

Worthington Steel, Inc.

NYSE:WS

Earnings Call

Thursday, March 26, 2026 12:30 PM GMT

CALL PARTICIPANTS	2
PRESENTATION	3
QUESTION AND ANSWER	8

Call Participants

EXECUTIVES

Geoffrey G. Gilmore

CEO, President & Director

Timothy A. Adams

VP & CFO

Melissa H. Dykstra

*Vice President of Corporate
Communication & Investor
Relations*

ANALYSTS

Samuel J. McKinney

*KeyBanc Capital Markets Inc.,
Research Division*

John Charles Tumazos

*John Tumazos Very Independent
Research, LLC*

Presentation

Operator

Good morning, and welcome to Worthington Steel's Third Quarter Fiscal Year 2026 Earnings Call.
[Operator Instructions]

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

Melissa H. Dykstra

Vice President of Corporate Communication & Investor Relations

Thank you, operator. Good morning, and welcome to Worthington Steel's third-quarter fiscal year 2026 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 being with us today. It's been a memorable few months for us, to say the least. As most of you know, in January we announced our proposed acquisition of Kloeckner, which will be the largest in our history and a meaningful strategic step for the company.

I appreciate, that even with an announcement of this size and the work that goes with it, our teams stayed anchored in what matters; safety, serving customers, and improving the business every day. Thank you to the entire Worthington Steel team!

This quarter, I'll start with an update on the Kloeckner acquisition. The combination of our two organizations will create a larger, more diversified metals processing platform with meaningful opportunities to generate value and capture synergies through Worthington's proprietary base business improvement program that we call the Transformation.

This transaction is being executed through a voluntary public tender offer in Germany and remains subject to the tender process and required regulatory approvals. Since our investor call in January, the voluntary tender offer has been launched. We have submitted requests for regulatory approval in the required jurisdictions, and we are beginning to see approvals come through.

Overall, the process is progressing well. Today is the final day of the initial acceptance period of the tender offer process, and we are confident we will secure enough shares to meet the 57.5 percent minimum threshold. We continue to expect the transaction to close in the second half of the calendar year.

In preparation for closing, we have begun internal planning focused on integration, governance and Day 1 readiness. We're doing that responsibly and deliberately with an eye toward maintaining our high-performing cultures, unlocking value and accelerating growth.

Most importantly, this deal is about combining two great companies that share the same values. I've had the opportunity to spend time with several of our future Kloeckner teammates, and it reinforced our view that Worthington and Kloeckner are culturally aligned and fit together very well.

Furthermore, since our announcement, the response from customers, suppliers, and investors has been overwhelmingly positive. As a reminder the German public company takeover process is highly structured, and we will continue to provide updates as we reach key milestones.

With that, let's turn to our results for the third quarter. Net sales were 769.8 million dollars; adjusted EBITDA was 41.6 million dollars and adjusted earnings per share were 27 cents. On a macro level the third quarter of our fiscal year was volatile and uneven, with galvanized spreads remaining compressed and the effects of the holidays and winter weather dampening and delaying industrial activity. While direct volumes were up over the prior year, overall conditions were stable-to-soft, keeping customers inventory-disciplined and highly sensitive to interest rates and uncertainty. Even with those headwinds, our execution remained strong where it matters most: safety, customer service, and transformation.

Commercially, the team continued to win the right work and capture high-value opportunities, including building on our momentum in the automotive market. Our direct shipments in Q3 to the Detroit 3 increased by approximately 13 percent, significantly outpacing the reported 3 percent growth in Detroit 3 production for the quarter.

As discussed last quarter, the outlook for the automotive market heading into calendar 2026 remains cautiously optimistic. Conditions appear to be moving toward a more robust market later in the year.

That view is supported by growing confidence that a USMCA agreement will be completed in 2026, removing a significant amount of market uncertainty.

Turning to agriculture, we believe we are nearing the trough of the market cycle and that a slow rebound will begin late in calendar year 2026. On a positive note, our team has been able to secure new business with a key customer in this market, which will continue to ramp up over the next few quarters.

In construction, conditions remained flat in most segments. We expect to see data center growth continue and, as lower interest rates take hold, we believe we will see some expansion in the second half of 2026 due to pent up demand.

And in heavy truck and trailer, as we expected, the market started off slowly in calendar year 2026. We are more confident about the back half of this year where we expect to see a pickup in both the Class 8 truck sector as well as the trailer market.

Looking ahead, we are still cautiously optimistic about the second half of calendar 2026. Overall, the backdrop looks modestly encouraging as key economic indicators show a return to expansion.

