Company Name: Worthington Enterprises, Inc. (WOR)

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<<Bobby Schultz, Analyst, Baird>>

Good afternoon, everyone. I'm Bobby Schultz, and I help cover building products here at Baird with Tim Wojs. We're happy to have Worthington Enterprises join us this year again at the Global Industrial Conference. From the company, we have CEO, Joe Hayek; CFO, Colin Souza; and Marcus Rogier from Investor Relations. We're going to run through some prepared remarks, and then, we'll turn it over to some Q&A.

And with that, I'll turn it over to the Worthington team.

<<Joe Hayek, CEO, Worthington Enterprises>>

Thanks, Bobby, and good afternoon. As Bobby said, I'm Joe Hayek, our President and CEO, and we did have our Investor Day. We are three years removed from a separation of Worthington Industries, where Worthington Industries became Worthington Enterprises, and also, Worthington Steel. So, we did an Investor Day three and change years ago, prior to the separation, and we did one again this past Tuesday in New York. So, that is up on the website, and there's a transcript there as well.

I will talk for a few minutes with you and then get into some Q&A, but ultimately, we are a designer and manufacturer of essential solutions that life, building, specialty, and trade solutions. And so, there's a couple things there that matter, hence the bold print. One is essential. Our products really are important, and oftentimes they're required, specified, or replaced when things fail or need to be replaced. The other is every day. What we mostly mean by that is that these are products that are in buildings that you see every single day, but you probably aren't aware of our products. You might take our products for granted or not even know that they're there, which is perfectly fine with us.

I use examples with our teams a lot of times, and you might be able to look around a room or you might be able to think about things in this hotel. But because we're with you, and because the Brewers had so much success this year, I'll use American Family Field, or a lot of people want to say it's Miller Park. If you walk into Miller Park, that's constructed with a lot of ClarkDietrich metal framing studs. It's all over that stadium.

If you go into some of their conference rooms or a lot of the suites, you'll see the grid ceiling, which is from WAVE, which is our 50/50 joint venture. Our products and tools were used to construct and maintain the walls and the facilities. You'll see our ASME water tanks in stairwells and the mechanics. When the roof there is closed, you need air conditioning in the hot summer. Our products got used to control the climate there.

If you see a forklift running around, odds are the aluminum forklift tank was made by us in suburban Columbus, Ohio. And so, you really do get a sense that our products are in lots of places, in lots of niche markets that people don't pay a lot of attention to. But that's great for us, because it allows us to continue operating in those markets very successfully, and it's an area where brands might not be as well-known to everybody, but they're known to our customers, which is really what matters.

We've really built good positions in these niche markets with three things: understanding our customers' needs, engineering solutions that make the work of our customers easier, save them time, and save them money, and then supporting our customers with great customer service and long-term relationships. Worthington has been around for over 70 years. Again, we're three years removed from a separation. We kind of view ourselves as a 70-year-old startup, and we feel really good about that.

80% of our EBITDA comes from markets where we have a leading position in the market. I mentioned WAVE and ClarkDietrich. Logan is commercial metal roof clips. We've got spray foam and adhesive tanks, heating tanks, well water tanks, refrigerant tanks, and on the Trade & Specialty Solutions side, torches and fuel, Coleman camping gas cylinders, and other tools. What matters around the fact that we get so much of our EBITDA from markets where we have leading market share is that our business system, the Worthington Business System, is really tailor-made for smaller markets where we can be important.

We can be important to our customers when it comes to understanding what their pain points are, so that we can design innovative solutions that really hit the mark. If you don't have good market share and you want to engage with your customers like that, it's really, really difficult. But if you are an important part of their success, we get audiences, and it's much easier for us to be helpful. From a transformation perspective, when we think about the Worthington Business System, it's innovation, transformation, and M&A.

From a transformation perspective, with leading market share, we're much more able to make changes that help us do more with less, to save on working capital, to be a bit more lean, to invest in automation, because we believe and we know that because so much of our demand is created and driven through the repair, remodeling, and maintenance of buildings, that we have kind of a built-in residual pieces of demand that help us to continually get more lean.

