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Earnings Call

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Call Participants

EXECUTIVES

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Presentation

Operator

Hello, everyone. Thank you for joining us, and welcome to the Q1 Financial Year '27 EnerSys Earnings Conference Call. [Operator Instructions]

I will now hand the conference over to Lisa Hartman Langell, Vice President, Investor Relations and Corporate Communications. Lisa, please go ahead.

Lisa Hartman Langell
VP of Investor Relations & Corporate Communications

Good morning, everyone. Thank you for joining us today to discuss EnerSys First Quarter fiscal 2027 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 first quarter fiscal year 2027 results 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-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 August 12, 2026.

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

Shawn M. O'Connell
President, COO, CEO & Director

Thank you, Lisa, and good morning. Please turn to Slide 4. During today's call, we will review our strong first quarter results, share progress advancing our long-term growth initiatives, discuss our recently announced U.S. lithium manufacturing facility and close with second quarter guidance.

Please turn to Slide 5. In the first quarter of fiscal '27, we again delivered record financial results, which were driven by favorable price/mix, higher volumes, ongoing OpEx discipline and stock buybacks enabled by our exceptional free cash flow conversion. Our Network & Infrastructure Solutions and Precision Power Solutions businesses both performed very well during the quarter, supported by strength across our key growth markets, including data center, communications and defense. At the same time, the Industrial Mobility Solutions business saw initial recovery in the transportation market, while material handling demand is expected to improve in the back half of this fiscal year. Our overall performance demonstrates the value of our end market diversification and the positive impact of our energized strategic framework.

Please turn to Slide 6. At our Investor Day in June, we outlined how we are focusing on markets where we have the right to win while applying our differentiated technologies to address our customers' energy and labor challenges. As a reminder, we compete in a variety of diverse end markets that are collectively growing faster than GDP. We expect EnerSys top line growth to outpace these end markets through targeted growth initiatives that will expand our share of wallet, leveraging our leading market positions and deep customer relationships.

Our 3 large growth bets, battery energy storage systems for warehouses, lithium batteries and data centers and aerospace and defense investments build on our established capabilities and customer relationships. I would like to share recent proof points of the progress we are making, which we expect will accelerate our growth beginning next fiscal year.

In Industrial Mobility Solutions, we are pleased to share our Fortix 172-kilowatthour BESS received UL and NFPA 855 approval. This represents an important step in the permitting process required for commercial deployment. The Fortix system extends our material handling position from powering forklift trucks to optimizing energy across the warehouse. EnerSys forklift batteries, Synova chargers and Fortix BESS will create an integrated energy ecosystem that delivers peak shaving and enhanced uptime. This synergistic relationship and deep existing installed base uniquely positions us to bring the BESS solution to the material handling space while also strengthening the value proposition of our forklift batteries to our customers.

Within Network & Infrastructure Solutions, momentum in our service offerings was a meaningful contributor to the division's top line growth and margin improvement this quarter. The capabilities and operating model we are building in NIS will support broader aftermarket service opportunities across EnerSys, including our BESS warehouse deployments.

In data centers, we continue to enjoy solid growth with Q1 top line expanding in the low teens year-over-year, in line with our expectations of high single-digit to low teens growth for fiscal '27. We look forward to expanding our share of wallet with these same customers in the faster-growing lithium portion of this market. We progressed the commercialization of our DataSafe Noir lithium offering, which has been met with strong customer enthusiasm since the official launch in June, particularly for its energy density and cost competitive advantages and that it will be coupled with our established service performance. This differentiated lithium solution will begin to have a meaningful impact on our revenue growth beginning in our next fiscal year, expanding our opportunities with customers who already know us, trust us and rely on our global service network.

And last but certainly not least, we are very excited to announce the finalization of our Department of Energy grant, an important milestone in our aerospace and defense growth strategy. The planned facility will expand our ability to support mission-critical defense applications with a secure U.S.-based supply chain. I will discuss this opportunity in greater detail on the following 2 slides.

Please turn to Slide 7. Aerospace and Defense represents one of our most compelling long-term growth and margin expansion opportunities with our recent segment realignment, providing enhanced visibility and focus on the strategic portion of our business. Defense platforms increasingly require greater mobility, mission duration and power density, driven by demand for advanced batteries in drones, counter-drone munitions, missile defense and soldier power. The origin of these advanced batteries is of crucial importance as the United States and allied nations look to reduce reliance on components sourced from foreign entities of concern or FEOC.

EnerSys has been the leading provider of integrated systems, application engineering, reliability and life cycle support to these demanding applications over 9 chemistries of lithium batteries currently manufactured in our 6 U.S. CMMC and ITAR-compliant production facilities today. We expect this steep demand growth to be more durable as geopolitical priorities evolve. The economics of warfare have transformed and higher volume, lower-cost battery reliant technologies such as drones and counter-drone systems are driving mounting demand for incremental energy storage capacity that doesn't exist today.

