

# **EnerSys (ENS) Q4 2024 Earnings Call Transcript**

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**Body**

EnerSys (ENS)

Q4 2024 Earnings Conference Call

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Company Participants

Lisa Hartman - VP of IR

David Shaffer - President and CEO

Andrea Funk - EVP and CFO

Conference Call Participants

Noah Kaye - Oppenheimer and Company

Blake Keating - William Blair

Greg Wasikowski - Webber Research & Advisory

Tyler DiMatteo - BTIG

Presentation

Operator

Good day, and thank you for standing by. Welcome to the Fourth Quarter 2024 EnerSys Earnings Conference Call. At this time, all participants are in a listen-only mode. After the speakers' presentation, there'll be a question-and-answer session. [Operator Instructions] Please be advised today's conference is being recorded.

I would now like to hand the conference over to your speaker today, Lisa Hartman. Please go ahead.

Lisa Hartman

Good morning, everyone. Thank you for joining us today to discuss EnerSys Fourth Quarter and Full Year Fiscal 2024 Results. On the call with me today are David Shaffer, EnerSys' President and Chief Executive Officer; and Andrea Funk, EnerSys' Executive Vice President and Chief Financial Officer. Last evening, we published our fourth quarter and fiscal year 2024 results and filed our 10-K with the SEC, which are available on our website.

We also posted slides that we will be referring 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 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 current 10-K filed with the SEC.

In addition, we will be presenting certain non-GAAP financial measures, particularly concerning our adjusted consolidated operating earnings performance, free cash flow, adjusted diluted earnings per share, and adjusted EBITDA, which excludes certain items. For an explanation of the differences between the GAAP and non-GAAP financial metrics, please see our company's Form 8-K, which includes our press release dated May 22, 2024.

Now I'll turn the call over to EnerSys' President and CEO, Dave Shaffer.

David Shaffer

Thank you, Lisa, and good morning. Please turn to Slide 4. EnerSys delivered a strong finish to the fiscal year, with our balanced business portfolio generating solid results in the fourth quarter. Adjusted earnings per share for the quarter of $2.08 was at the high end of our guidance range and revenue of $911 million was in line with our expectations, with the diversification of our end markets helping to offset some of the continued softness in telco/broadband spending.

We generated adjusted gross margin improvement and adjusted operating earnings growth versus the prior fourth quarter by maintaining pricing on top of increased IRA benefits. Fiscal year 2024 marked a year of several exciting developments towards our long-term strategic goals as we took decisive actions to successfully navigate through a challenging environment. For the full year, revenue was $3.6 billion, down 3% year-over-year, but our adjusted gross margin, adjusted operating earnings, and adjusted earnings per share increased even before the impact of expanded IRA benefits.

We remain focused on what we can control, driving price mix improvements, optimizing our cost structure to flex through cycles, and improving productivity through automation and flexibility while delivering new high-tech solutions for our customers. We are seeing healthy demand in our end markets with the exception of communications networks.

Although we have not seen telco/broadband CapEx spending fully return, we have seen some encouraging signals in overall company order rates, which were up 4% year-over-year with total book-to-bill above one. Andy will give details on our fourth quarter fiscal 2024 performance and outlook, but I will first provide a few more highlights and business drivers behind the results. In Energy Systems, adjusted operating earnings improved sequentially as a result of us delivering our cost-improvement actions faster than anticipated.

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We're actively adjusting our cost structure to be more resilient to cyclicality by making changes that will improve the overall margin profile of this business in both down- and up-cycles, leveraging our market position and proprietary customer solutions. There are plenty of reasons to be excited about our Energy Systems business.

We are focused on meeting the increased needs of our data center customers, now 10% of our total revenue with global demand accelerating. Industry research shows that AI-fueled data center growth will see hyperscale capacity doubling every four years. EnerSys' batteries, including our proprietary thin plate pure led technology are a recognized leader in uninterruptible power systems or UPS.

These are the very heart of the data center, where we enjoy a large share in some of the largest data center markets. Looking at the rising demand on the electrical grid, industry analysis shows that in the US alone, there will be a need to be some $2 trillion of investments to meet the growth of data centers, renewables and vehicle electrification.

EnerSys has a commanding market share in battery backup in all stages of electrical power generation and distribution, and we stand to benefit from our solid incumbent presence in these infrastructure investments. Realizing this AI-based data growth, we know that consumers will demand ubiquitous access and as such, the last mile of consumer access will in many cases be delivered by communication service providers.

From fiber to coax, copper to wireless, EnerSys has solutions to assist our customers in powering this next generation of content delivery. As an example, we see increasing interest in our DPX small cell densification platform for its ability to allow for multiple nodes to be delivered with a single-utility feed over standard existing twisted-pair telephone lines.

Indeed, we are quite optimistic about our future ability to deliver increasing shareholder value through growth in our Energy Systems business. In Motive Power, revenue came in above our plan as we continue to realize robust maintenance-free conversions. Our maintenance-free solutions achieved another record quarter at 25% of total motive power sales in Q4 and a record 22% for the full year.