With that market context, let me turn to our strategic priorities, we continue to make progress in the areas that matter most: investments in electrical steel growth, innovation, and transformation.

In electrical steel, we advanced the projects that underpin our longer-term growth strategy.

In Canada we have shifted some production to our new facility and are shipping from both locations. We will finish moving the existing equipment and production to the new facility over the next few months.

We have more than 60 percent of the increased capacity sold for the facility. We're sequencing the start-up to protect performance and service levels, and we expect to fill the balance relatively quickly as the facility ramps up.

Our traction motor lamination facility expansion in Mexico is also on track and will begin shipping production parts this quarter.

Almost all of the OEM programs tied to the expansion are experiencing some type of OEM delays. Previously, we expected to reach full production levels in fiscal 2028, however, the OEMs have pushed out a number of the programs for a variety of reasons.

While timing is shifting on production starts for some of our new programs, when these platforms reach full production volumes in fiscal 2029, we will be at 75 percent capacity, based upon current contracts.

These delays are not surprising as many automotive OEMs are re-thinking their electrification strategy. With the elimination of the fuel economy mandate and the elimination of the 7500-dollar federal tax credit, the market is clearly pivoting away from a government-driven BEV mandate to a consumer-led demand for hybrids.

The data is quite clear. Year-over-year hybrid sales in the US increased 18 percent in 2025. And the same trend is happening in early 2026; sales and production of hybrids are both up more than 10 percent and the shift to hybrids is expected to continue.

We are also seeing reports of increased consumer interest in hybrid and full electric vehicles due to rising oil prices and geopolitical tensions. While it is too soon to see if this will translate into sales, we will be watching closely and are well-positioned to capitalize on this renewed interest.

From a commercial standpoint, we have seen a slowdown in quotes for pure BEV opportunities but the quote activity related to hybrids is picking up.

We are excited by the growth in hybrids as we have the opportunity to produce the electrical steel laminations for a hybrid traction motor as well as the specialty cold rolled steel used in the powertrain for the hybrid's internal combustion engine.

We continue to improve our business and find efficiencies using the Worthington Business System and artificial intelligence.

In one notable project, we used our transformation process to implement a lean flow operating model at our Delta, Ohio, facility that aligns material release, production and purchasing directly to customer demand, replacing a forecast-driven push process with a more disciplined pull approach. This allows us to tighten our purchasing windows and drive down inventory.

This work has led to 60 percent fewer coils held in our work in process bay and an overall reduction of 6 days of inventory over the past 26 months. As a next step in this process, we will be adding predictive AI tools to ensure our flow is not only disciplined, but also predictable. That means spotting problems earlier and moving more quickly to remedy them.

Predictive flow helps us stabilize performance as we run leaner, enabling faster, more consistent decisions

at lower working capital levels. Further, we will use what we learn at Delta, package what works and build scalable solutions we can use across our footprint.

We also continue to make progress transforming our administrative functions. When we stepped back and looked at where we started about a year ago, a few themes stood out.

There was a significant amount of manual, repetitive work, a fair amount of variation in how processes were executed across functions and facilities, and much of the work was being managed through email, spreadsheets, and manual follow-ups. We are addressing that in a couple of ways.

First, where we see discrete opportunities to remove manual effort, we move quickly using automation and AI. For example, we are developing an AI agent for daily cash posting in our finance group that is expected to eliminate a significant amount of manual data entry and free up about 30 hours per month of analyst time.

We've also deployed automation in accounts payable that is reducing manual invoice interventions and should remove roughly 150 hours of work per month as the models continue to improve. And in our order-to-cash process, robotic automation that reconciles shipping notices with customer portal data has helped accelerate cash collection and reduce past-due balances.

Second, for workflows that are more interconnected, we are using AI to assist us in mapping processes, establishing standard work, and removing waste.

For instance, in indirect purchasing we redesigned the sourcing workflow and then layered in analytics and AI tools that allow the team to focus more on strategic sourcing rather than repetitive tasks.

We're still early in this part of the transformation journey, but what we are building is a repeatable capability that allows us to apply automation and AI across more processes and functions over time, structurally improving efficiency and scalability across the organization.

To close, while this was a challenging quarter from a macroeconomic standpoint, our team remained focused on executing the business, advancing our electrical steel strategy, and moving the Kloeckner process forward in a disciplined way.

At the center of that is a culture that puts safety first and reflects the dedication of our people across the organization. To our employees, thank you. The discipline, care, and commitment you bring every day are what turn our strategy into action.

