

Holley Inc.
Second Quarter 2022 Earnings Call
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Presenters

Tom Tomlinson, President and Chief Executive Officer

Dominic Bardos, Chief Financial Officer

Vinny Nimmagadda, EVP Corporate Development & New Ventures

Q&A Participants

Joseph Altobello – Raymond James

Ryan Sundby – William Blair

Joseph Feldman - Telsey Advisory

Anna Glaessgen - Jefferies

Alexander Perry - Bank of America

John Lawrence - Benchmark

Christian Carlino - JPMorgan

Operator

Greetings. Welcome to Holley's Second Quarter 2022 Earnings Call. At this time, all participants are in a listen-only mode. A question-and-answer session will follow the formal presentation. If anyone today should require operator assistance during the conference, please press star, zero from your telephone keypad. Please note, this conference is being recorded.

At this time, I'll turn the conference over to Ross Collins with Investor Relations. Ross, you may now begin.

Ross Collins

Thank you, Rob. Good morning, everyone. Thank you for taking the time to join us today. On the call with me today are Tom Tomlinson, Chief Executive Officer, Dominic Bardos, Chief Financial Officer, and Vinny Nimmagadda, Executive Vice President of Corporate Development and New Ventures at Holley. After their prepared remarks, we'll open the call for questions.

Now, I will reference the Safe Harbor provisions under the Private Securities Litigation Reform Act of 1995. This call may contain certain forward-looking statements that are subject to significant risks and uncertainties, including the future operating and financial performance of the company.

In many cases, these risks and uncertainties are beyond the company's control. Although the company believes the expectations reflected in its forward-looking statements are reasonable,

it can give no assurance that such expectations of any of its forward-looking statements will prove to be correct, and actual results may differ materially.

Important risk factors that could cause actual results to differ materially from those reflected in the forward-looking statements are included in the company's recent 10-K, S-4, and S-1 filings with the Securities and Exchange Commission. The information contained in this call is accurate only as of the date discussed. Investors should not assume that statements will remain relevant and operative at a later time.

Holley undertakes no obligation to update any information discussed in this call in the future. Additionally, we will be discussing certain non-GAAP financial measures. A reconciliation of these items to U.S. GAAP are included in today's press release, which is also posted on our Investor Relations website.

At this time, I'd like to turn the call over to Tom Tomlinson, Holley's Chief Executive Officer. Tom?

Tom Tomlinson

Thanks, Ross. Good morning, everyone, and thanks for joining us today. As we stated in our earlier pre-announcement and our press release this morning, our results for the second quarter fell short of expectations. I'd like to jump right into providing some color around the shortfall in the quarter, which was driven primarily by supply chain disruptions, reseller de-stocking, and softer consumer demand in certain categories.

Typically, we see the highest overall demand for our products in the second quarter, and we placed heavier orders from our suppliers in anticipation of receiving the necessary goods in time to fill this demand.

In the second quarter of 2022, our receipt of goods from global suppliers fell well below our expectations, with many of these expected receipts having now shifted to the back half of the year. We believe this was driven by an overall slowdown in our supply chain, which began with COVID-related plant shutdowns and foreclosures in China, further exacerbated by slower-than-expected movement of goods throughout the balance of our supply chain.

The second major supply chain headwind was related to automotive-grade microchips that are used in many of our most popular electronic products. We have suppliers that have been reliable for many years, and we provide them with long-term forecasts and purchase orders within their quoted lead times.

In previous quarters, we have successfully been able to source the chips we needed from these historically reliable suppliers. During periods where demand exceeded the forecasts and purchase orders we provided to these suppliers, we have been able to secure the additional chips needed in the secondary market.

In the second quarter of this year, these suppliers progressively began decommitting on previously confirmed purchase order ship dates at a rate that affected our ability to continue regular production of these products. These conditions worsened throughout the quarter. And while we were able to secure some needed chips in the secondary market, it became clear that demand had exceeded supply, and we were unable to ultimately secure enough usable chips to satisfy the demand we have for these products.

We continue to work diligently to source these microchips, and we now believe that global constraints could continue to be challenging through 2023. As a result of these supply chain disruptions, we navigated our busiest sales period of the year with an inadequate supply of hundreds of our best-selling products.

Shifting gears to distribution, it is very clear that there was meaningful reseller to stock, de-stocking in the quarter. Our top resellers reduced their purchases well below their out-the-door sales of our products. Given our policies and supply chain constraints that have existed over the last few years, we believe reseller inventory levels are currently low, and their ability to continue to reduce their inventory is limited.