The broader market demand remains healthy, with width shipments data showing positive trends across all three regions. Order rates have also returned to or surpassed pre-pandemic growth CAGR rates. Europe, in particular, has experienced a strong post-pandemic recovery in orders, while the North American market is still dealing with a larger-than-normal backlog of truck orders and longer lead times for some of the popular models.

Although supply chain constraints are improving, they continue to affect some material-handling OEMs. Despite these challenges, the industry remains optimistic about strong shipment performance throughout 2024 and beyond. Consequently, we anticipate some fluctuations in order trends but see increased demand as we move into the new fiscal year.

In Specialty, we saw record order rates in the quarter and a slight improvement in adjusted operating earnings driven by improving performance out of our Missouri factories and lower freight costs. Aerospace and defense remains extremely robust, marked by a recent large contract for our 6T batteries at a substantial price increase.

We are focused on filling our Missouri capacity with our transportation aftermarket products as our investments in production flexibility are on track for completion in the second half of the fiscal year. In our new ventures line of business, we are progressing towards delivering our initial fast charge and storage systems in late summer with enhanced energy storage and software capabilities. Our sales pipeline is growing and we are very excited to see this new line of business gaining momentum.

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Please turn to Slide 5. The team is consistently executing to deliver on our strategic priorities. Let me share some highlights from our fourth quarter. Starting with innovate. In our Motive Power products, we are advancing the development of our Next Gen charger, which offers advanced features such as over-air updates, energy management and high-energy efficiency.

We are currently in the demonstration phase demonstration phase with customers and look forward to commercialization of this technological advancement. Last week, three of our energy systems' TPPL products for data centers, industrials and utility end markets were recognized at the Electrical Review and Data Center Review Excellence Awards.

I'm proud that our PowerSafe SBS XL 2V was awarded the 2024 Energy Storage Product of the Year, which features the longest design life for stable grid applications, high-energy density and much-reduced hydrogen emissions relative to previously installed flood batteries.

We also continue to focus on optimizing the business. We are maintaining a transformational mindset focusing on cost discipline and efficiencies across the organization and particularly in energy systems. We have increased the scope of our energy systems restructuring and identified opportunities to streamline our operations through shared services which will make our business more efficient and better serve our customers.

These cumulative actions are expected to result in $47 million of hard annualized cost savings to be realized in fiscal year 2025, an improvement of approximately $40 million over that already realized in fiscal year 2024. With our optimized organization and footprint in energy systems, we are well-positioned to capitalize on the growth opportunities ahead at elevated margins when our communication network customers resume normal spending patterns.

Our TPPL manufacturing flexibility initiatives in Missouri are underway with noticeable productivity improvements in the quarter. We've begun to see sustainable improvements in our Springfield 2 factory since February, driven by refocusing manning, managing loading between plants and increased efficiency for SKUs.

However, we will only be able to realize substantial profitability improvements when all three Missouri factories are fully loaded. Looking ahead, we remain on track for tooling and production line upgrades to unlock additional flexibility and cost absorption, enabling increased capacity for specialty products in the second half of fiscal year 2025 and accelerating. With growth trends including generative AI deriving demand for power electronics and battery backup solutions, we saw increased traction in data centers, as previously mentioned. Sales to data center customers in the Americas were up 14% year-over-year and up 50% versus fiscal year 2022. We expect this trajectory to continue and are exploring new solutions for these customers which will enable us to expand both our offering on top of our current participation in this high-growth market.

In Motive Power, we leveraged our insight data analytics and NexSys TPPL solutions to prove our ability to accelerate a large national retail customer's sustainability initiatives through transitioning from our flooded lead-acid to proprietary TPPL batteries, which will be implemented across 600 locations. We won this award as the pilot sites demonstrated annual cost-saving opportunities between $7 million and $10 million while enabling our customers to reduce their carbon footprint by approximately 2,800 metric tons per year.

We continue to advance on the development of our lithium-ion cell gigafactory, selecting Greenville, South Carolina, and securing state and local funding totaling over $200 million. We have progressed on the readiness phase of this project, including purchasing land in Greenville, commencing an environmental evaluation of the site, and testing material from domestic and allied country suppliers to enable a Department of Defense compliant and reliable supply chain. We have obliged the Department of Energy for additional funding with awards expected to be announced in August of 2024.

Please turn to Slide 6. On the topic of our lithium technology roadmap, subsequent to the end of the quarter, we were pleased to announce our agreement to acquire Bren-Tronics, which will expand our presence in critical defense applications, broaden our product offerings, and strengthen our product development capabilities.

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This acquisition will accelerate EnerSys' progress in expanding our lithium product offerings, growing revenue and profitability while advancing towards our fiscal year 2027 targets. We are working on detailed integration planning, which will ensure that the integration process is seamless for our customers, day 1 post-close. We look forward to welcoming Bren-Tronics' team into the EnerSys at closing, which is anticipated near the end of our first fiscal quarter, subject to regulatory approval.

