UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

☒ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended October 1, 2023

☐ **TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from __________ to __________
Commission File Number: 001-32253

EnerSys

(Exact name of registrant as specified in its charter)

Delaware	**23-3058564**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**

2366 Bernville Road
Reading, Pennsylvania 19605
(Address of principal executive offices) (Zip Code)
Registrant's telephone number, including area code: 610-208-1991

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol	Name of each exchange on which registered
Common Stock, $0.01 par value per share	ENS	New York Stock Exchange

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. ☒ Yes ☐ No.

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Securities Exchange Act of 1934.

Large Accelerated Filer	☒	Accelerated filer	☐
Non-accelerated filer	☐	Smaller reporting company	☐
		Emerging growth company	☐

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Securities Exchange Act of 1934). ☐ Yes ☒ No.

Common Stock outstanding at November 3, 2023: 40,399,131 shares

EnerSys
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PART I – FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

EnerSys
Consolidated Condensed Balance Sheets (Unaudited)
(In Thousands, Except Share and Per Share Data)

	October 1, 2023	March 31, 2023
Assets		
Current assets:		
Cash and cash equivalents	$ 327,751	$ 346,665
Accounts receivable, net of allowance for doubtful accounts: October 1, 2023 - $9,688; March 31, 2023 - $8,775	536,501	637,817
Inventories, net	776,503	797,798
Prepaid and other current assets	145,497	113,601
Total current assets	1,786,252	1,895,881
Property, plant, and equipment, net	510,524	513,283
Goodwill	677,349	676,715
Other intangible assets, net	346,324	360,412
Deferred taxes	47,416	49,152
Other assets	125,128	121,231
Total assets	$ 3,492,993	$ 3,616,674
Liabilities and Equity		
Current liabilities:		
Short-term debt	$ 30,544	$ 30,642
Accounts payable	322,805	378,641
Accrued expenses	311,918	309,037
Total current liabilities	665,267	718,320
Long-term debt, net of unamortized debt issuance costs	949,934	1,041,989
Deferred taxes	60,547	61,118
Other liabilities	153,864	191,366
Total liabilities	1,829,612	2,012,793
Commitments and contingencies		
Equity:		
Preferred Stock, $0.01 par value, 1,000,000 shares authorized, no shares issued or outstanding at October 1, 2023 and at March 31, 2023	—	—
Common Stock, $0.01 par value per share, 135,000,000 shares authorized, 56,347,317 shares issued and 40,771,015 shares outstanding at October 1, 2023; 56,004,613 shares issued and 40,901,059 shares outstanding at March 31, 2023	563	560
Additional paid-in capital	612,490	596,464
Treasury stock at cost, 15,576,302 shares held as of October 1, 2023 and 15,103,554 shares held as of March 31, 2023	(787,888)	(740,956)
Retained earnings	2,045,416	1,930,148
Contra equity - indemnification receivable	(1,988)	(2,463)
Accumulated other comprehensive loss	(208,607)	(183,474)
Total EnerSys stockholders' equity	1,659,986	1,600,279
Nonredeemable noncontrolling interests	3,395	3,602
Total equity	1,663,381	1,603,881
Total liabilities and equity	$ 3,492,993	$ 3,616,674

See accompanying notes.

EnerSys
Consolidated Condensed Statements of Income (Unaudited)
(In Thousands, Except Share and Per Share Data)

	Quarter ended	
	October 1, 2023	October 2, 2022
Sales from products	$ 789,312	$ 798,447
Sales from services	111,721	100,990
Net sales	901,033	899,437
Cost of goods sold	574,143	622,845
Cost of services	87,271	80,157
Inventory adjustment relating to exit activities	—	1,544
Gross profit	239,619	194,891
Operating expenses	143,771	137,357
Restructuring and other exit charges	7,234	3,265
Operating earnings	88,614	54,269
Interest expense	12,217	15,461
Other expense (income), net	2,979	(1,446)
Earnings before income taxes	73,418	40,254
Income tax expense	8,189	5,782
Net earnings attributable to EnerSys stockholders	$ 65,229	$ 34,472
Net earnings per common share attributable to EnerSys stockholders:		
Basic	$ 1.59	$ 0.85
Diluted	$ 1.56	$ 0.84
Dividends per common share	$ 0.225	$ 0.175
Weighted-average number of common shares outstanding:		
Basic	40,922,959	40,740,989
Diluted	41,684,634	41,167,622

See accompanying notes.

EnerSys
Consolidated Condensed Statements of Income (Unaudited)
(In Thousands, Except Share and Per Share Data)

	Six months ended	
	October 1, 2023	**October 2, 2022**
Sales from products	$ 1,596,959	$ 1,597,594
Sales from services	212,643	200,814
Net sales	1,809,602	1,798,408
Cost of goods sold	1,161,346	1,258,704
Cost of services	165,233	157,734
Inventory adjustment relating to exit activities	3,098	1,544
Gross profit	479,925	380,426
Operating expenses	288,323	264,435
Restructuring and other exit charges	13,543	11,593
Operating earnings	178,059	104,398
Interest expense	27,461	27,058
Other expense (income), net	3,647	327
Earnings before income taxes	146,951	77,013
Income tax expense	14,925	11,563
Net earnings attributable to EnerSys stockholders	$ 132,026	$ 65,450
Net earnings per common share attributable to EnerSys stockholders:		
Basic	$ 3.23	$ 1.61
Diluted	$ 3.17	$ 1.59
Dividends per common share	$ 0.40	$ 0.35
Weighted-average number of common shares outstanding:		
Basic	40,930,146	40,763,663
Diluted	41,691,479	41,260,134

See accompanying notes.

EnerSys
Consolidated Condensed Statements of Comprehensive Income (Unaudited)
(In Thousands)

	Quarter ended		Six months ended	
	October 1, 2023	October 2, 2022	October 1, 2023	October 2, 2022
Net earnings	$ 65,229	$ 34,472	$ 132,026	$ 65,450
Other comprehensive income (loss):				
Net unrealized gain (loss) on derivative instruments, net of tax	2,495	2,116	4,281	(6,118)
Pension funded status adjustment, net of tax	21	81	41	170
Foreign currency translation adjustment	(31,664)	(56,175)	(29,662)	(108,395)
Total other comprehensive income (loss), net of tax	(29,148)	(53,978)	(25,340)	(114,343)
Total comprehensive income (loss)	36,081	(19,506)	106,686	(48,893)
Comprehensive income (loss) attributable to noncontrolling interests	(17)	(214)	(207)	(424)
Comprehensive income (loss) attributable to EnerSys stockholders	$ 36,098	$ (19,292)	$ 106,893	$ (48,469)

See accompanying notes.

EnerSys
Consolidated Condensed Statements of Cash Flows (Unaudited)
(In Thousands)

	Six months ended	
	October 1, 2023	October 2, 2022
Cash flows from operating activities		
Net earnings	$ 132,026	$ 65,450
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation and amortization	45,214	46,405
Write-off of assets relating to exit activities	4,146	9,081
Derivatives not designated in hedging relationships:		
Net losses (gains)	1,204	472
Cash (settlements) proceeds	695	(2,015)
Provision for doubtful accounts	1,456	206
Deferred income taxes	46	(126)
Non-cash interest expense	820	974
Stock-based compensation	13,077	11,864
(Gain) loss on disposal of property, plant, and equipment	158	(135)
Changes in assets and liabilities:		
Accounts receivable	93,368	(18,409)
Inventories	10,529	(138,327)
Prepaid and other current assets	(13,891)	(17,544)
Other assets	(1,306)	(266)
Accounts payable	(57,233)	(21,417)
Accrued expenses	(44,803)	(9,443)
Other liabilities	217	2,929
Net cash provided by (used in) operating activities	185,723	(70,301)
Cash flows from investing activities		
Capital expenditures	(35,854)	(39,653)
Purchase of business	(8,270)	—
Proceeds from termination of net investment hedges	—	43,384
Proceeds from disposal of property, plant, and equipment	2,007	376
Net cash (used in) provided by investing activities	(42,117)	4,107
Cash flows from financing activities		
Net (repayments) borrowings on short-term debt	(61)	(17,067)
Proceeds from Second Amended Revolver borrowings	172,500	244,100
Repayments of Second Amended Revolver borrowings	(252,500)	(184,100)
Repayments of Second and Third Amended Term Loans	(12,736)	—
Financing costs for debt modification	—	(1,096)
Option proceeds, net	9,668	114
Payment of taxes related to net share settlement of equity awards	(7,348)	(6,257)
Purchase of treasury stock	(47,340)	(22,907)
Dividends paid to stockholders	(16,341)	(14,246)
Other	690	568
Net cash (used in) financing activities	(153,468)	(891)
Effect of exchange rate changes on cash and cash equivalents	(9,052)	(40,980)
Net decrease in cash and cash equivalents	(18,914)	(108,065)
Cash and cash equivalents at beginning of period	346,665	402,488
Cash and cash equivalents at end of period	$ 327,751	$ 294,423

See accompanying notes.

EnerSys
NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS (Unaudited)
(In Thousands, Except Share and Per Share Data)

1. Basis of Presentation

The accompanying unaudited consolidated condensed financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring adjustments except those otherwise described herein) considered necessary for a fair presentation have been included, unless otherwise disclosed. Operating results for the three and six months ended October 1, 2023 are not necessarily indicative of the results that may be expected for the fiscal year ending March 31, 2024.

The Consolidated Condensed Balance Sheet at March 31, 2023 has been derived from the audited consolidated financial statements at that date but does not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements.

The financial statements should be read in conjunction with the Consolidated Financial Statements and Notes thereto included in the Company’s 2023 Annual Report on Form 10-K (SEC File No. 001-32253), which was filed on May 25, 2023 (the “2023 Annual Report”).

EnerSys (the “Company”) reports interim financial information for 13-week periods, except for the first quarter, which always begins on April 1, and the fourth quarter, which always ends on March 31. The four quarters in fiscal 2024 end on July 2, 2023, October 1, 2023, December 31, 2023, and March 31, 2024, respectively. The four quarters in fiscal 2023 ended on July 3, 2022, October 2, 2022, January 1, 2023, and March 31, 2023, respectively.

The consolidated condensed financial statements include the accounts of the Company and its wholly-owned subsidiaries and any partially owned subsidiaries that the Company has the ability to control. All intercompany transactions and balances have been eliminated in consolidation.

Use of Estimates
The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. These estimates and assumptions take into account historical and forward looking factors that the Company believes are reasonable, and the Company’s estimates and assumptions may evolve as conditions change. Actual results could differ from those estimates.

Examples of significant estimates include the allowance for credit losses, the recoverability of property, plant and equipment, the incremental borrowing rate for lease liabilities, the recoverability of intangible assets and other long-lived assets, fair value measurements, including those related to financial instruments, goodwill and intangible assets, valuation allowances on tax assets, pension and postretirement benefit obligations, contingencies and the identification and valuation of assets acquired and liabilities assumed in connection with business combinations.

2. Revenue Recognition

The Company's revenues by reportable segments are presented in Note 16 and are consistent with how we organize and manage our operations, as well as product line net sales information.

Service revenues related to the work performed for the Company's customers by its maintenance technicians generally represent a separate and distinct performance obligation. Control for these services passes to the customer as the services are performed.

A small portion of the Company's customer arrangements oblige the Company to create customized products for its customers that require combining both products and services into a single performance obligation because the individual products and services that are required to fulfill the customer requirements do not meet the definition for a distinct performance obligation. These customized products generally have no alternative use to the Company and the terms and conditions of these arrangements give the Company the enforceable right to payment for performance completed to date, including a reasonable profit margin. For these arrangements, control transfers over time and the Company measures progress towards completion by selecting the input or output method that best depicts the transfer of control of the underlying goods and services to the customer for each respective arrangement. Methods used by the Company to measure progress toward completion include labor hours, costs incurred and units of production. Revenues recognized over time for the second quarter of fiscal 2024 and 2023 amounted to $68,812 and $56,202, respectively. Revenues recognized over time for the six months of fiscal 2024 and 2023 amounted to $127,466 and $113,206, respectively.

On October 1, 2023, the aggregate transaction price allocated to unsatisfied (or partially unsatisfied) performance obligations was approximately $121,895, of which, the Company estimates that approximately $89,876 will be recognized as revenue in fiscal 2024, $31,657 in fiscal 2025, and $315 in fiscal 2026, $23 in fiscal 2027, and $24 thereafter.

Any payments that are received from a customer in advance, prior to the satisfaction of a related performance obligation and billings in excess of revenue recognized, are deferred and treated as a contract liability. Advance payments and billings in excess of revenue recognized are classified as current or non-current based on the timing of when recognition of revenue is expected. As of October 1, 2023, the current and non-current portion of contract liabilities were $23,501 and $955, respectively. As of March 31, 2023, the current and non-current portion of contract liabilities were $34,594 and $1,437, respectively. Revenues recognized during the second quarter of fiscal 2024 and 2023 that were included in the contract liability at the beginning of the quarter, amounted to $6,737 and $5,832, respectively. Revenues recognized during the six months of fiscal 2024 and 2023 that were included in the contract liability at the beginning of the year, amounted to $14,113 and $6,877, respectively.

Amounts representing work completed and not billed to customers represent contract assets and were $54,825 and $48,616 as of October 1, 2023 and March 31, 2023, respectively.

The Company uses historic customer product return data as a basis of estimation for customer returns and records the reduction of sales at the time revenue is recognized. At October 1, 2023, the right of return asset related to the value of inventory anticipated to be returned from customers was $4,647 and refund liability representing amounts estimated to be refunded to customers was $7,748.

3. Accounts Receivable

	October 1, 2023	March 31, 2023
Accounts receivable	$ 546,189	$ 646,592
Allowance for doubtful accounts	9,688	8,775
Accounts receivable, net	$ 536,501	$ 637,817

During the third quarter of 2023, the Company entered into a Receivables Purchase Agreement (RPA), under which the Company continuously sells its interest in designated pools of trade accounts receivables, at a discount, to a special purpose entity, which in turn sells certain of the receivables to an unaffiliated financial institution ("unaffiliated financial institution") on a monthly basis. The Company may sell certain US-originated accounts receivable balances up to a maximum amount of $150,000. In return for these sales, the Company receives a cash payment equal to the face value of the receivables and is charged a fee of Secured Overnight Financing Rate ("SOFR") plus 85 basis points against the sold receivable balance. The program is conducted through EnerSys Finance LLC ("EnerSys Finance"), an entity structured to be bankruptcy remote, and matures in December 2025. The Company is deemed the primary beneficiary of EnerSys Finance as the Company has both the power to direct the activities that most significantly impact the entity's economic performance and the obligation to absorb losses or the right to receive the benefits that could potentially be significant to the entity from the transfer of the trade accounts receivables into the special purpose entity. Accordingly, EnerSys Finance is included in the Company's Consolidated Condensed Financial Statements.

Receivables sold to unaffiliated financial institutions under the program are excluded from "Accounts receivable, net" on the Company's Consolidated Condensed Balance Sheets, and cash receipts are reflected as cash provided by operating activities on the Consolidated Condensed Statements of Cash Flows. The purchase price is received in cash when the receivables are sold, and fees charged relating to this balance are recorded to other (income) expense. Certain unsold receivables held by EnerSys Finance serve as collateral to unaffiliated financial institutions. These unsold receivables are included in "Accounts receivable, net" in the Company's Consolidated Condensed Balance Sheets. The Company continues servicing the receivables which were sold and in exchange receives a servicing fee from EnerSys Finance under the program.

During the second quarter and the six months of fiscal 2024, the Company sold $174,372 and $356,763, respectively, of accounts receivables for approximately $174,372 and $356,763, respectively, in proceeds to an unaffiliated financial institution, of which $179,132 and $362,484, respectively, were collected as of October 1, 2023. Total collateralized accounts receivables of approximately $219,657 were held by EnerSys Finance at October 1, 2023.

