Versigent PLC
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Corporate Participants:

- Joseph Liotine, Versigent PLC, Chief Executive Officer
- Douglas Ostermann, Versigent PLC, Chief Financial Officer
- Erin Banyas, Versigent PLC, Vice President – Head of Investor Relations

Other Participants:

- Itay Michaeli, TD Cowen, Analyst
- Tom Narayan, RBC Capital Markets, Analyst
- Mark Delaney, Goldman Sachs, Analyst
- Joseph Spak, UBS, Analyst
- Chris McNally, Evercore ISI, Analyst

Operator:

Good day and welcome to Versigent's Third Quarter 2026 Earnings Conference Call. During the company's opening remarks, all participants will be in a listen-only mode. Following the opening remarks, we will conduct a question-and-answer session. As a reminder, today's conference is being recorded. At this time, I'd like to now turn the call over to Erin Banyas, Vice President and Head of Investor Relations. Please proceed.

Erin Banyas:

Thank you, and welcome to everyone joining us. I'm joined today by Joe Liotine, our Chief Executive Officer, and Doug Ostermann, our Chief Financial Officer. Before we begin today's call, I would like to direct you to the cautionary statement regarding forward-looking statements on page two of our presentation and in our earnings release issued earlier today, which are both available under the Investor Relations section of our website.

Today's call includes forward-looking statements that are subject to risks and uncertainties that could cause actual results to differ materially from those expressed or implied. These risks are described in our filings with the Securities and Exchange Commission, including the Risk Factors section of our amended form 10-12B registration statement filed on March 6th, 2026. As is customary, the content of today's call and presentation will be governed by this language. Our guidance reflects management's current expectations and should not be relied upon as a guarantee of future performance. We undertake no obligation to update these statements, except as required by law.

In addition, during today's call, we will be discussing non-GAAP financial measures. Please refer to our earnings release and presentation materials for additional information regarding these non-GAAP financial measures, including how we use and define them, and the reconciliations to the most directly comparable GAAP measure. With that, I will now turn the call over to our CEO, Joe Liotine.

Joseph Liotine:

Thank you, Erin, and thank you to everyone joining us today. Versigent’s strong third-quarter performance reflects the resilience of our business model and disciplined execution amid significant launch activity, lower global automotive production and a volatile macroeconomic environment. During the quarter, we successfully executed a high volume of complex launches across multiple manufacturing facilities and continued investing in our adjacent markets commercial and go-to-market capabilities. Successfully navigating a challenging quarter requires unwavering focus on the priorities driving our business, and those priorities remain unchanged.

Strengthening our market-leading position by leveraging our full-service engineering capabilities and best-in-class operating model to grow with existing customers and win new business. Further optimize our cost structure through operational excellence, manufacturing footprint and automation initiatives that enhance efficiency and competitiveness. Deliver strong and consistent financial results, and deploy capital in a disciplined manner to support strategic growth and drive long-term shareholder value. Mastering complexity, at this level, requires more than strategic vision. Combining deep technical expertise with agile problem

solving, our team stays ahead of increasingly complex customer requirements to unlock greater features, innovations, and compelling consumer use-cases - all at the speed and scale that fuels our competitive advantage.

That deep commitment to disciplined execution is evident in our third-quarter results. We delivered 7% year over year net sales growth, achieved our sixth consecutive quarter of global growth over market, expanded Adjusted EBITDA margins and generated strong cash flow. We also secured $2.1 billion in new business awards during the quarter, bringing year-to-date bookings to $7.5 billion and further expanding our book of high-value, complex programs. These awards included key wins in commercial vehicles and agricultural markets, reinforcing the strength of our engineering capabilities, customer relationships, and competitive position. New customers, tighter tolerances, and increasingly complex requirements each raised the bar for execution. When combined with, one of the most active launch years, they highlight the true strength of Versigent's differentiated operating model.
As of September, our global team successfully launched more than 115 important and diverse programs during the year, with nearly half of those launches occurring in the third quarter alone. These programs support more than 35 customers across multiple end markets, including automotive, commercial vehicles and agriculture, and spanning a broad portfolio of low and high voltage solutions. Most importantly, the team delivered with greater than 99% quality and more than 99% on-time delivery, demonstrating our ability to deliver consistently while managing increasing complexity at scale. We know the greater the complexity, the greater the opportunity we have to create value.

The capability well reflected in a recent launch, specifically a program with a leading China OEM's most advanced electrical architecture produced at our all new Jiang Cheng advanced R&D and Manufacturing Center in Wuhan, China. Jiang Cheng is our most advanced, integrated and automated manufacturing facility yet and brings R&D, applied automation and innovative manufacturing capabilities together in one campus to produce some of our most efficient, highest complexity harnesses to date. Jiang Cheng is one example of the strategic investments we are making to enhance our technical and manufacturing capabilities, anchored by our disciplined approach to capital deployment, designed to fortify our competitive position and ultimately support long-term value creation. China remains an important market, and we are increasingly focused on winning the right business, selectively pursuing customers and programs that match our go-to-market criteria, inclusive of programs that not only support the local market, but also offer the greatest potential for global application, scale and export, allowing Versigent to generate greater momentum in China and beyond.

