

# WS Earnings Call Transcript

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**Quarter: 2**

Operator: Good morning, and welcome to Worthington Steel's Second Quarter Fiscal Year 2026 Earnings Call. All lines have been placed on mute to prevent any background noise. After the speakers' remarks, there will be a question and answer session. If you'd like to ask a question during that time, simply press star then the number one on your telephone keypad. I will now turn the call over to Melissa Dykstra, Vice President of Communications and Investor Relations. Please go ahead.

Melissa Dykstra: Thank you, operator. Morning, and welcome to Worthington Steel's Second Quarter Fiscal Year 2026 Earnings Call. On our call today, we have Jeff Gilmore, Worthington Steel's President and Chief Executive Officer, and Tim Adams, Vice President and Chief Financial Officer. Before we begin, I'd like to remind everyone that certain statements made today are forward-looking within the meaning of the 1995 Private Securities Litigation Reform Act. These statements are subject to risks and uncertainties that could cause actual results to differ from those suggested. We issued our earnings release yesterday after the market closed. Please refer to it for more detail on the factors that could cause actual results to differ materially. Unless noted as reported, today's discussion will include non-GAAP financial measures which adjust for certain items included in our GAAP results which are presented on a standalone basis. You can find definitions of each non-GAAP measure and GAAP to non-GAAP reconciliations within our earnings release. Today's call is being recorded and a replay will be made available later today on [worthingtonsteel.com](http://worthingtonsteel.com). Now I'll turn it over to Jeff Gilmore.

Jeff Gilmore: Good morning, and thank you for joining Worthington Steel's Second Quarter Fiscal Year 2026 Earnings Call. Before we discuss our second quarter results, I want to thank our more than 6,000 employees across North America and Europe. Your commitment to safety, quality, and service every shift, every plant, continues to set the standard. I'm proud of the work you're doing and grateful for it. On December 6, we issued a statement regarding potential M&A activity. Consistent with that statement, we will not be providing additional detail or addressing related questions on this call. With that, let's turn to the second quarter. Net sales were \$871.9 million, Adjusted EBITDA was \$48.3 million, and adjusted earnings per share was 38¢. We delivered these results in a market that remains mixed, combined with compressed galvanized spreads. Even with those headwinds, our execution remains strong where it matters most: safety, shareholder value, customer service, and transformation. On the commercial front, our team continues to win and capture high-margin business, particularly in Cold Rolled Strip. This quarter, we gained market share with new and existing customers. We saw all-time high shipments during the month of October to a key D3 automotive customer and won new business with a large Japanese OEM. While these programs will take some time to ramp up, this momentum fuels cautious optimism for early 2026. Our sales to the automotive market were strong this quarter. Looking ahead, North American light vehicle output is expected to hold. Consumer demand is also expected to continue to drive growth in the electrified vehicle market, particularly hybrids, which suits our strategy and product mix very well. Construction is stable but subdued. We are seeing pockets of strength in areas related to power and infrastructure. In agriculture, we have been able to capitalize on our diverse customer base to partially offset continuing soft conditions. We are hopeful that ag starts to rebound later in calendar year 2026 as interest rates ease and some policy uncertainty subsides. We're positioning for the year depending on OEM release schedules. Patients die casting and automation complement our core, extend our European reach, and improve our competitiveness in

