

Worthington Steel, Inc.

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Earnings Call

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Call Participants

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Presentation

Operator

Good morning, and welcome to Worthington Steel's Fourth 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 fourth-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](https://www.WorthingtonSteel.com).

Now I'll turn it over to Geoff Gilmore.

Geoffrey G. Gilmore

CEO, President & Director

Good morning and thank you for joining us.

Before I get into the quarter, I want to start with the most important development since our last call. On June 3rd, we completed the Kloeckner & Co transaction and became the majority shareholder of the company. This is the largest acquisition in Worthington Steel's history, and it is a defining step in building our future. I want to say thank you to our teams across Worthington Steel—and to our new colleagues at Kloeckner. This was a demanding quarter, with a lot happening at once. Through it all, our teams stayed focused on safety, serving customers, and executing every day, while we took a major strategic step as a company.

The transaction builds directly on what we have been working toward since becoming a standalone public company: a business anchored in value-added processing, disciplined capital allocation, and continuous improvement through the Worthington Business System. The Kloeckner acquisition materially expands our scale, our capabilities and our reach. It gives us a broader set of products and processing capabilities, a larger and more complementary footprint, and increased end-market diversification. Kloeckner brings an established footprint and a portfolio that broadens our offerings to include aluminum, stainless, long products, plate and fabrication, while complementing our strengths in carbon flat roll and our growing position in electrical steel.

Put simply, this transaction gives us more ways to serve our customers, more avenues for profitable growth, and further strengthens our ability to deliver strong performance through cycles. That diversification matters. A broader, more balanced portfolio paired with more value-added processing can improve the quality of earnings through the cycle and reduce reliance on any single end market or product category.

We also see a clear opportunity to create value over time through practical levers we understand well: operating discipline, procurement scale, network efficiency, and best-practice sharing. As we continue integration planning, these opportunities are becoming even more evident, and we remain confident about our ability to achieve our synergy targets as we move through the required process and achieve operational control.

With that in mind, I also want to spend few minutes on where we are in the Kloeckner takeover process. As you know, the transaction closed on June 3 and Worthington owns approximately 62 percent of Kloeckner's outstanding shares. There are still several steps to take before Worthington Steel and Kloeckner operate as one company.

In late March, we announced our intention to pursue a domination and profit and loss transfer agreement, or DPLTA. At a high level, this is a German corporate structure that, once approved and effective, allows the parent company to direct the management board of the subsidiary and assures alignment across the combined organization. For Worthington Steel, the practical benefit is that it supports more effective coordination, helps us move faster once the appropriate approvals are in place, and creates a clearer path to realizing a lot of the synergies we identified. Like the tender offer process, approval of a DPLTA has to follow the required German legal steps, including shareholder approval, but we believe it is an important part of bringing the companies together in a disciplined way.

Additionally, we have announced our intention to pursue a delisting of Kloeckner's shares. Now that the transaction has closed, we believe the business is better positioned as part of Worthington Steel's operating platform as a non-listed company. Over time, delisting should simplify the structure, eliminate public company requirements and reduce administrative burden. It should give us greater flexibility to focus on operating performance, customer service, integration and value creation. It does not change the fundamentals of why we pursued the acquisition. We remain focused on building a stronger, more diversified metals processing company with a clear path to long-term value.

With the close behind us, our focus turns to execution. Integration is not something you just announce; it is something you deliver. Our teams are focused on Day 1 readiness, integration governance, and aligning priorities so we can bring the organizations together effectively and begin capturing the value we've committed to. We will be deliberate, we will protect customer service, we will focus on cultural integration and we will share more each quarter.

Before we move on to discuss the quarter, I want to recognize the teams who got us here. Closing a highly structured, cross-border transaction, raising more than one billion dollars of new capital, and securing regulatory approvals sooner than expected, requires real discipline and intense coordination across legal, finance, treasury, operations, IT, HR, communications, and many other functions. I want to thank everyone on our team who had a hand in bringing the transaction to a successful close.

With that, let's turn to our results for the fourth quarter. As we mentioned during our last call, we expected several non-recurring items related to the Kloeckner transaction. In addition, we also recorded one-time non-cash impairment charges related to the impairment of certain electrical steel assets in both Europe and the United States. Our results reflect that, and Tim will walk through those items in more detail.

Net sales increased by 12 percent to 929.2 million dollars. Adjusted EBITDA was 75.2 million dollars and adjusted earnings per share were 74 cents. From a macro standpoint, the quarter reflected stable-to-soft

conditions. Customers remained deliberate and inventory-disciplined, and we continued to see sensitivity to interest rates and broader uncertainty.