That same disciplined approach to strengthening our position in China is also creating momentum across the broader Asia Pacific region. Asia Pacific, excluding China, represents our fastest growing market, supported by a diverse customer base, established supply chains and attractive growth opportunities across both automotive and adjacent markets, including battery energy storage systems, power generation, and commercial vehicles. We are increasing our investments across Asia Pacific to strengthen our ability to support customers locally, scale production globally, navigate a dynamic operating environment and capture future growth opportunities. These investments include new manufacturing facilities in Malaysia and India, as

well as expanding our Engineering Center of Excellence in Pune, India - all designed to enhance our full-service engineering offerings and access to the technical expertise.

In addition to investing in global capacity, we are actively building the commercial and go-to-market capabilities to advance our adjacent market strategy. Recently, we made targeted additions to our business development leadership team - empowering them with the right resources to identify and pursue attractive opportunities across our priority end markets, including commercial vehicles, agriculture, power generation, battery energy storage systems, and robotics. Encouraged by the team's early momentum, including securing new adjacent market wins during the quarter, we are confident in our position that growth is a natural extension of our core strengths. As these sectors mature, we are building the right relationships to learn and grow alongside them, while taking every opportunity to demonstrate our engineering expertise and unique manufacturing capabilities with scale, quality and speed required to win.

Development of our adjacent markets go-to-market capabilities is on pace and in line with the expectations underlying our 2028 outlook. As our commercialization efforts mature, we continue to see opportunities and as the underlying markets continue to develop, we continue to see opportunities. Our progress, as well as the markets themselves, continue to develop. This provides additional avenues for growth as our outlook does not assume a meaningful contribution from adjacent markets. Managing complexity and adapting to change are long-standing strengths of our business because we remain focused on the factors within our control.

Anchored by our priorities, we continue to execute with precision while navigating changing customer demands, evolving market conditions, and an increasingly dynamic macroeconomic environment. That same discipline extends to our capital allocation decisions. Guided by our disciplined approach to capital allocation, we continue to invest in our business while returning capital to shareholders through our dividend. The board has declared our second quarterly dividend of $0.13 per ordinary share. In addition, our $250 million share repurchase authorization remains available as part of our overall capital allocation framework.

With that, I'll turn the call over to Doug, who will provide additional details on our financial performance and our updated full year 2026 guidance.

Douglas Ostermann:

Thank you, Joe. Turning now to our financial highlights on slide six. We delivered a solid third quarter. We achieved our sixth consecutive quarter of global growth over market, increased net sales and Adjusted EBITDA, expanded margins, and generated strong free cash flow. These results were achieved despite a challenging operating environment marked by significant launch activity and approximately 2% year-over-year decline in global automotive production and ongoing macroeconomic volatility. Our performance underscores the resilience and cash generating power of our business model, reflecting disciplined execution, effective cost management, and the value our differentiated capabilities create for our customers.

Third quarter net sales were $2.45 billion, up 7% year-over-year. Adjusted Net Sales Growth, excluding the impact of commodity pass-throughs and FX, was approximately 1%. Adjusted EBITDA was $275 million, up

$27 million or 11% year-over-year, and Adjusted EBITDA margin expanded by 40 basis points to 11.2%. Net income attributable to Versigent was $102 million compared to $109 million in the third quarter of 2025. The year-over-year decline was primarily driven by higher interest expense associated with the debt issuance completed in the first quarter of this year, partially offset by lower income tax provision.

Our adjusted effective tax rate was 22%, compared with 33% in the third quarter of 2025. The prior-year quarter included approximately $20 million of net discrete tax expenses, primarily related to valuation allowance adjustments, compared with approximately $2 million of net discrete tax expenses in the current quarter. We continue to expect our full year 2026 adjusted effective tax rate to be approximately 23%, with a similar cash tax rate. Adjusted net income was $138 million, up $10 million year over year. Adjusted diluted EPS was $1.91 compared to $1.81 a year ago. As noted on the slide, third-quarter 2025 Adjusted diluted EPS was calculated using the $70.89 million Versigent ordinary shares outstanding immediately following the April 1st spin-off.

Free cash flow was $170 million, compared with $179 million a year ago, despite higher capital expenditures, separation-related costs and increased cash interest following the issuance of our term loan A in the first quarter of 2026. As you think about our quarterly cash flow cadence, keep in mind that interest on our senior notes is paid semi-annually in April and October, which creates some variability in quarterly interest payments. I'll provide additional details on free cash flow in a moment.

Turning to slide seven, we see the key drivers of the $164 million increase in Net Sales compared with the prior-year quarter. Volume contributed approximately $11 million, led by continued strength in Asia Pacific. Net pricing, excluding commodity pass-throughs, accounted for approximately $21 million. This favorable pricing impact was driven by commercial recoveries recognized during the quarter, primarily related to certain prior period EV program cancellations. These recoveries more than offset the customer price downs that are a normal part of our business and typically average about 1% to 2% annually. The timing of commercial recoveries can vary from quarter to quarter, as discussions with customers often take time to resolve.

FX provided approximately $20 million of favorability and contractual commodity related pass-throughs added approximately $112 million. Excluding the impact of FX and commodity pass-throughs, Adjusted Net Sales Growth was approximately 1% in a market where global automotive production was down by approximately 2%. On a regional basis, Net Sales Growth was led by Asia Pacific, which delivered 18% reported and 9% Adjusted Net Sales Growth year-over-year. Growth was driven by both global and local OEM customers. Importantly, we continue to see positive growth trends outside of China, including in India, supported by strong commercial execution and our investments in growth markets.