advanced mobility and industrial markets. We see good cultural alignment and early collaboration across operations and commercial teams. Thank you to everyone who is involved in this integration. Shifting to new products, this quarter, we announced an innovative technology related to our electrical steel laminations called full surface bonding. This patent-pending technique creates a stronger bond between the laminations in the motor core, eliminating gaps, and resulting in a motor that is more efficient, durable, and cost-effective. All of this is underpinned by daily transformation. Transformation at Worthington Steel isn't a project. It's how we run the company. We measure it in safety, quality, delivery, cost, and revenue. And we work to make progress every day. This quarter was no exception. As a key tool in our transformation toolbox, artificial intelligence is becoming more integrated into our processes. We deployed two AI agents in our credit department, allowing us to speed up individual customer. Another success was the development of automation to improve advanced shipping notices to one of our key OEM customers. Automating this process increased the accuracy of our advanced shipping notice and resulted in improved payment timeliness. The common thread here is practical impact: saved hours, higher accuracy, faster decisions, and better use of our assets. These efforts are key to holding operating expenses flat even as volumes and complexity grow. For instance, in plants where we streamline changeovers and reduce scrap, service levels improve and cost per ton comes down. In shared services, where we automate manual reviews and postings, we redeploy talent to analysis. And in the supply chain, where we improve visibility, we integrate inventory more tightly with demand. These are small changes, but they are critical to building a stronger company quarter after quarter. In parallel with these improvements, our culture and customer relationships continue to shine and receive recognition. Last month, we were honored to be named a 2025 Supplier of the Year by Shepler Group USA, receiving the America's Region Supply Chain Award. Recognition for performance, collaboration, and service. Just as our customers are recognizing how we show up for them, others are recognizing how we show up for our people. We received the Military Friendly Employer Gold designation for the eleventh consecutive year. We support those who have served our country through a range of programs, including focused recruitment, onboarding resources, and the internal veterans network that fosters belonging and connection across our company. Additionally, Computer World has named Worthington Steel to its 2026 Best Places to Work in IT for the eighth year in a row. I'm proud to see this recognition for our team's work this year to update global systems, introduce AI-driven tools, enhance our work, and support growth through integration and modernization projects. Finally, this quarter, we released our 2025 Corporate Citizenship and Sustainability Report, highlighting progress in safety, greenhouse gas emissions, and waste elimination, as well as our commitment to developing people through training and supporting communities. Our report sums up what makes Worthington Steel different: our culture and commitment to safety. In calendar year 2025, we also marked our seventieth anniversary. In celebration, our employees set a goal they called 70 for Good, to complete acts of service with 70 nonprofits in our communities, and I'm proud to share that we exceeded that goal. The program embodies who we are at Worthington Steel. It's a tangible expression of being strong for good, and it reflects our belief that investing in our people and communities makes the business stronger. So let me end where I began, with our people. Thank you to every Worthington Steel employee for your commitment to safety, quality, and service. To our customers for your trust and partnership, and to our shareholders for your continued support. We have a clear strategy, a resilient model, and a team that knows how to execute. As I said in my opening remarks, the environment is mixed today. We remain cautiously optimistic about 2026. We believe conditions are setting up for improvement in 2026, and we intend to be ready. I'll now turn the call over to Tim for more detail on the financials for the quarter.

Timothy Adams: Thank you, Jeff, and good morning, everyone. Before diving into the details, I want to start with the headline. This was a solid quarter operationally and financially, particularly given a mixed demand environment and continued volatility in steel pricing. We expanded adjusted EBIT meaningfully year over year, generated strong free cash flow, and continued to gain share in our most important markets while maintaining balance sheet strength and financial flexibility. For the second quarter, we are reporting earnings of \$18.8 million or 37¢ per share as compared with earnings of \$12.8 million or 25¢ per share in the prior year quarter. There were a handful of nonrecurring items in both periods. Excluding those, adjusted earnings were 38¢ per share this quarter compared with 19¢ per share last