Any accounts receivables held by EnerSys Finance would likely not be available to other creditors of the Company in the event of bankruptcy or insolvency proceedings relating to the Company until the outstanding balances under the RPA are satisfied. Additionally, the financial obligations of EnerSys Finance to the unaffiliated financial institutions under the program are limited to the assets it owns and there is no recourse to the Company for receivables that are uncollectible as a result of the insolvency of EnerSys Finance or its inability to pay the account debtors.

4. Inventories

	October 1, 2023	March 31, 2023
Raw materials	$ 309,500	$ 323,418
Work-in-process	117,218	123,401
Finished goods	349,785	350,979
Total	$ 776,503	$ 797,798

5. Fair Value of Financial Instruments

Recurring Fair Value Measurements

The following tables represent the financial assets and (liabilities) measured at fair value on a recurring basis as of October 1, 2023 and March 31, 2023, and the basis for that measurement:

	Total Fair Value Measurement October 1, 2023	Quoted Price in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Lead forward contracts	$ 52	$ —	$ 52	$ —
Foreign currency forward contracts	(1,010)	—	(1,010)	—
Interest Rate Swaps	4,671	—	4,671	—
Net investment hedges	(14,960)	—	(14,960)	—
Total derivatives	$ (11,247)	$ —	$ (11,247)	$ —

	Total Fair Value Measurement March 31, 2023	Quoted Price in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Lead forward contracts	$ (89)	$ —	$ (89)	$ —
Foreign currency forward contracts	923	—	923	—
Interest Rate Swaps	(1,162)	—	(1,162)	—
Net investment hedges	(15,760)	—	(15,760)	—
Total derivatives	$ (16,088)	$ —	$ (16,088)	$ —

The fair values of lead forward contracts are calculated using observable prices for lead as quoted on the London Metal Exchange ("LME") and, therefore, were classified as Level 2 within the fair value hierarchy, as described in Note 1- *Summary of Significant Accounting Policies* to the Company's Consolidated Financial Statements included in the 2023 Annual Report.

The fair values for foreign currency forward contracts and net investment hedges are based upon current quoted market prices and are classified as Level 2 based on the nature of the underlying market in which these derivatives are traded.

The fair value of interest rate swap agreements are based on observable prices as quoted for receiving the variable one month term SOFR and paying fixed interest rates and, therefore, were classified as Level 2.

Financial Instruments

The fair values of the Company's cash and cash equivalents approximate carrying value due to their short maturities.

The fair value of the Company's short-term debt and borrowings under the Third Amended Credit Facility (as defined in Note 11), approximate their respective carrying value, as they are variable rate debt and the terms are comparable to market terms as of the balance sheet dates and are classified as Level 2.

In fiscal 2020, the Company issued its 4.375% Senior Notes due December 15, 2027 (the "2027 Notes"), with an original face value of $300,000. The fair value of the 2027 Notes represents the trading values based upon quoted market prices and are classified as Level 2. The 2027 Notes were trading at approximately 91% and 92% of face value on October 1, 2023 and March 31, 2023, respectively.

The carrying amounts and estimated fair values of the Company's derivatives and Senior Notes at October 1, 2023 and March 31, 2023 were as follows:

	October 1, 2023		March 31, 2023	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial assets:				
Derivatives [1]	$ —	$ —	$ —	$ —
Financial liabilities:				
Senior Notes [2]	$ 300,000	$ 272,610	$ 300,000	$ 276,000
Derivatives [1]	$ (11,247)	$ (11,247)	$ (16,088)	$ (16,088)

(1) Represents lead, foreign currency forward contracts, interest rate swaps, and net investment hedges (see Note 6 for asset and liability positions of the lead, foreign currency forward contracts, interest rate swaps, and net investment hedges at October 1, 2023 and March 31, 2023).

(2) The fair value amount of the Senior Notes at October 1, 2023 and March 31, 2023 represent the trading value of the instruments.

Non-recurring fair value measurements

On June 29, 2022, the Company committed to a plan to close its facility in Ooltewah, Tennessee, which focused on manufacturing flooded motive power batteries for electric forklifts. Management determined that future demand for traditional motive power flooded cells will decrease as customers transition to maintenance free product solutions in lithium and Thin Plate Pure Lead (TPPL). As a result, the Company concluded that the carrying value of the asset group was not recoverable and recorded during the first quarter of fiscal 2023 a write-off of $7,300 of the fixed assets, for which there is expected to be no salvageable value. The valuation technique used to measure the fair value of fixed assets was a combination of the income and market approaches. The inputs used to measure the fair value of these fixed assets under the income approach were largely unobservable and accordingly were classified as Level 3.

6. Derivative Financial Instruments

The Company utilizes derivative instruments to reduce its exposure to fluctuations in commodity prices, foreign exchange rates and interest, under established procedures and controls. The Company does not enter into derivative contracts for speculative purposes. The Company's agreements are with creditworthy financial institutions and the Company anticipates performance by counterparties to these contracts and therefore no material loss is expected.

Derivatives in Cash Flow Hedging Relationships

Lead Forward Contracts

The Company enters into lead forward contracts to fix the price for a portion of its lead purchases. Management considers the lead forward contracts to be effective against changes in the cash flows of the underlying lead purchases. The vast majority of such contracts are for a period not extending beyond one year. At October 1, 2023 and March 31, 2023, the Company has hedged the price to purchase approximately 59.0 million pounds and 50.0 million pounds of lead, respectively, for a total purchase price of $58,166 and $47,921, respectively.

Foreign Currency Forward Contracts

The Company uses foreign currency forward contracts and options to hedge a portion of the Company's foreign currency exposures for lead, as well as other foreign currency exposures so that gains and losses on these contracts offset changes in the underlying foreign currency denominated exposures. The vast majority of such contracts are for a period not extending beyond one year. As of October 1, 2023 and March 31, 2023, the Company had entered into a total of $43,756 and $45,823, respectively, of such contracts.

Interest Rate Swap Agreements

The Company is exposed to changes in variable interest rates on borrowings under our credit agreement. On a selective basis, from time to time, it enters into interest rate swap agreements to reduce the negative impact that increases in interest rates could have on our outstanding variable rate debt. At October 1, 2023 and March 31, 2023 such agreements effectively convert $200,000 of our variable-rate debt to a fixed-rate basis, utilizing the one-month term SOFR, as a floating rate reference. Fluctuations in SOFR and fixed rates affect both our net financial investment position and the amount of cash to be paid or received by us under these agreements.

Derivatives in Net Investment Hedging Relationships

Net Investment Hedges

The Company uses cross currency fixed interest rate swaps to hedge its net investments in foreign operations against future volatility in the exchange rates between the U.S. Dollar and Euro.

On December 23, 2021, the Company entered into cross currency fixed interest rate swap agreements, with aggregate notional amounts of $300,000, to hedge its net investments in foreign operations against future volatility in the exchange rates between U.S. dollars and euros. On September 29, 2022, the Company terminated its $300,000 cross-currency fixed interest rate swap contracts, originally entered into on December 23, 2021, and received a net settlement of $43,384. The cash proceeds have been included in Proceeds from termination of net investment hedges in our Consolidated Condensed Statements of Cash Flows.

On September 29, 2022, the Company entered into cross-currency fixed interest rate swap contracts with an aggregate notional amount of $150,000, maturing on December 15, 2027. The cross-currency fixed interest rate swap contracts qualify for hedge accounting as a net investment hedging instrument, which allows for them to be remeasured to foreign currency translation adjustment within AOCI (“Accumulated Other Comprehensive Income”) to offset the translation risk from those investments. Balances in the foreign currency translation adjustment accounts remain until the sale or substantially complete liquidation of the foreign entity, upon which they are recognized as a component of income (expense).

Impact of Hedging Instruments on AOCI

In the coming twelve months, the Company anticipates that $7,239 of pretax (gain) relating to lead, foreign currency forward contracts and net investment hedges will be reclassified from AOCI as part of cost of goods sold and interest expense. This amount represents the current net unrealized impact of hedging lead, foreign exchange rates and interest rates, which will change as market rates change in the future. This amount will ultimately be realized in the Consolidated Condensed Statements of Income as an offset to the corresponding actual changes in lead, foreign exchange rates and interest costs resulting from variable lead cost, foreign exchange and interest rates hedged.

Derivatives not Designated in Hedging Relationships

Foreign Currency Forward Contracts

The Company also enters into foreign currency forward contracts to economically hedge foreign currency fluctuations on intercompany loans and foreign currency denominated receivables and payables. These are not designated as hedging instruments and changes in fair value of these instruments are recorded directly in the Consolidated Condensed Statements of Income. As of October 1, 2023 and March 31, 2023, the notional amount of these contracts was $64,301 and $102,558, respectively.

Presented below in tabular form is information on the location and amounts of derivative fair values in the Consolidated Condensed Balance Sheets and derivative gains and losses in the Consolidated Condensed Statements of Income:

Fair Value of Derivative Instruments
October 1, 2023 and March 31, 2023

	Derivatives and Hedging Activities Designated as Cash Flow Hedges		Derivatives and Hedging Activities Designated as Net Investment Hedges		Derivatives and Hedging Activities Not Designated as Hedging Instruments	
	October 1, 2023	March 31, 2023	October 1, 2023	March 31, 2023	October 1, 2023	March 31, 2023
Prepaid and other current assets:						
Lead forward contracts	$ 52	$ —	$ —	$ —	$ —	$ —
Foreign currency forward contracts	689	723	—	—	—	200
Net investment hedges	—	—	—	—	—	—
Other assets:						
Interest rate swaps	4,671	—	—	—	—	—
Net investment hedges	—	—	—	—	—	—
Total assets	$ 5,412	$ 723	$ —	$ —	$ —	$ 200
Accrued expenses:						
Lead forward contracts	$ —	$ 89	$ —	$ —	$ —	$ —
Foreign currency forward contracts	—	—	—	—	1,699	—
Other liabilities:						
Interest rate swaps	—	1,162	—	—	—	—
Net investment hedges	—	—	14,960	15,760	—	—
Total liabilities	$ —	$ 1,251	$ 14,960	$ 15,760	$ 1,699	$ —

The Effect of Derivative Instruments on the Consolidated Condensed Statements of Income
For the quarter ended October 1, 2023

Derivatives Designated as Cash Flow Hedges	Pretax Gain (Loss) Recognized in AOCI on Derivative (Effective Portion)	Location of Gain (Loss) Reclassified from AOCI into Income (Effective Portion)	Pretax Gain (Loss) Reclassified from AOCI into Income (Effective Portion)
Lead forward contracts	$ 1,903	Cost of goods sold	$ 453
Foreign currency forward contracts	(40)	Cost of goods sold	(235)
Interest rate swaps	1,614	Interest expense	—
Total	$ 3,477		$ 218

Derivatives Designated as Net Investment Hedges	Pretax Gain (Loss) Recognized in AOCI on Derivative (Effective Portion)	Location of Gain (Loss) Reclassified from AOCI into Income (Effective Portion)	Pretax Gain (Loss) Reclassified from AOCI into Income (Effective Portion)
Cross currency fixed interest rate swaps	$ 3,701	Interest expense	$ —
Total	$ 3,701		$ —

Derivatives Not Designated as Hedging Instruments	Location of Gain (Loss) Recognized in Income on Derivatives	Pretax Gain (Loss)
Foreign currency forward contracts	Other (income) expense, net	$ (701)
Total		$ (701)

The Effect of Derivative Instruments on the Consolidated Condensed Statements of Income
For the quarter ended October 2, 2022

Derivatives Designated as Cash Flow Hedges	Pretax Gain (Loss) Recognized in AOCI on Derivative (Effective Portion)	Location of Gain (Loss) Reclassified from AOCI into Income (Effective Portion)	Pretax Gain (Loss) Reclassified from AOCI into Income (Effective Portion)
Lead forward contracts	$ 334	Cost of goods sold	$ (1,893)
Foreign currency forward contracts	1,361	Cost of goods sold	826
Total	$ 1,695		$ (1,067)

Derivatives Designated as Net Investment Hedges	Pretax Gain (Loss) Recognized in AOCI on Derivative (Effective Portion)	Location of Gain (Loss) Reclassified from AOCI into Income (Effective Portion)	Pretax Gain (Loss) Reclassified from AOCI into Income (Effective Portion)
Cross currency fixed interest rate swaps	$ 17,023	Interest expense	$ 1,665
Total	$ 17,023		$ 1,665

Derivatives Not Designated as Hedging Instruments	Location of Gain (Loss) Recognized in Income on Derivatives	Pretax Gain (Loss)
Foreign currency forward contracts	Other (income) expense, net	$ (688)
Total		$ (688)

The Effect of Derivative Instruments on the Consolidated Condensed Statements of Income
For the six months ended October 1, 2023

Derivatives Designated as Cash Flow Hedges	Pretax Gain (Loss) Recognized in AOCI on Derivative (Effective Portion)	Location of Gain (Loss) Reclassified from AOCI into Income (Effective Portion)	Pretax Gain (Loss) Reclassified from AOCI into Income (Effective Portion)
Lead forward contracts	$ 2,378	Cost of goods sold	$ 3,548
Foreign currency forward contracts	859	Cost of goods sold	(64)
Interest rate swaps	6,463	Interest expense	630
Total	$ 9,700		$ 4,114

Derivatives Designated as Net Investment Hedges	Pretax Gain (Loss) Recognized in AOCI on Derivative (Effective Portion)	Location of Gain (Loss) Reclassified from AOCI into Income (Effective Portion)	Pretax Gain (Loss) Reclassified from AOCI into Income (Effective Portion)
Cross currency fixed interest rate swaps	$ 911	Interest expense	$ 112
Total	$ 911		$ 112

Derivatives Not Designated as Hedging Instruments	Location of Gain (Loss) Recognized in Income on Derivative	Pretax Gain (Loss)
Foreign currency forward contracts	Other (income) expense, net	$ (1,204)
Total		$ (1,204)

The Effect of Derivative Instruments on the Consolidated Condensed Statements of Income
For the six months ended October 2, 2022

Derivatives Designated as Cash Flow Hedges	Pretax Gain (Loss) Recognized in AOCI on Derivative (Effective Portion)	Location of Gain (Loss) Reclassified from AOCI into Income (Effective Portion)	Pretax Gain (Loss) Reclassified from AOCI into Income (Effective Portion)
Lead forward contracts	$ (10,528)	Cost of goods sold	$ (1,198)
Foreign currency forward contracts	2,616	Cost of goods sold	1,272
Total	$ (7,912)		$ 74

Derivatives Designated as Net Investment Hedges	Pretax Gain (Loss) Recognized in AOCI on Derivative (Effective Portion)	Location of Gain (Loss) Reclassified from AOCI into Income (Effective Portion)	Pretax Gain (Loss) Reclassified from AOCI into Income (Effective Portion)
Cross currency fixed interest rate swaps	$ 40,618	Interest expense	$ 2,923
Total	$ 40,618		$ 2,923

Derivatives Not Designated as Hedging Instruments	Location of Gain (Loss) Recognized in Income on Derivative	Pretax Gain (Loss)
Foreign currency forward contracts	Other (income) expense, net	$ (472)
Total		$ (472)

7. Income Taxes

The Company’s income tax provision consists of federal, state and foreign income taxes. The tax provision for the second quarter of fiscal 2024 and 2023 was based on the estimated effective tax rates applicable for the full years ending March 31, 2024 and March 31, 2023, respectively, after giving effect to items specifically related to the interim periods. The Company’s effective income tax rate with respect to any period may be volatile based on the mix of income in the tax jurisdictions, in which the Company operates, changes in tax laws and the amount of the Company's consolidated earnings before taxes.

On August 16, 2022, the Inflation Reduction Act of 2022 (“IRA”) was enacted. The IRA includes multiple incentives to promote clean energy, and energy storage manufacturing among other provisions with tax credits available from 2023 to 2032, subject to phase down beginning in 2030. In particular the IRA creates a refundable tax credit, pursuant to Section 45X of the Internal Revenue Code (“IRC”), for battery cells and battery modules manufactured or assembled in the United States and sold to third parties. In the second quarter and six months of fiscal 2024, the IRA impact resulted in a reduction of our costs of goods sold and income tax payable of $21,816 and $41,234, respectively. There is a possibility that additional clarification guidance is issued with respect to the Section 45X credit qualifications. Amounts recognized in the Consolidated Condensed Financial Statements are based on Management's judgement and best estimate utilizing the most current guidance. The Company will continue to evaluate the effects of IRA as more guidance is issued and the relevant implications to our Consolidated Condensed Financial Statements. Actual results could differ from management’s current estimate.