Trade policy continues to be an important factor and the industry needs consistency. Customers make long-term sourcing and investment decisions based on rules that must be reliable. As we head toward USMCA negotiations, we welcome steps that tighten enforcement and ensure the agreement delivers on its intent to support North American supply chains and North American manufacturing.

At the same time, we remain cautiously optimistic that conditions will improve with the end to the war with Iran and the easing of macro uncertainty. The pace and timing will depend heavily on various factors; particularly the interest-rate path and broader geopolitical stability. If those factors move in a constructive direction, we believe demand can improve as we move through the year.

Let me break down what we saw in our key markets and what we are watching in the coming months.

In automotive, the broader North American market has been steadier than many expected, even with the affordability and macro noise still out there. Production and build plans are holding up, and the mix continues to shift in a pragmatic way, with OEMs placing more emphasis on hybrids while EV growth has slowed as expected. For us, the takeaway is simple: this is an environment where execution and share matter, and we like how we are positioned in the programs and applications where quality and reliability win.

In construction, conditions remain mixed. There are small pockets that continue to do well, including data center-related activity, but we saw broader weakness as sustained improvement is still sensitive to interest rates and confidence. Until rates move down more meaningfully, customers are going to stay disciplined and selective. We will stay close to demand signals, protect mix, and be ready to move when the market turns.

We saw improvements in the Ag sector this quarter, partially due to share gains, but looking more broadly, the Ag market remains relatively weak. The tone is still cautious, and a recovery is likely to be gradual rather than immediate, influenced by farm economics and policy conditions. We are staying disciplined, supporting customers, and focusing on the work where we can add value, so we are positioned to benefit as the cycle improves.

Our shipments to the heavy truck and trailer segment were down this quarter. However, we are seeing signs of improvement in the Class 8 sector and are more optimistic about the back half of calendar 2026. We expect a rebound in the trailer market to push back into 2027.

There are several other highlights I'd like to point out. On the transformation front we continue to build repeatable operating capabilities that will improve performance across our network.

Last quarter, I described using Lean Flow principles at our Delta, Ohio, facility to reduce inventory, improve cycle times, and lower working capital intensity by aligning material release and production directly to customer demand.

This quarter, we successfully applied those same concepts at our Bowling Green, Kentucky, facility. Working closely with one of our largest customers and key supply chain partners, the team redesigned how raw material enters the operation, transitioning from a traditional push system to a demand-driven pull and replenish model.

The result was a roughly 37 percent reduction in inventory while maintaining 100 percent on-time delivery performance. More importantly, the redesign removed a significant raw material storage constraint within the facility, freeing floor space and creating additional flexibility to support future demand and growth without additional capital investment.

Importantly, the methodology is proving transferable. We are beginning to package the lessons learned from Delta and Bowling Green into a scalable operating model that can be deployed across our footprint. As we enter fiscal 2027, we are already expanding these Flow concepts into our specialty strip business while evaluating where these concepts may apply across the Kloeckner footprint. Over time, we believe this supports a broader objective of structurally lowering working capital, improving operating flexibility, accelerating acquisition synergies, and creating additional capacity for growth without relying on higher inventory levels.

We also continue to make practical progress with artificial intelligence. This quarter, we expanded our automation work into customer order management at Spartan Steel Coating. Our teams developed an AI agent to process highly variable work orders from a key customer. This work historically required employees to review emails, interpret different order formats, identify specifications and manually enter information into our ERP system. Because the orders varied so much, this was not a good fit for traditional rules-based automation. We created an AI agent trained with historical transaction data. The agent can understand multiple order formats, identify the correct specifications and create transactions automatically. In testing, it achieved greater than 90 percent accuracy, and we expect to deploy it later this quarter. The important point is that we did not ask the customer to change how they do business with us. We built the tool to adapt to the work. This is where we see real opportunity with AI: improving scalability and controls, reducing manual effort and freeing our teams to focus on higher-value work that supports customers and growth.

We also received important recognition from key customers I would like to highlight. Worthington Steel earned John Deere's Partner-level supplier rating for the 14th consecutive year. We were also recognized earlier this month as a General Motors Supplier of the Year for 2025, our fourth time achieving that distinction, and our third year in a row. Those recognitions matter because they reflect how we show up: through safety, quality, delivery, partnership and consistency over time. And I want to recognize the teams behind those results. To the teams serving Deere and GM, thank you. Those awards were earned by your hard work and superior performance.

