Worthington Steel, Inc.

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Earnings Call

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Call Participants

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John Charles Tumazos
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Martin John Englert
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Presentation

Operator

Thank you. Good morning, and welcome to Worthington Steel's First Quarter Fiscal Year 2027 Earnings Call. After today's prepared remarks, we will host a question-and-answer session. [Operator Instructions]

I will now hand the conference over to Melissa Dykstra, Vice President of Corporate Communications and Investor Relations. Melissa, please go ahead.

Melissa H. Dykstra
Vice President of Corporate Communication & Investor Relations

Thank you, operator. Good morning, and welcome to Worthington Steel's first-quarter fiscal year 2027 earnings call. On our call today, we have Geoff Gilmore, Worthington Steel's President and Chief Executive Officer, and Tim Adams, Vice President and Chief Financial Officer.

Before we begin, I'd like to remind everyone that certain statements made today are forward-looking within the meaning of the 1995 Private Securities Litigation Reform Act. These statements are subject to risks and uncertainties that could cause actual results to differ materially from those suggested. We issued our earnings release yesterday after the market closed. Please refer to it for more detail on factors that could cause actual results to differ materially. Unless noted as reported, today's discussion will reference non-GAAP financial measures, which adjust for certain items included in our GAAP results and are presented on a stand-alone basis. You can find definitions of each non-GAAP measure and GAAP-to-non-GAAP reconciliations within our earnings release.

Today's call is being recorded, and a replay will be available later today on WorthingtonSteel.com.

Now I'll turn it over to Geoff Gilmore.

Geoffrey G. Gilmore
CEO, President & Director
Good morning, and thanks for joining us.
Today marks another major milestone for Worthington Steel as we report Kloeckner financials as part of our results for the first time. This achievement follows several important steps over the last few months. We closed the transaction on June third, Kloeckner shares were delisted from the Frankfurt Stock Exchange on August twelfth, and the domination and profit and loss transfer agreement, or DPLTA, was signed on September eighth.
The DPLTA remains subject to shareholder approval in October. If approved and effective, it would provide a clearer framework for operating control, as well as formal integration and synergy capture, beginning in the first quarter of calendar year 2027. Planning for that phase is already underway on our side. Teams from Worthington Steel and Kloeckner are spending time together, learning each other's business, processes and cultures. The better we understand each other now, the better prepared we will be to move with discipline when we have operational control.
These early interactions continue to reinforce what we believed when we announced the transaction: these are two strong companies with talented people, deep customer relationships and cultures that value performance. We have more work ahead, but we are encouraged by the foundation we are building.
Before I move to our results and end markets, I want to take time to thank our team. In addition to the work happening to ensure the successful integration with Kloeckner, they've been navigating difficult market conditions. Simply put, this is one of the most challenging steel supply environments most of us have ever seen. Supply remains tight, lead times are long, production schedules are shifting, and securing the right material for customers has been difficult. Through it all, our employees continue to shine in their unwavering commitment to our customers and our company.

With that, let's turn to the quarter.
Net sales were 2.7 billion dollars. Adjusted EBITDA was 111 million dollars, and adjusted earnings per share was 57 cents. Because this is the first quarter that includes Kloeckner in our reported results, Tim will spend a bit more time on the financial details, including leverage, purchase accounting, and the items investors should consider when comparing results to prior periods.
From my perspective, the bigger point is straightforward: Kloeckner changes the size, shape and reach of our company. It expands our product and processing capabilities, broadens the markets we serve and extends our geographic footprint. This is the kind of high-quality scale we have talked about for some time. This scale gives us more ways to serve customers, more balance across cycles and more opportunities to create long-term value.
From a macro standpoint, the quarter remained dynamic. Demand was uneven across end markets, and customers continued to be careful with inventories and commitments. Steel supply also remained tight in the U.S., with imports down and lead times extended in many parts of the market. In an environment like this, execution makes a real difference. Across the business, our teams worked constructively with customers and supply partners, adjusted plans and helped customers secure the material they needed. This is one of the ways Worthington Steel earns trust. Customers need communication, problem-solving and a team that stays engaged when conditions are difficult. That has always been part of who we are, and it will remain a strength as we operate as a larger company.
Let me walk through what we saw across our key markets, comparing Legacy Worthington Steel for both periods, and what we are watching in the months ahead.
North American automotive production has remained resilient so far in calendar year 2026, and we expect that to continue through year-end. Based on the latest industry forecasts, North American production is expected to be essentially flat compared to calendar year 2025.