The consolidated effective income tax rates for the second quarter of fiscal 2024 and 2023 were 11.2% and 14.4% and for the six months of fiscal 2024 and 2023 were 10.2% and 15.0%, respectively. The rate decrease in the second quarter and six months of fiscal 2024 compared to the prior year periods are primarily due to the impact of the IRA offset by the mix of earnings among tax jurisdictions.

Foreign income as a percentage of worldwide income is estimated to be 56% for fiscal 2024 compared to 83% for fiscal 2023. This reduction is primarily due to the IRA Impact on domestic earnings. The foreign effective tax rates for the six months of fiscal 2024 and 2023 were 13% and 12%, respectively. Income from the Company's Swiss subsidiary comprised a substantial portion of the Company's overall foreign mix of income for both fiscal 2024 and fiscal 2023 and were taxed at an effective income tax rate of approximately 9% in both periods.

8. Warranty

The Company provides for estimated product warranty expenses when products are sold, with related liabilities included within accrued expenses and other liabilities. As warranty estimates are forecasts that are based on the best available information, primarily historical claims experience, costs of claims may ultimately differ from amounts provided. An analysis of changes in the liability for product warranties is as follows:

	Quarter ended		Six months ended	
	October 1, 2023	October 2, 2022	October 1, 2023	October 2, 2022
Balance at beginning of period	$ 58,438	$ 52,954	$ 56,630	$ 54,978
Current period provisions	7,784	6,461	16,469	11,401
Costs incurred	(6,974)	(5,313)	(14,420)	(11,057)
Foreign currency translation adjustment	(412)	(1,708)	157	(2,928)
Balance at end of period	$ 58,836	$ 52,394	$ 58,836	$ 52,394

9. Commitments, Contingencies and Litigation

Litigation and Other Legal Matters

In the ordinary course of business, the Company and its subsidiaries are routinely defendants in or parties to pending and threatened legal actions and proceedings, including actions brought on behalf of various classes of claimants. These actions and proceedings are generally based on alleged violations of environmental, anticompetition, employment, contract and other laws. In some of these actions and proceedings, claims for substantial monetary damages are asserted against the Company and its subsidiaries. In the ordinary course of business, the Company and its subsidiaries are also subject to regulatory and governmental examinations, information gathering requests, inquiries, investigations, and threatened legal actions and proceedings. In connection with formal and informal inquiries by federal, state, local and foreign agencies, the Company and its subsidiaries receive numerous requests, subpoenas and orders for documents, testimony and information in connection with various aspects of their activities.

European Competition Investigations

Certain of the Company's European subsidiaries had received subpoenas and requests for documents and, in some cases, interviews from, and have had on-site inspections conducted by, the competition authorities of Belgium, Germany and the Netherlands relating to conduct and anticompetitive practices of certain industrial battery participants. For additional information regarding these matters, see Note 19 - *Commitments, Contingencies and Litigation* to the Consolidated Financial Statements contained in the 2023 Annual Report. As of October 1, 2023 and March 31, 2023, the Company did not have a reserve balance related to these matters.

The precise scope, timing and time period at issue, as well as the final outcome of the investigations or customer claims, remain uncertain. Accordingly, the Company's estimate may change from time to time, and actual losses could vary.

Environmental Issues

As a result of its operations, the Company is subject to various federal, state, and local, as well as international environmental laws and regulations and is exposed to the costs and risks of registering, handling, processing, storing, transporting, and disposing of hazardous substances, especially lead and acid. The Company's operations are also subject to federal, state, local and international occupational safety and health regulations, including laws and regulations relating to exposure to lead in the workplace. The Company believes that it has adequate reserves to satisfy its environmental liabilities.

Lead, Foreign Currency Forward Contracts and Swaps

To stabilize its lead costs and reduce volatility from currency and interest rate movements, the Company entered into contracts with financial institutions. The vast majority of lead and foreign currency contracts are for a period not extending beyond one year. The Company also entered into a cross currency fixed interest rate swap agreement, maturing on December 15, 2027, to hedge its net investments in foreign operations against future volatility in the exchange rates between the U.S. Dollar and Euro. The Company also entered into floating to fixed interest rate swap agreements maturing on September 30, 2026, to hedge its exposure to variable interest rates. Please refer to Note 6 - *Derivative Financial Instruments* for more details.

10. Restructuring and Other Exit Charges

Restructuring Programs

As disclosed in the 2023 Annual Report, the Company committed to restructuring plans aimed at improving operational efficiencies across its lines of business. A substantial portion of these plans are complete with an estimated $4,959 remaining to be incurred by the end of fiscal 2024, mainly related to new plans started in fiscal 2024. Restructuring and exit charges for the second quarter of fiscal 2024 by reportable segments are as follows:

	Quarter ended October 1, 2023			
	Energy Systems	Motive Power	Specialty	Total
Restructuring charges	$ 2,226	$ 847	$ 34	$ 3,107
Exit charges	—	2,632	1,495	4,127
Restructuring and other exit charges	$ 2,226	$ 3,479	$ 1,529	$ 7,234

	Six months ended October 1, 2023			
	Energy Systems	Motive Power	Specialty	Total
Restructuring charges	$ 2,714	$ 847	$ 34	$ 3,595
Exit charges	—	4,191	5,757	9,948
Restructuring and other exit charges	$ 2,714	$ 5,038	$ 5,791	$ 13,543

A roll-forward of the restructuring reserve, excluding exit charges, is as follows:

Balance as of March 31, 2023	$ 445
Accrued	3,595
Costs incurred	(1,490)
Foreign currency impact	(3)
Balance as of October 1, 2023	$ 2,547

Exit Charges

Fiscal 2024 Program

Renewables

On November 8, 2023, the Company's Board of Directors approved a plan to stop production and operations of residential renewable energy products, which include our OutBack and Mojave brands. Management determined that residential renewable energy products no longer fit with the company’s core strategy and resources will be better allocated toward commercial energy solutions for enterprise customers. The Company currently estimates that the charges for these actions will amount to approximately $15,000 to $25,000 relating to non-cash charges including inventory and an indefinite-lived intangible asset write-offs and approximately $1,000 in cash charges including employee severance and retention payments.

Fiscal 2023 Programs

Sylmar

In November 2022, the Company committed to a plan to close its facility in Sylmar, California, which manufactures specialty lithium batteries for aerospace and medical applications. Management determined to close the site upon the expiration of its lease on the property and to redirect production through consolidation into existing locations. The Company currently estimates total charges in the exit to amount to $10,957. Cash charges are estimated to total $7,155 primarily relating to severance and other costs to leave the site. Non-cash charges are estimated to be $3,802 relating to fixed assets, inventory, and contract assets. The plan is expected to be completed in fiscal 2024.

During fiscal 2023, the Company recorded cash charges of $1,682 related primarily related to severance costs and non-cash charges totaling $417 primarily relating to contract assets.

During the six months of fiscal 2024, the Company recorded cash charges of $5,512 primarily related to severance costs, relocation expenses, and manufacturing variances and non-cash charges totaling $245. The Company also recorded a non-cash write off relating to inventories of $3,098, which was reported in cost of goods sold.

Ooltewah

On June 29, 2022, the Company committed to a plan to close its facility in Ooltewah, Tennessee, which produced flooded motive power batteries for electric forklifts. Management determined that future demand for traditional motive power flooded cells will decrease as customers transition to maintenance free product solutions in lithium and TPPL. The Company currently estimates that the total charges for these actions will amount to approximately $18,500. Cash charges for employee severance related payments, cleanup related to the facility, contractual releases and legal expenses are estimated to be $9,200 and non-cash charges from inventory and fixed asset write-offs are estimated to be $9,300. These actions will result in the reduction of approximately 165 employees. The majority of these charges are expected to be recorded by the end of calendar 2023.

During fiscal 2023, the Company recorded cash charges relating to severance and manufacturing variances of $2,735 and non-cash charges of $7,261 relating to fixed asset write-offs. The Company also recorded a non-cash write off relating to inventories of $1,613, which was reported in cost of goods sold.

During the six months of fiscal 2024, the Company recorded cash charges relating to site clean up and decommissioning equipment of $2,176.

Fiscal 2021 Program

Hagen, Germany

In fiscal 2021, the Company's Board of Directors approved a plan to close substantially all of its facility in Hagen, Germany, which produced flooded motive power batteries for electric forklifts. Management determined that future demand for the motive power batteries produced at this facility was not sufficient, given the conversion from flooded to maintenance free batteries by customers, the existing number of competitors in the market, as well as the near term decline in demand and increased uncertainty from the pandemic. The Company plans to retain the facility with limited sales, service and administrative functions along with related personnel for the foreseeable future.

The Company currently estimates that the total charges for these actions will amount to approximately $60,000, of which cash charges for employee severance related payments, cleanup related to the facility, contractual releases and legal expenses were estimated to be $40,000 and non-cash charges from inventory and equipment write-offs were estimated to be $20,000. The majority of these charges were recorded as of January 1, 2023. These actions resulted in the reduction of approximately 200 employees.

During fiscal 2021, the Company recorded cash charges relating to severance of $23,331 and non-cash charges of $7,946 primarily relating to fixed asset write-offs.

During fiscal 2022, the Company recorded cash charges primarily relating to severance of $8,069 and non-cash charges of $3,522 primarily relating to fixed asset write-offs. The Company also recorded a non-cash write off relating to inventories of $960, which was reported in cost of goods sold.

During fiscal 2023, the Company recorded cash charges of $2,207 relating to primarily to site cleanup and $562 of non-cash charges relating to accelerated depreciation of fixed assets.

During the six months of fiscal 2024, the Company recorded cash charges of $1,162 relating primarily to site cleanup and $279 of non-cash charges relating to accelerated depreciation of fixed assets.

11. Debt

The following summarizes the Company’s long-term debt as of October 1, 2023 and March 31, 2023:

	October 1, 2023		March 31, 2023	
	Principal	Unamortized Issuance Costs	Principal	Unamortized Issuance Costs
Senior Notes	$ 300,000	$ 2,417	$ 300,000	$ 2,705
Fourth Amended Credit Facility, due 2026	655,538	3,187	748,413	3,719
	$ 955,538	$ 5,604	$ 1,048,413	$ 6,424
Less: Unamortized issuance costs	5,604		6,424	
Long-term debt, net of unamortized issuance costs	$ 949,934		$ 1,041,989	

The Company's Senior Notes comprise the following:

4.375% Senior Notes due 2027

On December 11, 2019, the Company issued $300,000 in aggregate principal amount of its 4.375% Senior Notes due December 15, 2027 (the “2027 Notes”). Proceeds from this offering, net of debt issuance costs were $296,250 and were utilized to pay down the Amended 2017 Revolver (defined below). The 2027 Notes bear interest at a rate of 4.375% per annum accruing from December 11, 2019. Interest is payable semiannually in arrears on June 15 and December 15 of each year, commencing on June 15, 2020. The 2027 Notes mature on December 15, 2027, unless earlier redeemed or repurchased in full and are unsecured and unsubordinated obligations of the Company. They are fully and unconditionally guaranteed, jointly and severally, by certain of its subsidiaries that are guarantors under the Fourth Amended Credit Facility (defined below). These guarantees are unsecured and unsubordinated obligations of such guarantors.

The Company may redeem, prior to September 15, 2027, all or a portion of the 2027 Notes at a price equal to 100% of the principal amount of the 2027 Notes to be redeemed, plus accrued and unpaid interest and a “make whole” premium to, but excluding, the redemption date. The Company may redeem, on or after September 15, 2027, all or a portion of the 2027 Notes at a price equal to 100% of the principal amount of the 2027 Notes, plus accrued and unpaid interest to, but excluding, the redemption date. If a change of control triggering event occurs, the Company will be required to offer to repurchase the 2027 Notes at a price in cash equal to 101% of the aggregate principal amount of the 2027 Notes, plus accrued and unpaid interest to, but excluding, the date of repurchase.

2017 Credit Facility and Subsequent Amendments

In fiscal 2018, the Company entered into a credit facility (the “2017 Credit Facility”). The 2017 Credit Facility was scheduled to mature on September 30, 2022, initially comprised a $600,000 senior secured revolving credit facility (“2017 Revolver”) and a $150,000 senior secured term loan (“2017 Term Loan”). The Company utilized the borrowings from the 2017 Credit Facility to repay its pre-existing credit facility.

In fiscal 2019, the Company amended the 2017 Credit Facility (as amended, the “Amended Credit Facility”) to fund the Alpha acquisition. The Amended Credit Facility consisted of $449,105 senior secured term loans (the “Amended Term Loan”), including a CAD 133,050 ($99,105) senior secured term loan and a $700,000 senior secured revolving credit facility (the “Amended Revolver”). The amendment resulted in an increase of the 2017 Term Loan and the 2017 Revolver by $299,105 and $100,000, respectively.

During the second quarter of fiscal 2022, the Company entered into a second amendment to the 2017 Credit Facility (as amended, the “Second Amended Credit Facility”). The Second Amended Credit Facility, scheduled to mature on September 30, 2026, consists of a $130,000 senior secured term loan (the “Second Amended Term Loan”), a CAD 106,440 ($84,229) senior secured term loan and an $850,000 senior secured revolving credit facility (the “Second Amended Revolver”). The second amendment resulted in a decrease of the Amended Term Loan by $150,000 and an increase of the Amended Revolver by $150,000.

During the second quarter of fiscal 2023, the Company entered into a third amendment to the 2017 Credit Facility (as amended, the “Third Amended Credit Facility”). The Third Amended Credit Facility provides a new incremental delayed-draw senior secured term loan up to $300,000 (the “Third Amended Term Loan”), which shall be available to draw at any time until March 15, 2023. Once drawn, the funds will mature on September 30, 2026, the same as the Company's Second Amended Term loan and Second Amended Revolver. In connection with the agreement, the Company incurred $1,161 in third party administrative and legal fees recognized in interest expense and capitalized $1,096 in charges from existing lenders as a deferred asset. During the fourth quarter of fiscal 2023, the Company drew $300,000 in the form of the Third Amended Term Loan. Additionally, the Company derecognized the capitalized deferred asset and recognized the $1,096 as deferred financing costs.

During the fourth quarter of fiscal 2023, the Company entered into a fourth amendment to the 2017 Credit Facility (as amended, the “Fourth Amended Credit Facility”). The Fourth Amended Credit Facility replaces the London Interbank Offered Rate (“LIBOR”) with the Secured Overnight Financing Rate (“SOFR”) in the calculation of interest for both the Second Amended Revolver and the Second Amended Term Loan.

Subsequent to the fourth amendment, the quarterly installments payable on the Second Amended Term Loan are $2,606 beginning December 31, 2022, $3,909 beginning December 31, 2024 and $5,211 beginning December 31, 2025 with a final payment of $156,345 on September 30, 2026. The Fourth Amended Credit Facility may be increased by an aggregate amount of $350,000 in revolving commitments and /or one or more new tranches of term loans, under certain conditions. Both the Second Amended Revolver and the Second Amended Term Loan bear interest, at the Company's option, at a rate per annum equal to either (i) the SOFR or Canadian Dollar Offered Rate (“CDOR”) plus (i) Term SOFR plus between 1.125% and 2.25% (currently 1.25% and based on the Company's consolidated net leverage ratio) or (ii) the U.S. Dollar Base Rate (which equals, for any day a fluctuating rate per annum equal to the highest of (a) the Federal Funds Effective Rate plus 0.50%, (b) Bank of America “Prime Rate” and (c) the Eurocurrency Base Rate plus 1%; provided that, if the Base Rate shall be less than zero, such rate shall be deemed zero) (iii) the CDOR Base Rate equal to the higher of (a) Bank of America “Prime Rate” and (b) average 30-day CDOR rate plus 0.50%.