Please turn to Slide 7. Aligned with our strategic framework, we remain highly focused on sustainability. This week, we published our updated Annual Sustainability Report, which highlights our progress towards our objectives and furthermore emphasizes the way, in which our sustainability focus and our products help our customers to meet their own sustainability targets. Our 2023 accomplishments include reducing our absolute Scope 1 emissions by 4.2% from calendar year 2022, marking an overall 25% reduction since calendar year '19 and a 15% reduction in energy intensity since calendar year 2020.

We also disclosed our Scope 3 emissions for calendar year 2022 and calendar year 2023. We also earned several awards in recognition for our environmental and social initiatives across the organization. I am proud of our team's accomplishments, underscoring our commitment to sustainability, energy efficiency, and innovation within the manufacturing industry.

In closing, I'm proud of all we've accomplished in fiscal year 2024. From launching a new line of business with a world-class, high-tech battery energy storage system, growing maintenance-free share in Motive Power, undertaking a bold transformation and restructuring in Energy Systems, making significant progress on our path to constructing our own domestic lithium plant, to agreeing to add Bren-Tronics into our specialty portfolio, we have come a long way from our history as a lead-acid battery-focused company.

These accomplishments are giving us much to be excited about in fiscal year 2025 and beyond. In the past, energy was cheap, plentiful and reliable. This is no longer the case. So as a society, we must rethink the way we manage energy. The global grid infrastructure can no longer support the power consumption driven by energy transition and the electrification of everything. Energy scarcity will be an ongoing concern further impacted by the climate and global decarbonization policies. This will require renewable energy coupled with energy storage to enable reliable distribution.

We are delivering best-in-class technologies, intelligent batteries and revolutionary energy management systems that are solving the problems of today and the future. We have the engineering expertise and customer relationships to capitalize on what's to come. I am confident FY 2025 will demonstrate the potential of all the investments we have made in our transformation reflected in the targets we laid out on Investor Day last June. Indeed, our future is bright.

I will now turn it over to Andy to take you through our results and outlook in greater detail. Andy?

Andrea Funk

Thanks, Dave. Please turn to Slide 9. Fourth quarter net sales of $911 million were down from prior year, but in line with our expectations, driven by a 6.9% decrease in volume due primarily to temporary telecom/broadband spending pauses, as well as a 1.3% FX headwind. Overall, we maintained price mix while benefiting from a reduction in inflationary pressures.

We achieved adjusted gross profit of $255 million, up $9 million year-on-year, including $36 million of IRA benefits booked as the reduction to cost of goods sold in the quarter. Q4 adjusted gross margin improved 310 basis points over prior year to 28% due to IRA benefits as well as solid price retention.

Excluding the IRA benefits, adjusted gross margin was 24.1%, up 100 basis points year-over-year, due in part to a reduction in freight and commodity costs even after absorbing the margin mass impact of higher cost pass-throughs. Our adjusted operating earnings were $109 million in the quarter, a $2 million improvement over prior year, resulting in an adjusted operating margin of 12%.

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Excluding the IRA benefits, we achieved adjusted operating earnings of $73 million, down $17 million versus prior year, with an adjusted operating margin of 8%, 110 basis points lower year-on-year. This decline is entirely attributable to the telecom/broadband temporary spending pauses, net of the early impact of the $47 million of annualized hard cost improvements Dave mentioned earlier.

Adjusted EBITDA was $124 million and adjusted EBITDA margin was 13.7%, an increase of $6 million and up 180 basis points, respectively, versus prior year. Full-year net sales of $3.6 billion were down 3% year-over-year. We generated adjusted operating profit of $450 million, including $136 million benefit from Inflation Reduction Act, IRC 45x tax credits. Adjusted diluted EPS was $8.35 per share, an increase of 56%.

Please turn to Slide 10. In line with the high end of our guidance range, adjusted EPS for the fourth quarter was $2.08 per share, an increase of 14% over prior year. Adjusted EPS excluding the IRA benefit was $1.20, a 15% decrease over prior year's $1.40. In the fourth quarter of fiscal 2024, our effective tax rate was 8.5% on an as-reported basis and 20.2% on an as-adjusted basis before the benefit of the IRA, compared to 16.8% in Q4 2023.

Please turn to Slide 11. Adjusted EPS for the full year was $8.35 per share. Adjusted EPS, excluding the IRA benefit was $5.05, up 3% over prior year's $4.92, despite the 3% net lower revenue. Let me now provide details by segment.

Please turn to Slide 12. In the fourth quarter, Energy Systems' revenue declined 19% from prior year to $369 million, primarily driven by the lower volumes previously mentioned and FX headwinds partially offset by improvements in price mix. Adjusted operating earnings of $17 million improved sequentially on flat revenue but were $12 million lower than prior year. Adjusted operating margin of 4.7% was up 90 basis points sequentially but decreased 180 basis points versus prior year.

