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Metallus Inc.

2Q 2026 Earnings

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CORPORATE SPEAKERS:

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Michael Williams
Metallus Inc.; Chief Executive Officer
John Zaranec
Metallus Inc.; Executive Vice President and Chief Financial Officer
Kristopher Westbrooks
Metallus Inc.; President and Chief Operating Officer

PARTICIPANTS:

David Storms
Stonegate; Analyst
Samuel McKinney
KeyBanc Capital Markets; Analyst
Aaron Reed
Northcoast Research; Analyst
John Franzreb
Sidoti & Company; Analyst

PRESENTATION:

Operator^ Hello, everyone. Thank you for joining us and welcome to the 2Q 2026 Metallus Inc. Earnings Call. (Operator Instructions)

I will now hand the conference over to Jenna Johnson. Please go ahead.

Jenna Johnson^ Good morning and welcome to Metallus' Second Quarter 2026 Conference Call. I'm Jenna Johnson, Senior Manager, Finance and Investor Relations for Metallus. Joining me today are Mike Williams, Chief Executive Officer, Kris Westbrooks, President and Chief Operating Officer, and John Zaranec, Executive Vice President and Chief Financial Officer.

You should have received a copy of our press release, which was issued last night. During today's conference call we may make forward-looking statements as defined by the SEC. Actual results may differ materially from those projected or implied due to a variety of factors which we describe in greater detail in yesterday's release. Please refer to our SEC filings, including our most recent Form 10-Q, which will be filed later today, as well as the risk factors included in our earnings release, all of which are available on the Metallus website. Where non-GAAP financial information is referenced, additional details and reconciliations to its GAAP equivalent are included in the earnings release and earnings presentation available on the Investor page at metallus.com.

Now I'll turn the call over to Mike Williams for his remarks.

Michael Williams^ Thank you, Jenna. Thank you all for joining us today. In the second quarter, we generated adjusted EBITDA of $29 million, improving profitability, both sequentially and year-over-year. This is consistent with the expectations we outlined earlier this year. Increased shipments, higher melt utilization, improved pricing and product mix, and solid operating performance drove the improvement. We also continue to benefit from healthy demand across our end markets with the order book up over 50% year-over-year, providing strong visibility heading into the second half of the year.

Our second quarter results reflect the progress we continue to make against our strategic priorities and underscore the strength of our existing and diversifying end markets and customer relationships. As we entered 2026, our focus was simple: improve profitability versus the prior year through consistent execution, commercial excellence, and operational improvement. Our first half performance demonstrates the progress we are making towards that objective with safety remaining our top priority at Metallus.

We continue strengthen our safety culture across our facilities through targeted training, enhanced tools and increased accountability. We also continue to make significant progress with our strategic capital investments, with early indicators suggesting these initiatives are positioned to deliver meaningful commercial and operational benefits over time. The bloom reheat furnace was fully commissioned in early July and is improving process consistency, enhancing downstream product flow and increasing reliability across the facilities.

These improvements are supporting stronger operational execution and position us for greater throughput and productivity gains. At the same time, commissioning of the roller furnace remains on track and is progressing as planned. These investments which were supported in part by U.S. government funding, are expected to improve throughput, quality, efficiency, and service levels for our customers once fully operational. Together, they represent an important step forward in strengthening Metallus' manufacturing capabilities, enhancing our ability to serve critical aerospace and defense programs and strengthening our ability to meet increasing customer demand across industrial, automotive, and energy markets.

In the third quarter, we look forward to celebrating these investments at our ribbon-cutting ceremony and hosting representatives from the U.S. government, key defense customers, and industry partners as we mark this important milestone for the company. The event will highlight the successful partnership between Metallus and the U.S. government in supporting the defense industrial base.

Strong customer demand and a continued growing backlog provide confidence as we begin the second half of the year. Lead times for both our engineered SBQ bar and seamless mechanical tubing products have extended into late fourth quarter 2026, reflecting healthy demand across all markets and ongoing inventory replenishment activity.