Another area of strong performance for Worthington Steel is our culture. We were selected for the 14th consecutive year as a Top Workplace in central Ohio. This recognition is based on feedback directly from our employees, so I find it especially meaningful. Top Workplace is a designation that our colleagues at Kloeckner are recognized for as well and I find it particularly inspiring as we bring our two cultures together over the coming months.

To close, I would say this quarter reflects two things at once: steady execution in a mixed macro environment, and a major strategic step forward with the completion of the Kloeckner transaction shortly after the fiscal year-end. We remain focused on what we can control—safety, customer service, operational discipline and transformation—and we will bring that same approach to integration.

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

Timothy A. Adams
VP & CFO

Thank you, Geoff, and good morning everyone.

I'll frame my comments around three areas this morning: first, the underlying operating performance in the fourth quarter; second, the items that make reported results difficult to compare year-over-year; and third, cash flow, capital allocation and the balance sheet as we enter Fiscal 2027.

Our reported results include several significant items, including Kloeckner-related transactions and financing costs, as well as a non-cash impairment in our Electrical Steel reporting unit. Those items had a meaningful impact on results, so I'll separate them from the performance of the ongoing business.

Operationally, the quarter was mixed. We grew net sales and direct volumes, continued to see positive momentum in automotive and certain other end markets, and generated free-cash-flow while continuing to fund strategic growth projects. At the same time, adjusted EBIT was lower year over year, driven primarily by tighter spreads, lower toll processing volumes and continued pressure in electrical steel.

In the fourth quarter, we reported a net loss attributable to controlling interest of 48.7 million dollars or 98 cents per share as compared with earnings of 55.7 million dollars or one dollar and 10 cents per share in the prior year quarter. Reported results included several items affecting comparability, most notably the non-cash impairment in Electrical Steel and several Kloeckner-related transactions, financing and investment items. I'll cover those items first, then move to the operating bridge.

The Kloeckner-related items fall into four categories. First, we incurred 15.5 million dollars of pre-tax acquisition-related expenses, primarily advisory, legal and regulatory fees. Second, we recognized an 11.5-million-dollar pre-tax loss on the foreign currency forward contract used to hedge a portion of the purchase price. Third, we recognized 17.2 million dollars of pre-tax income related to the Kloeckner securities we held during the quarter, primarily mark-to-market gains. And fourth, we expensed 16.2 million dollars of previously deferred bridge financing costs, which are reported in interest expense.

In addition to the Kloeckner-related items, we recognized a 94.5-million-dollar pre-tax non-cash impairment in our Electrical Steel reporting unit, or one dollar and 31 cents per share. The charge included impairments to both goodwill and certain long-lived assets and reflects a reset in our near-term expectations for certain electrical steel end markets.

In Europe, economic activity has remained softer than anticipated, while in the U.S., we have experienced increased foreign competition and a temporary slowdown in industrial motor demand. These factors affected our near-term outlook and the valuation of certain assets. While these conditions have impacted results in the short term, they do not change our confidence in the long-term fundamentals of the electrical steel market. Electrification trends, grid investment and demand for energy-efficient applications continue to support attractive growth opportunities for our business.

We remain focused on improving performance through commercial execution, operational excellence and our Transformation initiatives and expect momentum to build, especially with our new transformer core facility in Canada coming online.

Importantly, the impairment does not affect our liquidity, our cash generation or our ability to invest in the business. It also does not change our view that electrical steel remains an important long-term growth platform, particularly in selected automotive applications and in transformer cores as our new Canadian facility comes online.

Finally, in the quarter we recognized a 1.4-million-dollar pre-tax pension gain, or 1 cent per share, primarily related to a pension curtailment in Switzerland related to headcount reductions. The prior year quarterly results included several non-recurring items, including 1.7 million dollars, or 1 cent per share, of pre-tax restructuring charges, primarily related to severance cost associated with our closure of the Worthington Samuel Coil Processing facility in Cleveland and an early retirement program at our tailor-welded blank joint venture.

Additionally, in the prior-year quarter, we recognized a 4 million dollar gain in Miscellaneous Income associated with a currency hedge on the Sitem purchase price. Excluding these items, we generated adjusted earnings of 74 cents per share in the current year quarter compared with 1 dollar and 5 cents per share in the prior year quarter.