Please turn to Slide 13. Versus prior year, Motive Power revenues increased 3% to $395 million on a 5% volume increase and 1% acquisitions increase partially offset by price mix and FX. The reduction in price mix is due to the elimination of utility adder in the quarter with any negative impact to profit offset by lower utility costs realized in Q4 2024 as well. Motive power again reported strong adjusted operating earnings this quarter, contributing $58 million, up 15% over prior year. Adjusted operating margins were 14.7%, up 160 basis points over Q4 2023, with the lower utility costs I just mentioned, as well as reductions in commodity and freight costs versus prior year. We are very optimistic about the growth opportunities in motive power as our proprietary, maintenance-free and wireless charging solutions support our customers' growing needs for automation, electrification and decarbonization solutions.

Please turn to Slide 14. Specialty revenue decreased 1% from prior year to $146 million on flattish volume and 1% reduction in price mix, with capacity constraints limiting the growth potential of this line of business. Q4 2024 adjusted operating earnings of $8.5 million were down $1 million from prior year with adjusted operating margin of 5.8% down 80 basis points. Margins in this business continue to be pressured by the impact of higher fixed cost absorption related to plant loading issues as we retool capacity from telecom and broadband to enable more transportation product sizes.

As Dave mentioned, we made progress in the quarter with specialty volumes up 11% and adjusted operating earnings up $1 million sequentially and have line of sight to continued improvement this fiscal year. Given the strength in transportation and aerospace and defense end markets, combined with the enhanced capacity, flexibility and expansion we anticipate in the coming quarters, we are very optimistic about our opportunities in specialty.

In addition, we look forward to integrating Bren-Tronics in the coming months, which will add profitable growth to our existing business, the impact of which is not reflected in any of the numbers or projections we are sharing with you today.

Please turn to Slide 15. A particular bright spot for us this quarter continues to be our cash flow, thanks to our earnings growth as well as our commendable management of working capital. We reduced inventory by $57 million versus Q3 2024, achieving our lowest inventory balance in nine quarters, driven by a targeted reduction in specific raw material and product categories while maintaining inventory reserves in energy systems to be prepared when a telecom/broadband recovery occurs.

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We were also able to improve collections efforts of receivables and extend supplier payments, which is quite an accomplishment in a high interest rate environment. Our primary operating capital reduction generated $204 million of cash in fiscal year 2024, approximately half of which was driven by lower sales, with the other half driven by focused efforts across the organization. I should note that the full benefit of the IRA credits will not materially impact our cash flow until our fiscal year 2024 tax filings are finalized and we receive an expected tax refund of approximately $100 million near the end of fiscal year 2025. CapEx was $27 million in the fourth quarter and $86 million for the full year.

In the quarter, we achieved an adjusted free cash flow conversion rate of 128%. As of March 31, 2024, we had $333 million of cash and cash equivalents, and our net debt of $511 million represented a reduction of approximately $225 million from prior year. As a result, our credit agreement leverage ratio improved once again to 1 times EBITDA.

Our balance sheet remains strong and positions us very well to invest in growth and navigate the current economic environment. We anticipate slightly higher leverage in Q1 2025 as a result of approximately $200 million cash outlay for the planned Bren-Tronics acquisition, but we expect their net leverage will remain below the low end of our two- to three-times target range.

Please turn to Slide 16. During the fourth quarter, we paid $9 million in dividends and repurchased $13 million in shares. We currently have approximately $116 million remaining on our buyback authorization.

Please turn to Slide 17. We remain optimistic about the trajectory of our business and are particularly pleased with our ability to maintain pricing. While we are seeing a healthy demand trend in the majority of our end markets, we have taken substantial actions to improve the overall margin profile of our Energy Systems business despite the cycles experienced in network powering markets, as previously discussed. We are providing some updates to our guidance metrics which we believe will provide a clearer view of our anticipated financial performance.

Our fiscal first quarter 2025 guidance range is $860 million to $900 million of net sales, an adjusted diluted EPS of $1.93 to $2.03 per share on slightly lower volume driven by the seasonality of our business. Our fiscal 2025 guidance range is $3.675 billion to $3.825 billion of net sales and adjusted diluted EPS of $8.55 to $8.95 per share, with a pre-IRA tax rate of 20% to 21%.

We anticipate ongoing volume growth in Motive Power and Specialty with a return to normalcy occurring throughout the year in telecom/broadband markets and further earnings expansion from the margin improvement actions taken in Energy Systems. We also expect to benefit from continued maintenance-free conversion in Motive Power and increased capacity flexibility with better cost absorption at our Missouri factory for Specialty. Our CapEx expectation for the full year fiscal 2025 is in the range of $100 million to $120 million.

Please turn to Slide 18. Before we close, I would like to provide an update on our progress towards the fiscal year 2027 goals we issued at Investor Day in June of 2023, which in aggregate are on track. Note that when we issued those targets, we highlighted certain areas which we had anticipated could push our results to the upside or to the downside. Network build-out delay was one of the potential risks that has materialized. On the upside, our eligibility for expanded IRA benefits has materialized as well.