The quarterly installments payable on the Third Amended Term Loan were $3,750 beginning June 30, 2023, $5,625 beginning December 31, 2024 and $7,500 beginning December 31, 2025 with a final payment of $232,500 on September 30, 2026. The Third Amended Term Loan bears interest, at the Company's option, at a rate per annum equal to either (i) SOFR plus 10 basis points plus (i) Term SOFR plus between 1.375% and 2.50% (currently 1.50% and based on the Company's consolidated net leverage ratio) or (ii) the U.S. Dollar Base Rate plus between 0.375% and 1.50%, which equals, for any day a fluctuating rate per annum equal to the highest of (a) the Federal Funds Effective Rate plus 0.50%, (b) Bank of America “Prime Rate” and (c) the Term SOFR plus 1%; provided that, if the Base Rate shall be less than zero, such rate shall be deemed zero). Until the funds were drawn on March 13, 2023, the Company paid a commitment fee of 0.175% to 0.35% at a rate per annum on the unused portion.

Obligations under the Fourth Amended Credit Facility are secured by substantially all of the Company’s existing and future acquired assets, including substantially all of the capital stock of the Company’s United States subsidiaries that are guarantors under the Fourth Amended Credit Facility and up to 65% of the capital stock of certain of the Company’s foreign subsidiaries that are owned by the Company’s United States subsidiaries.

The Fourth Amended Credit Facility allows for up to two temporary increases in the maximum leverage ratio to 4.50x from 4.00x to 4.25x for a four quarter period following an acquisition larger than $250,000. Effective with the Fourth Amended Credit Facility, the maximum leverage ratio increased from 3.50x to 4.25x effective to the last day of the second quarter of fiscal year 2024 and decreasing subsequently to 4.00x.

As of October 1, 2023, the Company had $165,000 outstanding under the Second Amended Revolver, $198,038 under the Second Amended Term Loan, and $292,500 outstanding under the Third Amended Term Loan.

Current Portion of Debt

The scheduled repayments within the next twelve months, relating to the Second and Third Amended Term Loans, are $10,423 and $15,000, respectively, and is classified as long-term debt, as the Company expects to refinance the future quarterly payments with revolver borrowings under the Second Amended Credit Facility.

Short-Term Debt

As of October 1, 2023 and March 31, 2023, the Company had $30,544 and $30,642, respectively, of short-term borrowings. The weighted average interest rate on these borrowings was approximately 6.8% and 7.0%, respectively, at October 1, 2023 and March 31, 2023.

Letters of Credit

As of October 1, 2023 and March 31, 2023, the Company had $3,633 and $3,565 of standby letters of credit, respectively.

Debt Issuance Costs

In connection with the Second Amended Credit Facility, the Company capitalized $2,952 in debt issuance costs and wrote off $128 of unamortized debt issuance costs. Amortization expense, relating to debt issuance costs, included in interest expense was $410 and $487, respectively, for the second quarter ended October 1, 2023 and October 2, 2022, respectively and $820 and $974 for the six months of fiscal 2024 and 2023. Debt issuance costs, net of accumulated amortization, totaled $5,604 and $6,424, respectively, at October 1, 2023 and March 31, 2023.

Available Lines of Credit

As of October 1, 2023 and March 31, 2023, the Company had available and undrawn, under all its lines of credit, $772,599 and $693,444, respectively, including $89,994 and $90,839, respectively, of uncommitted lines of credit.

12. Retirement Plans

The following tables present the components of the Company's net periodic benefit cost related to its defined benefit pension plans:

	United States Plans Quarter ended		International Plans Quarter ended	
	October 1, 2023	October 2, 2022	October 1, 2023	October 2, 2022
Service cost	$ —	$ —	$ 218	$ 218
Interest cost	166	145	584	413
Expected return on plan assets	(76)	(118)	(406)	(485)
Amortization and deferral	—	—	27	115
Net periodic benefit cost	$ 90	$ 27	$ 423	$ 261

	United States Plans Six months ended		International Plans Six months ended	
	October 1, 2023	October 2, 2022	October 1, 2023	October 2, 2022
Service cost	$ —	$ —	$ 438	$ 453
Interest cost	332	290	1,169	853
Expected return on plan assets	(152)	(237)	(812)	(1,002)
Amortization and deferral	—	—	56	238
Net periodic benefit cost	$ 180	$ 53	$ 851	$ 542

13. Stock-Based Compensation

As of October 1, 2023, the Company maintains the 2023 Equity Incentive Plan ("2023 EIP"). The 2023 EIP reserved 3,614,500 shares of common stock for the grant of various classes of nonqualified stock options, restricted stock units, market condition-based on total shareholder return ("TSR") and performance condition-based share units ("PSU") and other forms of equity-based compensation.

The Company recognized stock-based compensation expense associated with its equity incentive plans of $5,144 for the second quarter of fiscal 2024 and $6,534 for the second quarter of fiscal 2023. Stock-based compensation was $13,077 and $11,864 for the six months of fiscal 2024 and fiscal 2023, respectively. The Company recognizes compensation expense using the straight-line method over the vesting period of the awards.

During the six months of fiscal 2024, the Company granted to non-employee directors 25,161 restricted stock units, under the deferred compensation plan for non-employee directors. The awards vest immediately upon the date of grant and are settled in shares of common stock.

During the six months of fiscal 2024, the Company granted to management and other key employees 200,314 non-qualified stock options that vest ratably over three years from the date of the grant and 269,751 restricted stock units that vest ratably over four years from the date of grant.

Common stock activity during the six months of fiscal 2024 included the exercise of 178,835 stock options and the vesting of 260,967 restricted stock units and 30,597 TSRs.

As of October 1, 2023, there were 1,215,424 non-qualified stock options, 1,038,692 restricted stock units including non-employee director restricted stock units and 1,112 TSRs outstanding.

14. Stockholders’ Equity and Noncontrolling Interests

Common Stock

The following demonstrates the change in the number of shares of common stock outstanding during the six months ended October 1, 2023:

Shares outstanding as of March 31, 2023	40,901,059
Purchase of treasury stock	(480,060)
Shares issued under equity-based compensation plans, net of equity awards surrendered for option price and taxes	350,016
Shares outstanding as of October 1, 2023	40,771,015

Treasury Stock

During the six months ended October 1, 2023, the Company purchased 480,060 shares for $47,340 and purchased 358,365 shares for $22,907 during the six months ended October 2, 2022. At October 1, 2023 and March 31, 2023, the Company held 15,576,302 and 15,103,554 shares as treasury stock, respectively. During the six months ended October 1, 2023, the Company also issued 7,312 shares out of its treasury stock, valued at $62.55 per share to participants under the Company's Employee Stock Purchase Plan.

Accumulated Other Comprehensive Income (“AOCI ”)

The components of AOCI, net of tax, as of October 1, 2023 and March 31, 2023, are as follows:

	March 31, 2023	Before Reclassifications	Amounts Reclassified from AOCI	October 1, 2023
Pension funded status adjustment	$ (4,423)	$ —	$ 41	$ (4,382)
Net unrealized gain (loss) on derivative instruments	1,411	7,433	(3,152)	5,692
Foreign currency translation adjustment [(1)]	(180,462)	(29,455)	—	(209,917)
Accumulated other comprehensive (loss) income	$ (183,474)	$ (22,022)	$ (3,111)	$ (208,607)

[(1)] Foreign currency translation adjustment for the six months ended October 1, 2023 includes a $608 gain (net of taxes of $187) related to the Company's $150,000 cross-currency fixed interest rate swap contract.

The following table presents reclassifications from AOCI during the second quarter ended October 1, 2023:

Components of AOCI	Amounts Reclassified from AOCI	Location of (Gain) Loss Recognized on Income Statement
Derivatives in cash flow hedging relationships:		
Net unrealized gain on derivative instruments	$ (218)	Cost of goods sold
Tax expense	51	
Net unrealized gain on derivative instruments, net of tax	$ (167)	
Derivatives in net investment hedging relationships:		
Net unrealized gain on derivative instruments	$ —	Interest expense
Tax expense	—	
Net unrealized gain on derivative instruments, net of tax	$ —	
Defined benefit pension costs:		
Prior service costs and deferrals	$ 27	Net periodic benefit cost, included in other (income) expense, net - See Note 12
Tax benefit	(6)	
Net periodic benefit cost, net of tax	$ 21	

The following table presents reclassifications from AOCI during the six months ended October 1, 2023:

Components of AOCI	Amounts Reclassified from AOCI	Location of (Gain) Loss Recognized on Income Statement
Derivatives in cash flow hedging relationships:		
Net unrealized gain on derivative instruments	$ (4,114)	Cost of goods sold
Tax expense	962	
Net unrealized gain on derivative instruments, net of tax	$ (3,152)	
Derivatives in net investment hedging relationships:		
Net unrealized gain on derivative instruments	$ (112)	Interest expense
Tax expense	26	
Net unrealized gain on derivative instruments, net of tax	$ (86)	
Defined benefit pension costs:		
Prior service costs and deferrals	$ 56	Net periodic benefit cost, included in other (income) expense, net - See Note 12
Tax benefit	(15)	
Net periodic benefit cost, net of tax	$ 41	

The following table presents reclassifications from AOCI during the second quarter ended October 2, 2022:

Components of AOCI	Amounts Reclassified from AOCI	Location of (Gain) Loss Recognized on Income Statement
Derivatives in cash flow hedging relationships:		
Net unrealized loss on derivative instruments	$ 1,067	Cost of goods sold
Tax benefit	(249)	
Net unrealized loss on derivative instruments, net of tax	$ 818	
Derivatives in net investment hedging relationships:		
Net unrealized gain on derivative instruments	$ (1,665)	Interest expense
Tax expense	389	
Net unrealized gain on derivative instruments, net of tax	$ (1,276)	
Defined benefit pension costs:		
Prior service costs and deferrals	$ 115	Net periodic benefit cost, included in other (income) expense, net - See Note 12
Tax benefit	(34)	
Net periodic benefit cost, net of tax	$ 81	

The following table presents reclassifications from AOCI during the six months ended October 2, 2022:

Components of AOCI	Amounts Reclassified from AOCI	Location of (Gain) Loss Recognized on Income Statement
Derivatives in cash flow hedging relationships:		
Net unrealized gain on derivative instruments	$ (74)	Cost of goods sold
Tax expense	18	
Net unrealized gain on derivative instruments, net of tax	$ (56)	
Derivatives in net investment hedging relationships:		
Net unrealized gain on derivative instruments	$ (2,923)	Interest expense
Tax expense	683	
Net unrealized gain on derivative instruments, net of tax	$ (2,240)	
Defined benefit pension costs:		
Prior service costs and deferrals	$ 238	Net periodic benefit cost, included in other (income) expense, net - See Note 12
Tax benefit	(68)	
Net periodic benefit cost, net of tax	$ 170	

The following demonstrates the change in equity attributable to EnerSys stockholders and nonredeemable noncontrolling interests during the second quarter and six months ended October 1, 2023:

(In Thousands, Except Per Share Data)	Preferred Stock	Common Stock	Additional Paid-in Capital	Treasury Stock	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Contra-Equity	Total EnerSys Stockholders' Equity	Non-redeemable Non-Controlling Interests	Total Equity
Balance at March 31, 2023	**$ —**	**$ 560**	**$ 596,464**	**$ (740,956)**	**$ 1,930,148**	**$ (183,474)**	**$ (2,463)**	**$ 1,600,279**	**$ 3,602**	**$ 1,603,881**
Stock-based compensation	—	—	7,933	—	—	—	—	7,933	—	7,933
Exercise of stock options	—	5	7,649	—	—	—	—	7,654	—	7,654
Shares issued under equity awards (taxes paid related to net share settlement of equity awards), net	—	—	—	—	—	—	—	—	—	—
Purchase of common stock	—	—	—	—	—	—	—	—	—	—
Other	—	—	65	214	—	—	—	279	—	279
Net earnings	—	—	—	—	66,797	—	—	66,797	—	66,797
Dividends ($0.175 per common share)	—	—	184	—	(7,357)	—	—	(7,173)	—	(7,173)
Dissolution of joint venture	—	—	—	—	—	—	—	—	—	—
Other comprehensive income:										
Pension funded status adjustment (net of tax benefit of $9)	—	—	—	—	—	20	—	20	—	20
Net unrealized gain (loss) on derivative instruments (net of tax expense of $544)	—	—	—	—	—	1,786	—	1,786	—	1,786
Foreign currency translation adjustment	—	—	—	—	—	2,192	—	2,192	(190)	2,002
Balance at July 2, 2023	**$ —**	**$ 565**	**$ 612,295**	**$ (740,742)**	**$ 1,989,588**	**$ (179,476)**	**$ (2,463)**	**$ 1,679,767**	**$ 3,412**	**$ 1,683,179**
Stock-based compensation	—	—	5,144	—	—	—	—	5,144	—	5,144
Exercise of stock options	—	(1)	2,015	—	—	—	—	2,014	—	2,014
Shares issued under equity awards (taxes paid related to net share settlement of equity awards), net	—	—	(7,348)	—	—	—	—	(7,348)	—	(7,348)
Contra equity - adjustment to indemnification receivable for acquisition related tax liability	—	—	—	—	—	—	475	475	—	475
Purchase of common stock	—	—	—	(47,340)	—	—	—	(47,340)	—	(47,340)
Other	—	(1)	151	194	—	—	—	344	—	344
Net earnings	—	—	—	—	65,229	—	—	65,229	—	65,229
Dividends ($0.225 per common share)	—	—	233	—	(9,401)	—	—	(9,168)	—	(9,168)
Other comprehensive income:										
Pension funded status adjustment (net of tax benefit of $6)	—	—	—	—	—	21	—	21	—	21
Net unrealized gain (loss) on derivative instruments (net of tax of $762)	—	—	—	—	—	2,495	—	2,495	—	2,495
Foreign currency translation adjustment	—	—	—	—	—	(31,647)	—	(31,647)	(17)	(31,664)
Balance at October 1, 2023	**$ —**	**$ 563**	**$ 612,490**	**$ (787,888)**	**$ 2,045,416**	**$ (208,607)**	**$ (1,988)**	**$ 1,659,986**	**$ 3,395**	**$ 1,663,381**

The following demonstrates the change in equity attributable to EnerSys stockholders and nonredeemable noncontrolling interests during the second quarter and six months ended October 2, 2022:

(In Thousands, Except Per Share Data)	Preferred Stock	Common Stock	Additional Paid-in Capital	Treasury Stock	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Contra-Equity	Total EnerSys Stockholders' Equity	Non-redeemable Non-Controlling Interests	Total Equity
Balance at March 31, 2022	**$ —**	**$ 557**	**$ 571,464**	**$ (719,119)**	**$ 1,783,586**	**$ (143,495)**	**$ (3,620)**	**$ 1,489,373**	**$ 3,902**	**$ 1,493,275**
Stock-based compensation	—	—	5,330	—	—	—	—	5,330	—	5,330
Exercise of stock options	—	1	—	—	—	—	—	1	—	1
Shares issued under equity awards (taxes paid related to net share settlement of equity awards), net	—	—	(633)	—	—	—	—	(633)	—	(633)
Purchase of common stock	—	—	—	(22,907)	—	—	—	(22,907)	—	(22,907)
Other	—	—	(41)	240	—	—	—	199	—	199
Net earnings	—	—	—	—	30,978	—	—	30,978	—	30,978
Dividends ($0.175 per common share)	—	—	174	—	(7,282)	—	—	(7,108)	—	(7,108)
Dissolution of joint venture	—	—	—	—	—	—	—	—	—	—
Other comprehensive income:										
Pension funded status adjustment (net of tax benefit of $34)	—	—	—	—	—	89	—	89	—	89
Net unrealized gain (loss) on derivative instruments (net of tax benefit of $2,514)	—	—	—	—	—	(8,234)	—	(8,234)	—	(8,234)
Foreign currency translation adjustment	—	—	—	—	—	(52,010)	—	(52,010)	(210)	(52,220)
Balance at July 3, 2022	**$ —**	**$ 558**	**$ 576,294**	**$ (741,786)**	**$ 1,807,282**	**$ (203,650)**	**$ (3,620)**	**$ 1,435,078**	**$ 3,692**	**$ 1,438,770**
Stock-based compensation	—	—	6,534	—	—	—	—	6,534	—	6,534
Exercise of stock options	—	1	114	—	—	—	—	115	—	115
Shares issued under equity awards (taxes paid related to net share settlement of equity awards), net	—	—	(5,624)	—	—	—	—	(5,624)	—	(5,624)
Contra equity - adjustment to indemnification receivable for acquisition related tax liability	—	—	—	—	—	—	963	963	—	963
Purchase of common stock	—	—	—	—	—	—	—	—	—	—
Other	—	—	28	276	—	—	—	304	—	304
Net earnings	—	—	—	—	34,472	—	—	34,472	—	34,472
Dividends ($0.175 per common share)	—	—	174	—	(7,312)	—	—	(7,138)	—	(7,138)
Other comprehensive income:										
Pension funded status adjustment (net of tax benefit of $34)	—	—	—	—	—	81	—	81	—	81
Net unrealized gain (loss) on derivative instruments (net of tax benefit of $647)	—	—	—	—	—	2,116	—	2,116	—	2,116
Foreign currency translation adjustment	—	—	—	—	—	(55,961)	—	(55,961)	(214)	(56,175)
Balance at October 2, 2022	**$ —**	**$ 559**	**$ 577,520**	**$ (741,510)**	**$ 1,834,442**	**$ (257,414)**	**$ (2,657)**	**$ 1,410,940**	**$ 3,478**	**$ 1,414,418**

15. Earnings Per Share

The following table sets forth the reconciliation from basic to diluted weighted-average number of common shares outstanding and the calculations of net earnings per common share attributable to EnerSys stockholders.