In China, we continue to outperform the market, benefiting from strong export demand across a broad range of international end markets. This performance, consistent with our strategy of aligning with customers and programs that have global applicability and export potential, particularly those requiring more advanced and complex electrical architectures. For the quarter, we estimate approximately 35% of our product sales

manufactured in China were ultimately installed on vehicles exported outside of China, consistent with the second quarter. As a result, export-related production remains a meaningful component of our China business and an important driver of our performance.

In the Americas, net sales increased 6% year over year to approximately $1.1 billion, with Adjusted Net Sales Growth of 1%, while growth moderated relative to prior periods primarily due to temporary launch related impacts, the region delivered another quarter of growth over market, reflecting the strength of our portfolio and commercial execution.

Turning to EMEA, net sales were approximately $471 million, down 6% year over year, with adjusted net sales down 8%. The decline primarily reflects continued weakness in consumer demand, softer regional vehicle production and program roll offs. While these factors continue to create headwinds, we remain focused on actions within our control, including commercial execution and operational improvements. It is also important to recognize that a portion of our reported weakness in EMEA reflects an increasing amount of vehicle production serving European demand occurring in China rather than in Europe. As a result, Asia Pacific and EMEA growth rates should not be viewed entirely independently, as changes in production location continue to influence the regional mix of our sales. Overall, strong growth in Asia Pacific and continued growth over market in the Americas more than offset the decline in EMEA. This demonstrates our ability to deliver growth across the business, even as market conditions, production dynamics, and program cycles vary by region.

Turning now to slide eight. We see the key drivers of the $27 million or 11% increase in Adjusted EBITDA year over year. Adjusted EBITDA was $275 million, with a margin of 11.2%. That's up 40 basis points year over year. Looking at the bridge, net pricing, excluding commodities pass-throughs, was the largest contributor, adding approximately $21 million consistent with the drivers I discussed earlier with the net sales bridge. Volume provided approximately $2 million of benefit, FX added approximately $8 million and net performance contributed approximately $3 million.

Commodities were a headwind of approximately $7 million. Commodities represent an approximately 90 basis point headwind to Adjusted EBITDA margins year-over-year, primarily driven by copper. As we've discussed on prior calls, approximately three quarters of our copper exposure is covered by contractual escalation agreements. These agreements generally create a three-to-four-month lag between changes in copper costs, which are recognized in our cost of sales and when the related customer pass-throughs are reflected in net sales. As a result, periods of rising commodity costs can create a temporary profit headwind despite the underlying contractual recovery mechanisms.

Net performance remains a positive in the quarter, although it moderated from the level we achieved in the first half of 2026. As Joe highlighted, we're managing the highest level of launch activity we've ever experienced in a year, with a significant concentration of launches occurring in the second half of this year. As a result, third quarter results reflected higher launch related costs and absorption impacts. At the same time, we faced more challenging year-over-year comps, particularly against the strong operational

performance we achieved in the second half of 2025. In addition, it's important to remember that the second quarter of 2026 results benefited from approximately $7 million of IEEPA tariff refunds. That benefit did not repeat in the third quarter, creating an additional headwind in the sequential comparison.
Separately, as we look ahead to the fourth quarter, we expect the year-over-year net performance comparisons to be at similar levels as third quarter. This is primarily due to continued elevated launch activity in the fourth quarter, and the strong operational performance achieved in the second half of 2025.

Moving to slide nine. Free cash flow was $170 million in the third quarter, compared with $179 million in Q3 2025. As the work highlights, the $27 million increase in Adjusted EBITDA was more than offset by higher cash interest, CapEx, cash taxes, and separation related costs. Cash interest payments were $15 million in the third quarter, primarily related to the term loan A issued in the first quarter of 2026 versus minimal interest payments in the prior year period. Given the timing of interest payments, cash interest will fluctuate from quarter to quarter with the term loan A paid quarterly and our senior notes paid semi-annually in April and October.

Capital expenditures were $55 million, up $11 million year over year, supporting elevated launch activity in the second half of 2026. Cash tax payments were $24 million, compared to $15 million in the third quarter of 2025, primarily reflecting the settlement of prior year tax liabilities and the timing of estimated tax payments during the current period. Sequentially, free cash flow increased from $107 million in the second quarter to $170 million, consistent with the second half weighting we discussed previously.

As a reminder, there's a seasonality to our working capital profile. We typically use working capital in the first half of the year as production ramps up following year-end customer shutdowns. As the year progresses, working capital typically normalizes and cash generation generally strengthens in the second half, although the timing can be influenced by periods of elevated launch and restructuring activities.

Turning to our financial position. As of September 30th, we had approximately $638 million of cash on hand total available liquidity of approximately $1.5 billion, including our undrawn $850 million revolver. Total debt was approximately $2.1 billion, resulting in a net debt of approximately $1.5 billion. Net debt declined by approximately $184 million during the quarter, driven by strong free cash flow. As a result, our net leverage ratio declined to 1.5 times at the end of September, compared to 1.8 times at the end of the second quarter.