We conservatively expect annual market growth in the range of 9% to 11% with above-market opportunity in front of us as we expand our offerings in this space. Aerospace and defense contributes to the unique value that the diversification of our business model provides to our investors and is a key area of strategic growth for us, including our planned DOE-supported lithium and advanced technologies campus, which I'll discuss next.

Please turn to Slide 8. In July, we reached an important milestone with the U.S. Department of Energy, securing financial support for our refined defense-focused lithium cell manufacturing plant in Greenville, South Carolina, which will also serve as a campus for our lithium and advanced technologies center of excellence. This investment will strengthen our domestic lithium strategy while helping support customers that increasingly require U.S.-based and FEOC-compliant supply chains for critical applications. Rather than investing in lithium battery capacity for broad commercial consumption, we chose to focus this facility on the applications where domestic production creates the greatest customer value and where we believe EnerSys has the strongest competitive position.

In addition to dramatically derisking the offtake of our planned incremental capacity, this focused direction enables us to preserve flexibility to the most efficiently sourced technologies that best meet our customers' needs in markets where FEOC compliance is not a priority. Our new lithium plant will produce high energy density cells to support manned platforms, soldier power, space and autonomous systems, further supporting the electrification of the battlefield. Importantly, it will also enable a closed-loop ecosystem for drone powering and recharging.

Consider a system with Bren-Tronics drone battery packs and chargers powered by Rebel hybridized power systems, which in turn are powered by Bren-Tronics batteries with the cells of all those batteries produced in our new plant. We expect our new lithium plant to have an initial annual production capacity of approximately 1 gigawatt hour, purpose-built for the unique requirements of defense applications. This level of energy production reflects a high quantity of small format cells and precision requirements for these applications. The production of these cells require specialized equipment and security protocols that meet national defense requirement, which is a very different scope than a commercial or other specialized lithium cell manufacturing facility.

While measured in gigawatts, the plant appears considerably smaller than our initial plans. We will actually be producing a higher quantity of these smaller batteries than the quantity of larger batteries contemplated in our original scope. In addition, the campus will provide us expansion opportunities for future growth, footprint optimization and the specialized requirements of lithium and other advanced chemistries across all our end markets where we manufacture or source the cells. We have not yet included the value of these incremental opportunities in our financial modeling.

The revised DOE grant provides approximately $150 million towards the facility's estimated $650 million cost. We expect EnerSys net investment of approximately $500 million to be funded entirely through operating cash flow. In addition, and as previously announced, EnerSys has been awarded a comprehensive incentive package through South Carolina and Greenville County valued at approximately $200 million, which includes a combination of short-term and long-term incentives that will help support ongoing operations of the plant. We believe this disciplined investment will meet critical customer needs and generate compelling long-term returns.

Construction is planned to begin in the first half of fiscal 2028 with full production expected approximately 3 years after construction begins. We expect to generate an internal return in the mid-20s for this investment. With DOE support now secured, we are moving into the next phase of the project. Our near-term priorities include advancing local grant process, completing NEPA and permitting requirements, refining capital timing and establishing the appropriate execution governance. We look forward to providing additional updates as key milestones are achieved.

Please turn to Slide 9. Across our markets, demand for our solutions is building, and our teams are focused on delivering for our customers. Q1 '27 orders were up 7% versus prior year with our book-to-bill at 1.06 and backlog relatively flat versus prior year and up 2% sequentially. For IMS, our collective end markets are showing areas of resilience that support a measured look at growth. Versus prior year, Q1 '27 transportation orders nearly doubled, while material handling orders were down high single digits. We maintain a high degree of confidence that material handling demand will improve later this fiscal year and pent-up demand will drive IMS to full year growth versus prior year. We also expect to recognize the first revenue from our next-gen lithium offering in the second half of the year, bolstering our optimism.

In NIS, Communications delivered strong demand and record shipments again as DOCSIS 4.0 upgrades are driving additional power needs and network powering refreshes, a trend we anticipate continuing as these upgrades are essential to support growing data traffic and connectivity needs. We also received very strong data center orders in the quarter, up over 80% versus prior year with deliveries extending into the future, increasing our visibility in this project-based business and reinforcing the multiyear demand opportunities for our lead-based offerings.

As market discussions are increasingly focused on resilience, energy efficiency, deployment speed and life cycle support rather than lowest acquisition cost, our TPPL solutions are well positioned to continue to deliver on these demands and will only be supplemented by the addition of our new DataSafe Noir lithium offering as we expand our share of wallet with our existing customers in this high-growth space.

In PPS, our aerospace and defense bookings are not as meaningful given the project award basis of this business. Our 24% year-on-year revenue growth was driven by increases across our A&D products particularly our counter-drone powering liquid reserve batteries and missile defense powering thermal batteries. Demand for these offerings is projected to continue to accelerate at least through 2030, driven by stockpile depletions and the evolution of battery-dependent drones and counter-drones and modern-day warfare.