Turning to the end markets. Our diversified end market portfolio continues to provide balance across market cycles, while creating opportunities for profitable growth and increasing participation in attractive growing markets. Automotive remains a core market for Metallus and an important contributor to our long-term growth strategy. Auto shipments during the second quarter grew 12% sequentially and 8% year-over-year. Demand across targeted light truck and SUV applications have remained steady, reflecting the value our long-standing customers place on our quality, technical expertise and reliability.

We are also pleased to announce that we secured a new multi-year award for ring gears on a leading automakers’ hybrid transmission platform. Production is expected to begin in 2028. This award further demonstrates our ability to win strategic business on key vehicle platforms while positioning Metallus to benefit from continued hybrid vehicle adoption.

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While industrial shipments in the quarter were down slightly sequentially and year-over-year due to balancing customer requirements with order and shipment timing, industrial markets remain strong and represent one of the largest portions of our order book growth. Our industrial backlog has nearly doubled compared with the prior year, providing strong visibility into future demand. We look forward to delivering for our customers to meet the growing industrial demand in the second half of 2026 as we advance our operational improvements and assets throughput initiatives.

In Energy, demand remained stable despite a cautious capital spending environment, while geopolitical and commodity price uncertainty has moderated activity levels, reduced import competition and improving domestic production are supporting demand for our seamless tubing products. These market conditions are helping improve utilization of our seamless tube assets and create additional opportunities moving forward.

Aerospace and defense remain one of our most attractive growth opportunities, and that momentum was evident in the second quarter when we delivered record shipment tons and sales for these products. Demand continues to be supported by new defense initiatives and existing program replenishment efforts, driving backlog growth. This momentum supports our confidence in achieving our targeted $250 million revenue run rate and highlights the increasingly important role Metallus plays in serving critical defense markets.

We were also pleased to achieve AS9100D certification during the quarter, an important and widely recognized quality standard in the aerospace and defense industries. This certification gives customers added confidence in our ability to deliver the quality, reliability and consistency required for mission-critical applications. It also strengthens our competitive position, supporting our VAR growth strategy and expanding opportunities in high-value markets.

I'd like to congratulate our team on this achievement. Earning the AS9100D certification was a significant cross-functional effort that required dedication, collaboration and discipline across the organization. Most importantly, it reflects the culture of continuous improvement and operational excellence that is embedded throughout Metallus.

In closing, Metallus is a stronger and more resilient company today than it was just a few years ago. We are continuing to maintain a strong balance sheet, improve our operating performance, invest in key manufacturing capabilities, enhance partnerships with existing customers while broadening our customer portfolio, and sharpen our focus on the most attractive opportunities within the specialty metals market. Our priorities remain clear: operate safely, serve our customers reliably, execute our strategic initiatives, and deliver sustainable value to our shareholders. I am proud of what our team accomplished during the second quarter, and I am encouraged by the opportunities ahead.

With that, I'll turn the call over to John to review our second quarter financial results in more detail.

John Zaranec^ Thanks, Mike. Good morning. Thank you for joining our second quarter 2026 earnings call. During the quarter, our team delivered improvements in shipments, net sales and profitability on both a sequential and year-over-year basis, consistent with our expectations. As Mike noted, we also safely advanced operational and strategic investments to support near- and long-term business growth while maintaining a strong balance sheet.

From a top line revenue perspective, second quarter net sales totaled $341 million, a year-over-year increase of $36.4 million or 12%, primarily driven by higher shipments in aerospace and defense and automotive. Net income was $8.9 million in the second quarter or $0.21 per diluted share. On an adjusted basis, net income was $11.1 million or $0.26 per diluted share. Adjusted EBITDA was $29 million in the second quarter, a year-over-year increase of $2.5 million or 9%.

The increased profitability was primarily driven by improved prices, improved mix, and higher shipments, partially offset by manufacturing performance, as melt utilization improved but fell short of plan to fully offset the known increases in energy costs and the first full quarter of labor related to the newly ratified union contract. In the second quarter, operating cash flow totaled $12.8 million, driven by profitability and lower inventory, partially offset by higher accounts receivable at the end of the quarter from increased sales and lower accounts payable due to the timing of raw material purchases. In the second quarter, capital expenditures totaled $15.2 million, including approximately $9.5 million related to the projects primarily funded by the U.S. government.