Turning to slide ten, I'll review our updated full year guidance. Based on our performance through the third quarter, we're updating our full year guidance, including our full year copper assumption. Given recent copper price trends, we now assume an average copper price of approximately $6.25 per pound for the full year 2026, compared to a full year average copper price of approximately $6 per pound assumed in our prior guidance. We are maintaining our previous assumptions, which are included on the slide.

For net sales, we are raising the midpoint and tightening the range based solely on updated copper assumptions and the resulting increase in copper-related pass-throughs. We now expect Net Sales to be in the

range of $9.5 billion to $9.6 billion, compared with $9.4 billion to $9.6 billion previously. Adjusted Net Sales Growth remains unchanged at approximately 2% and continues to reflect our expectation to deliver growth over market on a global basis. For Adjusted EBITDA, we are tightening the range to $970 million to $1.01 billion, from $950 million to $1.03 billion, while maintaining the midpoint at $990 million.

A higher net sales outlook is driven by commodity pass-throughs, which are not expected to provide a meaningful benefit to profitability and therefore do not change our underlying earnings outlook. While commodity pass-throughs may create temporary variability in quarterly margins due to timing differences between the recognition of commodity costs and related customer pass-throughs, the implied full-year profitability reflected in our guidance remains essentially unchanged at the midpoint of the ranges.

As you think about fourth quarter margins, it is important to remember that our quarterly Adjusted EBITDA margins can fluctuate from quarter to quarter based on a number of factors, including seasonality, production volumes, launch activities, FX, and the timing of commodity pass-throughs, customer recoveries and other discrete items. In addition, we expect launch activity to remain elevated in the fourth quarter of this year. As a result, third quarter margins should not be viewed as a new run rate. Instead, margins should be evaluated in the context of our full-year guidance, which reflects the impact of these dynamics across the year. For free cash flow, we are raising the midpoint of our guidance by $50 million to $300 million. We are also tightening the range and raising the upper end, resulting in an updated range of $275 million to $325 million, versus $200 million to $300 million previously. The increase is driven by favorable performance through the first nine months of the year, along with the expected timing shift of certain initiatives into 2027.

As a reminder, fourth quarter Free Cash Flow will be impacted by semi-annual interest payments on our Senior Notes and higher CapEx to support elevated launch activity. Full-year free Cash Flow guidance continues to include approximately $70 million of separation-related costs. As we look toward the remainder of the year, the key variables underlying our outlook remain launch execution, production volumes and movements in copper prices and FX rates. Our updated guidance reflects our current expectations for each of these factors.

Stepping back, our updated guidance continues to reflect the business delivering growth, expanding margins, and outperforming the market. At the midpoint of our updated guidance ranges, all of course relative to 2025, we continue to expect high single-digit reported Net Sales growth, approximately 2% Adjusted Net Sales growth and growth over market on a global basis. In addition, we expect to deliver double-digit Adjusted EBITDA growth and approximately 30 basis points of Adjusted EBITDA margin expansion relative to 2025, despite approximately 40 basis points of estimated sales dilution from copper pass-throughs for the full year of 2026.

Moving to slide 11. With our capital allocation framework, we continue to expect to generate approximately $1 billion of cumulative Free Cash Flow between 2026 and 2028, providing flexibility to invest in the business while returning capital to shareholders over time. The increase in our 2026 free cash flow guidance primarily reflects the timing of certain initiatives that have shifted into 2027 and therefore does not change

our cumulative Free Cash Flow expectation for the 2026 through 2028 period. We continue to expect capital expenditures to be approximately 3% of annual net sales, supporting investment in growth, productivity, and capacity. More broadly, our disciplined approach to capital allocation remains unchanged. We prioritize investing in the business to support organic growth, maintaining financial flexibility and returning capital to shareholders through a balanced and disciplined framework.

As Joe highlighted earlier, our board declared our second quarterly dividend of $0.13 per ordinary share, payable on December 17th to shareholders of record at the close of business on December 4th. Future dividend declarations remain subject to board approval and will continue to be evaluated based on our financial performance, cash flow generation, capital requirements and market conditions. Our $250 million share repurchase authorization remains available and represents a component of our capital allocation and shareholder return framework. Supported by our expected cash generation and continued operational execution, we remain focused on investing in the business, maintaining a strong balance sheet and delivering shareholder returns consistent with our capital allocation priorities.

With that, I'll turn it back over to Joe.

Joseph Liotine:

Thank you, Doug. Against a dynamic macroeconomic backdrop and a lower global automotive production, our third quarter results demonstrate resilience of our business model through disciplined execution, strong customer relationships, and a deep focus on operational performance. We continue to strengthen our competitive position, deliver for our customers, and create long-term shareholder value. The guidance updates provided today reflect our confidence in the strength of our underlying business and our ability to execute in the current environment. At the same time, we are continuing to build our commercial and go-to-market capabilities to unlock additional growth opportunities in adjacent markets and support our long-term growth strategy. With that, we are ready to take your questions. Operator, please open the line.

Operator:

Thank you. If you'd like to ask a question, please signal by pressing star one on your telephone keypad. If you are using a speakerphone, please make sure your mute function is turned off to allow your signal to reach our equipment. We will pause for just a moment to allow everyone an opportunity to signal for questions. We do ask that you would limit your question to one question with a follow-up. Again, please press star one to ask a question. We'll take our first question from Itay Michaeli with TD Cowen.