Regardless of the overall build environment, our commercial and technical teams continue to win new business by helping customers solve challenges, support key programs and develop new products. Our teams really shine in this sector. One example from the quarter was TWB, our joint venture, being recognized with two supplier awards from Subaru. It reflects strong execution, technical expertise and the customer focus that helps us build long-term relationships. Congratulations to the entire TWB team.
Overall, we remain optimistic that automotive will remain solid through the end of calendar year 2026. We are not assuming a significant near-term inflection in builds, but we believe Worthington Steel is well-positioned to grow through targeted customer wins, technical solutions, and longer-term localization and nearshoring trends.
Demand in the construction market was down in the first quarter. Data center construction continues to support demand, but broader construction activity remains more sensitive to interest rates and consumer confidence.
We are also watching interest rates and broader geopolitical stability closely. The recent Fed action reinforces that rates may remain a headwind for longer than many expected, particularly in markets tied to construction, equipment purchases and larger capital decisions.
At the same time, the economy continues to show resilience, and we believe demand can improve as inflation moderates, uncertainty eases and consumers gain more confidence in the rate environment. So, our posture is practical: we are not counting on a quick macro tailwind, but we are staying close to customers, managing what we can control and positioning the business to respond as conditions improve.
Agriculture was a bright spot this quarter, with a 40 percent year-over-year increase in shipments. That was mostly driven by the OEM and grain bin markets. We have strong customer relationships in this space, and we are staying focused on where we can add value. We will remain disciplined while positioning the business to benefit if demand continues to improve.
Heavy truck and trailer continued to show signs of stabilizing. The market started slowly in calendar year 2026, but we saw benefits from share gains and new business wins. We would not characterize the market as fully recovered, but the direction is more constructive than it was earlier in the year.
For us, the priority is readiness. We will manage the current environment carefully and stay prepared to capture opportunities as activity strengthens. As we bring Kloeckner into our reported results, our market discussion will also evolve. We will continue to talk about the end markets investors know well from Worthington Steel, including automotive, construction, agriculture, and heavy truck and trailer. Over time, we also expect to add more perspective on other industrial sectors where Kloeckner has meaningful exposure.

Turning to strategic priorities, Kloeckner is clearly at the top of the list. We are focused on preparing for integration. That means learning the businesses, reviewing processes and building relationships while protecting customer service and respecting the strengths of both organizations. We want to move with discipline, not just speed. We want to capture value, but we want to do it thoughtfully and with the same operating discipline that has guided Worthington Steel for decades.

We continue to believe in the long-term demand drivers tied to electrification, grid investment and higher-efficiency applications. We are taking a disciplined view of the business under current market conditions, and we remain focused on improving performance and building value from the capabilities we have developed.

We also continue to find practical ways to make the business better. Some of that comes through technology and AI, and some of it comes from disciplined problem-solving by our teams. Regardless of the technology involved, our approach is consistent; simplify the work, improve the process, automate where it makes sense and apply AI to enhance decision making.

In indirect purchasing, for example, we have been simplifying workflows, reducing manual effort and giving our buyers better information to make decisions. Last year, that work allowed buyers to spend more time on supplier negotiations, sourcing strategy and commodity management. This led to significant cost avoidance across the company.