Finally, I would like to discuss electronic tuning, a category where we believe we are seeing some reduction in consumer demand. We were well stocked in this category throughout the quarter but saw a decline in demand and have very low past-due orders. We believe this decline in demand is primarily the result of lower new vehicle production levels, which, in turn, has resulted in a reduction in used vehicle transactions as well.

New vehicle production has also been negatively impacted by the aforementioned microchip shortages. Consumers generally purchase tuning devices when they purchase a new vehicle or a new-to-them, used vehicle.

The above factors notwithstanding, we continue to believe that overall consumer demand for our products is solid. Our past-due orders remain elevated and ended the quarter more than three times the net sales decline from the prior year. We expect to be able to fill most of this demand in future quarters as product becomes available to ship. Our DTC channel is growing and is margin accretive.

DTC sales were up 7 percent, despite the significant supply chain challenges. Looking to the balance of 2022, we expect our receipt of goods from global suppliers to accelerate, and the team is committed to managing our other supply chain challenges as effectively as possible.

We're also very focused on opportunities to improve our short-term performance while continuing to pursue actions that will drive long-term growth, developing innovative and exciting new products for our enthusiast consumers, and engaging with them through digital

media and in-person at our events, where we've seen double-digit growth. And we're also continuing to execute our M&A strategy.

I'll now turn it over to Vinny to discuss recent M&A activity and consumer engagement. Vinny?

Vinny Nimmagadda

Thank you, Tom, and good morning to everyone on the call. As Tom mentioned, in prior calls, we believe acquisitions are a key strategic pillar to drive growth at Holley. During the second quarter, we completed the acquisition of Racepak (sp), a well-known brand in the safety equipment market.

This acquisition is a great example of how Holley is consistently looking to strategically gain market share and enter new product categories. Although relatively small in size, this acquisition helps us expand into a broader base of entry-level enthusiast consumers with products priced right for the value proposition that we deliver.

Our pipeline remains focused, and we are committed to building out our M&A capabilities. As a part of our acquisition philosophy, we are focused on attractive companies that will allow Holley to expand share in current markets, enter new product categories, increase our DTC scale, and ultimately drive shareholder value.

Should the elevated economic uncertainties lead to additional attractive opportunities coming to market, our team stands ready to capitalize as well as engage with business owners seeking Holley as a disciplined steward for their business.

Now, I'll say a few words regarding our consumer engagement, specifically experiential events. Holley proudly hosted its inaugural LS Fest Texas event during the quarter. Holley LS Fest events as a brand truly are a destination for enthusiasts, and these events will continue to be a key pillar of our consumer engagement strategy.

To add some specific color, in its first year, LS Fest Texas achieved attendance greater than our LS Fest East event had achieved in its sixth year. Not only do these events help us learn more about our customers, each event serves as an opportunity to understand and learn more about the products that are resonating with the broader enthusiast community.

This will be particularly helpful as we begin to innovate and enter new product categories and markets, such as electric vehicles. Holley held its second Holley High Voltage event this past quarter, enabling us to engage deeper with the EV enthusiast community.

Lastly, as we discussed in the first quarter's call, we met our second quarter milestone for the Simpson integration and are meaningfully accelerating the integration of more recent acquisitions to realize value within the year. Through our acquisitions and integrations, we remain committed to returning long-term value to our shareholders.

With that overview, I'd now like to hand the call over to Dominic, who will discuss our second quarter financial results in greater detail. Dominic?

Dominic Bardos

Thank you, Vinny, and good morning, everyone. Holley delivered net sales of \$179.4 million in the second quarter, a decrease from \$193 million, or a 7.1 percent decrease from the second quarter of 2021. While we typically don't disclose monthly pacing of results, we believe it's helpful color to illustrate how sales trends changed throughout the quarter.

You may recall that we finished our first quarter with net sales that were 25 percent higher than Q1 of 2021. When we finished April, our year-to-date net sales growth was 15 percent, still on par with the higher end of our annual guidance. At the end of May, our year-to-date net sales growth had fallen to 11 percent over the prior year but still within the range of annual guidance.

So, by the time we finished the quarter in June, our year-to-net sales growth compared to 2021 had fallen to 7.4 percent, as reported this morning. The declining sales performance, particularly in our five-week month of June, directly correlates to the factors Tom discussed earlier.