Consistent with our previous communications, planned capital expenditures for the full year 2026 are expected to be approximately $70 million, inclusive of approximately $35 million of capital expenditures primarily funded by the U.S. government.

At the end of the second quarter, the company's cash and cash equivalents balance was $108.6 million. As it relates to government funding, during the second quarter, the company received the final $11.3 million of cash funding from the U.S. Army. As a reminder, these funds are part of the previously announced nearly $100 million funding agreement in support of the U.S. Army's mission of increasing munitions production. This funding substantially paid for both the new bloom reheat furnace at the company's Faircrest facility as well as the new roller furnace at the Gambrinus facility.

Now switching to pensions. In the second quarter, the company made $5.4 million of required pension contributions related to the U.S. bargaining plan. Based on our updated actuarial analysis, no additional pension contributions are expected for the remainder of 2026. As a reminder, our 2026 pension contributions represent a reduction of over 60% when compared to 2025.

In terms of shareholder return activities, in the second quarter, the company repurchased approximately 190,000 shares of common stock at a cost of $3.6 million. At the end of June, a balance of $81.8 million remained under our existing share repurchase program. Since the inception of common share repurchases in early 2022, combined with the convertible note repurchase activities, we've reduced diluted shares outstanding by a significant 26% or 14 million shares. These actions reflect the strength of the company's balance sheet and confidence in through-cycle cash flow generation.

As it relates to liquidity, on June 30, 2026, the company refinanced its asset-based revolving credit facility and extended the maturity date to June 2031. After the amendment, the credit facility committed capacity is now $300 million.

The new agreement includes an increase in the optional credit facility expansion feature to $200 million and also includes a variety of improvements in other financial terms and covenants including reduced annual fees. The refinance agreement provides us with the flexibility to pursue our strategic initiatives as total liquidity remains strong at $395 million as of June 30, 2026. At the end of the second quarter, the company had no outstanding borrowings.

Turning to the near-term business outlook. Commercially, third quarter shipments are expected to be similar to the second quarter based on customer mix and lead time expectations. Lead times for bar and tube products currently extend into late fourth quarter. Based on lead times and product mix, third quarter price and mix are expected to be slightly better than in the second quarter.

The company recently announced price increases effective early August for customers not covered by annual pricing agreements of $60 per ton on bar, $100 per ton on carbon seamless mechanical tubing and $160 per ton on alloy seamless mechanical tubing products. Based on lead times, the company expects to realize the full run rate benefit of these price increases beginning in 2027.

From an operational perspective, the company anticipates a slight sequential increase in its third quarter average melt utilization rate, supported by a strong order book. Manufacturing costs are expected to be relatively flat in the third quarter as a result of slightly higher melt utilization, offset by increased planned maintenance outages.

Finally, an adjusted effective income tax rate of between 27% and 30% is expected for the full year 2026.

Given these elements, the company expects third quarter 2026 adjusted EBITDA to be slightly higher sequentially and year-over-year, consistent with our message throughout the year of increased profitability each quarter.

To wrap up, thank you to all of our employees, customers, and suppliers for their support. The progress we have made in the first half of 2026 demonstrates our position as a high-quality U.S.-based specialty metals producer, supporting critical markets. As we continue to move forward in 2026, our focus is on safe execution to meet continued rising customer demand. We remain committed to delivering shareholder value through disciplined capital allocation and sustained profitable growth.

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As always, thank you for your interest in Metelus. We would now like to open the call for questions.

QUESTIONS:

Operator^ (Operator Instructions) Our first question comes from the line of Dave Storms with Stonegate.

David Storms^ Maybe I wanted to start with one -- I wanted to start with a clarification on the pricing increases. It sounded like you'll see full run rate in 2027. Just want to confirm, that's on the 30% of your order book that is not contracted, correct? That's the spot price portion of your order book?

Michael Williams^ That is correct.

David Storms^ Okay. Perfect. So then we should expect maybe '27, '28 of those increases on the contracted portion of your order book, if that sounds fair? Then I guess maybe just the general question here is, how are those conversations going? Are customers being pretty receptive and understanding of the economic environment that we're in? Or any nuance there that we should be aware of?