	Quarter ended		Six months ended	
	October 1, 2023	October 2, 2022	October 1, 2023	October 2, 2022
Net earnings attributable to EnerSys stockholders	$ 65,229	$ 34,472	$ 132,026	$ 65,450
Weighted-average number of common shares outstanding:				
Basic	40,922,959	40,740,989	40,930,146	40,763,663
Dilutive effect of:				
Common shares from exercise and lapse of equity awards, net of shares assumed reacquired	761,675	426,633	761,333	496,471
Diluted weighted-average number of common shares outstanding	41,684,634	41,167,622	41,691,479	41,260,134
Basic earnings per common share attributable to EnerSys stockholders	$ 1.59	$ 0.85	$ 3.23	$ 1.61
Diluted earnings per common share attributable to EnerSys stockholders	$ 1.56	$ 0.84	$ 3.17	$ 1.59
Anti-dilutive equity awards not included in diluted weighted-average common shares	412,230	1,341,773	422,359	1,172,063

16. Business Segments

Effective April 1, 2023, the Company created a new line of business and operating segment named New Ventures in addition to the existing lines of businesses: Energy Systems, Motive Power, and Specialty. The results of New Ventures include start-up operating expenses captured within the "Corporate and other" category of operating earnings. New Ventures provides energy storage and management systems for demand charge reduction, utility back-up power, and dynamic fast charging for electric vehicles.

Summarized financial information related to the Company's reportable segments for the second quarter and six months ended October 1, 2023 and October 2, 2022, is shown below:

	Quarter ended		Six months ended	
	October 1, 2023	October 2, 2022	October 1, 2023	October 2, 2022
Net sales by segment to unaffiliated customers (1)				
Energy Systems	$ 422,466	$ 437,024	$ 847,014	$ 845,603
Motive Power	355,206	337,993	705,987	705,844
Specialty	123,361	124,420	256,601	246,961
Total net sales	$ 901,033	$ 899,437	$ 1,809,602	$ 1,798,408
Operating earnings by segment				
Energy Systems	$ 25,563	$ 17,767	$ 55,212	$ 32,781
Motive Power	53,448	39,881	103,816	82,287
Specialty	5,587	9,591	15,404	18,822
Corporate and other (3)	18,894	—	36,297	—
Inventory adjustment relating to exit activities - Motive Power	—	(1,544)	—	(1,544)
Inventory adjustment relating to exit activities - Specialty	—	—	(3,098)	—
Restructuring and other exit charges - Energy Systems	(2,227)	(777)	(2,715)	(939)
Restructuring and other exit charges - Motive Power	(3,479)	(2,488)	(5,038)	(10,654)
Restructuring and other exit charges - Specialty	(1,528)	—	(5,790)	—
Amortization - Energy Systems	(6,219)	(7,171)	(12,436)	(14,407)
Amortization - Motive	(231)	(110)	(342)	(220)
Amortization - Specialty	(702)	(732)	(1,404)	(1,467)
Other - Energy Systems	(310)	(57)	(1,059)	(161)
Other - Motive	(122)	(91)	(590)	(100)
Other - Specialty	(60)	—	(198)	—
Total operating earnings (2)	$ 88,614	$ 54,269	$ 178,059	$ 104,398

(1) Reportable segments do not record inter-segment revenues and accordingly there are none to report.
(2) The Company does not allocate interest expense or other (income) expense, net, to the reportable segments.
(3) Corporate and other includes amounts managed on a company-wide basis and not directly allocated to any reportable segments, primarily relating to IRA production tax credits. Also, included are start-up costs for exploration of a new lithium plant as well as start-up operating expenses from the New Ventures operating segment.

17. Subsequent Events

Between October 2, 2023 through November 8, 2023, the Company repurchased 374,974 shares for approximately $34,992.

On November 8, 2023, the Board of Directors approved a quarterly cash dividend of $0.225 per share of common stock to be paid on December 29, 2023 to stockholders of record as of December 15, 2023.

ITEM 2. MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

The Private Securities Litigation Reform Act of 1995 (the “Reform Act”) provides a safe harbor for forward-looking statements made by or on behalf of EnerSys. EnerSys and its representatives may, from time to time, make written or verbal forward-looking statements, including statements contained in EnerSys’ filings with the Securities and Exchange Commission (“SEC”) and its reports to stockholders. Generally, the inclusion of the words “anticipate,” “believe,” “expect,” “future,” “intend,” “estimate,” “will,” “plans,” or the negative of such terms and similar expressions identify statements that constitute “forward-looking statements” within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934 and that are intended to come within the safe harbor protection provided by those sections. All statements addressing operating performance, events, or developments that EnerSys expects or anticipates will occur in the future, including statements relating to sales growth, earnings or earnings per share growth, and market share, as well as statements expressing optimism or pessimism about future operating results, are forward-looking statements within the meaning of the Reform Act. The forward-looking statements are and will be based on management’s then-current beliefs and assumptions regarding future events and operating performance and on information currently available to management, and are applicable only as of the dates of such statements.

Forward-looking statements involve risks, uncertainties and assumptions. Although we do not make forward-looking statements unless we believe we have a reasonable basis for doing so, we cannot guarantee their accuracy. Actual results may differ materially from those expressed in these forward-looking statements due to a number of uncertainties and risks, including the risks described in the Company’s Annual Report on Form 10-K for the fiscal year ended March 31, 2023 (our “2023 Annual Report”) and other unforeseen risks. You should not put undue reliance on any forward-looking statements. These statements speak only as of the date of this Quarterly Report on Form 10-Q, even if subsequently made available by us on our website or otherwise, and we undertake no obligation to update or revise these statements to reflect events or circumstances occurring after the date of this Quarterly Report on Form 10-Q.

Our actual results may differ materially from those contemplated by the forward-looking statements for a number of reasons, including the following factors:

- economic, financial and other impacts of the COVID-19 pandemic, including global supply chain disruptions;
- general cyclical patterns of the industries in which our customers operate;
- global economic trends, competition and geopolitical risks, including impacts from the ongoing conflict between Russia and Ukraine and the related sanctions and other measures, changes in the rates of investment or economic growth in key markets we serve, or an escalation of sanctions, tariffs or other trade tensions between the U.S. and China or other countries, and related impacts on our global supply chains and strategies;
- the extent to which we cannot control our fixed and variable costs;
- the raw materials in our products may experience significant fluctuations in market price and availability;
- certain raw materials constitute hazardous materials that may give rise to costly environmental and safety claims;
- legislation regarding the restriction of the use of energy or certain hazardous substances in our products;
- risks involved in our operations such as supply chain issues, disruption of markets, changes in import and export laws, environmental regulations, currency restrictions and local currency exchange rate fluctuations;
- our ability to raise our selling prices to our customers when our product costs increase;
- the extent to which we are able to efficiently utilize our global manufacturing facilities and optimize our capacity;
- changes in macroeconomic and market conditions and market volatility, including inflation, interest rates, the value of securities and other financial assets, transportation costs, costs and availability of electronic components, lead, plastic resins, steel, copper and other commodities used by us, and the impact of such changes and volatility on our financial position and business;
- competitiveness of the battery markets and other energy solutions for industrial applications throughout the world;
- our timely development of competitive new products and product enhancements in a changing environment and the acceptance of such products and product enhancements by customers;
- our ability to adequately protect our proprietary intellectual property, technology and brand names;
- litigation and regulatory proceedings to which we might be subject;
- our expectations concerning indemnification obligations;
- changes in our market share in the business segments where we operate;
- our ability to implement our cost reduction initiatives successfully and improve our profitability;
- quality problems associated with our products;

- our ability to implement business strategies, including our acquisition strategy, manufacturing expansion and restructuring plans;
- our acquisition strategy may not be successful in locating advantageous targets;
- our ability to successfully integrate any assets, liabilities, customers, systems and management personnel we acquire into our operations and our ability to realize related revenue synergies, strategic gains, and cost savings may be significantly harder to achieve, if at all, or may take longer to achieve;
- our effective income tax rate with respect to any period may fluctuate based on the mix of income in the tax jurisdictions, in which we operate, changes in tax laws and the amount of our consolidated earnings before taxes;
- potential goodwill impairment charges, future impairment charges and fluctuations in the fair values of reporting units or of assets in the event projected financial results are not achieved within expected time frames;
- our debt and debt service requirements which may restrict our operational and financial flexibility, as well as imposing unfavorable interest and financing costs;
- our ability to maintain our existing credit facilities or obtain satisfactory new credit facilities or other borrowings;
- adverse changes in our short and long-term debt levels under our credit facilities;
- our exposure to fluctuations in interest rates on our variable-rate debt;
- our ability to attract and retain qualified management and personnel;
- our ability to maintain good relations with labor unions;
- credit risk associated with our customers, including risk of insolvency and bankruptcy;
- our ability to successfully recover in the event of a disaster affecting our infrastructure, supply chain, or our facilities;
- delays or cancellations in shipments;
- occurrence of natural or man-made disasters or calamities, including health emergencies, the spread of infectious diseases, pandemics, vaccine mandates, outbreaks of hostilities or terrorist acts, or the effects of climate change, and our ability to deal effectively with damages or disruptions caused by the foregoing; and
- the operation, capacity and security of our information systems and infrastructure.

This list of factors that may affect future performance is illustrative, but by no means exhaustive. Accordingly, all forward-looking statements should be evaluated with the understanding of their inherent uncertainty.

Overview

EnerSys (the "Company," "we," or "us") is a world leader in stored energy solutions for industrial applications. We design, manufacture, and distribute energy systems solutions and motive power batteries, specialty batteries, battery chargers, power equipment, battery accessories and outdoor equipment enclosure solutions to customers worldwide. Energy Systems, which combine power conversion, power distribution, energy storage, and enclosures, are used in the telecommunication, broadband, data center and utility industries, uninterruptible power supplies, and numerous applications requiring stored energy solutions. Motive Power batteries and chargers are utilized in electric forklift trucks, automated guided vehicles (AGVs), and other industrial electric powered vehicles. Specialty batteries are used in aerospace and defense applications, large over the road trucks, premium automotive and medical products. New Ventures provides energy storage and management systems for demand charge reduction, utility back-up power, and dynamic fast charging for electric vehicles. We also provide aftermarket and customer support services to over 10,000 customers in more than 100 countries through a network of distributors, independent representatives and our internal sales force around the world.

The Company's four operating segments, based on lines of business, are as follows:

- **Energy Systems -** uninterruptible power systems, or "UPS" applications for computer and computer-controlled systems, as well as telecommunications systems, switchgear and electrical control systems used in industrial facilities and electric utilities, large-scale energy storage and energy pipelines. Energy Systems also includes highly integrated power solutions and services to broadband, telecom, data center, and renewable and industrial customers, as well as thermally managed cabinets and enclosures for electronic equipment and batteries.
- **Motive Power -** power for electric industrial forklifts used in manufacturing, warehousing and other material handling applications, AGVs, as well as mining equipment, diesel locomotive starting and other rail equipment.
- **Specialty -** premium starting, lighting and ignition applications in transportation, energy solutions for satellites, military aircraft, submarines, ships and other tactical vehicles as well as medical devices and equipment.
- **New Ventures** - energy storage and management systems for demand charge reduction, utility back-up power, and dynamic fast charging for electric vehicles.

Economic Climate

The economic climate in North America, China and EMEA slowed in calendar 2022 after experiencing strong growth during calendar 2021. All regions are experiencing a rise in inflation in calendar 2023 and are being negatively impacted by the war in Ukraine. We expect interest rates to continue to stay elevated and potentially increase in the U.S. and the Euro zone. China's slowing economy is facing further headwinds caused by pressure on the renminbi and the impact from its zero COVID polices that were relaxed in August of this year.

Supply chain disruptions and cost spikes in certain materials that impacted EnerSys during calendar year 2022 and the beginning of calendar year 2023 started to stabilize during the second quarter. While there are still pockets of supply chain challenges and some elevated materials costs such as plastic resins, electronic components and utilities, other costs such as transportation have returned to pre-covid levels. In addition, we are seeing improved trends toward hiring and labor retention goals in certain locations that were facing challenges at the beginning of the year. Generally, our mitigation efforts and ongoing lean initiatives have tempered the impact of the pandemic-related challenges. The market demand in our Motive Power and Specialty segments remains robust, but cyclical capex pauses in the communication networks market has decreased demand in the Energy Systems segment.

Volatility of Commodities and Foreign Currencies

Our most significant commodity and foreign currency exposures are related to lead and the Euro, respectively. Historically, volatility of commodity costs and foreign currency exchange rates have caused large swings in our production costs. In the fiscal year 2024, we have experienced a range in lead prices from approximately $1.05 per pound to $0.90 per pound. We experienced elevated costs in some of our other raw materials such as plastic resins, steel, copper, acid, separator paper and electronics and elevated freight and increased energy costs. However, these increased costs have moderated during fiscal year 2024.

Customer Pricing

Our selling prices fluctuated during the last several years to offset the volatile cost of commodities. Approximately 25% of our revenue is now subject to agreements that adjust pricing to a market-based index for lead. Customer pricing changes generally lag movements in lead prices and other costs by approximately six to nine months. In fiscal 2023 and 2024, customer pricing has increased due to certain commodity prices and other costs having increased throughout the year.

Based on current commodity markets, it is difficult to predict with certainty whether commodity prices will be higher or lower in fiscal 2024 versus fiscal 2023. However, given the lag related to increasing our selling prices for inflationary cost increase, on average our selling prices should be higher in fiscal 2024 versus fiscal 2023. As we concentrate more on energy systems and non-lead chemistries, the emphasis on lead is expected to continue to decline.