This year, we built on that foundation by applying AI to improve inventory decisions across our maintenance, repair and operations network. Our buyers now have better visibility across the enterprise, while AI helps evaluate demand patterns, identify duplicate purchasing opportunities, recommend transfers between facilities and support inventory-level decisions. Importantly, our people remain in control; but they have a new tool to help make better decisions. Buyers and maintenance teams confirm recommendations before decisions are made, avoiding unnecessary purchases. We have identified and validated the value; now the work is converting that into financial results over time through disciplined operating reviews and better inventory management. Longer term, we also see this as a capability that can scale across a larger footprint as we move through Kloeckner integration.

Another good example is our Monroe, Ohio, facility where the team unlocked capacity by taking a fresh look at how work was being done. Through disciplined problem-solving, internal engineering expertise and better use of existing assets, the team identified work that could move from a bottle neck press to a previously underutilized asset. By thinking differently, the team increased production using in-house capabilities, allowing us to better support customer demand without additional capital investment.

Together, these examples show how we are creating value in complementary ways: through digital transformation and AI-enabled decision-making, and through operational excellence led by the experience and problem-solving capabilities of our people.

Before I close, I want to come back to my earlier comments about the challenging market we are operating in today. It takes relationships, experience, persistence and innovative thinking to serve customers well in this kind of environment, and our employees continue to excel in this area; ultimately this is what sets us apart in the industry. While managing through tough market conditions, Worthington Steel teams also continued preparing for the next phase of the Kloeckner transaction. I appreciate the focus, discipline and commitment from everyone at Worthington Steel.

So, to our commercial, purchasing, supply chain and teams who work with customers and supply partners to keep material moving: thank you. You are helping customers navigate a difficult supply environment. They appreciate your efforts, and so do I. To the teams preparing for Kloeckner integration: thank you. The learning and relationship-building underway will help shape our future. And to our Kloeckner colleagues, we are glad to be moving forward together. We are still early in this process, but we are excited about the company we are building.

Worthington Steel is larger, broader and more diversified than it was a year ago. We have meaningful work ahead, and we will approach it the way we always do: with discipline, care for our people, commitment to customers and a focus on long-term value creation.

With that, I'll turn the call over to Tim for more detail on the quarter and the financials.

Timothy A. Adams
VP & CFO

Thank you, Geoff, and good morning everyone.

Our first-quarter results include 100 percent of Kloeckner following the June 3rd acquisition. I will begin with our consolidated results and the items affecting comparability, then discuss the legacy Worthington Steel business where year-over-year comparisons are meaningful. I will finish with cash flow, capital spending and our balance sheet. The earnings figures I will discuss are from continuing operations. Discontinued operations primarily reflect the results of Becker Stahl, which Kloeckner is marketing for sale.

In the first quarter, we reported a net loss from continuing operations attributable to Worthington Steel of 7 million dollars, or 14 cents per diluted share. This compares with net earnings of 36.8 million dollars, or 73 cents per diluted share, in the prior-year quarter.

Reported results included several items affecting comparability. The largest were 22.6 million dollars of pre-tax acquisition-related expenses, a 15.5 million dollar pre-tax loss from remeasuring our previously held Kloeckner shares at closing, and a 5.6 million dollar deferred tax asset write-off related to the Kloeckner acquisition. These and the other adjustments for both periods are detailed in our earnings release. Excluding those items, adjusted earnings were 57 cents per diluted share, compared with 77 cents in the prior-year quarter.

Adjusted EBIT was 78.5 million dollars, up 23 million dollars from the prior-year quarter. While adjusted EBIT increased, higher interest expense following the acquisition, weighed on adjusted earnings per share. Reported net interest expense was 38.8 million dollars, compared with 2.9 million dollars a year ago.

Adjusted EBITDA was 111 million dollars. Beginning this quarter, our measure includes 100 percent of the adjusted EBITDA of our consolidated operations, before allocation to noncontrolling interests. We believe this change enhances comparability to our balance sheet measures. Earnings per share continues to reflect earnings attributable to Worthington Steel shareholders.

There is one additional item that is important to understanding our results for the current quarter. Purchase accounting required us to record Kloeckner's acquired inventory at fair value. As that inventory was sold, the step-up reduced first-quarter gross margin and adjusted EBITDA by an estimated 43 million dollars. We expect only a limited residual impact in the second quarter.