In the fourth quarter, we reported adjusted EBIT of 54 million dollars, which was down 16.1 million dollars from the prior year quarter adjusted EBIT of 70.1 million dollars. The year-over-year decrease was driven primarily by lower direct spreads, including the impact of the year-over-year change in inventory holding GAINS, lower toll processing volumes, and higher SG&A, largely related to compensation and benefits, partially offset by higher direct volumes and an improved toll mix. Total shipments were approximately 939 thousand tons, down 44 thousand tons, or 4 percent, year over year, as lower toll volumes more than offset volume growth in direct sales. Direct sale volume made up 65 percent of our mix in the current year quarter compared with 60 percent in the prior year quarter. Direct volume increased 3 percent compared with the prior year quarter. The legacy business was up 1 percent over the prior year quarter, increasing direct spreads by 2.1 million dollars.

Our increased shipments to the automotive market remained a bright spot. Direct shipments to automotive increased 5 percent year-over-year. The increase in automotive volume reflects the impact of a key automotive OEM returning to a more normal build schedule after curtailing production last fiscal year as well as share gains from new programs. We continue to work closely with key automotive customers to develop the right solutions to meet their needs. We take a team approach in working with our customers, ensuring we have the right people executing on desired project outcomes.

Outside of automotive, energy volume was up 24 percent, due to new program wins in the solar market. And, Agriculture volume was up 11 percent, primarily due to improved OEM equipment demand and share gains. These gains were partially offset by lower shipments to the Construction market, down 14 percent where we saw increased competition, as well as the tightness in the steel market, limiting our ability to quote spot and short-term contract business. Heavy Truck was down 14 percent compared to the prior year, due to ongoing market weakness.

Direct spreads, excluding volume gains, were down 8.7 million dollars year-over-year, excluding the impact of the Sitem acquisition. Direct spreads were impacted by a 6.1 million dollar unfavorable swing in pre-tax inventory holding GAINS. In the current quarter we had estimated pre-tax inventory holding GAINS of 14.7 million dollars compared to estimated pre-tax inventory holding GAINS of 20.8 million dollars in the prior year quarter. Additionally, direct spreads were unfavorably impacted by the continued compression of value-added market spreads as well as the increasing market spread between steel raw material prices and scrap recovery.

Hot rolled coil prices ended the calendar year around 900 dollars per ton and have increased each month since then, ending at nearly 1,075 dollars per ton in May. We expect the market price for steel to remain volatile in the near term with expected mill maintenance outages resulting in continued extended lead times and a tight market for flat-rolled steel. Given that many of our contracts use lagging index-based pricing mechanisms, we estimate pre-tax inventory holding GAINS in the first quarter of fiscal 2027 will be in the range of 10 to 15 million dollars.

Our toll processing volumes declined 15 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. The impact of the volume decline was 4 million dollars partially offset by 1.6 million dollars of improved mix, due to the addition of some spot tolling business at higher toll spreads.

Turning to the other drivers for adjusted EBIT this quarter. Manufacturing expenses, excluding Sitem, were up 2.3 million dollars an increase of 1 percent, primarily due to inflationary pressures.

SG&A expense, excluding the 15.5 million dollar impact of Kloeckner-related acquisition expenses, was up 6.8 million dollars, primarily due to increased compensation and benefits expense in the legacy business and 4.3 million dollars of incremental SG&A with the addition of Sitem.

Finally, equity earnings from Serviacerro, our Mexico-based joint venture, decreased 400 thousand dollars due to lower direct volumes, partially offset by the favorable impact of exchange rate movements.

Turning to cash flows and the balance sheet. For the quarter, cash flow from operations was 45 million dollars and free cash flow was 8 million dollars.

Capital expenditures were 37.1 million dollars in the quarter, related to several projects including the previously announced electrical steel investments. For legacy Worthington Steel, we expect fiscal 2027 capital expenditures to be approximately 60 million dollars, which includes 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 80 million dollars of free cash flow.

At May 31, prior to the Kloeckner settlement and related financing, we ended the quarter with 85 million dollars of cash and net debt of 172 million dollars, up 11 million dollars sequentially, driven primarily by the strategic capital spend. Earlier this week, we announced a quarterly dividend of 16 cents per share, payable on September 29, 2026.

To close, the fourth quarter had a number of moving pieces but underlying results were resilient. At the same time, the business remained cash generative, direct volumes grew, and we ended fiscal 2026 with liquidity and financial flexibility. Shortly after year-end, we completed the acquisition of a majority interest in Kloeckner, which shifts our focus from transaction execution to integration, synergy capture, working capital discipline and debt reduction.

