refund because we got all the data, we got the playbook. This team then quickly was put on to the conflict that we have in the Middle East, trying to understand the impact, anticipate, make sure we're doing the right mitigating activities.

If you look at our Q4 year-on-year tariffs and freight, we're up about \$20 million. So that's a pretty big number to absorb, confident that we were fully able to offset the pricing. When inflation first kicks in, it might take -- sometimes it takes a quarter until you get normalized with the price pass-through, but -- because you got the inventory flowing off and you got orders already on your books, but we've done a tremendous job managing it. We see probably this quarter, we look to say how has the macro impacted us.

My guess is it's not been overly material, but if this conflict hadn't happened, our results probably would have been a little bit better. We got maybe a couple of million dollars of some higher costs directly related to the conflict that we saw. And again, we're on top of it. So I feel good about the outlook going forward.

**Operator**

There are no further questions at this time. I would like to turn the call back over to Shawn O'Connell for closing remarks. Shawn?

**Shawn M. O'Connell**

*President, COO, President of Energy Systems Global & Director*

Thank you. Also, I'd like to thank everybody for joining us today and participating in our results. It was our pleasure speaking with you, and we look forward to talking with you soon. Thank you.

**Operator**

This concludes today's call. You may now disconnect.

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