Net sales in the quarter were 2.7 billion dollars, up approximately 1.9 billion dollars from the prior-year quarter, primarily due to the addition of Kloeckner.

Total shipments were approximately 1.9 million tons. Our consolidated mix was 77 percent direct sales and 23 percent toll processing, compared with 63 percent direct sales and 37 percent toll processing a year ago.

Turning to legacy Worthington Steel, net sales were 954 million dollars, up 81 million dollars, or 9 percent, from the prior-year quarter. The increase reflected higher direct volumes and selling prices. Total legacy shipments were approximately 921 thousand tons, down 1 percent year over year. Direct sale volumes increased 3 percent, while toll volumes declined 8 percent.

As Geoff discussed, automotive remained a bright spot. Our direct shipments to automotive increased 4 percent year over year. Agriculture shipments increased 40 percent, supported by OEM equipment and grain bin demand. Shipments to Other Transportation, which now includes heavy truck, increased 39 percent, primarily due to share gains as new business was layered in. As a reminder, these are references to legacy markets and do not include the impact of Kloeckner.

These gains were substantially offset by lower energy and construction shipments. Energy shipments declined 31 percent, reflecting a shift in customer sourcing to another supplier. Construction shipments

declined 9 percent, reflecting increased competition and tight steel availability, which limited our ability to quote short-term contract business.

Higher direct volumes increased legacy direct spreads by 7.6 million dollars. In addition, the favorable change in inventory holding GAINS added 6.5 million dollars. Estimated pre-tax inventory holding GAINS were 12.1 million dollars this quarter, compared with 5.6 million dollars a year ago. Excluding the effects of volume and inventory holding gains, direct spreads were approximately flat year over year.

Lower toll volumes reduced legacy toll spreads by 2.3 million dollars. This was partially offset by 1.4 million dollars of improved mix, including spot tolling business at higher spreads.

Turning to operating expenses, manufacturing expenses in the legacy business increased approximately 11 million dollars, or 6 percent, primarily due to higher labor, benefits and freight costs. Legacy SG&A increased 17.6 million dollars, primarily reflecting the addition of acquisition-related expenses. Excluding acquisition-related fees and the prior-year Sitem closing bonus, legacy SG&A increased 2.9 million dollars primarily due to wages and benefits.

Finally, equity earnings from Serviacero, our Mexico-based joint venture, decreased approximately 1 million dollars due to lower direct volumes, partially offset by improved direct spreads. Hot rolled coil prices ended the quarter around 1,200 dollars per ton. Steel supply remains tight, and expected mill maintenance outages are likely to keep lead times extended in the near future. Given the lagging index-based pricing mechanisms in many of our contracts, we currently estimate pre-tax inventory holding GAINS in the legacy Worthington Steel business of 10 to 15 million dollars in the second quarter of fiscal 2027.

Turning to cash flow, consolidated Worthington Steel had operating cash outflow of 6 million dollars for the quarter. Capital expenditures were 63 million dollars, resulting in negative free cash flow of 69 million dollars. The principal factors affecting total cash flow included the Kloeckner acquisition and the issuance of our Term Loan B and 2033 Senior Notes.

The capital expenditures in the first quarter were roughly split evenly between legacy Worthington Steel and Kloeckner. Spending in our legacy business is weighted toward the earlier part of the fiscal year, reflecting the timing of several projects already underway. We expect that spending to moderate as the year progresses, so the first-quarter pace should not be viewed as representative of the full year.

Our current planning estimate for combined capital expenditures is 160 million to 180 million dollars for fiscal 2027, with the timing of project spending influencing where we finish within that range. Following the DPLTA effectiveness, we will review capital priorities across the combined business. Our focus remains completing key projects, maintaining operating discipline and generating cash to reduce debt.