year, reflecting improved underlying performance. In the second quarter, we reported adjusted EBIT of \$26.6 million, which was up \$12.3 million from the prior year quarter adjusted EBIT of \$14.3 million. That improvement was driven primarily by higher direct volumes, including continued share gains, improved direct spreads, and higher equity earnings from Serviacero, partially offset by lower toll processing volumes and higher SG&A, largely related to compensation, benefits, and professional fees. Total shipments were approximately 902,000 tons, down modestly year over year as lower toll volumes more than offset volume growth in direct sales. Importantly, direct sale volume made up 65% of our mix in the current year quarter compared with 55% in the prior year quarter. Direct volumes increased 13% compared with the prior year quarter, with the vast majority of the volume increase coming from our existing facilities complemented by the addition of CEDA. Our increased shipments in the automotive market continue to be a standout. Direct shipments to automotive increased 26% year over year. This reflects both share gains from new programs reaching expected volumes and a return to more normal production levels at one OEM customer that had curtailed production last year. More broadly, it reflects the strength of our long-standing OEM relationships and our collaborative, solutions-oriented approach with customers. Outside of automotive, energy shipments were up 50% year over year, largely driven by project-based solar programs. Agriculture volume was up 1% as grain bin strength offset weaker OEM equipment demand. These gains were partially offset by softness in construction, down 9%, heavy truck down 6%, and service center where customers continued to destock. Toll processing volumes declined year over year primarily due to the closure of our Cleveland area, Worthington Samuel coil processing facility last fiscal year and softer market conditions. We view this decline as cyclical, not structural, and expect toll volumes to improve as end market demand normalizes, excluding the impact of that consolidation. Turning to the other drivers for adjusted EBIT this quarter. First, direct spreads increased year over year. Direct spreads were up \$6.5 million, primarily due to a \$6.2 million favorable swing in pretax inventory holding losses. In the current quarter, we had estimated pretax inventory holding losses of \$7.2 million compared to estimated pretax inventory holding losses of \$13.4 million in the prior year quarter. We expect the market price for steel to remain volatile in the near term. After stabilizing around \$800 per ton in September and October, the price for hot roll coil has increased to approximately \$900 per ton. Given that many of our contracts use lagging index-based pricing mechanisms, we estimate in our 2026 inventory holding gains and losses will fall within a range of a pretax gain of \$3 million to a pretax loss of up to \$3 million. As I mentioned earlier, adjusted EBIT also improved year over year due to the increase in equity earnings from Serviacero, our Mexico-based joint venture. Serviacero's equity income increased \$7.7 million due to higher direct spreads, inventory holding gains, as well as the favorable impact of exchange rate movements. Finally, these improvements in adjusted EBIT were offset somewhat by an increase in SG&A; The \$9.8 million increase in SG&A; was primarily due to increased compensation and benefits expense of \$5.9 million and higher professional fees related to various strategic projects we are evaluating, up \$2.3 million. Turning to cash flows and the balance sheet. This quarter, cash flow from operations was \$99 million, and free cash flow was \$75 million, benefiting from a reduction in working capital. Capital expenditures were \$25 million in the quarter, primarily related to previously announced electrical steel investments. For fiscal 2026, we expect CapEx of approximately \$110 million, reflecting a disciplined approach aligned with long-term growth priorities while maintaining flexibility in uncertain markets. On a trailing twelve-month basis, we generated \$73 million of free cash flow. We ended the quarter with \$90 million of cash and net debt of \$92 million, down sequentially driven primarily by working capital improvements. Earlier this week, we announced a quarterly dividend of 16¢ per share payable on March 27, 2026. In summary, this was a solid quarter. We're gaining share in key markets, generating consistent cash flow, and maintaining a strong balance sheet. That combination positions Worthington Steel well to navigate uncertainty and to act decisively when opportunities arise. I want to thank our entire Worthington Steel team for their continued focus on safety, customer service, and execution this quarter. At this point, we will be happy to take your questions.

Operator: We will now begin the question and answer session. Our first question will come from the line of Philip Gibbs with KeyBanc Capital Markets. Please go ahead.

Philip Gibbs: Hey, good morning.

Timothy Adams: Hey, Phil.

Philip Gibbs: You'd mentioned in the SG&A; increase in your remarks, Tim, that compensation and benefits were up \$5.9 million and higher professional fees were up \$2.3 million. So I'm wondering what out of that larger increase is more one-time in nature because I know you had called out a CEDIM fee. You know, I also know that some of this is related to some of the M&A; that you're potentially working on. So just trying to think about what may be core because clearly, it was elevated this quarter.