In conclusion, we delivered a strong start to the year. We remain focused on executing against the priorities we outlined at the Investor Day with speed and discipline. We are already seeing the benefits of our more focused organization through progress in key areas of growth, stronger cost control and improved cash discipline. I want to thank the entire EnerSys team for their dedication, innovation and unwavering commitment to delivering to our customers every day.

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 11. Net sales came in at $936 million, up 5% from prior year, driven by a 3% benefit from price/mix, a 1% benefit from volumes and a 1% benefit from foreign currency translation.

During the quarter, we realized $31 million or $0.63 per share of tariff refunds related to previously paid IEEPA tariffs, creating a onetime positive impact on our results. As a reminder, tariff refunds were not included in our Q1 '27 guidance and are not included in the operational results presented for our lines of business. We achieved gross profit of $313 million, up $60 million or 24% versus prior year period. Our Q1 '27 gross margin of 33.5% was up 510 basis points.

Excluding the tariff refunds I just mentioned, gross profit increased 12%, and gross margin was up 180 basis points over Q1 '26. We also enjoyed [$9 million] of expanded 45X benefits in the quarter, largely driven by the closure of our Monterrey, Mexico plant and transfer of production to our Richmond, Kentucky facility. Excluding the tariff refunds that our 45X benefits, we delivered gross margin of 25.2%, up 110 basis points versus the prior year.

Beginning this quarter, we made the decision to exclude noncash stock-based compensation expense from our adjusted operating earnings, adjusted EBITDA and adjusted diluted EPS metrics in order to better reflect the underlying performance of the business and align more closely with our technology peers. Prior year periods have been recast to reflect this change in this presentation. So all metrics I will provide to you today reflect the results excluding stock comp expense in both periods for an apples-to-apples comparison. These adjustments were $7.6 million for Q1 '27 and $7.2 million for Q1 '26 and provided a lift to our adjusted EPS of $0.16 and $0.15 per share in Q1 '27 and Q1 '26, respectively.

Our adjusted operating earnings were up 47% versus the prior year with adjusted operating margin improvement of 550 basis points. After normalizing for the onetime impact of the tariff refund, adjusted operating earnings were up 22% with 45X and up 21%, excluding 45X, with margin improvement of 220 basis points and 140 basis points, respectively. Adjusted EBITDA was up 50% versus prior year with adjusted EBITDA margin up 630 basis points. After excluding the tariff refunds, adjusted EBITDA was up 27% with 45X and 26%, excluding 45X, with margin improvement of 300 basis points and 230 basis points, respectively.

Adjusted diluted EPS increased 65% over prior year. After excluding the tariff refunds, adjusted EPS was up 36% of 45X and 42% excluding 45X. Our Q1 '27 effective tax rate was 13.7% on an as-reported basis and 21.8% on an as-adjusted basis before the benefit of 45X compared to 21.4% in Q1 '26 and 20.4% in the prior 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%.

In summary, our core results, excluding tariff refunds, normalizing for stock-based compensation accounting changes and both with and without 45X benefits broke Q1 records across net sales, gross profit, adjusted operating earnings, adjusted EBITDA and adjusted EPS, further demonstrating how the underlying earnings power of our business continues to improve.

Please turn to Slide 12. As previously mentioned, our 45X benefits in the quarter increased as we realized the benefit of proactively transitioning production from Mexico to our existing facilities in the U.S. We received a $115 million U.S. federal tax refund in the quarter, which further bolstered our strong cash flow.

In Q1 '27, we also recognized $31 million in tariff refunds, of which we received approximately $16 million in cash with the remaining cash receipts expected in upcoming quarters. Our estimated annual tariff exposure remains materially unchanged despite the continuously evolving tariff policy environment, and we remain confident in our ability to manage that exposure through the pricing, sourcing and operational actions that we've already implemented and continue to monitor and proactively mitigate. These actions and the work of our tariff task force position us well to manage changes in the trade environment.

Let me now provide details by segment. Please turn to Slide 13. In the first quarter, Network & Infrastructure Solutions revenue increased 9% from prior year to $428 million, driven by strong volume growth and favorable price/mix. Adjusted operating earnings of $45 million increased 50% (sic) [51%] from prior year, reflecting the benefits of favorable price/mix, higher volumes and disciplined expense management. Adjusted operating margin of 10.5% increased 280 basis points versus prior year, primarily driven by continued high demand for power electronics, robust data center demand and both volume and margin expansion in our service offerings.