Although our sales CAGR is below the targeted range, we are only one year into this four-year plan. Our fiscal year 2025 guidance and longer-term forecast gives us confidence that our financial and operational goals remain achievable. I should note that our adjusted EPS actual results for fiscal year 2024 and projected for fiscal year 2025 are both above what we had contemplated in the strategic plan presented at our Investor Day.

We reiterate our expectations for fiscal year 2027 EPS to be in the range of $11 to $13 per share with upside from the reinvestment of our excess cash flow, such as the return on our planned Bren-Tronics acquisition, which will be accretive to that EPS target range. In summary, we are confident that the foundation we put in place this year, coupled with the investments we have made in our transformation, will deliver accelerating financial returns in the coming years.

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As Dave mentioned, energy scarcity will continue to be a global concern, with megatrends driving rapid increase in demand for reliable power. As a critical supplier of energy systems and energy storage solutions, EnerSys is strategically positioned to capitalize on this growth.

We look forward to welcoming the Bren-Tronics team into the EnerSys family in the upcoming months. As we look to fiscal 2025 and beyond, we remain focused on achieving the targets we set at our Investor Day in delivering long-term value creation to our stockholders.

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

Question-and-Answer Session

Operator

Thank you. [Operator Instructions] We'll pause for a moment while we compile our Q&A roster. Our first question comes from Noah Kaye with Oppenheimer. Your line is open.

Noah Kaye

Hey, good morning. Nice quarter. How are you all? Thank you for providing the sales and full-year guidance. And now we get to ask about it. So if we just start with Energy Systems, I just want to make sure we're thinking about this right. So we embed the $40 million uplift you called out from the cost savings and even sort of holding revenues flat year-over-year, that would get us to sort of 8% margins for 2025, and that would be the margin target for the down-cycle. So, A, is that kind of the right ballpark to be thinking about in terms of what the guidance contemplates? And B, how should we think about sort of the phasing of that margin improvement as you capture some of the benefits from these actions?

Andrea Funk

Yes. Hi Noah, good to talk to you today. Good to hear your voice. As you know, this telco/broadband spend pause has really been significant for us. So, just first to level set before answering your questions, revenue was down on telco/broadband, about $200 million year-on-year, of which $100 million was in the fourth quarter.

And overall we'd expected about $100 million of growth for the full year. Our diversified end markets protect us somewhat, but just to give you order of magnitude, the impact on us from this pause was in the vicinity of about $0.50 per share, negative impact in Q4 alone and about $1.50 share for the full year. So getting back to your question on the actions Dave mentioned, and I'll just kind of reconcile that to what we've said previously. Last quarter, we talked about $27 million of savings, $4 million coming from the consumer renewables exit, $6 million from the Spokane closure where we consolidated with Suwanee, and about $17 million of rest.

This quarter we enacted an additional $20 million. Most of these actions are already fully completed, so they will be in the results for the full fiscal year next 2025. And we're exploring further actions like appropriate pricing strategies, we're restructuring contracts, we're exploring ways to leverage AI to drive productivity. And with all of these, we're committed to really reshaping the margin profile of the LOB to like 8% to 10% in a downcycle and then 12% to 15% in an upcycle with real confidence that it's going to come back and we won't need to add most of those costs. So the actions will improve both the floor and the ceiling of the margin profile throughout the cycle.

As far as 2025 and the guidance we gave, we really look at it kind of as a -- we don't expect that by the end of the year, we're going to be anywhere near where we would have been had this pause not occurred, but we do expect steady recovery throughout the course of the year. So as the trough really happened to us in Q3 and Q4 of our fiscal year and Q1 and Q2, we only saw early signs of it, our Q1 and Q2 in EnerSys, in Energy Systems will be down year-on-year, and Q3 and Q4 should have some improvements as we're starting on that trajectory.

David Shaffer

Yeah, and Noah, just this has always been a cyclical business. I've been at this a long time, and telecom, of all the businesses we serve, probably has the most cyclicality. And what Shawn and I talk about is really making sure to hold the gains as when the revenue starts to come back that we have to sustain these restructuring initiatives that Andy just went through.

And we all know, this cycle, as we've said before, has been particularly troublesome because of overstocking coming out of COVID because of interest rate environment. But as you look at everything that's happening in the digitization space and all the investment that's going into data centers, that last mile of delivery is critical to get this information in and out of our hands. And that's where these network communication systems are vital and will be continued to be a strategic and important investment area. So that's what our focus is. So I hope that's enough color on ES.

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Noah Kaye

Thanks. All right. Just a few clarifications. Does the CapEx guide for 2025 include any material outlays for the gigafactory?

David Shaffer

No.

Andrea Funk

Not yet.

Noah Kaye

All right. So we'll find out about that in August.