There's a couple things that I think might be a little helpful from a contextual perspective about our business, and I will certainly get into it more with Bobby, but 80% of our EBITDA comes from products that get used by contractors. Our secret sauce is really innovation and understanding the pro-channel and understanding what's important to them, how they can ultimately make more money if we're good at what we do and we partner with them. We are relatively well-balanced, 60% is non-res.

Non-res tends to be a little more long-cycled than new family, new multi-family, or new single-family homes. Again, 57%, almost 60% of our EBITDA is generated through repair, maintenance, and remodel, that's a bit more on the resilient side of the spectrum. The installed base of buildings in the States is very, very large. It ages every single day. Roofs need to be replaced, ceilings get torn out and replaced, buildings get remodeled, HVAC systems, pipes, heating, all need to be replaced. And so, that is built-in churn and built-in demand for us.

And when we think about ourselves and when we do a good job, we are not just providing what they bought last time, we are providing innovative solutions that are stickier, that are taking advantage of technological advances that have happened since those products went in, and we are partnering with those contractors so that they ultimately have more success and they feel much better about having us as their partner.

Before I conclude and we take some questions and have a dialogue, one of the things that we talked about some in our Investor Day, a couple days ago is that we have got proven strength in our business, and our business is better than it was three years ago, but we have a much greater ambition. And so, three years ago, we outlined a set of long-term targets, financial targets. We have gotten to a point where, and again, long term is three to five years-ish, but we are at a point where we had reached two of those targets and were pacing relatively well for the third. And so, we now have new targets.

We always think it is incumbent on us if internally people are reaching all their goals and they are green across the board, that means their goals are not ambitious enough, and so you need new goals, and so you need some yellow and you need some stretch. And so, 116% is our trailing 12 months free cash flow conversion. We want to continue to drive our free cash flow conversion. I mentioned this, 80% of our EBITDA comes from markets where we are number one in market share.

And then, our prior EBITDA margin target was 24%. We raised that to 25% earlier this week, and we believe that we can get there through a lot of self-help rather than counting on a market recovery or outsized market growth. And so, would maybe leave you with, as we start to have a different set of conversations here, is that we are performing exceptionally well.

We had the opportunity to renew and evolve our targets. We have got fantastic growth opportunities.

When we use the Worthington Business System, it is really around innovation to grow organically. It is around transformation to make our businesses better and to improve our margins, and it is about acquisitions so that we can effectively enter new markets that we can be good owners of and that can benefit from our ownership. And when we think about acquisitions, and this is relatively important, it is high margins, higher than where we are today, which as a company is 21%.

It's asset light relative to where we are because we believe that's a good measure of how successful a company can be, which is the cash flows you generate relative to the assets that you deploy. We want those companies to be in good, attractive markets that we're familiar with or channels that we're familiar with, and we really champion sustainable competitive advantages that we can make better, and hopefully, when things are going really well, those companies will actually make us better as well.

There's a bit of a fallacy sometimes in M&A where you think that as soon as we get ahold of this company, we'll make it that much better, when the reality of it is, the way we think about it, is that this company was appealing to you for a reason. They developed a better mousetrap or multiple better mousetraps, and that's why you ultimately want to partner with them or want them to be part of your company. So, let's just be sure that we learn from that company and that they can make us better as well.

And I think with our balance sheet, we're pretty conservatively levered. I think we're 0.8x net debt to EBITDA. We generate good free cash flows, and we've got growth opportunities ahead of us. With our free cash flows and with our balance sheet being what it is, we can continue to grow our business. We continue to invest in our business. We continue to make acquisitions while we continue to return capital to shareholders through dividends and through share buybacks. And so, we're pretty excited about the future, and we appreciate you guys being here and appreciate you having us at the conference.

Q&A

<<Bobby Schultz, Analyst, Baird>>

Thanks for running through that.

<<Joe Hayek, CEO, Worthington Enterprises>>

You bet.