Primary Operating Capital

As part of managing the performance of our business, we monitor the level of primary operating capital, and its ratio to net sales. We define primary operating capital as accounts receivable, plus inventories, minus accounts payable. The resulting net amount is divided by the trailing three month net sales (annualized) to derive a primary operating capital percentage. We believe these three elements included in primary operating capital are most operationally driven, and this performance measure provides us with information about the asset intensity and operating efficiency of the business on a company-wide basis that management can monitor and analyze trends over time. Primary operating capital was $990.2 million (yielding a primary operating capital percentage of 27.5%) at October 1, 2023, $1,057.0 million (yielding a primary operating capital percentage of 26.7%) at March 31, 2023 and $1,172.6 million at October 2, 2022 (yielding a primary operating capital percentage of 32.6%). The primary operating capital percentage of 27.5% at October 1, 2023 worsened by 80 basis points compared to March 31, 2023 and improved 510 basis points compared to October 2, 2022. The increase in primary operating capital percentage at October 1, 2023 compared to March 31, 2023 was primarily due to a reduction in sales compared to the fourth fiscal quarter of the prior fiscal year. The decrease in primary operating capital percentage at October 1, 2023 compared to October 2, 2022 was primarily from the sale of $144.3 million in accounts receivables through a Receivables Purchase Agreement (RPA) entered into during the third quarter of fiscal 2023.

Primary operating capital and primary operating capital percentages at October 1, 2023, March 31, 2023 and October 2, 2022 are computed as follows:

($ in Millions)	October 1, 2023	March 31, 2023	October 2, 2022
Accounts receivable, net	$ 536.5	$ 637.8	$ 705.5
Inventory, net	776.5	797.8	812.0
Accounts payable	(322.8)	(378.6)	(344.9)
Total primary operating capital	$ 990.2	$ 1,057.0	$ 1,172.6
Trailing 3 months net sales	$ 901.0	$ 989.9	$ 899.4
Trailing 3 months net sales annualized	$ 3,604.0	$ 3,959.6	$ 3,597.7
Primary operating capital as a % of annualized net sales	27.5 %	26.7 %	32.6 %

Liquidity and Capital Resources

We believe that our financial position is strong, and we have substantial liquidity to cover short-term liquidity requirements and anticipated growth in the foreseeable future, with $328 million of available cash and cash equivalents and available and undrawn committed credit lines of approximately $683 million at October 1, 2023, availability subject to credit agreement financial covenants.

A substantial majority of the Company’s cash and investments are held by foreign subsidiaries and are considered to be indefinitely reinvested and expected to be utilized to fund local operating activities, capital expenditure requirements and acquisitions. The Company believes that it has sufficient sources of domestic and foreign liquidity.

During the second quarter of fiscal 2022, we entered into a second amendment to the Amended Credit Facility (as amended, the “Second Amended Credit Facility”). As a result, the Second Amended Credit Facility, now scheduled to mature on September 30, 2026, consists of a $130.0 million senior secured term loan (the “Second Amended Term Loan”), a CAD 106.4 million ($84.2 million) term loan and an $850.0 million senior secured revolving credit facility (the “Second Amended Revolver”). This amendment resulted in a decrease of the Amended Term Loan by $150.0 million and an increase of the Amended Revolver by $150.0 million.

During the second quarter of fiscal 2023, the Company entered into a third amendment to the 2017 Credit Facility (as amended, the “Third Amended Credit Facility”). The Third Amended Credit Facility provided new incremental delayed-draw senior secured term loan up to $300 million (the “Third Amended Term Loan”), which was available to draw until March 15, 2023. During the fourth quarter of fiscal 2023, the Company drew $300 million in the form of the Third Amended Term Loan. The funds will mature on September 30, 2026, the same as the Company's Second Amended Term loan and Second Amended Revolver. In connection with the agreement, the Company incurred $1.2 million in third party administrative and legal fees recognized in interest expense and capitalized $1.1 million in charges from existing lenders as a deferred asset. Additionally, the Company derecognized the capitalized deferred asset and recognized the $1.1 million as deferred financing costs.

During the fourth quarter of fiscal 2023, the Company entered into a fourth amendment to the 2017 Credit Facility (as amended, the “Fourth Amended Credit Facility”). The Fourth Amended Credit Facility replaces the London Interbank Offered Rate (“LIBOR”) with the Secured Overnight Financing Rate (“SOFR”) in the calculation of interest for both the Second Amended Revolver and the Second Amended Term Loan.

During the current quarter, we purchased 480,060 shares for $47.3 million

We believe that our strong capital structure and liquidity affords us access to capital for future acquisitions, stock repurchase opportunities and continued dividend payments.

Results of Operations

Net Sales

Net sales increased $1.6 million or 0.2% in the second quarter of fiscal 2024 as compared to the second quarter of fiscal 2023. This increase was the result of a 6% increase in pricing and a 1% increase in foreign currency translation offset by a 7% decrease in organic volume.

Net sales increased $11.2 million or 0.6% in the six months of fiscal 2024 as compared to the six months of fiscal 2023. This increase was due to an 8% increase in pricing and a 1% increase in foreign currency translation, partially offset by an 8% decrease in organic volume.

Segment sales

	Quarter ended October 1, 2023		Quarter ended October 2, 2022		Increase (Decrease)	
	In Millions	Percentage of Total Net Sales	In Millions	Percentage of Total Net Sales	In Millions	%
Energy Systems	$ 422.5	46.9 %	437.0	48.6 %	$ (14.5)	(3.3)%
Motive Power	355.2	39.4	338.0	37.6	17.2	5.1
Specialty	123.3	13.7	124.4	13.8	(1.1)	(0.9)
Total net sales	$ 901.0	100.0 %	$ 899.4	100.0 %	$ 1.6	0.2 %

	Six months ended October 1, 2023		Six months ended October 2, 2022		Increase (Decrease)	
	In Millions	Percentage of Total Net Sales	In Millions	Percentage of Total Net Sales	In Millions	%
Energy Systems	$ 847.1	46.8 %	$ 845.6	47.0 %	$ 1.5	0.2 %
Motive Power	706.0	39.0	705.9	39.3	0.1	—
Specialty	256.5	14.2	246.9	13.7	9.6	3.9
Total net sales	$ 1,809.6	100.0 %	$ 1,798.4	100.0 %	$ 11.2	0.6 %

Net sales of our Energy Systems segment in the second quarter of fiscal 2024 decreased $14.5 million or 3.3% compared to the second quarter of fiscal 2023. This decrease was due to a 12% decrease in organic volume, partially offset by an 8% increase in pricing and a 1% increase in foreign currency translation. This decrease in sales was driven by capital spending pauses of our telecommunication and broadband customers. Net sales of our Energy Systems segment in the six months of fiscal 2024 increased $1.5 million or 0.2% compared to the six months of fiscal 2023. This increase was due to a 9% increase in pricing, offset by a 9% decrease in organic volume. This increase in sales was driven by improvement in pricing mix offset by a decrease in demand from telecom and broadband customers as a result in a pause in the capital spending.

Net sales of our Motive Power segment in the second quarter of fiscal 2024 increased by 17.2 million or 5.1% compared to the second quarter of fiscal 2023. This increase was primarily due to a 6% increase in pricing and a 2% increase in foreign currency translation, partially offset by a 3% decrease in organic volume. We continue to benefit from improved pricing and favorable sales mix, partially offset by a return to normal sales patterns. Net sales of our Motive Power segment in the six months of fiscal 2024 increased by 0.1 million or 0.0% compared to the six months of fiscal 2023. This increase was primarily due to a 7% increase in pricing and a 1% increase in both foreign currency translation and acquisitions, offset by a 9% decrease in organic volume. We continue to benefit from continued improved pricing and favorable sales mix.

Net sales of our Specialty segment in the second quarter of fiscal 2024 decreased by 1.1 million or 0.9% compared to the second quarter of fiscal 2023. The decrease was primarily due to a 4% decrease in organic volume, partially offset by a 2% increase in pricing and a 1% increase in foreign currency translation. This decrease in net sales was primarily driven by reduced medical sales due to production transfer from our closed Sylmar plant. Net sales of our Specialty segment in the six months of fiscal 2024 increased by $9.6 million or 3.9% compared to the six months of fiscal 2023. The increase was primarily due to a 4% increase in pricing and a 1% increase in foreign currency translation, partially offset by a 1% decrease in organic volume. This increase in net sales was primarily driven by improved pricing and strong demand in primarily the transportation sector, which is restrained by our capacity growth in our Missouri plants.

Gross Profit

	Quarter ended October 1, 2023		Quarter ended October 2, 2022		Increase (Decrease)	
	In Millions	Percentage of Total Net Sales	In Millions	Percentage of Total Net Sales	In Millions	%
Gross Profit	$ 239.6	26.6 %	$ 194.9	21.7 %	$ 44.7	23.0 %

	Six months ended October 1, 2023		Six months ended October 2, 2022		Increase (Decrease)	
	In Millions	Percentage of Total Net Sales	In Millions	Percentage of Total Net Sales	In Millions	%
Gross Profit	$ 479.9	26.5 %	$ 380.4	21.1 %	$ 99.5	26.2 %

Gross profit increased $44.7 million or 23.0% in the second quarter and increased $99.5 million or 26.2% in the six months of fiscal 2024 compared to the comparable periods of fiscal 2023. Gross profit, as a percentage of net sales, increased 490 basis points and increased 540 basis points in the second quarter and six months of fiscal 2024, respectively, compared to the second quarter and six months of fiscal 2023. The increase in the gross profit margin in the current quarter reflects the impact of IRA benefits in fiscal year 2024 and a strong performance in our price/mix, which significantly offset year on year cost increases.

Operating Items

	Quarter ended October 1, 2023		Quarter ended October 2, 2022		Increase (Decrease)	
	In Millions	Percentage of Total Net Sales	In Millions	Percentage of Total Net Sales	In Millions	%
Operating expenses	$ 143.8	16.0 %	$ 137.3	15.3 %	$ 6.5	4.7 %
Restructuring and other exit charges	$ 7.2	0.8 %	$ 3.3	0.4 %	$ 3.9	NM

	Six months ended October 1, 2023		Six months ended October 2, 2022		Increase (Decrease)	
	In Millions	Percentage of Total Net Sales	In Millions	Percentage of Total Net Sales	In Millions	%
Operating expenses	$ 288.4	15.9 %	$ 264.4	14.7 %	$ 24.0	9.0 %
Restructuring and other exit charges	$ 13.5	0.8 %	$ 11.6	0.6 %	$ 1.9	16.8 %

Operating expenses, as a percentage of sales, increased 70 basis points and increased 120 basis points in the second quarter and six months of fiscal 2024, compared to the comparable periods of fiscal 2023.

Selling expenses, our main component of operating expenses, increased $4.0 million or 7.3% in the second quarter of fiscal 2024 compared to the second quarter of fiscal 2023, and increased 44 basis points as a percentage of net sales. In the six months of fiscal 2024, selling expenses increased by $6.9 million or 6.3% compared to the six months of fiscal 2023 and increased 34 basis points. The increase in selling expenses as a percentage of sales in the current quarter is a result of labor and wage inflation and foreign currency impact.

Restructuring and Other Exit Charges

Restructuring Programs

Included in our second quarter and six months of fiscal 2024 operating results of Energy Systems were restructuring charges of $2.2 million and $2.7 million respectively. Included in our second quarter and six months of fiscal 2024 operating results of Motive Power were restructuring charges of $0.8 million and $0.8 million, respectively.

Included in our second quarter and six months of fiscal 2023 operating results of Energy Systems were restructuring charges of $0.7 million and $0.9 million, respectively. Included in our second quarter and six months of fiscal 2023 operating results of Motive Power were restructuring charges of $0.2 million and $0.2 million, respectively.

Exit Charges

Fiscal 2024 Programs

Renewables

On November 8, 2023, the Company's Board of Directors approved a plan to stop production and operations of residential renewable energy products, which include our OutBack and Mojave brands. Management determined that residential renewable energy products no longer fit with the company’s core strategy and resources will be better allocated toward commercial energy solutions for enterprise customers. The Company currently estimates that the charges for these actions will amount to approximately $15.0 million to $25.0 million relating to non-cash charges including inventory and an indefinite-lived intangible asset write-offs and approximately $1.0 million in cash charges including employee severance and retention payments.

Fiscal 2023 Programs

Sylmar

In November 2022, the Company committed to a plan to close its facility in Sylmar, California, which manufactures specialty lithium batteries for aerospace and medical applications. Management determined to close the site upon the expiration of its lease on the property and to redirect production through consolidation into existing locations. The Company currently estimates total charges in the exit to amount to $11.0 million. Cash charges are estimated to total $7.2 million primarily relating to severance and other costs to leave the site. Non-cash charges are estimated to be $3.8 million relating to fixed assets, inventory, and contract assets. The plan is expected to be completed in fiscal 2024.

During fiscal 2023, the Company recorded $1.7 million primarily related to severance costs and non-cash charges totaling $0.4 million primarily relating to contract assets.

During the six months of fiscal 2024, the Company recorded cash charges of $5.5 primarily related to severance costs, relocation expenses, and manufacturing variances and non-cash charges totaling $0.2 million. The Company also recorded a non-cash write off relating to inventories of $3.1 million, which was reported in cost of goods sold.

Ooltewah

On June 29, 2022, the Company committed to a plan to close its facility in Ooltewah, Tennessee, which produced flooded motive power batteries for electric forklifts. Management determined that future demand for traditional motive power flooded cells will decrease as customers transition to maintenance free product solutions in lithium and TPPL. The Company currently estimates that the total charges for these actions will amount to approximately $18.5 million. Cash charges for employee severance related payments, cleanup related to the facility, contractual releases and legal expenses are estimated to be $9.2 million and non-cash charges from inventory and fixed asset write-offs are estimated to be $9.3 million. These actions will result in the reduction of approximately 165 employees. The majority of these charges are expected to be recorded by the end of calendar 2023.

During fiscal 2023, the Company recorded cash charges relating primarily to severance and manufacturing variances of $2.8 million and non-cash charges of $7.3 million relating to fixed asset write-offs. The Company also recorded a non-cash write-off relating to inventories of $1.6 million, which was reported in cost of goods sold.

During the six months of fiscal 2024, the Company recorded cash charges relating to site cleanup and decommissioning equipment of $2.2 million.

Fiscal 2021 Programs

Hagen, Germany

In fiscal 2021, we committed to a plan to close substantially all of our facility in Hagen, Germany, which produced flooded motive power batteries for electric forklifts. Management determined that future demand for the motive power batteries produced at this facility was not sufficient, given the conversion from flooded to maintenance free batteries by customers, the existing number of competitors in the market, as well as the near term decline in demand and increased uncertainty from the pandemic. We plan to retain the facility with limited sales, service and administrative functions along with related personnel for the foreseeable future.

We currently estimate that the total charges for these actions will amount to approximately $60.0 million of which cash charges for employee severance related payments, cleanup related to the facility, contractual releases and legal expenses were estimated to be $40.0 million and non-cash charges from inventory and equipment write-offs were estimated to be $20.0 million. The majority of these charges have been recorded as of October 2, 2022. These actions resulted in the reduction of approximately 200 employees.

During fiscal 2021, the Company recorded cash charges relating to severance of $23.3 million and non-cash charges of $7.9 million primarily relating to fixed asset write-offs.

During fiscal 2022, the Company recorded cash charges, primarily relating to severance of $8.1 million and non-cash charges of $3.5 million primarily relating to fixed asset write-offs. The Company also recorded a non-cash write off relating to inventories of $1.0 million, which was reported in cost of goods sold.

During fiscal 2023, the Company recorded cash charges of $2.2 million relating primarily to site cleanup and $0.6 million of non-cash charges relating to accelerated depreciation of fixed assets.

During the six months of fiscal 2024, the Company recorded cash charges of $1.2 million relating primarily to site cleanup and $0.3 million of non-cash charges relating to accelerated depreciation of fixed assets.