Itay Michaeli:

Great, thanks. Good morning, everyone. Maybe just to kick things off, I know it's a little bit early to talk about 2027 in any detail, but I'm hoping you can share some initial puts and takes we should be thinking about. Maybe alternatively to that as we look back at last year's Capital Market Day targets, maybe talk about which of those targets you feel better or worse about and how you're thinking about some of those assumptions?

Douglas Ostermann:

Yeah. Thanks, Itay. Yeah. I mean, I feel like we - when we look at our performance this year, first couple of quarters as a new company, we feel very good about our performance. You can see that from our guidance we still feel good about delivering on the full year's results. I think when you look at the midpoint, the EBITDA expectation, it's a double-digit increase year over year. So I think strong performance out of the chute, and we feel very much like we're on target for our overall goals that were expressed for 2028 in the Investor Day. I think we're right on track. We've talked a little bit about how heavy the second half is in terms of launches. The execution of those is going very well, and I think that sets us up for a bright future.

Joseph Liotine:

Yeah, maybe just to compliment Doug's comments. I think it was important for us to execute in a high launch year, and we've demonstrated that through Q3. It's going to be important into Q4, but that kind of sets our ability to really drive 2027 forward and ultimately achieve the 2028 revenue goals. And so, all in the progress we've made here in Q3 and through the rest of 2026 will be an important starting point. And everything we've seen in terms of our ability to execute, the things that we control, has progressed the right way. Obviously, the market is quite dynamic. From a macroeconomic standpoint, there are a lot of things going on across the different regions, specifically out of China and EMEA. And so, we're monitoring those things closely, but we've demonstrated the ability to absorb that volatility and still execute. And so, that will be an important premise to everything we do going forward.

Itay Michaeli:

Terrific. Very helpful. As a brief follow up on CapEx, it sounds like maybe there's a little bit of timing in there, but it does seem like you may be running a bit below, I think the original $240 million target. Maybe just refresh us on that and maybe kind of the path to getting to 3% of annual revenue over the next couple of years in terms of kind of where that incremental spend is coming. That would be helpful. Thank you.

Douglas Ostermann:

Yeah. Itay, when we look at the CapEx, certainly from a cash standpoint, there's always a timing between when we put the capital in, say, for a lot of launches that have hit here in the third quarter and when we actually have the payment terms, which will hit more heavily in fourth quarter. We still feel like we're on track. Overall, we hit our CapEx spending for the year, but we'll see how the payables play out through the end of the year.

In terms of the 3% revenue, obviously, we'll be looking at that and giving you an update when we come out with 2027 guidance next quarter. With the proper influence on revenue, we'll have to see if we still end up at 3%. Of course, we're looking at, always, at opportunities to pull ahead some of our margin enhancing initiatives like automation, digitalization and the like. But we'll give you a full update on that next quarter.

Joseph Liotine:

Yeah. Just strategically from what's important to Versigent, nothing's really changed there from our priorities. To Doug's point, the business strategy and the investments required to execute and fulfill that business

strategy across automation, footprint, new program launches and adjacent market growth, all remaining stacked. There is some timing elements to these things, so they shift a little bit. But from a prioritization standpoint, a value creation standpoint and an importance generally they're all in the same place as they were as we shared in the Investor Day about a year ago.

Itay Michaeli:

Terrific. That's all very helpful. Thank you.

Operator:

We'll take our next question from Tom Narayan with RBC.

Tom Narayan:

Hey, thanks for taking the question. So Q3 adjusted sales growth looks like it was a plus 1%. And I know it was plus 5% in Q2. I know you called out the IEEPA benefit in Q2, which didn't get in Q3. Just curious if there are other factors to account for the sequential downshift. And then on the Q4 EBITDA, that looks like it downshifts sequentially if you use the midpoint of the guidance. Is this just a copper lag impact on EBITDA that you mentioned in the prepared remarks?

Douglas Ostermann:

Yeah. So a couple of comments. When you look at our growth, revenue growth in the third quarter, yeah, from an adjusted growth level is 1%. Of course, we have to keep in mind that the market in Q3 was down kind of 2%, 2.5%. So still significant growth over market. A lot of that, I think consistent with the story that we saw in Q1 and Q2 with APAC outperforming in a significant way because of the way we've indexed on the exporters in China and because of significant growth, frankly, in APAC, ex-China. So places like India, et cetera, where we're growing at a very rapid pace.

So I still feel like we have very good growth. We did kind of telegraph last quarter about the fact that we are in launch phase with a number of very significant products for some of our key customers. And as we talked about, that always starts with lower volumes as the production kind of ramps over typically kind of a three plus month period to kind of full levels. So that has a bit of an impact in Q3, and we kind of telegraphed that in the call last time.

