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Q4 2026 Earnings Conference Call

Tesma International Inc. · Edited transcript

Participants

- **Seetarama Kotagiri** — President & Chief Executive Officer
- **Lena Park** — Executive Vice President & Chief Financial Officer
- **Daniel Cho** — Vice President, Investor Relations

Prepared Remarks

Daniel Cho — Investor Relations

Good morning everyone, and welcome to Tesma's fourth quarter 2026 conference call. With me on the call today are Seetarama Kotagiri, President and CEO, and Lena Park, EVP and CFO. Before we begin, please note that today's discussion contains forward-looking statements. Actual results may differ materially from these statements. With that, I'll turn it over to Marco.

Seetarama Kotagiri — Chief Executive Officer

Thanks Daniel, and good morning everyone. 2026 was a record year for Tesma. We delivered record sales of \$42.8 billion, expanded adjusted EBIT margins by 40 basis points, and generated \$2.1 billion of free cash flow. We launched 41 new programs, 24 of which are electrified, and we brought four new facilities online across Mexico, Slovakia and China.

Looking at the macro environment, global light vehicle production grew 3.2% in 2026, with our customer mix outperforming the broader market. We saw particular strength in North American truck and SUV programs, as well as in European hybrid platforms where our 8-speed transmission technology continues to win incremental content.

On the electrification front, we are very pleased with the ramp of our integrated eDrive program. Annual production exited 2026 at a run rate of 850,000 units and we remain on track to reach 2.4 million units annually by 2028.

Lena Park — Chief Financial Officer

Thank you Marco. Q4 sales of \$11.2 billion grew 7.8% year over year. Adjusted EBIT of \$1.04 billion produced a margin of 9.3%, up 70 basis points. Adjusted diluted EPS of \$2.18 grew 25% year over year. Free cash flow in the quarter was \$640 million.

For the full year, sales grew 4.1% to \$42.8 billion. Adjusted EBIT of \$3.91 billion was up 9.2%, with margin expansion of 40 basis points. Free cash flow of \$2.11 billion exceeded our guided range. We returned \$1.24 billion to shareholders through dividends and share repurchases, and the Board approved a 6.6% dividend increase.

Turning to 2027 guidance: we expect sales of \$44.0 to \$46.5 billion, adjusted EBIT margin of 9.3% to 9.7%, and free cash flow of \$2.2 to \$2.5 billion. Capital expenditures will be approximately \$1.9 billion, weighted toward electrification programs in our Slovakia and Mexico facilities.

Question & Answer Session

Analyst — Global Bank Securities

Good morning. Can you talk about the cadence of margin improvement in the Driveline and Electrification segment as we progress through 2027?

Lena Park

Sure. We expect Driveline and Electrification margins to expand 100 to 150 basis points in 2027 as our eDrive facilities reach full scale economics. The first half will see modest expansion as we absorb launch costs on three new programs, with most of the improvement weighted to the second half.

Analyst — Capital Markets Research

Marco, can you comment on how the recent announcements from major OEMs about EV program adjustments affect your backlog visibility?

Seetarama Kotagiri

Great question. Our backlog includes a balanced mix of pure EV, hybrid and ICE programs. We have not seen material cancellations — we have seen some shifts in launch timing, with some programs accelerating and others moving out by six to nine months. Net-net, our \$94 billion backlog is intact and we feel confident in the growth trajectory.

Analyst — Independent Research

On capital allocation — should we expect a more aggressive share repurchase program in 2027?

Lena Park

Our priorities remain consistent: first, reinvest in the business; second, grow the dividend; third, opportunistic buybacks; fourth, selective M&A.; With the strong free cash flow outlook, we expect repurchases to step up modestly in 2027, but we will remain disciplined and value-conscious.

Closing Remarks

Seetarama Kotagiri

Thank you everyone for joining us today. We are entering 2027 from a position of strength — record backlog, expanding margins, and a balance sheet that supports continued investment in next-generation powertrain technologies. We look forward to updating you on our progress next quarter.

Forward-Looking Information & Disclaimer

This document contains forward-looking statements within the meaning of applicable securities legislation. Such statements involve risks and uncertainties that could cause actual results to differ materially. See Tesma's most recent Annual Information Form for a discussion of such risks. Financial measures referenced include non-IFRS measures; reconciliations are available in the related MD&A.; © 2026 Tesma International Inc. All rights reserved. TSX: TSM.A · NASDAQ: TSMA.