Industrial Mobility Solutions revenue decreased 3% from prior year to $407 million, with lower volumes from material handling market activity, partially offset by transportation volume recovery as well as favorable price/mix and FX. IMS adjusted operating earnings were $38 million, down 11% from prior year, resulting in adjusted operating margins of 9.3%, down 70 basis points versus the prior year. Price/mix and cost improvements were temporarily offset by loss leverage on our lower volumes. Longer term, electrification, automation and demand for maintenance-free batteries and chargers support the IMS growth opportunity. We remain confident that these important industrial end markets will see notable improvement in demand trends in the coming quarters, and our confidence is corroborated by customer conversations and industry data.

Precision Power Solutions revenue increased 24% from prior year to $101 million, primarily driven by strong volume growth and favorable price/mix. PPS adjusted operating earnings were $18 million, up 48% versus prior year, driven by favorable price/mix and higher volumes. Adjusted operating margin of 18.2% increased 280 (sic) [300] basis points year-over-year on ongoing A&D strength, particularly counter-drone and missile defense. We continue to have confidence in robust top line growth and incremental margin expansion within this important and strategic segment.

Please turn to Slide 14. This was just an outstanding cash flow quarter. Operating cash flow of $230 million, offset by CapEx of only $12 million resulted in free cash flow of $218 million in the quarter versus negative $32 million in prior year Q1. Cash flow was strengthened by the receipt of our U.S. federal tax refund of $115 million as well as increased earnings, elevating free cash flow conversion in the quarter to 187%. Even excluding the benefit of 45x earnings in cash, free cash flow conversion was still an impressive 140%, largely attributable to the enhanced focus on working capital optimization by our centers of excellence.

Primary operating capital decreased to $858 million versus $993 million in the prior year on both the benefits of our expanded receivables purchasing agreement, which we executed in the third quarter of last year as well as the team's continued focus on working capital improvements. Our working capital efficiency measured internally by POC as a percentage of annualized sales improved an exceptional 490 basis points versus prior year. This is yet another example of energizing action and the enhanced approach to cost and cash discipline across the organization as we execute on optimizing our core.

As of July 5, 2026, we had $531 million of cash and cash equivalents on hand. Net debt of $522 million represents a decrease of over $160 million since the end of fiscal '26. Our leverage ratio remains well below our target range at 0.8x EBITDA, providing us more than ample dry powder for capital allocation flexibility.

Please turn to Slide 15. We remain committed to a disciplined capital allocation strategy that balances organic and inorganic investment in the business with consistent returns to shareholders, including a competitive dividend that grows with earnings, excluding 45X benefits and share repurchases under expanded Board authorization. Capital expenditures were $12 million in the quarter versus $33 million in Q1 '26.

As Shawn shared earlier, we anticipate construction on the lithium plant to begin in the first half of fiscal year 2028. As such, our expectation for $70 million in CapEx for fiscal year 2027 remains unchanged. During the first quarter, we purchased 219,000 shares for $50 million at an average price of approximately $229 per share and have nearly $900 million remaining in our buyback authorization. Additionally, the Board has increased our quarterly dividend by 10% to $0.2875 per share for the second quarter of fiscal 2027.

Our buybacks, in addition to our consistent and growing dividend, underscore our long-standing commitment to returning value to our shareholders. We continue to evaluate accretive bolt-on acquisition opportunities that align with our disciplined strategic and financial criteria and that would strengthen our customer intimacy, enhance technical capabilities, expand our share of wallet and accelerate our strategy in areas where we have a right to win.

Please turn to Slide 16. Our second quarter outlook reflects continued strength across data centers, communications and aerospace and defense as well as the recovery in transportation that is underway. Note that our prior year revenue had an unusually high proportion of sales phased in the second quarter, impacting year-over-year comparisons. We expect stronger year-on-year revenue growth in the second half of the fiscal year, supported by the start of a recovery in material handling on top of robust momentum across our other key end markets. In line with our previous communications, as we progress through fiscal 2027, we expect to see our earnings growth to be primarily driven from margin expansion in the first half with the shift to higher top line growth towards the end of fiscal year '27.

For the second quarter of fiscal 2027, we expect net sales in the range of $955 million to $995 million, with adjusted diluted EPS of $3.15 to $3.25 per share, growing 21% versus prior year at the midpoint, which includes $42 million to $47 million of 45X benefits to cost of sales. Excluding 45X, we expect adjusted diluted EPS of $1.95 to $2.05 per share, up in the 25% range versus prior year. We remain confident in our ability to generate strong cash flow, invest in growth and return capital to our shareholders.
With this, let's open it up for questions. Operator?

Question and Answer

Operator

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

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

Maybe I'll start with a 2-parter on the data center business. You mentioned orders are up 80% year-over-year this quarter. I know orders in this business can be lumpy. Maybe can you put some context around that trailing 12-month orders growth or backlog growth? That's the first part.

And then, Shawn, I thought you sounded pretty firm on the newly launched lithium-ion products contributing to revenues next year. Should we take that to mean you already have orders in hand or visibility to orders materializing short term?