When we look at the overall guidance and what we're expecting for Q4, I think when you take out the three quarters to date and you look at kind of the resulting margin, we are telegraphing about a 9.8% overall margin for the fourth quarter, which would be a little step down. I think the key, we don't really give guidance for by quarter because a lot of the elements of our business model can be a little bit lumpy, like the recoveries that we saw this quarter. Overall, I would focus you more on the margin that we have for the full year, which we're expecting to have a step up from kind of where we ended last year, full year at 10.1% to this year, I think the midpoint would indicate about 10.4%. So a nice margin progression year-over-year despite some heavy dilutive impact from copper. So I think we're making good progress on margins. I think if you take out

the dilutive impact on copper, it's pretty strong progression on margins. But I would focus more on that than kind of the quarter-to-quarter.

Joseph Liotine:

Yeah, I think that's a good way to think about it, Doug. I think for us, the full year is on track for what we outlined in our guidance. I think, to the comments made earlier, essentially, growth over market for six consecutive quarters and margin improvement along the way in a bit of a tougher environment. So that growth over market is fairly consistent for us over those six quarters. And it shows the ability for us to be resilient across the regions and across different macroeconomic effects.

On the margin side, as we've been talking about, the focus for us is really on operational excellence broadly. And we saw quite a bit of those improvements contribute to the margin. But in addition, the pronounced and elevated launch effects, both in Q3 and Q4, can have quite a bit of variation depending on not just what we do at Versigent, but also our customers, their ability to hit the timelines they're on. So we're always kind of really managing for the year across the multiple quarters. Given the nature of recoveries and launches in particular, there are other events as well, but those two can be quite significant.

Tom Narayan:

Understood. And just my quick follow-up. You guys are over indexed versus a lot of tier ones on the exports from China. That's fantastic. But one thing we heard yesterday, actually from a tier one supplier, was concern or caution on exports coming in maybe below, let's say where S&P global is next year. We're seeing the EU being a little tougher, right, on exports into Europe. Just curious, I know you don't give guidance on 2027 yet, but folks are starting to get a little more cautious on next year, especially in China, including even the exports to Europe. Just any color on your thoughts initially?

Joseph Liotine:

Yeah, obviously it's a very important topic with some big moving pieces across the Industrial Act in EMEA and the export phenomenon in China. I would say a couple of things. I mean, we intentionally pursue big complex programs in China with OEMs that have a propensity to export or look for global regional opportunities to build new businesses outside of region. And not all of that goes to EMEA. A piece of it does, but not all of it does go to EMEA. And so, it's not a one-for-one for us in terms of exports at risk.

In addition, some of the Industrial Act discussions that have happened in some of the announcements have been made are subcomponents of the overall auto business. Not all powertrains as an example. And so, there are going to be knock-on effects both in region as well as via exports as a consequence of those things. And we think we're well positioned between the focus in China on global players, complex events, export business and globalization business, as well as in EMEA our footprint is quite strong, both in Eastern Europe as well as Northern Africa. And so, our ability to kind of move a little bit and capture opportunities as they present, I think is better than most.

And then maybe I would supplement that with, as Doug outlined, much of our growth in APAC is actually coming not from China, from other areas in APAC. And so, we think that growth potential has different characteristics than what's maybe being outlined across the China export and the EMEA duties. And so, for us, there's a little bit more, both flexibility and penetration across multiple areas and not just very localized to China export to EMEA only.

Tom Narayan:

Got it. Thank you.

Operator:

We'll go next to Mark Delaney with Goldman Sachs.

Mark Delaney:

Good morning. Thank you very much for taking my questions. I'm hoping you can double click more on the input costs and inflationary environment, not just with copper, but also factored in some of the other areas like logistics and materials. I think implied 4Q EBITDA guidance is down about $35 million sequentially on flattish revenue. Could you bifurcate a little bit more how much of that EBITDA decline is copper as opposed to maybe some of these other areas of inflation? And then obviously, recognizing the copper has contractual pass-throughs for these other areas, what's your ability to take actions to fully recover them if you are in fact seeing some additional inflation outside of copper?

Douglas Ostermann:

Yeah. Thanks for the question, Mark. I think we've been pretty transparent about the fact that in addition to copper, we always have labor inflation in many of our markets. That's a normal part of our business. And it's something that we always seek to offset with productivity and performance in general through purchasing performance, value added engineering and the like. And of course, copper has progressed, continued to move up a bit. And that's something that we've talked a lot about during the calls. We initially take kind of a one-time hit in the quarter and then take three to four months for that to adjust into our revenue line. On about 75% of our relationships, we have contractual escalation. And then the rest of it, of course, we do hedge. And so, we feel like we do a pretty good job of managing those headwinds. And I think it's reflected in the margin progression that we've seen this year despite what has been a pretty strong move up in copper over the course of the year. Right. So I think we feel pretty good about, as Joe mentioned, the ability of the team to adapt to and overcome kind of what continues to be a relatively volatile macroeconomic environment. And look, that's part of our job, right, is just to absorb that and continue to perform.

Mark Delaney:

So thank you. My other question was just around market share and electrical architectures, which has been topical in the investment community this year. Can you share more about how bookings for Versigent are tracking relative to your expectation, and any implications investors should take away from that about your implied market share over time?

Joseph Liotine:

Yeah. So from a booking standpoint, I would say we're right on track. Obviously, that's always something we're monitoring with customers. We have certain expectations on when awards might take place. They don't always follow the exact quarter or half we expect, but by and large, where we are versus our target for the year, we're right on track. The programs that we had intended to win and be awarded, I think we were successful so far year to date, and there's more to do in the year. So it's certainly not complete, but we're right on track there.