Michael Williams^ Well, I mean, look, I mean all the negotiations with our customers are held in high confidence. So we really don't discuss publicly how those are going. To be honest with you, they haven't really started yet. There's some preliminary discussions. But I also want to qualify something. I don't -- I'm not sure we could predict what 2028 pricing is going to look like. But I will comment about 2027 as this has been a year where demand has improved which naturally drives utilization rates and naturally drives potentially higher pricing acceptance in the market, and that's what we've seen so far this year. It does establish a starting point or a base of price negotiations for 2027 which tends to be positive in that nature.

So 2027 is far from yet to be determined. But as that gets more clarified, we probably can talk a little bit more about that around the early first quarter when we review the fourth quarter results.

Operator^ Your next question from the line of Samuel McKinney with KeyBanc Capital Markets.

Samuel McKinney^ You had a nice step-up in A&D sales in the second quarter, and it represents an annualized revenue of around $240 million, pretty close to the previously communicated target. So a two-part question. Can you provide some more details around the biggest drivers behind the sequential revenue increase? And second, should we expect you to hit that $250 million annualized run rate in the third quarter?

Michael Williams^ Yes. I mean I would say that it's a combination of the step-up in sales. It's continued to increase in demand on the 155-millimeter munitions and also other munitions and then you combine that with the new programs that we've been awarded and are starting to see that demand materialize, that's what really drove the step-up in Q2. We do expect that to continue to improve over the next year as more and more of these new programs ramp up their manufacturing capacity, and we're there to supply them. So we're pretty excited about that. And we continue to work on new programs that will potentially have opportunities to ramp up in 2027, 2028.

Samuel McKinney^ Okay. And then the second quarter melt, you (inaudible) --

Michael Williams^ (inaudible) Before you asked that question. I just wanted to confirm your last part of your question. Yes, we -- our expectation is that we'll achieve that $250 million, at least that $250 million run rate by the end of this year.

Samuel McKinney^ Okay. So by the end of the year?

Michael Williams^ Yes.

Samuel McKinney^ Okay. Then second quarter melt utilization, 74%, up a little bit versus the first quarter, but it seems like you guys were looking to do a little bit better than 74%. So if you could just provide us all with a little more detail on why melt utilization improved less than you expected during the quarter?

Michael Williams^ Yes. Some of it's tied to power interruptions on our interruptible supply agreement. But more so is it really comes down to our shop floor execution and our maintenance reliability. We had expected better progress in that area in Q2. We did see positive progress but not as much as we were planning for. And that's kind of how we guided what we felt the manufacturing costs were going to be. That's probably the biggest single opportunity we have to drive further cost improvement. These new strategic investments in these assets are going to help us do that as well.

So I think we're on the right path. We're on the right trend. I think we guided to that we do expect utilization to improve in Q3. Then just to qualify the fact that Q4 is when we have our very large maintenance outage. So everything that we do that we're focused on on the shop floor execution, our strategic and our tactical investments are centered around reliability and improving our execution on the shop floor.

Operator^ (Operator Instructions) Our next question comes from the line of Aaron Reed with Northcoast Research.

Aaron Reed^ Yes. I just want to briefly touch on the backlog in the industrial doubling. Can you provide any more insights into maybe what subcategories or what industries are really driving that demand right now?

Michael Williams^ Well I'd say the number one is really the industrial base that serves the yellow goods market. So it's really being driven by construction and mining equipment. Then you combine that with some other areas of improvement, a little bit of ag, a little bit of rail, that's predominantly it, but really, the majority of it is coming from the yellow goods sector.

Aaron Reed^ Okay. That makes sense. That's helpful. Then the follow-up question is, I was wondering if you had any more insights as we get closer to '27 in terms of the cadence for revenue generation from the A&D sector? I know that can kind of be a little bit choppy; I wasn't sure if that became a little less opaque as we get further along in the year.

Michael Williams^ Well there's a lot of things downstream from us being a primary material supplier to those specialty metal applications that we don't have control of. So what we are seeing is higher utilization in the munition sector ramping up existing capacity, and we see new entrants coming in to those sector as well. That's where we're seeing increased demand.