Timothy Adams: It was. If you look at it from a year-over-year perspective, we now have CEDIM in there. That's one thing we pointed out during my opening remarks. But if you're talking about one-time, it's those professional fees of \$2.3 million. I think that's how we had it quantified. That is related to the strategic projects.

Philip Gibbs: What about the \$2.5 million that you had called out from the just the CEDIM, I believe it was, an earn-out. It's just CEDIM was not in the results.

Timothy Adams: Yeah. CEDIM was not in the results last year. And now they're in the results this year. That's the

Philip Gibbs: Oh, okay. So that wasn't a one-time payment. That was their underlying result?

Timothy Adams: No. The one-time payment was related last quarter to the bonus. It was a transaction bonus that happened. I think it was \$4.6 million. That's all done. And now what you're seeing is just adding CEDIM to the mix, adding them to the financials.

Philip Gibbs: Okay. So the higher professional fees of \$2.3 million, that's largely related to the M&A;, and that could obviously be somewhat more volatile and unpredictable.

Timothy Adams: Correct.

Philip Gibbs: And then in the just the automotive momentum that you had on the direct side, pretty impressive, Jeff, was the primary catalyst behind that the cold rolled strip piece? I thought I heard you mention that early in the call.

Jeff Gilmore: Yeah. So, Phil, actually not. Most of what you saw this quarter was the market share gains that we had talked about in previous quarters. And really those programs working to 100% of the market shares that we gained. We have been fortunate, and the market share gains have continued. And a lot of those recent wins are automotive, and they are specifically cold rolled strip specific. And those are programs that we will look forward to starting really in the first quarter of the calendar year. Would probably that third month of the first quarter and then starting to reach full potential in the second quarter of the calendar year.

Philip Gibbs: How do we tease out think about how much of that, which is on the that you just mentioned, is related to the tariffs from just imported foreign steel, but also you know, how much eventually is related to onshoring of just OE platforms overall? So I'm trying to Great. Trying to kinda tease I'm trying to tease out the short term versus the long term. Thanks.

Jeff Gilmore: Yeah. That's a great question. So the recent market share gains, I would tell you, a pretty significant amount of that is coming due to the onshoring of supply chains. We definitely had some customers bringing material over from Europe or elsewhere, and they are now localizing that supply chain. So certainly was favorable to us. We have not seen any market share gains due to any announcements of onshoring manufacturing. So you know, to your point, that is something that would be more in the future for us to look forward to.

Philip Gibbs: Thank you.

Operator: Our next question comes from the line of John Tumazos with John Tumazos Very Independent Research. Please go ahead.

John Tumazos: Thank you very much. Could you walk us through the deductions for your minority interest partners? They were a little smaller this quarter than last year.

Timothy Adams: Yeah. Compared to year over year, I think what you're seeing is there's definitely some slowness in demand. Right? And I think we're seeing some of that. So also, what you have to keep in mind is last year, at this time, we had the Samuel Worthington Samuel coil processing joint venture in there. And we've removed that this year. So you know, we've had some differences in profitability year over year. Really due to demand.

John Tumazos: With the disappearance of the Cleveland facility in the Samuel JV, what happens to the machinery? Do you move it to other Worthington plants? Does it get sold for scrap? Just what happens

to the equipment?

Timothy Adams: Sure. So just to be clear, we had several facilities up there. So the business that we could, we moved to Twinsburg. Your question's a good one. We typically sell the real estate. And we've got that underway already. I think it depends on the type of equipment. If we think it's high value add equipment, we won't sell it, or we'll try to sell it offshore. If it's something that's a little more generic, like a footer or cut to length line, we'll find a home for it. If we can use it I mean, the first question you ask is, can you use it internally somewhere? And we try to do that first. And then if we don't have a need for it internally, then we'll look to sell it if it's low value added equipment.

Operator: Our next question will come from the line of Martin Englert with Seaport Research Partners. Please go ahead.