I think the focus for us, again, is really making sure we win the programs that we think best fit our characteristics for competitive advantage and for excellence. And for us, that's big, complex programs highly-technical engineered architectures. The more that we can gravitate toward full-service solutions, the more we believe we can create value for OEMs by creating a more elegant impact and ourselves. And so, we obviously gravitate there.

And then we look at customers that have export potential, global potential and really will help us remain both at the forefront but also competitive. And that complexity drives value to us in content per vehicle, so mix improvement oftentimes as well. So the combination of affecting designs and then gravitating toward the most complex ones has kind of a network effect for us and is a contributor to our growth over market over the last six quarters that we've demonstrated.

Mark Delaney:

Thank you.

Operator:

We'll go next to Joe Spak with UBS.

Joseph Spak:

Thanks. Good morning, everyone. Maybe to first start and try to sort of attack fourth quarter commentary a little bit differently. Like we have, I don't know, probably less than seven weeks of sort of production days left in the quarter. You've got like a seven - 16% high-to-low end range. Can you just help share what would drive the low-end versus the high-end on that outlook for the rest of the year?

Douglas Ostermann:

Yeah, sure, Joe. I can talk a little bit to it. At this point when we, as you said, kind of lower six or seven weeks out from the end of the year, we have pretty good visibility into the schedules from our customers. And in that time period, typically in kind of the seven, eight weeks, we don't see major adjustments typically to the schedule. So I think the revenue line we have a fairly high degree of certainty around that. And as you know, even copper made a significant move. Typically, it takes three to four months before that works its way into our sales numbers. So again, wouldn't be impacted by that.

But of course, the cost of goods sold can be impacted. We do not carry huge inventories of copper wiring. And so, if we saw a significant move one way or the other up or down in copper, typically that's going to start to impact us maybe a week after the move in terms of our cost of goods sold. And so, that could have an impact positive or negative, depending on which way copper moves in these last kind of seven weeks. FX, of course, has an impact on us. That can move on us as well.

And then as we talked about, we still are in very, very heavy launch period in Q4. The launches that we ramped up in Q3, I think the execution by the team was excellent. There's no reason not to expect that also as these launches continue in Q4, but launch expense can always be impacted. Oftentimes, sometimes by factors outside of our control, even though we have excellent quality on the launches and the ramp up period, we're not the only supplier on these platforms. And so, launches can experience delays and things like that that are outside of our control. We don't anticipate any of that right now, but all of that can impact kind of the range of outcomes that we've telegraphed to you.

Joseph Liotine:

Yeah, I think that's an important caveat that our execution might be perfect, but these are such big launches for us and elevated in terms of overall, that if other disruptions took place, either at OEMs or at other suppliers, we would be at risk. And so, our point there is just until it's complete, until they're running at ramp up rate, we don't have full visibility there. To Doug's point, we've seen not a lot of variation from EDIs and other general signals. The question would be more around launch execution, and could any variables arise there? Again, we have no reason to think that's true. But until we get through them, it's still a little bit immature.

Joseph Spak:

Okay, great. The other question I had was just to sort of maybe give a little bit of a preliminary view into 2027 free cash flow, because I think capital returns is a big part of the story here. So you've talked about the $70 million in separation costs this year. Seems like we could add that back. But now it sounds, if I heard correctly, my math is reasonably correct, maybe there was $40 million of EV recoveries in this year. That shouldn't repeat. You also mentioned some timing shifts, maybe between ’27 and ’26. If you could quantify that, that'd be great. And then you also talked about increasing investments in Asia. My guess is that was contemplated in your initial sort of CapEx plans, but maybe you could just sort of help us think about what changes versus sort of the ’26 free cash flow level for ’27? And what do you need to see to finally start executing on that buyback program?

Douglas Ostermann:

Yeah. So thanks for your question, Joe. And obviously, we'll give you full detail on kind of our views on ’27 next call. But to just give you some flavor on free cash flow, we've talked about separation costs this year being kind of $70 to $75 million. We're definitely on track for that. And when we look at next year, we see that number dropping basically in half. So not disappearing altogether, but dropping in about half of that number.

When we look at CapEx, I think this is going to be a pretty normal CapEx year, I would expect next year to be somewhat similar. But again, we'll give you more details on that next time around. Other impacts on cash, of course, we'll have more interest expense next year given that we'll have a full year of interest as opposed to this year where the debt was kind of issued first order. And then we didn't have a full year of interest payments. So there are a number of ins and outs in terms of the cash generation, we expect strong cash generation again next year. And like I said, we'll give you specific guidance on that during the next call.

Joseph Liotine:

Yeah. And maybe just to answer your question on Asia investments. We see that as a growth vector for us broadly. And even outside of China specifically, as we mentioned on the call. But all those strategies, investments and enablers were contemplated in our overall CapEx plan originally. And so, that's not a change of that original plan. The 3% before, let's say copper changes that we outlined in our Investor Day. So that's all been contemplated.