<<Bobby Schultz, Analyst, Baird>>

Maybe starting-off here, if we could talk kind of about the Investor Day from earlier this week. For those who couldn't attend, I know you touched on some of the points, but what do you think are the two or three most important takeaways from this week's Investor Day?

<<Joe Hayek, CEO, Worthington Enterprises>>

Sure. I'll take that one. Yeah, I mentioned it a little bit. We do think that we're performing better now than we were three years ago. Some of the mindsets that have changed inside the company, you know, go from part of a $5 billion company to a -- at the time, a $1.2 billion, $1.3 billion company now, you know, $1.5 billion. We've got a different, and I think the right mindset around how we do things and how we are nimble and how we're lean, and how we're entrepreneurial, and how we're innovative.

We've got a lot of upside potential, that's true as our markets recover, but in some really growthy areas, like data centers come to mind, and I know that's been an interesting topic for the last week or so, post-elections, but we've got some really fantastic purpose built engineered solutions around the liquid cooling that goes into a lot of the new chipsets and the data center stuff. We do have a set of new financial targets that, if people weren't there, they probably don't appreciate.

And finally, the Worthington Business System, the WBS. I mean, every company has a business system, or they should. I'm not suggesting that ours is measurably or demonstrably better than anybody else's, but we have really come into our own with the Worthington Business System and how we deploy it, and we seek to be in businesses that ultimately serve that business system very well. And so, we're a smarter company than we were, in part because we've got great leaders, and like I said, a lot of runway ahead.

<<Bobby Schultz, Analyst, Baird>>

And coming out of the Investor Day too, I'm guessing you've talked with a lot of investors over the last week or so. What do you think investors really don't appreciate about the business today, and what milestones would you be looking for or should we be looking for over the next year to demonstrate that the strategy's working?

<<Joe Hayek, CEO, Worthington Enterprises>>

I'll take that one. I think, just walked through a little bit of it, Bobby, but I think the growth that we've had and the results that we've achieved, they've been possible in markets that haven't been great. If you go back in the last two or three years and you think about interest rates and you think about, you know, commercial construction peaked in May of 2024, and you think about the Architecture Billings Index has been in contraction territory for a couple of years. And so, there's a fair amount of kind of pent-up or built-in expectation that in a cycle, there are ups and downs.

We've been able to do pretty well in a market that's been pretty mediocre in a lot of respects, if you look at some of the metrics that people spend a lot of time on out there. So, I think that should bode very well for the future because, you know, if there is a market recovery, we would certainly, along with a lot of others, benefit. But I feel like we've developed a lot of muscle tissue that you do ultimately need to leverage in markets that aren't as great as you'd like them to be.

And I think the other piece of it is that the upside that we have comes in lots of different flavors. It's through innovation. It's through different markets. We've got a great innovation pipeline. When we innovate, we're increasingly leveraging a hybrid model where we don't manufacture everything that comes to the contractor or comes to an end user from us.

We're innovating with partners where we can go faster, we can leverage their assets, and so maybe we give up a little bit on the profitability piece, but the assets that we need to deploy are much lower. It helps our free cash flows and our return on net assets. And ultimately, you know, we feel like we're coming into our own as a leadership team and as a management team, and three years in, really excited about the future.

<<Bobby Schultz, Analyst, Baird>>

Maybe for Colin, I know you guys raised your EBITDA margin target at the Investor Day, and a lot of that's going to be coming from self-help initiatives. Maybe could you unpack some of those initiatives and give some examples what you're doing there?

<<Colin Souza, CFO, Worthington Enterprises>>

We raised our targets. We shared 25% EBITDA margin target, and we shared gross margin targets of 30% SG&A down to 20% of sales. We feel like maybe a little bit underappreciated part of Worthington over the past couple of years, and we've seen some really good margin expansion in our wholly-owned businesses, north of 400 basis points just over the past couple of years in terms of margin expansion there.