At August 31st, we had approximately 248 million dollars of cash and 1.9 billion dollars of net debt following the Kloeckner acquisition. We are not reporting a trailing-twelve-month leverage ratio this quarter because it would include the acquisition financing and all of Kloeckner's debt, but only three months of Kloeckner's EBITDA. We expect to report the ratio once we have a full year of Kloeckner results. Our previously communicated synergy and deleveraging targets remain unchanged. We expect debt reduction to progress alongside synergy capture and working-capital improvement.

As I mentioned earlier, Becker Stahl is also being marketed for sale, and we expect Kloeckner will use the majority of the net proceeds for debt reduction.

Our board also declared a quarterly dividend of 16 cents per share, payable on December 28, 2026.

To close, our financial priorities are clear. We are focused on completing the DPLTA, which is necessary for us to fully integrate Kloeckner and capture synergies, reducing leverage, and advancing our strategic growth projects. Across the business, we will maintain operating and capital discipline, with a focus on generating cash and reducing debt.

I want to thank our teams for their continued focus on safety, customer service and execution.

At this point, we would be happy to take your questions.

Question and Answer

Operator

[Operator Instructions] Your first question comes from the line of Samuel McKinney with KeyBanc Capital Markets.

Samuel J. McKinney
KeyBanc Capital Markets Inc., Research Division

Despite the tight supply environment, Legacy Worthington direct tons were down less than 1% sequentially in the first quarter, much better than normal seasonality. I assume some of that has to do with continued market share wins in auto and heavy trucks, but any more details you guys can share around that volume beat would be helpful.

Geoffrey G. Gilmore
CEO, President & Director

Very good performance, and as you said, even more so with the seasonality. And Sam, your assumption's, right. It's definitely the market share gains that have continued to grow, you know, be layered in here over time, whether it be heavy truck, agriculture, as well as automotive. And Sam, in fact, we probably missed out on another 30,000 tons of shipment this quarter just due to the supply chain constraints.

Samuel J. McKinney
KeyBanc Capital Markets Inc., Research Division

Okay. And then Galvanized spreads continue to get better. They averaged over $200 in your fiscal first quarter. I mean, that's much better than the long-term average and the trough levels earlier this year. What's your stance on the sustainability of these spreads as hot-rolled pricing continues to rise?

Geoffrey G. Gilmore
CEO, President & Director

You know, I mean, again, today we saw CRU tick up both hot rolled and coated and coated more. And I, we feel pretty strongly that sustainability is an absolute go. I mean, at this point, the market's going to remain tight. You got very limited imports coming in. So the longevity of it is strong. And, you know, for us, we weren't able to experience a lot of that spread expansion here over this quarter.

And the reason for that is there's not much spot tonnage available, Sam, as you know. And predominantly, you know, 90% or more of our business is contractual. So we feel pretty strongly on the sustainability piece as we move to this new contract season that would start January 1. And so from that point on is where you would start to see that reflected in our numbers.

Samuel J. McKinney
KeyBanc Capital Markets Inc., Research Division

Okay, got it. Thanks, Geoff.

Geoffrey G. Gilmore
CEO, President & Director

You got it, Sam. Thank you.

Operator

Your next question comes from the line of John Tumazos with John Tumazos Very Independent Research. John, your line is now open. Please go ahead.

John Charles Tumazos

John Tumazos Very Independent Research, LLC

Thank you very much. Could you explain the details of the German or European law where the 38% minority holders retain their shares and how long they can retain them? And could you explain the difference in inventory turnover and gross margin between the Kloeckner and Worthington legacy businesses.

Geoffrey G. Gilmore
CEO, President & Director

John, I'll take the first part and Tim, please jump in if I miss anything on timeframe. Specifically to that 38% and the minority shareholders. First of all, once the DPLTA is approved by shareholders and declared effective by the German courts, minority shareholders are granted a put option and they could sell their shares to Worthington for EUR 11 per share, which is what we negotiated. Now to your question, should minority shareholders choose to remain. The DPLTA states they would receive an annual guaranteed cash compensation of 6% or EUR 0.66 per share. Specific to the timeline, Tim, I can't remember the exact timeline on how long they can hold their shares. I'm not sure that it's clear that there is, right? So, John, hopefully you heard that. We had a little discussion amongst us. They could hold on to the shares as long as they like.