I'll now turn the call over to Tim for more detail on the financials for the quarter.

Timothy A. Adams
VP & CFO

Thank you, Geoff, and good morning everyone.

Our third quarter was a disciplined quarter in a more challenging environment. While we saw softer demand in certain markets and continued pressure in Europe, we executed well, generating strong free cash flow, gaining share in key markets, and maintaining a strong balance sheet. That consistency in execution, particularly in more challenging environments, is a hallmark of how we run the business. We also took an important strategic step forward with the proposed Kloeckner transaction, which we believe will strengthen our long-term positioning.

For the third quarter, we reported earnings of 10.4 million dollars or 20 cents per share as compared with earnings of 13.8 million dollars or 27 cents per share in the prior year quarter. There were several non-recurring items that impacted comparability in the quarter including a number of Kloeckner-related items which are primarily transactional and timing-related and not indicative of our ongoing operating performance. First, the current quarter results include 15.4 million dollars of pretax SG&A expense, or 24 cents per share, for advisory, legal and regulatory fees incurred in connection with the previously announced acquisition of Kloeckner. Additionally, we recognized 9.1 million dollars of pretax miscellaneous income, or 14 cents per share, related to a foreign currency forward contract designed to hedge a portion of the Kloeckner purchase price.

Unrelated to the Kloeckner transaction, we recognized a 6 million dollar pretax restructuring gain, or 6 cents per share on the sale of real estate and equipment associated with our previously announced Worthington Samuel Coil Processing plant closure in Cleveland, Ohio. Finally, in the quarter we recognized a 1.5 million dollar pretax impairment of certain internal use software, or 3 cents per share.

The prior year quarterly results included several non-recurring items, including. A 7.4 million dollar pretax impairment of assets, or 7 cents per share, primarily related to the operational consolidation of our Worthington Samuel Coil Processing facility in Cleveland into WSCP's remaining facility in Twinsburg, Ohio. Additionally, we recognized pre-tax restructuring expenses of 9 hundred thousand dollars, or 1 cent per share, related to a voluntary retirement plan at our Tailor Welded Blank joint venture. Excluding these items, we generated adjusted earnings of 27 cents per share in the current year quarter compared with 35 cents per share in the prior year quarter

In the third quarter, we reported adjusted EBIT of 20 million dollars, which was down 5.3 million dollars from the prior year quarter adjusted EBIT of 25.3 million dollars. The year-over-year decrease was driven primarily by lower toll processing volumes, higher SG&A, largely related to compensation, and unfavorable results in Europe. Partially offset by higher direct volumes, and higher equity earnings from Serviacerro.

Total shipments were approximately 818 thousand tons, down 64 thousand tons, or 7 percent, year over year, as lower toll volumes more than offset volume growth in direct sales. Direct sale volume made up 63 percent of our mix in the current year quarter compared with 57 percent in the prior year quarter. Direct volume increased 4 percent compared with the prior year quarter. The year over year increase was split evenly between the legacy business and the addition of Sitem compared to the prior year quarter. Our increased shipments to the automotive market remained a bright spot. Direct shipments to automotive increased 10 percent year-over-year. Similar to last quarter, the increase in automotive volume reflects share gains from new programs plus the impact of a key automotive OEM customer returning to a more normal build schedule after curtailing production last fiscal year. This growth in the automotive market reflects the strength of our longstanding customer relationships and our collaborative, proactive approach to assisting customers to meet their needs.

Outside of automotive, agriculture volume was up 9 percent, primarily due to improved OEM equipment demand, and container volume was up 11 percent.

As Geoff mentioned earlier, we won additional business with a key OEM customer in the Ag sector. These gains were partially offset by lower shipments to a number of other markets including, energy, which was down 22 percent year-over-year, largely driven by project-based solar programs. Construction was down 7 percent and Service Center, where we saw some increased competition, was down 21 percent. Heavy truck was down 12 percent, due to ongoing market weakness. Toll processing volumes declined 22 percent year over year due to a combination of closing our Cleveland-area Worthington Samuel Coil Processing facility in Fiscal 2025 and near-term demand headwinds. We view the softer market conditions in toll processing as cyclical, not structural, and expect toll volumes to improve as end-market demand recovers, excluding the impact of the Cleveland facility consolidation last May. Direct spreads were relatively flat year over year, excluding the impact of the Sitem acquisition which closed in June. Direct spreads were impacted by a 3.3 million dollar favorable swing in pre-tax inventory holding GAINS.