We're going to have a much better picture of it probably early next year as we go through our annual contract discussions. Very few of these people are on spot arrangements. And it's also going to be enhanced by a number of program awards that we're working on right now to secure for 2027 and beyond.

So it's a little gray right now, but we do expect munitions to continue to increase in demand through next year because that's what they're forecasting. Then really, it comes down to all these new award -- these new programs that we're trying that win awards of for 2027.

Operator^ Your next question from the line of John Franzreb with Sidoti & Company.

John Franzreb^ I'd just like to revisit the maintenance downtime that you expect in the third quarter. Can you talk to us a little bit about what you're doing and the potential impact on results in the 3Q?

Michael Williams^ Yes. So typically, we tend to do -- our non-bottleneck downstream asset maintenance tends to be a couple of million bucks in the quarter. It's all planned maintenance [and unplanned] maintenance. So we're very aware of what those planned costs are going to be, and that's why we guided to that effect in Q3.

John Zaranec^ Yes, John, we're doing that every quarter. It's just there's a little bit more in Q3 than Q2.

John Franzreb^ Got it. Was that the result of -- it sounds like you maybe didn't hit your maintenance targets in 2Q and you're playing that out in 3Q? Am I reading that properly, or no?

Michael Williams^ No, I mean we did have -- we did have some of our -- we had our normal maintenance spend in Q2. However it wasn't our normal planned spend. And -- but we expected a higher amount of utilization to offset that, and that didn't totally occur.

Kristopher Westbrooks^ John, this is Kris. (inaudible) that we're doing in Q3, it's -- the work in Q3 is well planned a year ago. We've been working on these plans for the tube mills and thermal treat assets, and that will be our focus in Q3 to complete that over a week and get it back and running.

John Franzreb^ Got it. Then just on two of the end markets, are there any changes in your thoughts about what's in the second half versus the first half in the automotive business? And similarly, I'm curious what your thoughts are on the Energy side. I guess with all the pricing and opportunity out there, I would just think that might be a little bit stronger, doesn’t seem to be the case for you.

Michael Williams^ Yes. In regards to automotive, you have to look at the platforms that we're on. So we're on the SUVs and the trucks. So we can -- we expect that -- it's been healthy for us. I think the overall increase in shipments in Q2 versus Q1 was really timing. Then we expect basically flat demand for those platforms that we're on. That's what's being forecasted, and that's what we have built in. So those platforms have been healthy compared to the passenger car platforms. So that's what we expect.

If you look at the build rates that they're forecasting for the year, they're up slightly year-over-year, but pretty much in line with what they were forecasting for this year. So we don't really see any significant increase, but we'll see as we go. If they demand it, we'll figure out how to supply it.

What was the second part of your question, John? Energy, oh --

John Franzreb^ Some of the thoughts on energy.

Michael Williams^ Yes. Energy is kind of a -- it's fairly volatile, but I would say that, yes, we are seeing improvement in demand and opportunities in Energy. That's heavily being influenced by a slight increase in the number of drilling activity in the United States and also the trade tariff environment helps us in that regard. We see these domestic global energy companies trying to secure more domestic supply than relying on a global supply chain for their needs. So that's what we're seeing.

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Operator^ (Operator Instructions) Our next question from the line of Dave Storms with Stonegate.

David Storms^ Just wanted to ask a quick follow-up on aerospace and defense. You mentioned a couple of times that you've had some new program awards there. Just curious, with this new AS9100D certification, is that going to or already driving new awards? Is that more just table stakes? Maybe any more color there would be helpful.

Michael Williams^ Well what the certification does is it verifies and validates our -- the discipline of our quality management system and our execution on the shop floor to comply with those very high restrictive quality requirements. What it does for us from a customer standpoint, we just were recently awarded that and recently announced that. So that's -- it's a marketable capability for us, and it broadens the number of customers and applications that we can serve. So we expect -- do expect that that will broaden our opportunities in the A&D space to get more business and continue to grow that very attractive end market for us.

Operator^ There are no further questions at this time. I will now turn the call back to Jenna for closing remarks.

Jenna Johnson^ Thank you for joining us today. And that concludes our call.

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