We will provide additional color on the combined Worthington and Kloeckner company next quarter and expect to report combined results. As we make that transition, you can expect that we will announce earnings a couple of weeks later than usual.

As we begin fiscal 2027, our financial priorities are clear: support the integration of Kloeckner, execute on our synergy plans, complete the strategic growth projects already underway, improve performance in electrical steel, and maintain disciplined capital allocation.

I want to thank our Worthington Steel teams for their continued focus on safety, customer service and execution, and I want to extend a warm welcome to our new colleagues at Kloeckner. We are excited about what we will build together.

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

Question and Answer

Operator

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

Samuel J. McKinney

KeyBanc Capital Markets Inc., Research Division

Metal spreads expanded really nicely off the trough last quarter, and we've seen the spreads widen even further since the end of your fourth quarter. Can you talk about the potential upside that provides you guys as we move forward as it seems like they should continue to get better in the periods ahead?

Timothy A. Adams

VP & CFO

Well, keep in mind from a -- let's talk about how spreads change from sequential as well as year-over-year. So sequentially, we saw an improvement because of volume -- that was gross margins up because of that. We continue to focus on high value-added products to push those spreads. But you've got the noise in there from increased steel prices, right? So when you look at a year-over-year basis, what you see is the contractual businesses is really based on the market spread, right? And it's based on the margin per ton is locked over that contract period. So what you're seeing as the price of steel moves, the index pricing is also going to move. So our gross margin is going to move around with steel prices. So year-over-year, what you're seeing is a pretty sizable jump, about \$175 jump in the price of steel, and that's reflected in those spreads.

Geoffrey G. Gilmore

CEO, President & Director

I think, Sam, the last part of that question, I mean, things to possibly look forward to, we've been talking over the last several quarters about the compressed spread between hot-rolled and galvanized and hot-rolled and cold-rolled strip. And historically, just speaking about galvanized, that average spread is probably around \$170, \$180 per ton. That got as low as \$95, which you're well aware of. And more recently, we've seen that approach \$200 per ton or a little bit north. So certainly, with galvanized and cold-rolled strip being a heavy portion of our value-added business, that's something for us to start looking forward to over the next 6, 12 months, assuming that holds intact, and I don't know why it would not.

Samuel J. McKinney

KeyBanc Capital Markets Inc., Research Division

Okay. And then given the automotive build rate trends this year versus last, if you could just frame up for us how you're thinking about volume impacts as we move into the new fiscal year in the context of the market share wins you talked about.

Geoffrey G. Gilmore

CEO, President & Director

Yes. I mean just -- we're looking at it very similarly. I mean if you look at '25, I think you ended up around 15.3 million units, and we'll probably finish up near that level at the end of this calendar year. We're still cautiously optimistic. Obviously, interest rates, USMCA, if we can get past some of that clarity, there certainly could be some upside. We're certainly still well off pre-COVID levels. So we would certainly look forward to that. But Sam, as you know, we've been more than able to offset the softness there, and that was due to market share gains. I mean that's -- we've completely offset that. So I can't remember the specific numbers, but similar to last quarter and the quarter prior, if you look at Stellantis build rates

and what they're up, we're up north of that. where you've seen a little bit of softening, maybe at GM and Ford, we're up over that as well or down less. So our commercial team has just done an excellent job positioning us, and we've been fortunate that our customers have rewarded us with that market share. I will tell you that we continue to do well in that market, and we have several indications that more market share gains will be coming and meaningful, not something that, Sam, you should expect this quarter. That's probably calendar year 2027 as we start new programs, new contracts. And even then, it will take time to filter in just like it did for the market share gains that I spoke of to start.

Operator

Your next question comes from the line of Martin Englert with Seaport.

Martin John Englert

Seaport Research Partners

Question on auto supply chain, and are you seeing any shift away from aluminum back towards steel or anticipating one through the balance of this year after maintenance shutdowns in the summer or for calendar year 2027?

Geoffrey G. Gilmore

CEO, President & Director

Yes. We've not heard of any major shifts quite yet. It is absolutely something that the automotive companies are considering. They're always looking at substitute products. But in lieu of what's occurred in the aluminum market, it certainly makes going back to steel an attractive opportunity. And I specifically said heard and not we haven't seen because Martin, you're aware, that's just not an area we play in. A lot of where aluminum substituted for steel or may go back is on the exterior of the vehicle. So think closures, exposed parts. And that's just not an area where we play in at Worthington Steel. We are solely propulsion systems and then more on the interior part of the automobile as well.