In the current quarter we had estimated pre-tax inventory holding GAINS of 2.1 million dollars compared to estimated pre-tax inventory holding LOSSES of 1.2 million dollars in the prior year quarter. After stabilizing around 800 dollars per ton in the fall, the price for hot rolled coil increased 175 dollars per ton in our third quarter to approximately 975 dollars per ton. We expect the market price for steel to remain volatile in the near term with expected mill outages, extending lead times and a tightening market. Given that many of our contracts use lagging index-based pricing mechanisms, we estimate in our fourth quarter of Fiscal 2026 pre-tax inventory holding GAINS will fall within a range of 15 million to 20 million dollars.

Turning to the other drivers for adjusted EBIT this quarter. SG&A expense, excluding the 15.4 million dollar impact of Kloeckner-related acquisition expenses, was up 7.5 million dollars, primarily due to increased compensation expense in the legacy business and 4.8 million dollars of incremental SG&A with the addition of Sitem. It is worth noting that our Q3 results include increased headwinds in Europe. As expected, Sitem EBIT, prior to minority interest, decreased 8.4 million dollars during the quarter. This performance reflects challenging economic conditions in Europe, particularly in the electrical steel and automotive end markets, where demand remains weak and competition, especially from China, has intensified. While expected, we are actively addressing these headwinds through cost actions and operational adjustments, and our team in Europe is moving with urgency to improve performance.

Although near-term conditions remain challenging, we are focused on positioning the business to return to profitability and to capture share as the market recovers. Finally, equity earnings from Serviacerro, our Mexico-based joint venture, increased 3.5 million dollars due to higher direct spreads, inventory holding GAINS, as well as the favorable impact of exchange rate movements.

Turning to cash flows and the balance sheet. For the quarter, cash flow from operations was 63 million dollars and free cash flow was 33 million dollars, with both metrics benefitting from a reduction in working capital. Capital expenditures were 30 million dollars in the quarter, related to several projects including the previously announced electrical steel investments. We expect capex for Fiscal 2026 to finish in the range of 110 to 115 million dollars as several of our large capital growth projects transition from the build phase into start of production. In addition, we are pursuing maintenance projects that keep our key assets market-ready. We take a disciplined approach to capital allocation, balancing investment in growth with maintaining balance sheet strength. On a trailing-12-month basis, we generated 81 million dollars of free cash flow. We increased borrowings during the current quarter on our ABL to purchase approximately 8.3 million or 8 percent of Kloeckner shares for 101 million dollars. We ended the quarter with 90 million dollars of cash and net debt of 161 million dollars, up sequentially, driven primarily by the purchase of Kloeckner shares. Earlier this week, we announced a quarterly dividend of 16 cents per share, payable on June 26, 2026.

In summary, this was a disciplined quarter in a more challenging environment. We are gaining share in key markets, generating consistent cash flow, and maintaining a strong balance sheet. At the same time, we are taking actions to address underperformance in Europe while continuing to advance our strategic priorities, including the proposed Kloeckner transaction. This reflects how we manage the business, staying focused on execution and positioning the company to perform through cycles. We believe these actions position Worthington Steel to navigate the current environment and continue creating value over the long term.

I want to thank our entire Worthington Steel team for their continued focus on safety, customer service, and execution this quarter.

At this point, we 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

With direct volumes for the third quarter only up 3% year-over-year, I'm surprised to hear you say the direct auto shipments increased by 10%. Assuming much of this was owed to the market share wins you've outlined, can you talk through some of those wins and the impact they're having?

Geoffrey G. Gilmore

CEO, President & Director

Yes, Sam, this is Geoff. I'll take that. Clearly, positive impact. If you look at automotive as a whole, it was down maybe 1% or 2% actually year-over-year. And -- so I think as we mentioned, if you look specifically at the Detroit 3, their production was up 3%, and ours were up 13%. So if you look at the difference in the gap, that really is that market share gain that we've been speaking about the last several quarters.

And fortunately, for us, we've continued to win market share with those customers mentioned as several -- as well as several others. So that's something that you'll continue to see layered in.

The beginning of your question was, hey, being up 13% there, but only 3% as a whole. As you're aware, weather in the Midwest was quite challenging late January, and specifically for a week. And that absolutely disrupted the entire supply chain, whether it was the mills trying to ship out, to us receiving in, and to -- then to us trying to ship to our customers. And probably, the impact there was 10,000 to 15,000 tons. And look, the mills are extremely busy right now. They have extended lead times, their on-time delivery performance has been challenging. And so we just weren't able to make up for that backlog during the month of February. We did some, but again, we probably could have shipped closer to 15,000 additional tons. Fortunately, those aren't orders lost. We'll make up that backlog and are starting to do so already this month.