Shawn M. O'Connell
President, COO, CEO & Director

Yes, I'll start, Noah, and then I'll turn it over to Andi for order backlog history. But we knew going in, as we've socialized previously, that we had an open -- a wide open door to step through for just introducing this technology relatively through our same customers and sales channels because these are high-trust environments. So we were sort of just playing catch-up to get the product ready, and we've been going through the validations and approvals as we socialized. But yes, I think our quote activity and our market activity is robust. And as a result, we've already got the first 100 systems on the water, priming the pump in the supply chain. So we've spent a lot of time while we were doing the approvals, getting the supply chain set up, getting the service technicians trained, getting the sales channel ready. So we are fairly confident that the timeline we socialized is going to materialize in that way for us.

Andrea J. Funk
Executive VP & CFO

And I'll take the question on the data center orders. No, it's a good one. Obviously, we were really pleased, strong increase, 80% year-on-year. That said, a lot of these -- we continue to say that we expect our lead acid revenue on data centers to be up in the high single to low teens growth. A lot of these orders extend out 12 to 36 months. The real positive to me with that, Noah, is that lead has a long tail. It's got staying power. Our TPPL data center revenue will continue for some time. We've got a lot of visibility into it. We've made a lot of progress with our Noir. We have 100 orders or so in place with our supplier. We've had over 110,000 campaign impressions. We have over 500 units in active quotation.

So there's a lot of excitement and enthusiasm. We don't think that's going to be anything until fiscal '28 story from a revenue standpoint. But the lead will continue. We're getting visibility into a long-time demand signals and then the Noir lithium will be incremental on top of that. I hope that helps. It does.

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

It does. And then on the lithium plant, you shared that assumption of mid-20s ARR (sic) [IRR] for the plant economics. Possible to understand, at least at a high level, the assumptions driving that target IRR. And then how should we be modeling net CapEx related to the plant for fiscal '28 because that will certainly drive CapEx increase versus '27.

Andrea J. Funk
Executive VP & CFO

Yes. I think part of the challenge to think about with this now, we didn't get payback on it yet. There's some requirements that we have in the fact that we're getting the DOE grants, which we're very pleased with the trust that the Department of Energy and Department of [Work] placed with us. And your customers investing that amount of money for you to build capacity for them. It's very encouraging. But that said, there's some upfront requirements on things like environmental and that will pace the timing of when we're able to get started. We're saying that we think it's going to be mid next year that the CapEx starts -- the actual construction starts. And there is reimbursement that comes. It looks like it's going to be coming on a 1 quarter lag. Again, some of that is a little bit outside of our control.

That said, we have no doubt we're going to be able to handle the CapEx requirements of the plant with our ongoing cash flow. It's not going to have any impact on leverage other than leverage wouldn't continue to go down because of the plant. So we don't have more information at this time, but I hope that helps to explain some of the timing.

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

It does. And then just look at the first part of that, any color on the IRR rather, just because that would assume, I think, a nice amount of growth really coming from that plant and its ability to support the growth that you've talked about in PPS?

Andrea J. Funk
Executive VP & CFO

Yes. I mean there is a real value for FEOC compliant cells in the A&D space. This is of critical importance for national security. So I think there's a couple of things that says, we've got a long history of receiving grants from the A&D and receiving grants from the government for our A&D business. We've worked very closely with them. I think we mentioned we've got 6 plants in the U.S. currently manufacturing A&D plants, much of the growth of which has been funded through investments. And this will allow us to have very valuable products that have this FEOC compliance. So I think there is a pricing that comes along with that.

And this also allows us to continue to grow with and expand into new areas in A&D that were not as active like the large diameter drone batteries continuing with our drone counters. So there's both incremental revenue and margin expansion associated with this plan. And we've not built into the modeling, but we've received a lot of interest in expanding this even further and in discussions on that going forward. That would just further increase the return on this plan.

Operator

Your next question comes from the line of Trevor Sahr with William Blair.

Trevor R. Sahr
William Blair & Company L.L.C., Research Division

This is Trevor on for Brian here. I was hoping to get a little bit more detail if we can, on implied margin expansion sequentially in the second quarter. It looks like the revenue growth at the midpoint, again, sequentially is about 2.5%, but EPS growth at the midpoint is about 12% sequentially. Can you just kind of shed some light on how we should think about margin and expansion into the second quarter?

Andrea J. Funk
Executive VP & CFO

Yes, I'll be happy to take that one as well, Trevor. As we talked about both on our last call as well as on Investor Day, we see that early in this fiscal year, a lot of our earnings growth is going to be driven more by margin expansion. And then as we get towards the end of this fiscal year, you'll start to see some of our growth kick in. It's going to begin with recovery in material handling. The transportation recovery is already beginning to be overweigh or a lot of our other markets continue to have growth like A&D and data centers. But the new product introductions aren't going to start to kick in mostly till fiscal '28.