Martin Englert: Hello. Good morning, everyone. Quick question. The compressed galvanized spreads in recent history do you think is contributing to that, and what may prompt it to normalize?

Jeff Gilmore: Yeah. I mean, question. I mean, I think the first thing you're gonna point to is certainly just decreased demand, Martin, and specifically construction. And so, you know, with decreased demand, it just creates certainly a lot more competitive rivalry. And certainly, that's what we have been facing Martin, we feel like we hit the trough and we'll start to see some margin expansion going forward. We saw a little of that in CRU here. On Wednesday. And the reason for the expansion and then potentially normalizing, hopefully, in the second quarter of the calendar year, it has much to do with the February. So, I mean, there is obviously limited galvanized product coming into the US at this point. I think it was down Tim, correct me if I'm wrong, 35% and probably will continue to increase. That has to do with antidumping as well. So I'd expect we continue to see that. It expand and then normalize somewhere around the second quarter. I think there's a ceiling because there certainly has been added capacity in the US as well, but we're certainly looking forward to that, Martin. Good question.

Martin Englert: Have prime scrap spreads relative to obsolete had any negative impact on your business? Recently?

Timothy Adams: No. Nothing material. Nothing meaningful to our margins, Martin.

Martin Englert: Okay. And last one that I have is, calendar year 2026. What are your top transformation initiatives that you're focused on?

Jeff Gilmore: Yeah. So we have we mentioned in prior quarters everything in our facilities, we have transformation events ongoing. You're very familiar with that. That's just how we do business. We really turned our focus after separation was transformation through our back office. And that's been certainly a big priority of ours. We just had our fourth report out with the back office teams. And the progress has been nothing less than amazing. The team has embraced it. We are seeing certainly savings and the hours saved have been significant as well. And in addition to that, Martin, that group has fully embraced artificial intelligence and we have had some great success stories with automation. And have launched our first two agents. So we've now moved to agentik.ai with much on deck there. And then the second, which is a key priority, is Temple. Transformation is not an area where we got too deep into it while we were getting integrated and familiar with their business. We have really started to double down on those efforts as we just think whether it's the income statement or the balance sheet there's gonna be a lot of good meaningful opportunities for the shareholders. And in addition to that, I say Temple is CEDIM. You know, we have mentioned they are world-class at tool and die making as well as world-class in automation. And so we have been excited to learn their best practices and embrace them because they're all scalable across that footprint. But back office and Temple would be the priorities.

Operator: We are working towards a scorecard. I for our next call. We want to do a better job of quantifying surely hope to have that available the savings that we're seeing through transformation, as well as the launch of artificial intelligence. We have seen savings. We're gonna continue to see a lot more. We have five pretty robust pilots that I think will have certainly a positive impact on the income statement as well as the balance sheet. So we're gonna start quantifying those savings for you, specifically transformation and artificial intelligence. And then in line with that, we want to quantify and share with you the hours saved in the workplaces as well. We're seeing significant hours saved now, which is allowing us to redeploy all of our employees to more meaningful work. So we're excited about that as well. But that's certainly a commitment that I'm making to you right now, Martin.

Martin Englert: Okay. Appreciate it. Look forward to the update on that front. Thank you.

Jeff Gilmore: I will now turn the call back over to Jeff Gilmore, President and CEO, for closing remarks.

Operator: Just want to thank everybody for joining us this morning and showing interest in Worthington Steel. Clearly, we're quite pleased with the quarter results. And excited over our strategy and the opportunities we have to continue to execute on it. Clearly, the story today was gained market share. And we've talked quite a bit about the market share gains in automotive. But even more exciting, we've started to see market share gains in other markets as well, whether it's agriculture, energy, or transformers, transformer core specifically, as well. So look forward to start seeing those shipments, you know, probably early second quarter of the calendar year, and so a lot for us to look forward along with transformation and artificial intelligence. So with that, we wish everybody happy holidays, and we very much look forward to talking to you again following the current quarter. Thank you.

Operator: This concludes today's call. Thanks for joining. You may now disconnect.