Gross profit for the second quarter of 2022 decreased \$5.9 million, or 7.3 percent, to \$75.3 million, when compared to \$81.2 million for the second quarter of 2021. The decrease in gross profit was driven by the decrease in sales. Gross margin for the second quarter of 2022 was 42 percent compared to a gross margin of 42.1 percent for the second quarter of 2021.

Total selling, general, and administrative expenses increased 38.5 percent in the second quarter. The large increase in SG&A is a continuation of the increased costs related to equity compensation, public company expenses, acquisitions, and investments for growth. Incremental SG&A from recent acquisitions were responsible for \$1.4 million of the increase in the quarter.

Additional cost drivers include an increase in non-cash expense directly related to equity awards, increased administrative and sales personnel costs, reflecting company and the additional requirements of becoming a public company, and an increase in outbound shipping costs related to domestic supply chain pressures.

Interest expense decreased by 20 percent in the second quarter of 2021 to \$9 million. Interest expense positively benefited from the \$100 million paydown on our second lien note in July of 2021 and the credit facility refinancing we completed last November.

We recorded net income of \$40.6 million in the second quarter of 2022. Net income for the second quarter of 2022 was favorably impacted by a \$27.4 million non-cash decrease in

liabilities for warrants and earnout shares. On an adjusted basis, net income was \$13.2 million versus \$23.1 million in the second quarter of 2021. Adjusted EBITDA decreased at \$37.2 million in the second quarter, down from \$54.1 million in the second quarter of 2021.

Moving to our outlook for 2022, as we stated in our pre-announcement and earnings press release this morning, we have lowered our guidance that we originally established at the beginning of the fiscal year. Our updated guidance now calls for annual net sales in the range of \$700 million to \$725 million and adjusted EBITDA between \$135 million and \$145 million.

We also adjusted our interest expense expectations to be in the range of \$33 million to \$35 million, while we are maintaining our CapEx and depreciation and amortization guidance, which are between \$14 million to \$16 million and \$24 million to \$26 million respectively. This guidance includes reduced spending to reflect the challenging environment in the months ahead and the accelerated integrations that Vinny mentioned.

Now, I would like to take a moment to address the announcement of my resignation at the end of September. First, I would like to thank Tom, my leadership teammates, and the Holley board of directors for the opportunity to serve and be a part of this exciting chapter of Holley's corporate life. Second, I would like to emphasize that my decision to leave is purely for personal and family reasons.

I think Holley is a fantastic company with an extremely bright future that will drive long-term shareholder value for years to come. In the meantime, I will do everything I can to ensure a smooth transition during the next two months.

That concludes our prepared remarks. Ross, we can now open up the call for questions.

Ross Collins

Absolutely, Dominic. As a reminder, we ask that you please limit yourself to one question with one related follow-up, as needed. Rob, please open the line for questions from our participants.

Operator

Thank you. To ask a question today, you may press star, one from your telephone keypad, and a confirmation tone will indicate your line is in the question queue. You may press star, two if you would like to remove your question from the queue. For participants using speaker equipment, it may be necessary to pick up your handset before pressing the star keys.

Thank you. And our first question comes from the line of Joe Altobello with Raymond James. Please proceed with your questions.

Joseph Altobello

Thanks. Hey, guys, good morning. I guess first question, just to kind of get it out of the way, what are you guys seeing in July and August so far in terms of shipments, demand, etc.?

Dominic Bardos

So, Joe, let me handle that one. When we did our guidance, we had a few weeks into July. We took that into consideration. But, we're not prepared to make any other comments about Q3.

Joseph Altobello

Okay, understood. In terms of demand, you mentioned on the tuning side you had seen a lack of new and used auto availability as being a big driver of that. Is any of that related to broader macro concerns as well? Or is it really just the availability issue?

Tom Tomlinson

Well, I mean, from our perspective, with new vehicle production being down, consumers are just buying fewer new vehicles. And the trickle down, and the trickledown effect, then, is that there's a smaller inventory of used vehicles being passed to next owners.

And again, as we talked about in the prepared remarks, consumers generally purchase tuning devices when they purchase a brand-new vehicle or a new-to-them used vehicle. So, based on the visibility we have today, we think that that's the primary driver of what we're seeing there on the tuning side.