Timothy A. Adams
VP & CFO

John, as far as your second part of the question, as far as gross margins, so this should come as no surprise, gross margins for Worthington Steel will be higher because we have higher value-added processes, including galvanized and pickling. So we make galvanized and Kloeckner buys galvanized.

So the starting point is just different. So their margins are going to be a little bit lower than ours, but it's one of the synergies that we pointed out. We'll start making galvanized for them once we're able to
capture the synergies. And it's the same thing on the inventory turnovers. I don't have a specific number for you with respect to how they performed in the past, but we've put out $150 million of working capital synergies.

So we know a big chunk of that is related to inventory and how we manage the business versus how they manage the business. And it goes back to transformation, right. We've transformed and you can see in the data that we put out there, kind of where we started 15 years ago on inventory days and where we are today, we're looking to put similar improvements at Kloeckner to drive down inventory.

Operator

Your next question comes from the line of Martin Englert with Seaport. Martin, your line is open. Please go ahead.

Martin John Englert
Seaport Research Partners

Hello, good morning everyone.

Geoffrey G. Gilmore
CEO, President & Director

Hi, Martin.

Martin John Englert
Seaport Research Partners

I wanted to see, can you give us a clearer view of Kloeckner's normalized EBITDA on Q1, excluding the purchase accounting, the inventory step up that was the previous $43 million fair value, and anything else that might be in there. Also any type of color on how earnings looked across the Kloeckner business in

North America and Europe footprint, respectively.

Timothy A. Adams
VP & CFO

Martin, this is Tim. We're not disclosing at this point any, I'll call it segment type data. We're not at that point in the process of being able to talk about that. And then looking back at the, you know, how they performed in the past, you know, we haven't done a pro forma.

There's no pro forma available that's been vetted. So we're just kind of looking at Kloeckner. We're making comments about the legacy business. And then we're explaining Kloeckner, kind of what they add to the business.

Martin John Englert
Seaport Research Partners

Right, but the reported results for the quarter, what you did infer within the release, the $43 million, and this was prepared remarks. The $43 million was purchase accounting. That would be non-cash, correct? And that would be additive to what was reported and it was not adjusted out of the $111 million of EBITDA, correct?

Timothy A. Adams
VP & CFO

That is correct. That is correct. When we say adjusted out of, like what I would say it this way. You could add back the $43 million to the $111 million to get to, you know, $150 million that's more representative of EBITDA.

Martin John Englert
Seaport Research Partners

Okay, excellent. Thanks for clarifying that. For the legacy Kloeckner business, this is maybe a little bit more specific to the U.S., but how much did they source from within the U.S. market from domestic mills versus import?

Geoffrey G. Gilmore
CEO, President & Director

Martin, this is Geoff. So Kloeckner and Worthington Steel have very similar strategies. We support our local mills. We buy where we produce. It's going to be 99% of their purchases would have come from domestic mills. So that's certainly something we're excited about, I've talked about the footprint being highly complementary, being us big in the Midwest and then much bigger in the Southeast and pushing Southwest.

And that's going to be great for our supplier base as well because, you know, I say we buy, you know, locally. We truly do buy predominantly most of our steels regionally, and we're in the Midwest, and they're in a similar situation. So we'll have jointly new suppliers in the mix. But same strategy as Worthington Steel.

Martin John Englert
Seaport Research Partners

Okay, understood. That's all I have. Thank you very much.

Geoffrey G. Gilmore
CEO, President & Director

Thanks, Martin.

Operator

We have reached the end of the Q&A session. I will now turn the call back to Geoff Gilmore, President and CEO, for closing remarks.

Geoffrey G. Gilmore
CEO, President & Director

Thank you and a lot of progress obviously this quarter. Another important milestone coming up. I want to again say how proud I am of the Worthington Steel and Kloeckner employees for their efforts and work to date. And then thank you for listening in and showing interest in Worthington Steel. We look forward to talking again next quarter.

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