Douglas Ostermann:

In terms of the - I know you had questions specifically about on the call, we had mentioned that some of the cash expenditure this year has moved into next year. Part of the overperformance that we're signaling by moving the guidance range for the full year of 2026 on cash is because of the overall performance of the business and where we feel really good about how we're seeing cash developing so far this year. But part of it is because some of the restructuring work that we've planned on doing fourth quarter has shifted here to more like first, second quarter next year. And a lot of that is simply because of discussions we've had with customers about the timing of the move and what really makes sense for them. So I think when we look at full year this year, maybe a little better performance because of both the performance of the business and a few shifts. Overall, for the three-year, we still feel very confident about our ability to generate the billion target that we put out there for free cash flow.

Joseph Spak:

And just in thinking about the buyback, how should we think about that for next year?

Douglas Ostermann:

I mean, we still - we feel great about the performance we've had this year. Good strong cash generation. Still have the same priorities in terms of priority number one, being to invest in the business and organic growth. Priority number two, of course, maintaining a strong balance sheet. And then of course, returning capital to shareholders. Part of that, of course, is the fact that we declared our second quarterly dividend. So continuing to deliver on what we telegraphed there. And then, of course, buybacks is within the opportunity set and something that we are keeping in mind as we move forward.

Joseph Spak:

Thank you.

Operator:

We will take our last question from Chris McNally with Evercore.

Chris McNally:

Thanks so much, team. I'm going to go just a little different direction. So two questions on the adjacent commentary. I think you guys sound a lot more positive than even you put in the release. So maybe the first is, can you just talk a little about the production, start of production timing for the BSS awards you've already been awarded? So are they kicking in ’27, ’28? And just remind us within that 2028 guide, which I think it's about 1% per year for all the industrial sort of growth extenders. How much was it in 2026? So that we can kind of understand the step up that might come in ’27 and/or ’28.

Joseph Liotine:

Maybe - this is Joe. I'll take the first part of the question on battery storage, and I'll let Doug answer the second piece. So we do have one in serial production, as we've noted before. It's really small. So it's not a material side of things. So it did start serial production already. But again, that was more about getting through the pre-development work from an engineering standpoint, getting through the launch in serial production and then executing that in our manufacturing environments and kind of learning, right, building up the credibility. As we talked about that, those markets, robotics, battery storage, even power generation, for us, it's all about engaging the way upfront that's productive, being part of the pre-development and really positioning ourselves as those segments grow, that we grow with them.

And so, in many cases, these segments are quite small, but the categories are quite significant. And so, we want to continue to do that in as many places as we can. And so, some of these initial projects either are in pre-development phase or really small-scale production or frankly, even in just early award stages, so they don't have a meaningful impact on revenue. But we know strategically they're going to grow. And so, we don't necessarily control the pace in which all those segments grow, but we want to be positioned for that growth. And so, I would say we continue to look for opportunities to do that. We've been successful early stages or early innings of that. But meaningful revenues, not happening just yet, even with the serial production program like we had launched.

Douglas Ostermann:

And in terms of those wins turning into revenue, we don't talk about specific wins and specific timing, but we have talked about the fact that some of the awards in these categories can come into production much quicker than your typical automotive cycle. And so, we did talk about the fact that we had a win, for example, in kind of third quarter last year that went into production early this year. That kind of timing is much, much quicker than what we see even in automotive cycles in China, which are, as you know, very accelerated. So I think that we'll have to see how those markets develop. But a lot of those awards, I would say time in between award and production in some cases can be much shorter.

Chris McNally:

Okay. Excellent. And then the second much further out than battery storage. If we think about robotics and humanoids, can you just remind us with respect to some of the production awards and RFPs, I think you had mentioned over the last couple of months that you were in two requests for proposals. Are we at the point where some of these companies are making firm supplier order decisions? There was some discussion in your release about some encouraging wins. Again, these the revenue opportunity, even in the next three to five years may be immaterial. But I think from a next gen investor market perspective, people would be very curious if you're starting to gain traction with some of these frontier companies.

Joseph Liotine:

Yeah, I would say certainly they're making progress, frankly, and we're making progress with them in many cases. There have been pre-development engagements. There have been some small, I'd say, production awards, but I would say still small, not at scale. And frankly, some of that work evolves. What I mean by that is you could have a partner in first stage, first launch and then plan for a different partner as you really ramp up and grow in the market. And so, I wouldn't want to speculate too much there.

I think we're progressing, but it really is still early innings. And I know the question is an important one. So I don't mean to dismiss it. It's more that it's just it's just unclear how that's all going to mature and develop. And so, we want to be very careful about extrapolating from anything small today and what it might mean tomorrow.

Chris McNally:

Gotcha. So mass production awards basically still haven't happened. It's sort of the small batch stuff which is still occurring and you're participating in.

Joseph Liotine:

Yeah, I would say generally speaking, those sectors are not at mass production award levels. Those sectors, not us, but the sectors themselves.

Chris McNally:

Exactly. Thanks so much team.

Douglas Ostermann:

Thanks, Chris.

Operator:

This concludes today's question and answer session. I will now turn it back to Joseph Liotine for any additional or closing comments.

Joseph Liotine:

Thank you for joining us today. We remain focused on executing our strategy, delivering operational excellence and positioning Versigent for long-term success while creating long-term shareholder value. We appreciate your continued interest and look forward to updating you next quarter. Thank you and have a great day.

Operator:

This concludes today's call. Thank you for your participation. You may now disconnect.