Holley
Second Quarter 2023 Earnings
August 10, 2023

Presenters
Matthew Stevenson, Pres.& Chief Executive Officer
Jesse Weaver, Chief Financial Officer
Ross Collins, Investor Relations

Q&A Participants
Brian McNamara – Canaccord Genuity
Michael Swartz –Truist Securities
Christian Carlino – JP Morgan
John Lawrence – The Benchmark Company
Martin Mitela – Raymond James
Alex Perry – Bank of America
Bret Jordan – Jefferies
Michael Baker – D.A. Davidson

Operator
Good morning, ladies and gentlemen, and welcome to the conference call to discuss the results from Holley's Second Quarter of 2023. At this time, all participants are in a listen-only mode. Later, we will conduct a question and answer session and instructions for asking questions will be provided at that time. We ask that participants limit themselves to one question and one related follow up during the Q&A period. Please be advised that the reproduction of this call in whole or in parts not permitted without written authorization of Holley. And as a reminder, this call is being recorded and will be made available for future playback.

I would now like to introduce your host for today's call, Mr. Ross Collins, Senior Managing Director of Alpha IR. Please go ahead, sir.

Ross Collins
Thank you, operator. Good morning, everyone. Thank you for taking the time to join us today. On the call with me today are Matthew Stevenson, President and Chief Executive Officer, and Jesse Weaver, Chief Financial Officer. After their prepared remarks, we will open the call for questions. We will be referencing page numbers from our second quarter 2023 quarterly earnings presentation, which can be found on our Holley Investor Relations website.

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 or any of its forward-looking statements will prove to be correct, and actual results may differ materially from the expectations.

Important risk factors that could cause actual results to differ from those reflected in the forward-looking statements are included in the company's recent 10-Q, 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 Matthew Stevenson, Holley's President and Chief Executive Officer. Matt?

Matthew Stevenson
Thank you, Ross, and good morning, everyone. It is an absolute pleasure to be joining you on my first earnings call here at Holley. Not only did I join this company because I am an automotive enthusiast, but I also saw the remarkable growth potential in this organization. We have great brands, great products, great people and great customers. What more could you ask for? I joined the company in June of this year, and there was a lot of fantastic progress already underway from the leadership of our Board member and Interim CEO, Michelle Gloeckler. I want to thank Michelle for all her efforts in the four months prior to me joining Holley.

On slide five, we've highlighted the key takeaways for the second quarter. It is clear we are continuing to build a path for gross margins of approximately 40% and EBITDA greater than 20% over the long-term. We demonstrated that ability by delivering nearly 40% gross margins and 21.6% adjusted EBITDA for the quarter. Through forecasting and operational improvements, we brought down net inventory levels by more than $10 million in the quarter, boosting our year-over-year improvement in free cash flow. We also reduced past dues across both our electronic and mechanical categories by $4 million.

And on the new product development side, we launched our all-new Sniper 2, the next evolution of our marquee fuel injection product line. The Sniper 2 features enhanced capabilities and greater compatibility with older vehicles, plus installation is a lot simpler, which greatly reduces install time for our customers. Also, our unique QuickStart feature allows users to get their Sniper EFI system running by answering only a few questions about their engine. No laptop or prior tuning experience is required. In addition, future product line extensions like wireless connectivity will allow enthusiasts to connect their Sniper 2 to Holley via their smartphone. With this level of consumer connectivity, we will unlock multiple avenues for

greater consumer engagement, which will allow us to better understand how our products are being used and what additional needs our consumers may have.

We launched Sniper 2 at the tail end of the second quarter. And through the end of July, we have already registered $1.5 million in sales. As a key piece of my onboarding process at Holley, I spent a lot of time on the road, visiting 11 of our facilities and a number of major customers over an eight week period. I wanted to get out and form my perspective as quickly as possible.

Getting out to see over 90% of our teammates, along with customers who represent a sizable portion of our annual revenue was a great start. What I found, frankly, was not a real surprise, an incredibly passionate group of teammates that are excited about where the company is headed and great distribution partners who are enthusiastic about Holley and want to find ways to grow their business with us. This valuable input, time spent with our Board and our leadership team, have informed the development of what we call the steering principles for the business.

You can see the steering principles on the left side of slide six. The first one of those centers around fueling our teammates. That principle is about making sure we here at Holley are on a journey to make this a great place to work, by providing the resources and the environment for our teammates to be successful. This means clear direction, strong leadership and appreciation for diversity, accountability and opportunities for growth.