Joseph Altobello

Okay. And just lastly for me, in terms of the reseller de-stocking, are they trying to conserve cash because of a concern about the macro backdrop? What's driving that de-stocking activity?

Tom Tomlinson

Yeah, we have historically seen this when there is bad economic news. It's, I would have to say that we have shaped our policies around this over the years to minimize the impact and to minimize, well, to minimize the impact on the business, to minimize their inventory. And, I mean, when I look back to prior periods, I mean, I think those strategies, those policies are working well. And I think, while the impact was still significant to us in the quarter, it was much lower than we've seen historically.

Joseph Altobello

Okay, got it. Thank you guys.

Dominic Bardos

Thanks, Joe.

Operator

Our next question is from the line of Ryan Sundby with William Blair. Please proceed with your question.

Ryan Sundby

Hey, guys. Thanks for the questions here. It sounds like there may be four separate things that drove the shortfall relative to expectations, the broader supply chain issues, the availability of key inputs, the de-stocking and the (inaudible) demand. Can you maybe talk about, just a little more about how much each of those had relative to your kind of expectations?

Dominic Bardos

Well, Ryan, this is Dominic. I think one of the things that we try to do when we go through this is give the relative magnitude by the order in which we're presenting things. We're not prepared to give precise information in terms of the dollar magnitude of the miss. But, we know, and Tom mentioned it in his prepared remarks, when we started the quarter and where we ended the quarter, and we had hundreds of our most popular products out of stock.

So, we were running out of stock of our most popular things through the quarter. And that's why I shared in the prepared remarks the pacing. So, supply chain, we believe, was the most significant impact. And as we kind of went through the prepared remarks, it's in that descending order of magnitude.

Ryan Sundby

Okay, that's helpful.

Tom Tomlinson

I want to, I would also just refer back to one of the comments in the prepared remarks. When you look at our past-due orders, as Dominic just mentioned and I talked about, they are, they have remained elevated. And at the end of the quarter, these past-due orders were more than three times the net sales decline from the prior year. Just, to me, that kind of is somewhat responsive in a bit of a quantified way to your question.

Ryan Sundby

Yeah, that's very helpful. I was also wondering, is the right way to think about underlying demand maybe the 7 percent growth for DTC? Does that help us kind of look through the reseller de-stocking? And then, on the reseller de-stocking, can you talk a little bit more about how that looks across the different channels in terms of e-tail, in terms of brick and mortar? Are you seeing any differences there, and maybe the timing of that, to make it worse really towards the end of the quarter with kind of a general (sp) quarter?

Tom Tomlinson

So, we, I mean, the channels do have some different dynamics. And, but they also tend to carry different inventory levels. And we only have visibility to de-stocking in our top resellers. Now, that does represent more than, including our DTC, that represents more than half of our overall sales. So, it is a pretty meaningful look at de-stocking.

Interestingly, kind of the traditional retailers had done some de-stocking last year in this quarter. And so, their de-stocking was probably the lowest. And I'm going purely by memory here. But, as I recall, our top channels, which would be e-tailers, including our DTC. And then, well, we can exclude DTC for this part of the discussion because we're talking about channel inventory. But, so e-tailers and warehouse distributors was where we saw the largest de-stocking in the quarter.

Dominic Bardos

Yeah. And as Tom mentioned, they do carry the widest breadth of our inventory, so that makes the most sense, that they're the ones that would have the highest level of de-stocking.

Ryan Sundby

Thanks, guys.

Dominic Bardos

Thanks, Ryan.

Operator

Our next question comes from the line of Joe Feldman with Telsey Advisory. Please proceed with your question.

Joseph Feldman

Yeah. Hey, good morning, guys. So, question about the microchip issue. And I know it's a global issue. It's clearly beyond you guys. But, I guess the concern is, how do you guys plan to meet demand if you have this kind of pressure in the environment? Like does that mean we have to kind of see a permanent reduction in sales for the next year and a half? Or, I guess, how shall we think about that impacting you guys?

Tom Tomlinson

I mean, I guess the first thing I would say, if there was a year and a half reduction, it wouldn't be permanent. And we have, we're blessed with a very broad portfolio, and we have other products that we can focus on in the meantime and promote. So, but having said that, the team is working diligently, and if there is, to secure these microchips, if there is a silver lining here, we do have now open dialogue with some of these top chip manufacturers.