And so, as we think about the next three to five years, you know, more of the same from leveraging the Worthington Business System with innovation and transformation, but we think that path to 400 basis points or more to achieve 25% EBITDA margin, it comes from really two key areas. The first, about half of that coming from just organic and innovation initiatives. So, every one of our value streams has innovation opportunities that they can layer on to be incremental to what they're doing today.

And then, the other half being transformation, and that's our continuous improvement approach. Where can we take cost out, where applicable, value-based pricing initiatives. Then, we've launched 80/20 as a process at three of our facilities so far, and many more to go. And we really like what we see there, and so we think that gives us some good upside from just a transformation focus and to capture that 200 basis points or more over the next three to five years.

So, ultimately, we also laid out at Investor Day just segment EBITDA margin targets. So, our wholly-owned Building Performance Solutions business, we think we can get to 15% EBITDA margins. And then, in our Trade & Specialty Solutions segment, we think we can get to 21% EBITDA margins.

<<Bobby Schultz, Analyst, Baird>>

Any questions from the audience before I keep going? Awesome. Maybe talking about data center. It's been a big topic over the last week, several weeks here. Maybe where do you play in data center? I know you had mentioned liquid cooling. What problem do your products solve, and who's ultimately making the purchase decision for your data center products?

<<Joe Hayek, CEO, Worthington Enterprises>>

So, with data centers historically were cooled in different ways. They evolved somewhat to kind of a hot aisle, cold aisle thing. And as NVIDIA chips specifically became more productive and they became denser and they put off more heat, that wasn't okay anymore. You needed more direct cooling and more direct ways of keeping those chips doing what

they're supposed to do, and liquid cooling was born. And so, these are effectively a derivative of the ASME water tanks that we have been making for decades.

So, there are probably dozens of ASME water tanks in this hotel, specifically to prime the sprinkler system. If there's a fire, you don't want to wait for the pressure to get here from the street or from anywhere else, and these tanks have existed for a long time. But they are now much more heavily engineered, and they are much more heavily customized for different chipsets. They participate, there are two ways that, there are two loops for cooling in a data center. One is outside and one is inside. These can be used in both.

But very specifically, where these ultimately are driven, and where we have got great engineering, because honestly, we have been doing it for a long time, and we were early to sense the opportunity and see the opportunity. It was probably three or four years ago, we got a call. This is us just being transparent and self-aware. We got a call and somebody said, hey, can you make this tank for us? And we said, yeah, we think we can do that. And then somebody else called and said, hey, do you think we can make this? And we said, yeah. We said, we better figure out why they are asking all these questions.

So since then, we have invested an awful lot of money and added a lot of people and a lot of really smart engineers and a lot of really smart folks on the supply chain side to create, from something that we were already really good at, create an opportunity to take that knowledge and translate it into tanks. And so, we think about, these are the picks and the shovels that data centers are using to cool and to keep things running the way that they are supposed to. Who ultimately, we are selling to are the integrators. The integrators are taking picks and shovels and mining carts and feed and dynamite, things like that, and they are delivering it to the mine, to use the old analogy.

But a couple years ago, our revenue here was de minimis. Last year, in our fiscal ‘26, it was $13 million or so. We did $13 million in Q1 of this past year, which for us ended in August. Our Q2 ends in a couple weeks. We expect that $13 million, that it will grow sequentially for the balance of our fiscal 2027. And we ultimately think that the ASME tank market, historically absent data centers, has been around $200 million. We think that the data center market by itself could be 10 times that in the next few years. Now that certainly doesn't count on a nationwide moratorium on data centers. I don't think anybody believes that.

It is, in my opinion, an election issue is very different than governing and realizing how important these things are and capital is, at the end of the day, relatively mobile. And so, we do think that this growth will continue, and I think we will be positioned very well to get a chance to be part of it.

<<Bobby Schultz, Analyst, Baird>>

Are there any -- I know you mentioned the supply chain. Are there any other investments, whether be more in the supply chain, customer relationships, or engineering, to really support that growth? And kind of, what do you think the biggest execution challenges are on the data center side?