David Shaffer

Yes. But, Noah, what we have done, I just want to give you what we've been trying to do on the lithium batteries is I want to hit the starting line running. That's been the whole objective. So we've made a series of controlled actions, taken a series of controlled actions to make sure that we're not starting, once the DOE awards are made in August, that's where we really want to hit the starting gate running, as I noted. And we've got lots of examples of things we've done. We made a $10 million investment in a piece of property down in Greenville, South Carolina. We secured $200 million in grants from the State of South Carolina.

We've done -- we've already started the environmental assessments. We started building some teams up. We made a $10 million Series C round investment into Verkor. So we've been busy. And again, the idea and what we're really wanting to do, in anticipation of the DOE and anticipation of final board approval, we want to make as much progress as we can, but doing it in a controlled fashion. So we're trying to do everything we can in advance. So that's where our head's at.

Andrea Funk

Yes, Noah, I should probably clarify my response. The $10 million land investment would fall under the lithium plan, although our plan is to not break soil until after we get board approval. The make versus buy decision is becoming very compelling. We've employed outside consultants to help to clean up and really validate all of the assumptions that we have in our model.

As we've mentioned before, while we believe this would really de-risk our lithium supply chain, which is strategic to our long-term strat plan, our intention is to only move forward if this is going to be accretive to our long-term 15% ROIC targets. So, when the board officially approves this, if and when the board officially approves, which we expect would happen after we learn of our DOD potential funding, we'll be happy to share more of the financial implications and statistics on this exciting venture for us.

David Shaffer

Yes, I guess the last piece of that, Andrea -- no, just one more thought. These recent announcements on tariffs is really just going to, in general, it's going to make importing lithium that much more challenging, and it just accelerates the need for this project.

Noah Kaye

Without a doubt. Thank you for that. I just want to ask the last quick one on data center, which is the number one topic on the planet right now, and now, 10% of the company's sales. First of all, understanding what the mix of business looks like today, I understand it's primarily the batteries for UPS. I would expect most of that would be TPPL. Curious to know how it's sort of evolving TPPL, lithium, etcetera. But really the broader question is how do you think about opportunities for wallet share gain and content expansion in the data center build out beyond the battery supply? Where are the opportunities for the company?

David Shaffer

Well, I think you nailed it in terms of our key presence in there right now is really a combination of TPPL and our traditional products, so it's both. We have very commanding market share positions in North America and in Western Europe, not as much in other parts of the world. And we are absolutely seeking wallet share opportunities. It's a big focus with our M&A team and -- but as you probably figured out, when we did the Alpha deal, we really didn't get much out of that. That's more on the network side, that last mile side, not so much. So really the M&A attention is there, product diversification.

So adding additionally -- I made a note about that new tool, SBS product, which is going to be really helpful in that market segment, and then some new lithium products that we're working on. So that's -- So I think the battery piece, we've got a really good line of sight on. And in terms of the wallet share, we've got work to do, and that's a key M&A focus.

Andrea Funk

Yes, I think, Dave, you hit it all. It's the two pieces. There's the growth in our lead-acid business and the data centers, which we're in with all the big customers. So we've got a great presence exploring NPIs as well as acquisitions. But on top of that, it's this last-mile delivery as this data market, data centers just proliferate. All that data needs to get into the hands of you and me. And that's what really gives us confidence that telco/broadband, we're not concerned about the growth rates that we put out in our strat plan. We really see this positive, temporary and everything is going to be driving growth into those markets over time.

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Noah Kaye

Thank you so much. I'll turn it over.

David Shaffer

Thanks, Noah.

Operator

[Operator Instructions] One moment for our next question. Our next question comes from Blake Keating with William Blair. Your line is open.

Blake Keating

Hi, good morning. This is Blake on for Brian.

Andrea Funk

Good morning, Blake.

Blake Keating

So I wanted to ask on the guidance. What are the puts and takes to getting to the low end versus high end of revenue and EBITDA guidance?

David Shaffer

Yes. In terms of the revenue guidance, and I guess subsequent to that, the biggest explanation for the range is still just a little bit of uncertainty as we go forward with the telco/broadband. Right now what we have modeled in the midpoint of that is some modest sequential growth in the revenue line in our ES sector, and then layered in, in combination of that is the hard cost savings that we called out earlier. So that's what we have in the midpoint. But the range was really mostly a reflection of just still a little bit of uncertainty as to what this recovery and timing is going to look like. Andy, is there anything else?

Andrea Funk

Yes, I'd be happy to give you a little bit more color, Blake, on the full year, especially since this is the first time that we're introducing revenue and full-year EPS, which were really -- it had been a goal of Dave and mine since about the last two years. But with all the volatility in the markets, we feel now is the right time to add it. In the full-year guidance, we do think telco/broadband, there'll be some ongoing softness, as we mentioned, but with a steady recovery throughout the course of the year, that's probably the one that's most uncertain. Motive Power and Specialty markets remain very healthy. We should have some motive power lithium growth.

The way that will play out in the results it's going to show as maybe expanded volume impact, but pressuring price mix just because it's got a higher cost pass-through. We expect to have our initial fast-charging storage revenue, which we're extremely excited about. And in line with what we've talked about at StratPlan, we fully expect ongoing mix improvements for maintenance-free conversions in Motive Power, which is happening faster than we had anticipated.