And as you look through the balance of this fiscal year, you're going to see a lot of the items we talked about like the annualization of the adjustments we made with our RIF last year. You see the beginning of our 45x benefits from closing our plant in Monterrey. We might see a little bit of some of the benefits from closing our Tijuana plant. We also had announced 2 other facility rationalizations this quarter with our Bellingham facility, our Brazil closure. So those items and then just this company is being managed differently, a lot more cost discipline and strong operational initiatives as part of our energized strategy.

So you'll continue to see that growth as well as mix improvements. So we're going to be launching our Gen 2 lithium in our material handling business, which I'm very excited about. You see within our NIS business, an increase in the power electronics. Keith with Dan leading it, is doing a tremendous job with our service business that had been headwinds in the past. Now it's starting to turn into tailwinds. And it's also a real critical component to a lot of our strategy on what makes EnerSys unique, things like data center. It is our service network, our ability with [BAS,] having that service teams out there.

So that growth in both top line and margin of service is not just something that is impacting our current results, which we're excited about, but it's going to be an enabler of a lot of the growth initiatives that Shawn has kicked out. So I hope that helps to explain some of the things we're seeing. If you need more color or any more questions, happy to take those as well.

Shawn M. O'Connell
President, COO, CEO & Director

Trevor, it's Shawn. I would just add one thing. Andi explained it very well. On the 2% top line growth, we always have some summer seasonality during this period in spite of the material handling pressure that we've seen over the last couple of cycles. So that's fairly typical for us in a normal year.

Trevor R. Sahr
William Blair & Company L.L.C., Research Division

Makes sense. That's helpful. If I could ask one more actually, just on that service business. Could you give us a little more detail on the size, growth and margin contribution in that? And maybe what you've done and the work you've done in the background to turn that from what you just said Andi into a headwind into a big contributor?

Shawn M. O'Connell
President, COO, CEO & Director

Yes. Trevor, I'll start, and then I'll turn it over to Andi. So I'll start on what we've done and the importance of the business. If you look at our strategic framework that we talked about at Investor Day, the 2 things we're trying to solve for customers are energy security and labor scarcity. And it's along that adage of we're going to run out of electricians before electrons. So we've been building the plumbing over the past year of putting in very disciplined project management and upskilling our labor force. So if you look at what we do, you can kind of -- we call it service, which kind of invokes ideas of attach rates and repetitive aftermarket and that kind of thing. There's a big component of our business that is actually on the implementation side, electrical, very specialized electrical construction.

And as you might imagine, you can get that very right or very wrong in the details. So what they've done, and Keith and Andi mentioned Dan Cohee in that business, is put all of that plumbing in place that high level of discipline. We've invested in new project management software, and the teams are just doing a remarkable job upskilling that entire segment for us. With that, I'll turn it over to Andi for some of the numbers.

Andrea J. Funk
Executive VP & CFO

Yes. When I look, Trevor, at services, what we're referring to primarily here is our Network Information Systems services. You can see our total services revenue and margin in our Q, and you can see the improvement there. But really, the turnaround that we're looking at is in the NIS business where we had some headwinds and it's such a key aspect to the growth and the value proposition that we have to customers and is a differentiating factor. If you look in our Network Information Systems, and I'll always give specifics down to this level, but you're talking revenue up around 20% in the quarter year-on-year.

So really nice improvement in revenue as well as total EnerSys margins in -- with our services area being up about 100 bps. I would say, even more in the NIS division.

And a lot of that is just, again, really disciplined management. Keith is an extraordinary operator, and he's putting that kind of discipline into the NIS business under Shawn's leadership. We're managing it tighter and making sure that we're ready for a lot of the opportunities in our headlights, things like that NIS services department division helping our BAS installation. So it's an exciting and very strategic area for us going forward.

Operator

[Operator Instructions] Your next question comes from the line of Jeff Osborne with TD Cowen.

Jeffrey David Osborne
TD Cowen, Research Division

Just a couple of quick ones on my side. Maybe just starting with Motive Power. It's been weak for a while. I know you've seen cycles in the past. How do you ascertain sort of where we are in the cycle? You felt comfortable that things were rebounding. Are you looking at substitution effects? We're just getting a lot more questions from investors on sort of the sustained weakness in that core segment.

Shawn M. O'Connell
President, COO, CEO & Director

Yes, Jeff, I'll start. We have a lot of leading indicators that we look at. We get the truck order data from the forklift market, both internationally and domestically in the Americas market. We have that. Then we have -- we typically lag our forklift customers between half a quarter to a quarter when they start seeing the truck orders and when we see the battery orders. And so we look at that. We, of course, have conversations with those same customers. Most of them don't split out and report publicly the individual results of the forklift division. So if you're looking at one of the larger OEMs that are embedded in a bigger company, they don't give you that color. But we do have some public ones like HY that just released their results.