Historically, we've acquired these chips entirely through their resellers, through their distributors. And we'll probably still continue to acquire them through their distributors. That's the way they do business. But, I think this dialog is good because it's just not a demand number on a page. It's a face, and it's people that are asking for it. They desperately need these products.

We feel like those efforts have made, allowed us to make some progress. And we've got some, call it short-term ship dates. But, we're just very cautious because it's too soon to declare any

sort of victory. We're very cautious because what happened to us in the quarter is that confirmed POs were decommitted. And what that means is these were POs that we had placed months in advance. We expected the shipments. All of our schedules were built around those shipments.

And decommitting as a practical matter means they're pushing out receipt dates. So, I think we have to look at all these expected receipts that we have today as tentative. But, it is hopeful, and we've actually been able to get some dates as a result of this dialog directly with the chip manufacturers and really as a result of the teams' just tremendous efforts in this area.

Joseph Feldman

Got it. That's really helpful. Thank you, Tom. And just as a, I guess, a reminder, maybe for me, I hope everybody. but like how many, or what percent of your products actually have chips in them that really require this, these devices, if you can share that?

Tom Tomlinson

That's not something, let me see if I can give you a qualitative answer to that. It's, so we have products in our electronic fuel injection product line that use automotive-grade microchips. Overall, that is a large category, but not all of the products in that category use those microchips. However, when you can't sell the main unit, you don't get the benefit of all the drag-along sales.

Dominic Bardos

One other thing, if I may add, Tom, is we've talked about this in recent quarters, that category has been driving outpace growth for us, really been driving significant growth with a super popular line of things. And many of those popular products are what we were without in Q2. We ran out of them.

Joseph Feldman

Got it. No, that's good. And it's helpful to hear that, it sounds like the demand is not the issue at all, from what you're suggesting. It's really just the ability to have the product, so okay.

Tom Tomlinson

That's right. That--.

Joseph Feldman

--Thanks, as always.

Tom Tomlinson

Thanks, Joe.

Operator

The next question is from the line of Anna Glaessgen with Jefferies. Please proceed with your question.

Anna Glaessgen

Hey, good morning. Thanks for taking my question. I want to go back to kind of the commentary around retailer de-stocking, totally understand the commentary that they're positioning for some of the macro that we're seeing. Did you see, I know it's hard to give color kind of across the board here.

But, would you say it's more of an indiscriminate cutting across the board, as we're just broadly trying to right size inventory? Are they being a little bit more selective? And would you expect them to kind of tailor these orders going forward based on sell-through?

Tom Tomlinson

So, we look at it as fear-based or maybe emotional, an emotional reaction to the bad economic news. And the last time we saw this was in 2020 right after all the COVID lockdowns occurred. And what we saw on our DTC side, DTC charged right on through with high rates of growth. And resellers pulled back dramatically.

And the conditions were such at that time that they had to come right back in within a month or two and start raising their orders. So, I mean, I'm not suggesting that that's going to happen this time. The economic conditions I think are much different. But, we do think that there's far more demand there than is visible in our numbers. Hence, my comment that we believe the demand for our products is solid.

And we've got some categories that are up, some categories that are down. We wanted to kind of talk about both sides of that to be fair and balanced. But, another thing I would point, I mean, we talked about DTC up 7 percent. Our, so far this year, our consumer events are well into the double-digit up category, or range. And so, we do think demand for our products remains solid.

Anna Glaessgen

Great. That's really helpful. And just some follow-up, going back to the performance by category, totally understand that tuning is impacted by new vehicle availability. As you think about prior downturns, would you say that tuning is more exposed or macro sensitive, has a higher relationship with new vehicle sales? Is that typically the first one to go? Or--

Tom Tomlinson

--So, that category does correlate more than most of our other categories to vehicle sales. And again, we have this broad portfolio, and we are about 50/50 modern vehicles and classic vehicles. It's actually a little bit, slightly skewed towards classic vehicles.

And so, that's just a great part of the business that we've built. And so, even though this is a category that shows up as being, having lower demand at this point in time, it is a category that historically has had very, very high demand. And it's also one of our highest margin categories.

Anna Glaessgen

Great. Thanks.

Tom Tomlinson

Thanks, Anna.

Operator

Our next question is from the line of Alex Perry with Bank of America. Please proceed with your questions.

Alexander Perry

Hi. Thanks for taking my questions. Just first, I wanted to ask sort of, what was the big change in the supply availability versus sort of when you gave an update in May? Was this mostly the microchip availability, or was there something else that sort of developed as you moved through the quarter?