<<Colin Souza, CFO, Worthington Enterprises>>

Well, so I think, as we get more exposure to the space, we have a more meaningful lens into where we think it would make sense to invest in. So, we have invested in resources, we've invested some nominal capital in our facilities just to handle certain capabilities that are needed there, right? And then, just building out our network there, our outsourced kind of partner network, there's time and energy required for that.

And so, as we gain more and more meaningful exposure, and have more constructive conversations with customers, potential customers, we have levers to pull there in terms of, if we want to invest more capital, we absolutely could. If we want to do acquisitions in the space, we can. If we want to add equipment, we can, right? And it just is the benefit of the model Joe shared earlier. And we can gain access to the market quicker and scale faster with the approach we have today, and then we can make the right investments as we move forward.

<<Bobby Schultz, Analyst, Baird>>

If we can touch on the JVs for a second, kind of explain the WAVE and the ClarkDietrich. How are those important earnings contributors? And kind of, how are those businesses performing today? And kind of, what are your expectations longer term for those businesses?

<<Colin Souza, CFO, Worthington Enterprises>>

WAVE is our joint venture we have with Armstrong. It is a 50/50 joint venture. It has been around for over 30 years. A market leader in ceiling grid and integrated solutions. And they are ultimately really good at delivering value to the contractor and increasing kind of the labor efficiency for that contractor so that they can do more jobs faster. And a lot of WAVE's innovation is focused around that.

And as a result, it allows them to continue to drive higher margins with their products, and that has stood the test of time. That has just been part of their approach for many years, and it works really well. And we do not see that changing anytime soon. And they have been able to continue to increase and grow earnings in a flattish kind of volume environment. And then, they have a small and emerging opportunity in data centers as well, which is exciting.

ClarkDietrich, that is our joint venture we have with MISA, Marubeni-Itochu Steel America, and we own 25% of that joint venture. They are a market leader in metal framing, and they really win on the breadth of their offering and their ability to compete at scale. They too have an emerging kind of data center opportunity in structural steel, which is helping offset some of the weakness in just new commercial construction in other areas.

<<Bobby Schultz, Analyst, Baird>>

Yeah.

<<Colin Souza, CFO, Worthington Enterprises>>

And so, really good business there, and they have kind of stabilized with their earnings contribution to Worthington over the past few quarters. And then, to tie it back to your question on margins earlier, Bobby, you know, a significant or step change in ClarkDietrich's earnings over the next few years is not factored into our margin targets. So that would be upside to the extent we see some recovery there.

<<Bobby Schultz, Analyst, Baird>>

And then lastly, you guys have hinted at it earlier, but just how should we think about your capital allocation priorities from here? I think it is pretty balanced between organic growth and inorganic growth. And maybe what is your M&A pipeline look today and where are you kind of seeing the most activity?

<<Colin Souza, CFO, Worthington Enterprises>>

So very balanced with a bias towards growth. If you look over the past couple of years, we spent north of 50% of our capital deployed on acquisitions. And we will continue to invest in our businesses. We're going through a facility modernization program, which we're really

wrapping up, and once that's complete, we would see our CapEx as a percentage of sales revert closer to 3% on a normalized basis.

And then, we'll continue to pay a dividend, and we'll continue to buy back shares opportunistically as well. But on the M&A front, that's a really important driver of our growth, and the pipeline is strong for us there. We've done some really good acquisitions over the past couple of years that we're excited about executing on those, the thesis for why we acquired those businesses.

But it's more kind of market leaders and attractive niches, metals-based product they'll sell to the contractor typically, leans a little more on the non-res construction side, and these are businesses that would benefit from being under the Worthington Business System, take advantage of some of our shared capabilities in manufacturing, metals manufacturing, our purchasing expertise around steel, supply chain expertise, and then to the extent there's some commercial synergy levers to pull, we will absolutely do those as well.

<<Bobby Schultz, Analyst, Baird>>

Well, we're at time, so please join me in thanking the Worthington team for joining us this year.

<<Joe Hayek, CEO, Worthington Enterprises>>

Thanks, everybody. Appreciate it.