And you can see that they -- in spite of being down, I think, 16% year-on-year, they had a 2% increase, but their truck orders are way up, and they're seeing those green shoots now. And we're -- that's kind of consistent with what we're hearing across the board in the industry. And obviously, between the 3 classes of forklifts, people are positioned differently depending upon the OEM they are. So the markets haven't been totally even. But we look to those things and all of those indications for us and those customer conversations are positive.

And so we -- it gives us a high degree of confidence. We always -- also, we have data going back to the '90s, very solid data about what happens after an economic recession period, material handling. There's only been 3 of them. And this one is a little goofy because of coming out of COVID, supply chain shocks and buildups and normalizing. But typically, those recoveries for us, when we see these indicators, they are -- they follow fairly quickly. So that's giving us some confidence there.

Andrea J. Funk
Executive VP & CFO

Yes. I'll give a little bit of more data behind that as well. And Shawn mentioned the Hyster-Yale report. They also did note that first half calendar year '26 would mark the financial low point for them. They had the strongest booking quarter in 3 years this last quarter. So all really good signals. Our customers also continue to give us great signals. That said it's choppy. Industry data showed positive order trends for our Q4 '26 and then dropped to negative 8% with shipments this past quarter.

So there's a lot of volatility. If you recall in the last quarter, we had called out that we thought Q1 could look very similar to Q4, which is unusual. And of course, that didn't materialize. We -- so the lag is frustrating for us. We do build a risk factor into our guidance because we knew that market recovery is outside of our control. We track our performance versus market. We are in line with market. But I think it's a positive sign that we have this record quarter despite that continuing to feel the pressure. We are seeing signals that it's coming back. When it's going to come back, that's the question, whether it's going to be our Q2 or we're thinking it's more a Q3 story.

Another aspect to it, which I think is an exciting element to this as well, we have some great new products on the horizon, both with chargers and Gen 2 lithium. So as we are depleting our stock of our old offerings and our customers are waiting for those products to come out, which will be a second half story. That might be impacting a little bit for us as well. Nice thing is our Gen 2 lithium, which is an LFP solution versus the NMC we had in our previous version has a much more attractive price point for our customers, which we feel will allow us to get -- pick up a lot more volume there and is at significantly higher margins.

So I think there's a lot of good news in front of us. I'd be lying if I didn't say we weren't a little frustrated that it's taken as long as it has. But overall, I'm not concerned at all the outlook here. Our products are necessary to move goods around the world, and it can't stay down longer.

Jeffrey David Osborne
TD Cowen, Research Division

Perfect. Just one -- I appreciate the detail there, Andi. One follow-up on Motive and then I have one on data center. On the material handling side, are you seeing since you brought up lithium, any acceleration in the shift from lead to lithium?

Shawn M. O'Connell
President, COO, CEO & Director

I would tell you that we're seeing the same conversion rate we've seen. And I would just reiterate that this is pent-up demand on the forklift side. They can't -- these are typically leases, they can extend the lease. But what it starts to happen is you start to see a lot of breakdown of maintenance items. So it can't go on forever. But our typical maintenance-free conversion, which fortunately for us, we're uniquely positioned. We have our TPPL offering and lithium offering. That's been fairly steady for us. So there's no big movements there. We're just seeing really market effects at the moment.

Andrea J. Funk
Executive VP & CFO

One other thing worth mentioning, too, Shawn, I know we've talked about this. We believe there's a correlation, which is why we did the re-segmentation between the transportation and the forklifts. These are large capital purchases. They both experienced this downturn coming out of a lot of the macro volatility. And transportation is starting to come back really strong. We were 20% revenue growth in the quarter. Orders that we had year-on-year in transportation were up 91%. Now of course, it's off a low point with orders as it was declining last year. And there's great momentum there. So that's just another signal that gives us confidence that the capital markets for forklift trucks are going to start to turn as well.

Jeffrey David Osborne
TD Cowen, Research Division

Good stuff. And just very quickly, on the data center side, a lot has been answered there, but just 2 clarifications. One, are we still shooting for UL certification either late this year or early next calendar year? Is part one of the question. And then part two, now that you've socialized with customers, you have the units coming in for training and whatnot and testing, do you have any further comments that you can share about expectations for margins, just given you have a third-party manufacturing it for you folks?

Shawn M. O'Connell
President, COO, CEO & Director

Yes. I would tell you that we are right on track with our plans for UL and our validations. We feel very good about that. And we -- if you look at how our product delivery has been going, and it's a close parallel with the -- how quickly we were able to get UL and NFPA certification on our BESS system, which is a more complex system. It just speaks to how we're operating differently. So we have a high degree of confidence in our UL journey on the data center and war side. And on the second part of the question?

Andrea J. Funk
Executive VP & CFO

Yes, on the margins. So go ahead, Shawn.