And then, the decommitted, confirmed POs, is this, are you looking for alternative suppliers as a way to mitigate this, or are you just thinking that this was an isolated issue and should improve? Thanks.

Tom Tomlinson

So, the change that really, the issues that we talked about from a supply standpoint, the supply chain slowed down for the reasons we discussed, and we did not receive the goods we expected to receive in the quarter. There was a dramatic shortfall from what we expected to receive.

And those goods are pushed out into the second half of the year. Those receipts for those goods are pushed out to the second half of the year. And that should allow us to see some progress on our past-due orders and see the benefits associated with that.

In terms of the, sorry, the decommitting, we turned to the secondary market, which is something that we've historically done. And that market had tightened up so dramatically that it was not nearly as successful as, and we weren't able to acquire the quantities of chips this quarter as we have historically.

And our view of that market is that going to another distributor is not going to be particularly helpful because these chips just aren't out there right now. And, I mean, there's, I guess we have to have some faith in the, in our economic system. And over time, this will be corrected. But, it doesn't appear to be a quick fix.

We're just hoping, as we talked about earlier, that the effort that we've put into the dialogues with the chip manufacturers results in allocations and allows us to begin to resume production of these products.

Alexander Perry

That makes a lot of sense. And then, I just wanted to ask, follow up a little bit on sort of how much of, the sort of demand versus supply? Is the, it seems like the slower demand is in electric (inaudible) due to the vehicle availability. But also, those are the ones that require chips.

So, is, you're seeing slower demand. Maybe give us another way to sort of characterize the demand you're seeing. Is there anything in terms of color you can give us in terms of end-market demand, whether it's like your retailers, sort of POS data? Just trying to frame up how much is sort of demand versus supply. Thanks.

Tom Tomlinson

DTC is up 7 percent. Our consumer events so far this year are well into, up double digits. We, our backlog, sorry, I want to talk specifically about our past dues. So, these are orders that were due that we haven't been able to fill yet. That remains elevated and is increasing. And we need to see the container receipts for the goods that we ordered and expected to receive. And, but from our perspective, again, the demand is there.

And, I mean, look, the supply chain issues are frustrating to all of us, and the team is just working diligently to do everything humanly possible to see those goods arrive. In some cases, they will be inputs into our manufacturing processes, so there will be time required to manufacture the products we sell to our consumers. In other cases, this would be a product that we've designed that we source complete, and that goes on the shelf and is ready to ship to consumers upon arrival, consumers and resellers upon arrival.

Alexander Perry

Perfect. That's really helpful. Best of luck going forward.

Dominic Bardos

Thank you.

Tom Tomlinson

Thanks.

Operator

Our next question is from the line of John Lawrence with Benchmark. Please proceed with your questions.

John Lawrence

Yeah, thanks. Good morning, guys.

Tom Tomlinson

Morning.

Dominic Bardos

Good morning.

John Lawrence

Hi. Tom, would you just talk about, I believe in the first quarter, and I don't know if you can give a little deeper dive here, I guess two things. Number one, I believe the electronic category was about \$80 million out of \$200 million in the first quarter. Is that about right?

Tom Tomlinson

Yeah.

Dominic Bardos

I don't recall disclosing category-specific breakdowns.

Tom Tomlinson

Yeah.

John Lawrence

And secondly, is there any way to break down that \$80 million? How much of that total electric product, electronic product, really has to do with the chip? Is it most of it, or is it 60 percent? Or, and that follows with that sort of outline of how much of the electronic product is affected by demand or just how much is it affected by just not being able to get that chip.

Tom Tomlinson

Well, I mean, from a qualitative standpoint, the impact on the tuning business from the potential demand issues we discussed is smaller than the impact of the microchips.

John Lawrence

Great. Thanks. And I would assume that, and of that decline, I assume it's all one business now. I assume this is part of the AEM product coming, I mean, acquisition you made about a year ago. And that would be on the top (sp) as well.

Tom Tomlinson

No, that's not correct. That's not correct.

Dominic Bardos

Yeah. So, one of the things I think we should probably clarify, John, is that automotive-grade chips that are engineered to withstand higher temperatures and the rigors of being in--.

Tom Tomlinson

--Under a hood.