We expect growth in the aftermarket and specialty as we unlock some of the capacity in Missouri, and we'll get some mix impacts as power electronics begin to come back in Energy Systems in the second half of the year. But again, that's one of the areas that there's a little more uncertainty on. We'll continue to leverage OpEx discipline. The aggressive energy systems margin improvement actions should see the benefit as we've talked about, and we'll be making some additional fast charge and storage investment throughout the course of the year.

Our IRA benefits, again, just to reiterate, $120 million to $160 million per year as previously communicated, where it falls within the range will really depend on volume and mix. As a reminder, telco/broadband batteries bring higher credits. As we mentioned, pre-IRA tax rate 20% to 21% versus 18.9% in 2024. There's a slightly higher rate there on discretes, the geography of earnings and the impact of the global minimum tax, the pillar tax coming into play. We have not baked Bren-Tronics into the guidance. And that will depend on when we actually close, which we expect will be near the end of our first quarter, maybe slightly before, slightly after. I hope that helps.

Blake Keating

Yes, yes. It helps a lot. Thank you for the detail. And then on Bren-Tronics, you guys called out that it plays in the lithium portable space. Is that an adjacent market, the portable market, is that an adjacent market you guys are looking to enter? Are you able to leverage -- do you expect to be able to leverage Bren-Tronics technology to other business lines for other adjacencies as well?

David Shaffer

Absolutely. It's very exciting in terms of their focus and ours. Aligned customers, a lot of aligned technology, but not a lot of customer, or not a lot of product or customer overlap. Their focus has mostly been on-soldier powering, so smaller packs for radios, GPS locators, all the things, and then the chargers that are associated with it, they've got some really cool charging products that marry up with these portable power products. And then they've got -- they developed a lithium 6T battery, which is really a building block. And for all future, larger military forward-based powering, energy storage systems, vehicle powering and it just aligns well where our strength has been mostly historically on the vehicle side, submarine side.

So great potential sales synergies as we look forward. As you noted, very good engineering, synergistic capabilities. And the other piece I think that's really important to me is as we spent time with their teams, and culturally, that group over there is very warm cultured and very focused on their folks. And so, I just feel like culturally, it's going to integrate very well. Jamie and the team are really jumping in. We want to start integrating day one as soon, as Andy noted, we've got to wait to get through this regulatory period, but in the meantime, we don't want to have any disruption.

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My instructions, obviously, is not to disrupt or make it any different for the customer. So really exciting opportunities. And one of the other really neat products that caught my attention is they're working on battery packs, big battery packs for directed energy weapons, which is really another way of saying laser beams that are going to shoot down drones and other options. So just a lot of exciting opportunities at Bren-Tronics.

Andrea Funk

Yes, as Dave mentioned, the strategic fit is really exciting. We have a history of working together, so this is not a new company to us, which gives us a lot of confidence in the cultural fit. In fact, you may recall we had announced that Bren-Tronics and EnerSys recently won a co-development $6 million DIU defense innovation grant to establish a domestic supply chain for lithium cells. So we've got synergies on sales, cross-selling, ultimately opportunities for synergy on capacity expansion in the future as the business grows. But we did not really use synergy as a story for the valuation metrics. And as a reminder, it was about a $208 million purchase price. They have approximately $100 million of annual revenue. And we bought them at an 8.7 multiple, so immediately accretive.

Blake Keating

Got it. Understood. I'll pass it along. Thank you.

Operator

One moment for our next question. Our next question comes from Greg Wasikowski with Webber Research and Advisory. Your line is open.

Greg Wasikowski

Hey, good morning, Dave and Andy. How are you doing?

David Shaffer

Good, Greg.

Andrea Funk

Great. How are you doing, Greg?

Greg Wasikowski

Yes, doing great. Just one quick one from me. Other ones have been asked already. Just curious with tons of margin improvement over the last year or two, and then lots of moving pieces here with the acquisition, energy systems, volatility, fast charging growth, I'm just curious, as we look ahead, what would you say would be your targeted steady state gross and operating margin targets, maybe with and without the IRA credits, just to get, if we ever reach a steady state, but just an idea of how you guys look at it long term, where you'd like to sit?

David Shaffer

Yes, Greg, it was interesting. We had a conversation, Andy and I, the other day, as to what is normal. And kind of what we got back to is it's really the CAGRs for the revenue CAGR ranges that we laid out in our Investor Day model most recently. So that, for us, and we have just a tremendous confidence about the ES getting back on track to what we laid out, there's just too much out there.

There's too much digitization, there's too much investment yet to be made in small cells, not to think that that is inevitably going to come back. So that's what we're using. So our kind of baseline for normalcy is what we laid out in that Investor Day model. And clearly, there's puts and takes, but we remain very consistent and committed to what we put out there. Andy, is there anything else I missed?