Shawn M. O'Connell
President, COO, CEO & Director

Yes. We expect margins in line with our -- sort of our TPPL and higher-margin offerings than lead. And early indications from customers, we think we're going to have a high degree of confidence achieving that. The other issue and the other real benefit that we have is not comparing lithium to lead, but lithium to lithium, we're releasing a system that can do in 2 cabinets, what the competitor's lithium battery now does in 5. So we have a real value conversion opportunity from that 5 to 2 that is a big differentiator in the market and as well as saving a premium on that data center space.

Andrea J. Funk
Executive VP & CFO

Not to mention our service network, can turn it back around.

Operator

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

Gregory Robert Lewis
BTIG, LLC, Research Division

Shawn, I was hoping you could talk a little bit more about the A&D opportunity. You mentioned the factory, the facility being built and just the relationship EnerSys has with the U.S. government. I'm kind of curious how also just given a lot of headlines about drone is accelerating drone warfare, drone -- anti-drones. Beyond the U.S. and realizing that's a big opportunity, how should we be thinking about that over the next couple of years, even maybe as we think about NATO and the broader opportunity?

Shawn M. O'Connell
President, COO, CEO & Director

Yes. So Greg, thanks for joining us. Look, it's -- we have an extraordinary opportunity in front of us. And if I had one big takeaway from Investor Day, I got a lot of comments that we haven't talked enough about our position there. But our position with the defense apparatus is strong. And one of the reasons is if you look at what we've done with TPPL that powers nuclear submarines and how we've taken the developments out of one technology and expanded that into a commercial basis. So we don't tend to rely totally on the government apparatus, and we've been successful in doing that across end markets, including leveraging defense markets to sell back into commercial areas.

So they like that. They like our stability. They like our balance sheet. We have a lot of permanence that they can rely on and trust. And then because of the fact that we've stayed very active in places like liquid reserve and thermal batteries, I mean that's a very narrow field, and it really well positions us. The Bren-Tronics acquisition added to that and of course, what we're doing in our space business. So if you look across what's happening in the world with the drone powering ecosystem, the Ukraine conflict showed everybody that the future of the battlefield is going to be much different. You had a very small army hold off a 3 million person army because of these cheap drones in the supply chain. And so that has woken up all of the governments around the world.

And I think that extends into the second part of your question. Some of our most compelling growth in A&D this year has come from our European business. And we've had segments of our allied countries in Europe, NATO allies outpace for the first time in our evolution, our Americas business. And it just speaks to our reach and what we're able to do. So we're actually expanding capabilities in places like Northern France in our Arras facility to support what Bren-Tronics is doing there, for example, with the French government and the French Ministry of Defense. So we see a lot of runway internationally with not just the U.S. but with allied countries as well.

Andrea J. Funk
Executive VP & CFO

Yes. Just to give some data behind Shawn's answer, our growth rate in Europe in '26 versus '25 was 2x. It's probably going to be pretty close, it's off a smaller base. We mentioned our 6 plants in the U.S. in our prepared remarks. But as Shawn mentioned, we also produce A&D batteries for our allied nations in both the U.K. and in France as well. And there's opportunities around the world.

Gregory Robert Lewis
BTIG, LLC, Research Division

Okay. Great. And then realizing -- I guess I want to have a question around data center, but I guess a little different. As the architecture evolves, I guess they've started rolling out or converting some data centers to [800 volt.] And if that changes, I guess, the legacy way a UPS system was kind of -- I guess, it was big and now they're going to be, I guess, more smaller focused on rack. How does that change or I should say, does that change the revenue opportunity however you guys spend per megawatt or per location? Is that an opportunity to actually drive more revenue out of a data center as this switch happens for kind of the same product?

Shawn M. O'Connell
President, COO, CEO & Director

Unequivocally. Just one point of clarification. We are seeing a lot of movement towards very large systems, centralized systems. And it's just without getting too technical on this call, maybe we do a tech talk later or something, but it depends on what type of data center it is, whether it's large language training model, whether it's inference, whether it's storage. So it depends on what they're trying to achieve will influence the architecture. As I said before, 800 volts, we love that because for us, it doesn't change much. It may give us the opportunity in a centralized system to just sell more cells as we put more cells in parallel. We have a long history in managing these voltage ranges. And so we're quite used to that.

And then to your point about distributed rack systems and what we think of -- we use the term BBU business. We've historically not played there because of -- it's typically been these packs that involve small cells that are put into those packs in our rack system. We see that there could be some potential future opportunity for us out of the Greenville plant when we're manufacturing our own cells to have a compelling offering in the BBU space, which gets back to our -- my answer to your last question about the Defense Department loves us because we tend to commercialize what we develop -- co-develop or develop with them or for them. And we see data centers as a big opportunity for offtake in Greenville downstream.

Operator

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

Shawn M. O'Connell
President, COO, CEO & Director

Thank you, Ben, and thank you all for joining us today. We look forward to speaking with you again soon, and want you to have a great day.

Operator
This concludes today's call. Thank you for attending. You may now disconnect.