Operating Earnings

	Quarter ended October 1, 2023		Quarter ended October 2, 2022		Increase (Decrease)	
	In Millions	Percentage of Total Net Sales (1)	In Millions	Percentage of Total Net Sales (1)	In Millions	%
Energy Systems	$ 25.6	6.1 %	$ 17.8	4.1 %	$ 7.8	43.9 %
Motive Power	53.4	15.0	39.8	11.8	13.6	34.0
Specialty	5.6	4.5	9.6	7.7	(4.0)	(41.7)
Corporate and other (2)	18.9	2.1	—	—	18.9	NM
Subtotal	103.5	11.5	67.2	7.5	36.3	53.9
Inventory adjustment relating to exit activities - Motive Power	—	—	(1.5)	(0.5)	1.5	(100.0)
Restructuring and other exit charges - Energy Systems	(2.2)	(0.5)	(0.8)	(0.2)	(1.4)	NM
Restructuring and other exit charges - Motive Power	(3.5)	(1.0)	(2.5)	(0.7)	(1.0)	39.8
Restructuring and other exit charges - Specialty	(1.5)	(1.2)	—	—	(1.5)	NM
Amortization of intangible assets - Energy Systems	(6.3)	(1.5)	(7.2)	(1.6)	0.9	(13.3)
Amortization of intangible assets - Motive Power	(0.2)	(0.1)	(0.1)	—	(0.1)	NM
Amortization of intangible assets - Specialty	(0.7)	(0.6)	(0.7)	(0.6)	—	(4.0)
Other - Energy Systems	(0.3)	(0.1)	—	—	(0.3)	NM
Other - Motive Power	(0.1)	—	(0.1)	—	—	NM
Other - Specialty	(0.1)	—	—	—	(0.1)	NM
Total operating earnings	$ 88.6	9.8 %	$ 54.3	6.0 %	$ 34.3	63.3 %

NM = not meaningful

(1) The percentages shown for the segments are computed as a percentage of the applicable segment’s net sales; Corporate and other is computed based on total consolidated net sales

(2) Corporate and other includes amounts managed on a company-wide basis and not directly allocated to any reportable segments, primarily relating to IRA production tax credits. Also, included are start-up costs for exploration of a new lithium plant as well as start-up operating expenses from the New Ventures operating segment.

	Six months ended October 1, 2023		Six months ended October 2, 2022		Increase (Decrease)	
	In Millions	Percentage of Total Net Sales (1)	In Millions	Percentage of Total Net Sales (1)	In Millions	%
Energy Systems	$ 55.3	6.5 %	$ 32.8	3.9 %	$ 22.5	68.4 %
Motive Power	103.7	14.7	82.1	11.7	21.6	26.2
Specialty	15.4	6.0	18.8	7.6	(3.4)	(18.2)
Corporate and other (2)	36.3	2.0	—	—	36.3	NM
Subtotal	210.7	11.6	133.7	7.4	77.0	57.4
Inventory adjustment relating to exit activities - Motive Power	—	—	(1.5)	(0.2)	1.5	(100.0)
Inventory adjustment relating to exit activities - Specialty	(3.1)	(1.2)	—	—	(3.1)	NM
Restructuring and other exit charges - Energy Systems	(2.7)	(0.3)	(1.0)	(0.1)	(1.7)	NM
Restructuring and other exit charges - Motive Power	(5.0)	(0.7)	(10.6)	(1.5)	5.6	(52.7)
Restructuring and other exit charges - Specialty	(5.8)	(2.3)	—	—	(5.8)	NM
Amortization of intangible assets - Energy Systems	(12.5)	(1.5)	(14.5)	(1.7)	2.0	(13.7)%
Amortization of intangible assets - Motive Power	(0.3)	—	(0.2)	—	(0.1)	55.5 %
Amortization of intangible assets - Specialty	(1.4)	(0.5)	(1.4)	(0.6)	—	NM
Other - Energy Systems	(1.1)	(0.1)	—	—	(1.1)	NM
Other - Motive Power	(0.6)	(0.1)	(0.1)	—	(0.5)	NM
Other - Specialty	(0.2)	(0.1)	—	—	(0.2)	NM
Total operating earnings	$ 178.0	9.8 %	$ 104.4	5.8 %	$ 73.6	70.6 %

NM = not meaningful

(1) The percentages shown for the segments are computed as a percentage of the applicable segment's net sales; Corporate and other is computed based on total consolidated net sales

(2) Corporate and other includes amounts managed on a company-wide basis and not directly allocated to any reportable segments, primarily relating to IRA production tax credits. Also, included are start-up costs for exploration of a new lithium plant as well as start-up operating expenses from the New Ventures operating segment.

Operating earnings increased $34.3 million or 63.3% and increased $73.6 million or 70.6% in the second quarter and six months of fiscal 2024, respectively, compared to the second quarter and six months of fiscal 2023. Operating earnings, as a percentage of net sales, increased 380 basis points and 400 basis points in the second quarter and six months of fiscal 2024, respectively, compared to the second quarter and six months of fiscal 2023.

The Energy Systems operating earnings, as a percentage of sales, increased 200 basis points and 260 basis points in the second quarter and six months of fiscal 2024, respectively, compared to the second quarter and six months of fiscal 2023. This increase was primarily as a result significant price/mix gains that offset higher inflationary costs and lower volumes.

The Motive Power operating earnings, as a percentage of sales, increased 320 basis points and 300 basis points in the second quarter and six months of fiscal 2024, respectively, compared to the second quarter and six months of fiscal 2023. This increase was driven by significant pricing/mix gains partially offset by lower volumes and higher selling costs.

The Specialty operating earnings, as a percentage of sales, decreased 320 basis points and 160 basis points in the second quarter and six months of fiscal 2024, respectively, compared to the second quarter and six months of fiscal 2023. Despite achieving improved pricing recoveries, higher manufacturing and operating costs produced an adverse impact on operating earnings.

Interest Expense

	Quarter ended October 1, 2023		Quarter ended October 2, 2022		Increase (Decrease)	
	In Millions	Percentage of Total Net Sales	In Millions	Percentage of Total Net Sales	In Millions	%
Interest expense	$ 12.2	1.4 %	$ 15.4	1.7 %	$ (3.2) -3.2	(21.0)%

	Six months ended October 1, 2023		Six months ended October 2, 2022		Increase (Decrease)	
	In Millions	Percentage of Total Net Sales	In Millions	Percentage of Total Net Sales	In Millions	%
Interest expense	$ 27.4	1.5 %	$ 27.0	1.5 %	$ 0.4	1.5 %

Interest expense of $12.2 million in the second quarter of fiscal 2024 (net of interest income of $0.5 million) was $3.2 million lower than the interest expense of $15.4 million in the second quarter of fiscal 2023 (net of interest income of $0.4 million).

Interest expense of $27.4 million in the six months of fiscal 2024 (net of interest income of $1.2 million) was $0.4 million higher than the interest expense of $27.0 million in the six months of fiscal 2023 (net of interest income of $0.8 million).

The decrease in interest expense in the second quarter of fiscal 2024 is due to lower borrowing levels partially offset by higher interest rates and the slight increase in the six months of fiscal 2024 is primarily due to lower borrowing levels almost completely offset by higher interest rates. Our average debt outstanding was $990.3 million and $1,030.3 million in the second quarter and six months of fiscal 2024, compared to $1,410.0 million and $1,350.9 million in the second quarter and six months of fiscal 2023.

Included in interest expense are non-cash charges for deferred financing fees of $0.4 million and $0.8 million for the second quarter and six months of fiscal 2024 and $0.5 million and $1.0 million in the second quarter and six months of fiscal 2023.

Other (Income) Expense, Net

	Quarter ended October 1, 2023		Quarter ended October 2, 2022		Increase (Decrease)	
	In Millions	Percentage of Total Net Sales	In Millions	Percentage of Total Net Sales	In Millions	%
Other (income) expense, net	$ 3.0	0.3 %	$ (1.4)	(0.2)%	$ 4.4	NM

NM = not meaningful

	Six months ended October 1, 2023		Six months ended October 2, 2022		Increase (Decrease)	
	In Millions	Percentage of Total Net Sales	In Millions	Percentage of Total Net Sales	In Millions	%
Other (income) expense, net	$ 3.7	0.2 %	$ 0.3	— %	$ 3.4	NM

NM = not meaningful

Other (income) expense, net in the second quarter of fiscal 2024 was expense of $3.0 million compared to income of $1.4 million in the second quarter of fiscal 2023. Other (income) expense, net in the six months of fiscal 2024 was expense of $3.7 million compared to expense of $0.3 million in the six months of fiscal 2023. Foreign currency impact resulted in a gain of $0.5 million and a gain of $2.8 million in the second quarter and six months of fiscal 2024, respectively, compared to a foreign currency gain of $3.8 million and $2.5 million in the second quarter and six months of fiscal 2023, respectively. Included in the second quarter and six months of fiscal 2023 foreign currency impact is a gain of $0.1 million and loss of $5.1 million relating to the remeasurement of monetary assets from the exit of our Russia operations.

Earnings Before Income Taxes

	Quarter ended October 1, 2023		Quarter ended October 2, 2022		Increase (Decrease)	
	In Millions	Percentage of Total Net Sales	In Millions	Percentage of Total Net Sales	In Millions	%
Earnings before income taxes	$ 73.4	8.1 %	$ 40.3	4.5 %	$ 33.1	82.4 %

	Six months ended October 1, 2023		Six months ended October 2, 2022		Increase (Decrease)	
	In Millions	Percentage of Total Net Sales	In Millions	Percentage of Total Net Sales	In Millions	%
Earnings before income taxes	$ 146.9	8.1 %	$ 77.1	4.3 %	$ 69.8	90.8 %

As a result of the above, earnings before income taxes in the second quarter of fiscal 2024 increased $33.1 million, or 82.4%, compared to the second quarter of fiscal 2023 and increased $69.8 million, or 90.8% in the six months of fiscal 2024 compared to the six months of fiscal 2023.

Income Tax Expense

	Quarter ended October 1, 2023		Quarter ended October 2, 2022		Increase (Decrease)	
	In Millions	Percentage of Total Net Sales	In Millions	Percentage of Total Net Sales	In Millions	%
Income tax expense	$ 8.2	0.9 %	$ 5.8	0.7 %	$ 2.4	41.6 %
Effective tax rate	11.2%		14.4%		(3.2)%	

	Six months ended October 1, 2023		Six months ended October 2, 2022		Increase (Decrease)	
	In Millions	Percentage of Total Net Sales	In Millions	Percentage of Total Net Sales	In Millions	%
Income tax expense	$ 14.9	0.8 %	$ 11.6	0.7 %	$ 3.3	29.1 %
Effective tax rate	10.2%		15.0%		(4.8)%	

The Company’s income tax provision consists of federal, state and foreign income taxes. The tax provision for the second quarter of fiscal 2024 and 2023 was based on the estimated effective tax rates applicable for the full years ending March 31, 2024 and March 31, 2023, respectively, after giving effect to items specifically related to the interim periods. Our effective income tax rate with respect to any period may be volatile based on the mix of income in the tax jurisdictions, in which we operate, changes in tax laws and the amount of our consolidated earnings before taxes.

On August 16, 2022, the Inflation Reduction Act of 2022 (“IRA”) was enacted. The IRA includes multiple incentives to promote clean energy, and energy storage manufacturing among other provisions with tax credits available from 2023 to 2032, subject to phase down beginning in 2030. In particular the IRA creates a refundable tax credit, pursuant to Section 45X of the Internal Revenue Code (“IRC”), for battery cells and battery modules manufactured or assembled in the United States and sold to third parties. In the second quarter and six months of fiscal 2024, the IRA impact resulted in a reduction of our costs of goods sold and income tax payable of $21.8 million and $41.2 million, respectively. There is a possibility that additional clarification guidance is issued with respect to the Section 45X credit qualifications. Amounts recognized in the Consolidated Condensed Financial Statements are based on Management's judgement and best estimate utilizing the most current guidance. The

Company will continue to evaluate the effects of IRA as more guidance is issued and the relevant implications to our Consolidated Condensed Financial Statements. Actual results could differ from management’s current estimate.

The consolidated effective income tax rates for the second quarter of fiscal 2024 and 2023 were 11.2% and 14.4% and for the six months of fiscal 2024 and 2023 were 10.2% and 15.0%, respectively. The rate decrease in the second quarter and six months of fiscal 2024 compared to the prior year periods are primarily due to the impact of the IRA offset by the mix of earnings among tax jurisdictions.

Foreign income as a percentage of worldwide income is estimated to be 56% for fiscal 2024 compared to 83% for fiscal 2023. This reduction is primarily due to the IRA impact on domestic earnings. The foreign effective tax rates for the six months of fiscal 2024 and 2023 were 13.0% and 12.0%, respectively. Income from the Company's Swiss subsidiary comprised a substantial portion of the Company's overall foreign mix of income for both fiscal 2024 and fiscal 2023 and were taxed at an effective income tax rate of approximately 9% in both periods.

Critical Accounting Policies and Estimates

There have been no material changes to our critical accounting policies from those discussed under the caption “Critical Accounting Policies and Estimates” in Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations in our 2023 Annual Report.

Liquidity and Capital Resources

Cash Flow and Financing Activities

Operating activities provided cash of $185.7 million in the six months of fiscal 2024 compared to $70.3 million of cash used in the six months of fiscal 2023, with the increase in operating cash resulting mainly due to net earnings and activity in accounts receivable, inventory, and accounts payable. Accounts receivable decreased or provided cash of $93.4 million, and inventory decreased or provided cash of $10.5 million. Additionally, accounts payable decreased or used cash of $57.2 million. These results were due to lower sales in the period compared to the fourth quarter of fiscal 2023. In the six months of fiscal 2024, net earnings were $132.0 million, depreciation and amortization $45.2 million, stock-based compensation $13.1 million, non-cash charges relating to exit charges $4.1 million, allowance for doubtful debts of $1.5 million, derivative losses of $1.2 million, derivatives cash proceeds of $0.7 million, and non-cash interest of $0.8 million. Prepaid and other current assets were a use of funds of $13.9 million, primarily from an increase of $6.3 million in contract assets and $3.9 million in prepaid insurance partially offset by a decrease of $3.7 million in other prepaid expenses, such as taxes, non-trade receivables, and other advances. Accrued expenses were a use of funds of $44.8 million primarily from decrease in tax accruals of $37.4 million, deferred income and contract liabilities of $10.8 million, payroll related payments of $4.7 million net of accruals, decrease to sales related accruals of $2.9 million, and interest payments net of accruals of $1.0 million, partially offset by $2.9 million of freight charges, warranty accruals of $2.5 million , and other miscellaneous accruals of $7.2 million.
In the six months of fiscal 2023, primary operating capital, net of currency translation changes, resulted in an outflow of funds of $178.2 million. In the six months of fiscal 2023, net earnings were $65.5 million, depreciation and amortization $46.4 million, stock-based compensation $11.9 million, non-cash charges relating to exit charges $9.1 million, primarily relating to the Ooltewah, Tennessee plant closure, derivative settlements of $2.0 million, non-cash interest of $1.0 million, and allowance for doubtful debts of $0.2 million. Prepaid and other current assets were a use of funds of $17.5 million, primarily from an increase of $6.6 million of contract assets and $10.9 million in other prepaid expenses, such as taxes, insurance and other advances. Accrued expenses were a use of funds of $9.4 million primarily from selling and other expenses of $5.0 million, deferred income and contract liabilities of $3.4 million, payroll related payments of $2.1 million net of accruals, tax payments net of accruals of $1.3 million and warranty payments of $0.8 million, partially offset by other miscellaneous accruals of $3.2 million.

Investing activities used cash of $42.1 million in the six months of fiscal 2024, which primarily consisted of capital expenditures of $35.9 million relating to plant improvements and $8.3 million relating to the purchase of a business partially offset by $2.0 million in proceeds from sale of disposal of property, plant, and equipment.

Investing activities provided cash of $4.1 million in the six months of fiscal 2023 which primarily consisted of proceeds from termination of a net investment hedge of $43.4 million, partially offset by capital expenditures of $39.7 million relating to plant improvements.

Financing activities used cash of $153.5 million in the six months of fiscal 2024. During the six months of fiscal 2024, we borrowed $172.5 million under the Second Amended Revolver and repaid $252.5 million of the Second Amended Revolver. We repaid $12.7 million of the Second Amended Term Loan, and net repayments on short-term debt were $0.1 million. We purchased treasury stock totaling $47.3 million, paid cash dividends to our stockholders totaling $16.3 million and received proceeds from stock options of $9.7 million.