Andrea Funk

Yes, Greg, obviously we're not -- we're reiterating the targets that we set out, and I believe they're well within reach. As you recall, our fiscal 2027 operating margin target was 14% to 16%. And we finished 2024 at 12.6%. We fully expect the incremental margin improvement efforts that we had mentioned previously, Motive Power maintenance-free conversion, specialty aftermarket, higher-margin Energy Systems, the power electronics, OpEx leverage by not growing our operating expenses at the same rate as revenue, particularly after we load on things like our fast-charging storage revenue that we've been investing in and lithium revenue that we're now just starting to benefit from, as well as lean initiatives that Patrice is leading with our EOS work. So again, we're still bullish on our fiscal 2027 targets in the aggregate, and that's where we think we'll be exiting 2027 as a new normalcy going forward.

David Shaffer

Yes, and Greg, a big part of this is the performance in our TPPL factories. And as you know, the downturn in ES was very, very rapid, and that's -- that did cause us to retool and refocus. You see signs of improvement in our results. This quarter, we still have more work to do, and ultimately, all our forward investments are going to be more flexibility in our factory so that we can adjust or adapt to these market shifts. But this one was very, very rapid. And it's been a challenge for us. But I'm pleased with the progress. And later this year, we're going to have the ability to make whatever the market needs.

Greg Wasikowski

Yep, always puts and takes, but that's helpful context. Appreciate it, guys. I'll follow up with Andy offline with a few more later on. Thank you.

Andrea Funk

Great. Thanks, Greg.

David Shaffer

Thank you.

Operator

And I'm not showing any further questions at this time. I'd like to turn the call back over to Dave for any closing remarks.

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David Shaffer

Thanks, Kevin. Well, I just want to thank everybody for joining us today. And if there's no additional questions, then everyone have a great week.

Operator

We did have one person just queue up. If you want to go ahead and take that real quick.

David Shaffer

Oh, sure. I'm sorry about that. Go ahead.

Operator

No, one moment. Our next question comes from Tyler DiMatteo with BTIG. Your line is open.

Andrea Funk

Hi, Tyler.

David Shaffer

Hi, Tyler.

Tyler DiMatteo

Yes. Hey, guys, thanks for squeezing me in here. Appreciate it. I just want to follow up on some of the comments surrounding the targeted raw material reductions and really just broadly supply chains, and maybe just kind of just address the state of play of the supply chain markets. Any puts and takes around, maybe just what you're seeing generally, broadly, in different reasons, or just any key colors there, would appreciate it. Thank you, guys.

David Shaffer

Yes, I would say, in general, for our supply chains, most everything is normalized. I don't know that, from an EnerSys perspective, I'll hear some noise once in a while about certain chipsets or something, but in general, our supply chain is back to where it was. I think some of our customers, though, especially in the forklift material handling sector are still struggling in and some of the lead times that they're still experiencing are crazy.

I've heard numbers like 18 months on certain sizes. So there is still pockets of supply chain constraints and pressures. So that's more on the demand side for us and that impacts how we -- when they order products and how long they sit in backlog for us. But those are my biggest -- that's what's on my radar screen. Andy, is there anything from a commodity or supply chain that's in your radar screen?

Andrea Funk

Yes, I would say, you know, just a few other notes. Freight's been a bright spot, particularly air and ocean freight. We've seen some improvements there. Commodity costs overall, some are down, some are up, but in the aggregate, they're down. We've got a little bit of a spike in lead now. It's crossed over a buck, but that's certainly manageable within our internal processes to be able to control. As we mentioned, utilities. If you recall, last year, we had utility costs spiking, particularly in Europe, and we implemented a utility adder. This year, we don't have that. I think that's one of the items that we called out. Last year, we had a $5 million utility adder as an example. This year, we don't have that, but we also don't have the utility costs. So that'll show up as a negative price mix, but an improvement in cost. So, more than anything, we show these charts both internally at every one of our LOB meetings as well as presenting to our board of directors.

Previous quarters, we had these huge spikes in cost. And then the catch-up with our price mix, those things are all leveling out. So cost tends to be now pretty flattish. In fact, in some cases, a slight improvement. And the price mix, other than these nuances of impact on things like lithium and the utility adder, remover, it's just the mix improvements that we're seeing, particularly the strong maintenance-free conversions in Motive Power.

David Shaffer

Correct.

Andrea Funk

Does that help?

Tyler DiMatteo

Yes. Very helpful. Thanks for parsing that out on the supply and demand side as well, guys. Really appreciate the time. Thank you.

David Shaffer

All right.

Andrea Funk

Great to talk to you, Tyler.

Operator

I'm not showing any further questions at this time.

David Shaffer

All right, Kev. Kevin, thank you very much. And, everyone, thanks for joining the call, and we'll see you in 90 days.

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Andrea Funk

Have a safe Memorial Day weekend.

Operator

Ladies and gentlemen, that concludes today's presentation. You may now disconnect and have a wonderful day.

**Load-Date:** May 23, 2024

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