Samuel J. McKinney

KeyBanc Capital Markets Inc., Research Division

Okay. That's helpful. And then on to Kloeckner, how should we think about the over \$100 million of short-term debt you used to purchase their securities? Just any other color you could give on that equity investment in the context of meeting the threshold would be helpful. Like Tim said, that's about 8% of the Kloeckner shares.

Timothy A. Adams

VP & CFO

Yes. Sam, this is Tim. So we had the ability through antitrust or we had a look at the regulations of antitrust as far as how much we could buy. And we could buy in the open market, 10%. And we used that opportunity when the tender offer was announced to buy in the open market. So we increased our ABL by \$126 million, and we used \$101 million of it to buy shares in the open market. As long as the price stays below the tender offer of EUR 11, we can buy shares. So you've seen the price of Kloeckner rise a little bit, that shut us out of the market. So we bought shares early in the quarter, and we haven't bought much since.

Samuel J. McKinney

KeyBanc Capital Markets Inc., Research Division

Okay. And then last one for me. Steel pricing obviously has remained hot in recent weeks. Can you give us a sense of the net working capital expectation for the fourth quarter in the context of the \$15 million to \$20 million of inventory holding gains?

Timothy A. Adams

VP & CFO

Yes. I think there, I mean, we are definitely going to see some upward pressure on working capital. I think you can kind of look at the percentage price increase and kind of translate that into how much working capital should go up. But you will absolutely see some upward pressure on working capital in Q4 for sure.

Operator

Your next question comes from the line of John Tumazos with John Tumazos Very Independent Research.

John Charles Tumazos

John Tumazos Very Independent Research, LLC

The German stock market is down 8% year-to-date. And their economy is more vulnerable to the energy escalation, as they're almost entirely an energy importer. Does your view of the amount of debt level that you want to hold post-acquisition or the degree of exposure to Europe change given our incursion into Iran and the subsequent events in the last 4 weeks?

Geoffrey G. Gilmore

CEO, President & Director

John, good question. Hi, by the way. Thanks for calling in. Look, we went into this acquisition eyes wide open and a clear understanding on Europe and the current challenges. I think, a few things. First, their economy. I think they are doing their own things to increase, I'll call it, protectionism, which certainly will help their economy, specifically, I think, aimed at China. I think they've increased spend on defense pretty significantly here over the last 6, 12 months, which should benefit the business environment, specifically manufacturing.

But what we did not predict was a war with China and the impact -- or China, I'm sorry, with Iran and the impact on the oil prices. So right now, it's not having a major impact on the business here or Europe. But if this is prolonged, yes, then we certainly are concerned about their economy, but we're equally concerned about the economy here. Obviously, higher energy prices, higher gas prices is certainly not going to be good for either economy. So that's really our position on it right now.

John Charles Tumazos

John Tumazos Very Independent Research, LLC

So following up on what you just said, would you then want to have more equity in your financial structure and less debt?

Geoffrey G. Gilmore

CEO, President & Director

No, John. We're comfortable with the capital structure, where we're moving forward right now. We're quite comfortable with the debt level that we'll be carrying forward. And to be more transparent, it's because we're very confident in our plan and how we'll go about paying that debt down over time. So we haven't had any serious discussions about reducing the debt and increasing equity as part of the capital structure. And I think we're going to be in very good shape.

Operator

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

Geoffrey G. Gilmore

CEO, President & Director

From a macroeconomic standpoint, there were some challenges with the business. But just a reminder, during last call, I addressed the overall market as well as some of the challenges in spreads, specifically hot-rolled and coated and hot-rolled and cold-rolled. But at that time, I mentioned I felt like the quarter would be really -- we'd be experiencing the trough. And I feel strongly that that's the case, and that's what we've seen.

I think the tightness in the market in the U.S. and where we're seeing prices headed, along with -- cautiously optimistic now on all markets that we're starting to see recovery. And that's the sentiment across the market. We're no different that we can start to see signs of growth, not just with market share gains in automotive, but other key markets as well. And certainly, those markets will increase demand for galvanized as well as cold-rolled. And hopefully, we start to see some of that spread pressure alleviate gradually over time.

More importantly, we could not be more well-positioned to continue to grow as a company, have a great deal of confidence of us achieving the threshold goal for Kloeckner. And that just puts us in a position to accelerate growth moving forward. So the business is in great shape. Look forward to what's to come, and thank you again for listening in today.

Operator

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