Dominic Bardos

--Under a hood, those impact products like our fuel injection system that has to have an ignition system. Those things that need to have chips under the hood are automotive grade. Many of our tuning products need semiconductor chips, but they're not the same quality because they're actually in the car itself, and they're used to monitor, or they can be used to tune.

So, there are differences in the chips of electronic products that we have. As an example, our fuel injection systems, we've been hampered with that supply. If you go to our website, you can see the estimated ship dates have been out there for weeks and (inaudible) their products until September 30th. And we just don't have those products available (sp).

John Lawrence

Okay, thanks. So, I was just trying to get that breakdown. And the last question for me, Tom, what, as we look at the business and look in the second half, what are the things that have to go right as far as getting these receipts? What are the things that we'd be monitoring to make sure, as this solves itself over the next few months?

Tom Tomlinson

So, we are monitoring basically the inflow of containers with these products. And so, that's an important element. And obviously, we're monitoring when they leave the port. And then obviously, we see that again when they're, when a receiving report is entered into the system.

The other thing that's really important, and, I mean, I think that we've baked into our forecast and guidance what our expectation is in terms of being able to deliver on some of the fuel injection products that Dominic mentioned a moment ago.

Those are the things that are pretty critical. And, I mean, frankly, if we do better than expected, it gives us some upside. If we don't do as well as expected, it gives us some downside. So, I mean, on balance, we tried to peg it where we thought we'd be.

John Lawrence

Great. Thanks so much. Dominic, appreciate all the help. Thank you, sir.

Dominic Bardos

Good. You got it, John. Take care.

Tom Tomlinson

Thanks, John.

Operator

Thank you. Our final question is from the line of Christian Carlino with JPMorgan. Please proceed with your question.

Christian Carlino

Hi. Good morning. Thanks for taking my questions. Just wondering, have you taken price recently, either through planned price increases (inaudible) supply environment? And just how are you thinking about pricing versus volume in the back half?

Tom Tomlinson

So, we have historically, for the last several years, done a mid-year price increase, as our regular annual price increase. We did do that this year. We accelerated it maybe by a couple weeks. And it was a little larger than we would have done typically, given the pressures we've, inflationary pressures on our costs that we've seen.

Christian Carlino

And was pricing more of, did pricing grow more than it did in the first quarter or less, given the (inaudible)?

Dominic Bardos

Pricing contributed 7.3 percent in the quarter. It was a little bit less than Q1 because the pricing changed that Tom just mentioned. It was at the end of the quarter, in June. So, it was a little bit less in the quarter, but it was a positive contribution to the sales.

Christian Carlino

Got it. That's really helpful. And then, I guess, from a capital allocation standpoint, you have some inventory on the balance sheet, you expect the resellers to, I guess, pick up their orders in the back half. But, you're at almost 5 times total leverage. So, is the plan from here to see how much you need for inventory? Or is there, would you delever the balance sheet? Or could you make an acquisition to sort of supplement the weaker, organic strains, generally how you're thinking about planning the business going forward.

Dominic Bardos

Sure. So, let me just correct on the leverage. We're not at 5 times. Our net debt is probably around \$610 million, \$615 million, with \$30 million cash on the balance sheet with our long-term debt. And so, with our guidance, it's not near the 5 yet. Right now, in the quarter, it was below 4 times. So, from a leverage standpoint, yes, we're certainly going to look at everything going forward from a capital allocation standpoint. We are keeping an eye on cash. That's obviously very important to us, as it should be to all investors.

But, it doesn't take us out of the M&A market. There are other ways that we can look at being creative. And we're certainly going to look at accretive opportunities for long-term growth. I just want to remind folks that, yes, this is a setback. We are focused on the long term for driving shareholder value. And M&A is a part of that.

As Vinny mentioned in his prepared remarks, our pipeline is very focused on things that fit our strategic bill of health, and we will find the right ways to do that. But, clearly, we're going to be very careful. We're going to be very mindful of leverage ratios. We have a desired sweet spot, as I've said before, to below 4 times.

Tom Tomlinson

And then I would just add that we just all need to keep in mind here that our comp, the second quarter of 2021 here, was a 54 percent up quarter. And so, it's a difficult comp that we're up against. And in the back part of the year, the comps are not as difficult.

Christian Carlino

Got it. That makes sense. Thanks for all the color.

Operator

Thank you. At this time, this concludes our question-and-answer session, and that will also conclude today's call. Thank you for your participation. You may now disconnect your lines at this time, and have a wonderful day.