Martin John Englert

Seaport Research Partners

Okay. Kind of similar to that, just looking at potential shifts, but are you seeing any pickup in relocation and reshoring of the auto supply chain from Mexico to the U.S.?

Geoffrey G. Gilmore

CEO, President & Director

No, we have not seen a lot of movement at this point. And we don't anticipate -- I think there's a lot of plans in place. And certainly, customers, the OEMs, are evaluating those opportunities. But until we have more clarity on the USMCA, I don't anticipate those decisions being made. If we're able to accomplish and get that agreement in place smoother and sooner rather than later, I certainly would expect that we will start to hear those types of announcements.

Martin John Englert

Seaport Research Partners

Okay. Within the tolling business, what portion of the volumes are being processed for steel mills generally?

Timothy A. Adams

VP & CFO

Generally, our toll mix is pretty heavily weighted towards the mills. So I would say 75% or so is weighted towards the mills.

Martin John Englert

Seaport Research Partners

Okay. In your prepared remarks, you noted construction elevated interest rates is maybe a continued headwind in some areas. But what are you hearing within the supply chain regarding other inflationary

factors such as high steel and metals prices as well as other inputs sort of general inflationary factors, inhibiting activity, pausing activity, canceling projects that were previously planned?

Geoffrey G. Gilmore
CEO, President & Director

I haven't heard anything or any market intelligence of cancellations. But I just think it -- definitely because of rising steel costs or other inflation, it's just the pressure of higher interest rates just become that much more. We start to feel a bit more optimistic about construction in the second half, probably the later second half. But that's really going to come with lower interest rates and then just getting past all the uncertainty with the geopolitical issues and inflation, tariffs. Until we get more clarity there, I think projects will continue to sit on the sidelines outside of data centers.

Martin John Englert
Seaport Research Partners

Okay. And you brought up an example, and I think I asked you maybe a quarter or a couple of quarters back about your pursuing some AI applications internally. You gave an example in the prepared remarks about customer specifications and creating an agent for that application. And you noted 90% accuracy in testing. What bridges the 10% to get you to 100% there?

Geoffrey G. Gilmore
CEO, President & Director

Yes, I just think a little bit more practice and testing with it. I mean you just -- AI is fascinating, and it's certainly a game changer, we believe. But it's critical. The information that you feed it has to be 100% accurate. So just like any other process you're doing, you have to work through it, trial and error, and we have to feel positive that we are providing the AI with all the accurate information and the right information. And we'll get there pretty smoothly and easily, Martin.

Martin John Englert
Seaport Research Partners

Okay. Do you have a specific budget for AI spend for the upcoming fiscal year?

Geoffrey G. Gilmore
CEO, President & Director

No, we don't. We haven't set a specific budget. We do a budgeting process. And it's certainly an area certainly -- we took on obviously quite a bit of debt for the deal, and we want to be mindful of paying debt down, but an area that we want to continue to invest in is artificial intelligence. And we are pretty close to announcing some partnerships with 2 different firms for different reasons to help us accelerate our AI journey.

Martin John Englert
Seaport Research Partners

Okay. Could we take a minute and just review synergies with Kloeckner? I know you've touched on this before, but I believe you're targeting \$150 million, but maybe discuss key categories that you expect to realize that \$150 million within -- revisit the time horizon? And then is there an upper bound, lower bound or plus or minus that \$150 million that you're thinking about?

Geoffrey G. Gilmore
CEO, President & Director

So we're going to stick with the \$150 million EBITDA synergies. We also had said we think there's another \$150 million of working capital opportunities as well. Martin, I would split that 50-50 year 1 and year 2. That's what we've said publicly. And the only other context I can provide to you is that we are highly confident in our ability to achieve this as well as cutting the debt in half within the same time period. Until we reach DPLTA, we're not really able to start integration. And that's what was exciting about accelerating

the closing. It allows us to get to DPLTA sooner and start working closely collaborating and putting our plans in place and getting to some action. So that's what we're most excited about.

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

So I just want to say thank you again for joining us this morning. I really want to close by emphasizing that our strategy remains intact. Electrical steel continues to be a key part of our growth strategy. And now we're turning to the next phase of the Kloeckner transaction with focus and confidence, ready to execute, integrate thoughtfully and create value over time. So thanks for joining us.

Operator

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