Financing activities used cash of $0.9 million in the six months of fiscal 2023. During the six months of fiscal 2023, we borrowed $244.1 million under the Second Amended Revolver and repaid $184.1 million of the Second Amended Revolver. Net repayments on short-term debt were $17.1 million. Treasury stock open market purchases were $22.9 million, payment of cash dividends to our stockholders were $14.2 million and payment of taxes related to net share settlement of equity awards were $6.3 million. Payments for financing costs for debt modification were $1.1 million.
Currency translation had a negative impact of $9.1 million on our cash balance in the six months of fiscal 2024 compared to the negative impact of $41.0 million in the six months of fiscal 2023. In the six months of fiscal 2024, principal currencies in which we do business such as the Euro, Polish zloty, Swiss Franc and British pound generally weakened versus the U.S. dollar.

As a result of the above, total cash and cash equivalents decreased by $18.9 million to $327.8 million, in the six months of fiscal 2024 compared to a decrease of $108.1 million to $294.4 million, in the six months of fiscal 2023.

Compliance with Debt Covenants

During the second quarter of fiscal 2022, we entered into a second amendment to the Amended Credit Facility (as amended, the “Second Amended Credit Facility”). As a result, the Second Amended Credit Facility, now scheduled to mature on September 30, 2026, consists of a $130.0 million senior secured term loan (the “Second Amended Term Loan”), a CAD 106.4 million ($84.2 million) term loan and an $850.0 million senior secured revolving credit facility (the “Second Amended Revolver”). This amendment resulted in a decrease of the Amended Term Loan by $150.0 million and an increase of the Amended Revolver by $150.0 million.

During the second quarter of fiscal 2023, the Company entered into a third amendment to the 2017 Credit Facility (as amended, the “Third Amended Credit Facility”). The Third Amended Credit Facility provided new incremental delayed-draw senior secured term loan up to $300 million (the “Third Amended Term Loan”), which was available to draw until March 15, 2023. During the fourth quarter, the Company drew $300 million in the form of the Third Amended Term Loan. The funds will mature on September 30, 2026, the same as the Company's Second Amended Term Loan and Second Amended Revolver. In connection with the agreement, the Company incurred $1.2 million in third party administrative and legal fees recognized in interest expense and capitalized $1.1 million in charges from existing lenders as a deferred asset. Additionally, the Company derecognized the capitalized deferred asset and recognized the $1.1 million as deferred financing costs.

During the fourth quarter of fiscal 2023, the Company entered into a fourth amendment to the 2017 Credit Facility (as amended, the “Fourth Amended Credit Facility”). The Fourth Amended Credit Facility replaces the London Interbank Offered Rate (“LIBOR”) with the Secured Overnight Financing Rate (“SOFR”) in the calculation of interest for both the Second Amended Revolver and the Second Amended Term Loan.

All obligations under our Fourth Amended Credit Facility are secured by, among other things, substantially all of our U.S. assets. The Fourth Amended Credit Facility contains various covenants which, absent prepayment in full of the indebtedness and other obligations, or the receipt of waivers, limit our ability to conduct certain specified business transactions, buy or sell assets out of the ordinary course of business, engage in sale and leaseback transactions, pay dividends and take certain other actions. There are no prepayment penalties on loans under this credit facility.

We are in compliance with all covenants and conditions under our Fourth Amended Credit Facility and Senior Notes. We believe that we will continue to comply with these covenants and conditions, and that we have the financial resources and the capital available to fund the foreseeable organic growth in our business and to remain active in pursuing further acquisition opportunities. See Note 10 to the Consolidated Financial Statements included in our 2023 Annual Report and Note 11 to the Consolidated Condensed Financial Statements included in this Quarterly Report on Form 10-Q for a detailed description of our debt.

Contractual Obligations and Commercial Commitments

A table of our obligations is contained in Part II, Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations — Contractual Obligations of our 2023 Annual Report. As of October 1, 2023, we had no significant changes to our contractual obligations table contained in our 2023 Annual Report.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Market Risks

Our cash flows and earnings are subject to fluctuations resulting from changes in raw material costs, foreign currency exchange rates and interest rates. We manage our exposure to these market risks through internally established policies and procedures and, when deemed appropriate, through the use of derivative financial instruments. Our policy does not allow speculation in derivative instruments for profit or execution of derivative instrument contracts for which there are no underlying exposures. We do not use financial instruments for trading purposes and are not a party to any leveraged derivatives. We monitor our underlying market risk exposures on an ongoing basis and believe that we can modify or adapt our hedging strategies as needed.

Counterparty Risks

We have entered into lead forward purchase contracts, foreign exchange forward and purchased option contracts, interest rate swaps, and cross currency fixed interest rate swaps to manage the risk associated with our exposures to fluctuations resulting from changes in raw material costs, foreign currency exchange rates and interest rates. The Company's agreements are with creditworthy financial institutions. Those contracts that result in a liability position at October 1, 2023 are $17.5 million (pre-tax). Those contracts that result in an asset position at October 1, 2023 are $6.3 million (pre-tax). The impact on the Company due to nonperformance by the counterparties has been evaluated and not deemed material.

We hedge our net investments in foreign operations against future volatility in the exchange rates between the U.S. dollar and Euro. On September 29, 2022, we terminated our cross-currency fixed interest rate swap contracts with an aggregate notional amount of $300 million and executed cross-currency fixed interest rate swap contracts with an aggregate notional amount of $150 million, maturing on December 15, 2027. Depending on the movement in the exchange rates between the U.S. dollar and Euro at maturity, the Company may owe the counterparties an amount that is different from the notional amount of $150 million.

Excluding our cross currency fixed interest rate swap agreements, the vast majority of these contracts will settle within one year.

Interest Rate Risks

We are exposed to changes in variable U.S. interest rates on borrowings under our credit agreements, as well as short-term borrowings in our foreign subsidiaries. On a selective basis, from time to time, we enter into interest rate swap agreements to reduce the negative impact that increases in interest rates could have on our outstanding variable rate debt. At October 1, 2023 and March 31, 2023 such agreements effectively convert $200.0 million of our variable-rate debt to a fixed-rate basis, utilizing the one-month term SOFR, as a floating rate reference.

A 100 basis point increase in interest rates would have increased annual interest expense, by approximately $4.9 million on the variable rate portions of our debt.

Commodity Cost Risks – Lead Contracts

We have a significant risk in our exposure to certain raw materials. Our largest single raw material cost is for lead, for which the cost remains volatile. In order to hedge against increases in our lead cost, we have entered into forward contracts with financial institutions to fix the price of lead. A vast majority of such contracts are for a period not extending beyond one year. We had the following contracts outstanding at the dates shown below:

Date	$'s Under Contract (in millions)	# Pounds Purchased (in millions)	Average Cost/Pound	Approximate % of Lead Requirements (1)
October 1, 2023	$ 58.2	59.0	$ 0.99	8 %
March 31, 2023	47.9	50.0	0.96	8
October 2, 2022	59.4	67.5	0.88	10

(1) Based on the fiscal year lead requirements for the periods then ended.

For the remaining two quarters of this fiscal year, we believe approximately 68% of the cost of our lead requirements is known. This takes into account the hedge contracts in place at October 1, 2023, lead purchased by October 1, 2023 that will be reflected in future costs under our FIFO accounting policy, and the benefit from our lead tolling program.

We estimate that a 10% increase in our cost of lead would have increased our cost of goods sold by approximately $17 million in the second quarter and $36 million in the six months of fiscal 2024.

Foreign Currency Exchange Rate Risks

We manufacture and assemble our products globally in the Americas, EMEA and Asia. Approximately 40% of our sales and related expenses are transacted in foreign currencies. Our sales revenue, production costs, profit margins and competitive position are affected by the strength of the currencies in countries where we manufacture or purchase goods relative to the strength of the currencies in countries where our products are sold. Additionally, as we report our financial statements in U.S. dollars, our financial results are affected by the strength of the currencies in countries where we have operations relative to the strength of the U.S. dollar. The principal foreign currencies in which we conduct business are the Euro, Swiss franc, British pound, Polish zloty, Chinese renminbi, Canadian dollar, Brazilian real and Mexican peso.

We quantify and monitor our global foreign currency exposures. Our largest foreign currency exposure is from the purchase and conversion of U.S. dollar based lead costs into local currencies in Europe. Additionally, we have currency exposures from intercompany financing and intercompany and third party trade transactions. On a selective basis, we enter into foreign currency forward contracts and purchase option contracts to reduce the impact from the volatility of currency movements; however, we cannot be certain that foreign currency fluctuations will not impact our operations in the future.

At a point in time, we hedge approximately 5% - 10% of the nominal amount of our known annual foreign exchange transactional exposures. We primarily enter into foreign currency exchange contracts to reduce the earnings and cash flow impact of the variation of non-functional currency denominated receivables and payables. The vast majority of such contracts are for a period not extending beyond one year.

Gains and losses resulting from hedging instruments offset the foreign exchange gains or losses on the underlying assets and liabilities being hedged. The maturities of the forward exchange contracts generally coincide with the settlement dates of the related transactions. Realized and unrealized gains and losses on these contracts are recognized in the same period as gains and losses on the hedged items. We also selectively hedge anticipated transactions that are subject to foreign exchange exposure, primarily with foreign currency exchange contracts, which are designated as cash flow hedges in accordance with Topic 815 - Derivatives and Hedging. During the third quarter of fiscal year 2022, we also entered into cross-currency fixed interest rate swap agreements, to hedge our net investments in foreign operations against future volatility in the exchange rates between the U.S. dollar and Euro.

At October 1, 2023 and October 2, 2022, we estimate that an unfavorable 10% movement in the exchange rates would have adversely changed our hedge valuations by approximately $27.1 million and $26.1 million, respectively.

ITEM 4. CONTROLS AND PROCEDURES

(a) Disclosure Controls and Procedures. Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of our disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act")) as of the end of the period covered by this report. Based on such evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that, as of the end of such period, our disclosure controls and procedures are effective.

(b) Internal Control Over Financial Reporting. The Company's management, with the participation of the Company's Chief Executive Officer and Chief Financial Officer, evaluated any change in our internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) and determined that there was no change in our internal control over financial reporting during the quarter to which this report relates that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II OTHER INFORMATION

Item 1. Legal Proceedings

From time to time, we are involved in litigation incidental to the conduct of our business. See Litigation and Other Legal Matters in Note 11 - *Commitments, Contingencies and Litigation* to the Consolidated Condensed Financial Statements, which is incorporated herein by reference.

Item 1A. Risk Factors

In addition to the other information set forth in this Form 10-Q, you should carefully consider the factors discussed in Part I, Item 1A. Risk Factors in our 2023 Annual Report, which could materially affect our business, financial condition or future results.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

Purchases of Equity Securities by the Issuer and Affiliated Purchasers

The following table summarizes the number of shares of common stock we purchased from participants in our equity incentive plans, as well as repurchases of common stock authorized by the Board of Directors. As provided by the Company's equity incentive plans, (a) vested options outstanding may be exercised through surrender to the Company of option shares or vested options outstanding under the Company's equity incentive plans to satisfy the applicable aggregate exercise price (and any withholding tax) required to be paid upon such exercise and (b) the withholding tax requirements related to the vesting and settlement of restricted stock units and market and performance condition-based share units may be satisfied by the surrender of shares of the Company's common stock.

Purchases of Equity Securities

Period	(a) Total number of shares (or units) purchased	(b) Average price paid per share (or unit)	(c) Total number of shares (or units) purchased as part of publicly announced plans or programs	(d) Maximum number (or approximate dollar value) of shares (or units) that may be purchased under the plans or programs (1) (2) (3)
July 1 - July 31, 2023	5,065	$ 111.41	—	$ 194,545,418
August 1- August 31, 2023	585,997	98.30	480,060	147,205,883
September 1 - October 1, 2023	6,156	105.26	—	147,205,883
Total	597,218	$ 98.48	480,060	

(1) The Company's Board of Directors has authorized the Company to repurchase up to such number of shares as shall equal the dilutive effects of any equity based awards issued during such fiscal year under the 2017 Equity Incentive Plan and the 2023 Equity Incentive Plan and the number of shares exercised through stock option awards during such fiscal year, approximately $34.0 million.

(2) On March 9, 2022, the Company announced the establishment of a $150.0 million stock repurchase authorization, with no expiration date.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

During the quarter ended October 1, 2023, none of our directors or officers (as defined in Section 16 of the Securities Exchange Act of 1934, as amended) adopted or terminated a "Rule 10b5-1 trading arrangement" or a "non-Rule 10b5-1 trading arrangement" (each as defined in Item 408(a) and (c) of Regulation S-K).

Item 2.05 Costs Associated with Exit or Disposal Activities.

See disclosure under Item 2.06 below, which is incorporated herein by reference.

Item 2.06 Material Impairments.

On November 8, 2023, the Company's Board of Directors approved a plan to stop production and operations of residential renewable energy products, which include our OutBack and Mojave brands. Management determined that residential renewable energy products no longer fit with the company's core strategy and resources will be better allocated toward commercial energy solutions for enterprise customers. The Company currently estimates that the charges for these actions will amount to approximately $15.0 million to $25.0 million relating to non-cash charges including inventory and an indefinite-lived intangible asset write-offs and approximately $1.0 million in cash charges including employee severance and retention payments.

ITEM 6. EXHIBITS

Exhibit Number	Description of Exhibit
3.1	Fifth Restated Certificate of Incorporation (incorporated by reference to Exhibit 3.1 to Amendment No. 3 to the Company's Registration Statement on Form S-1 (File No. 333-115553) filed on July 13, 2004).
3.2	Third Amended and Restated Bylaws (incorporated by reference to Exhibit 3.1 to the Registrant's Current Report on Form 8-K (File No. 001-32253) filed on August 3, 2016).
31.1	Certification of Principal Executive Officer pursuant to Rule 13a-14(a)/15d-14(a) Under the Securities Exchange Act of 1934 (filed herewith).
31.2	Certification of Principal Financial Officer pursuant to Rule 13a-14(a)/15d-14(a) Under the Securities Exchange Act of 1934 (filed herewith).
32.1	Certification of the Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (furnished herewith).
101.INS	XBRL Instance Document - The instance document does not appear in the interactive data file because its XBRL tags are embedded within the inline XBRL document.
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

ENERSYS (Registrant)

By /s/ Andrea J. Funk
Andrea J. Funk
Chief Financial Officer

Date: November 8, 2023

Exhibit 31.1

Certification of Principal Executive Officer
Pursuant To Rule 13a-14(a)/15d-14(a) Under the Securities Exchange Act Of 1934

I, David M. Shaffer, certify that:

1. I have reviewed this quarterly report on Form 10-Q of EnerSys;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

By /s/ David M. Shaffer

David M. Shaffer
Chief Executive Officer

Date: November 8, 2023

Exhibit 31.2

Certification of Principal Financial Officer
Pursuant To Rule 13a-14(a)/15d-14(a) Under the Securities Exchange Act Of 1934

I, Andrea J. Funk, certify that:

1. I have reviewed this quarterly report on Form 10-Q of EnerSys;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant’s other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
   (c) Evaluated the effectiveness of the registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
   (d) Disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter (the registrant’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting; and
5. The registrant’s other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant’s auditors and the audit committee of the registrant’s board of directors (or persons performing the equivalent functions):
   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant’s ability to record, process, summarize and report financial information; and
   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant’s internal control over financial reporting.

By /s/ Andrea J. Funk

Andrea J. Funk
Chief Financial Officer

Date: November 8, 2023

Exhibit 32.1

**CERTIFICATION OF THE CHIEF EXECUTIVE OFFICER
AND CHIEF FINANCIAL OFFICER
PURSUANT TO
18. U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

I certify pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that the Quarterly Report of EnerSys on Form 10-Q for the quarterly period ended October 1, 2023, fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that information contained in such Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of EnerSys.

By /s/ David M. Shaffer

David M. Shaffer
Chief Executive Officer

By /s/ Andrea J. Funk

Andrea J. Funk
Chief Financial Officer

Date: November 8, 2023