We want to create a working environment where our teammates' opinions and insights are welcomed and respected. When our teammates are fueled, it allows us the opportunity to supercharge our customer relationships by delivering exciting brands and innovative products, as well as making it as easy as possible to do business with Holley. By doing so, it will enable us to accelerate profitable growth, driving to exceed the returns our shareholders expect and allow us to invest back into our teammates and customer relationships in this continuous cycle of growth.

The way we make these principles a reality is by focusing on four key areas. On the right, you can see those. First, we need to listen to our teammates and ensure we get their input in the daily and strategic actions of the business. Our teammates are enthusiasts and have a great knowledge of the market, our customers, the competition and our products.

Second, we need to enhance our operations in order to take out non-value-added activities, while ensuring we have the right products available with the right inventory levels to serve the market. We also need to analyze and understand the cost to serve of each of our business lines, product categories and customer types. Plus, we need to offer our enthusiast consumers and distribution partners the best omnichannel customer experience in our space.

The third key area is focused on optimizing our acquisitions. Holley has acquired some amazing brands and businesses over the last few years, and we realize that each of these has their

nuances. We must foster these differences to enable them to continue to deliver in their distinct markets. We are making sure that there is no one-size-fits-all approach, and we are striking the appropriate balance of integration and synergy creation in order to fully optimize each organization's growth potential.

Finally, we are focused on putting all customers first. This not only includes our fabulous base of consumers, but also our loyal distribution partners. We are finding ways to grow and expand all of our sales channels in an effort to reach and serve a broader range of enthusiasts. And the great thing about our business is that there is a $40 billion total addressable market, so there is plenty of growth potential out there.

On slide seven, you can see some of the financial and business highlights from our second quarter. Our net sales were down just over 2% due to the normalization of demand we have previously forecasted, with a similar reduction in gross margins, mainly due to sales mix. However, our adjusted EBITDA margin was 21.6%, up nearly a full percent compared to the prior year. This is a testament to the operational improvements the team has made in reducing costs throughout the organization, by rightsizing the team's structure, finding efficiencies in manufacturing and making meaningful improvements in freight. These efforts have helped generate free cash flow of $29 million for the quarter, which is a $30 million improvement versus the prior year.

Let's also touch on some of the business highlights for the quarter. For this call, we will touch on two areas in particular. The first is on our product innovation, and the second is on our consumer engagement, both key pillars of our overarching strategy. Just this quarter alone, we launched 75 new products, including the Marquee Sniper 2 EFI, which I already discussed. Not only does this product have great new features and enhancements, but it's also built on a newer generation of microprocessors that are much more readily available. In addition, we launched new in-vehicle tuning products at our Edge brand for the 2020 to 2023 full-size General Motors pickup platform through our user-friendly Evo HT2 handheld.

Aside from serving the domestic platforms, great brands in our portfolio like APR, focused on the Euro segment. For example, APR recently launched several new air intake products for the highly successful eighth generation Volkswagen Gulf that started with model year 2022. The APR full intake system improves performance, offers personalization between OEM style or carbon fiber covers and enhances the natural sounds of the engine.

Plus, we are not just launching new products, but we are also winning awards with them. This past quarter, our Detroit Speed team attended the 25th Annual Good Guys event in Columbus, Ohio. While there, the team took home two awards, included a Muscle Car Award with our 1965 Buick Riviera and Best New Product with our 1970 Ford Mustang front-end kit. This kit is a complete front-end solution to dramatically improving the handling and ride of the classic Ford Mustang.

A big part of our strategy as the leading consumer branded company for automotive enthusiasts is to make sure we are driving consumer engagement, particularly at the grassroots level. As many of you know, we hold enthusiast events throughout the year, and in this past quarter, we held three major events, two of our famous LS events, LS Fest West held in Las Vegas and LS Fest Texas in Fort Worth, as well as the 24th Annual Brothers truck show held in Silverado, California. These events drew a total attendance of nearly 50,000 people, up over 20% year-over-year.

These events give us a direct connection with our consumers and enable us to listen to their product needs and keep a pulse on where the enthusiast trends are headed. We also use events like these as tools for online social engagement. For example, at LS Fest Texas, we invited key social media influencers, YouTube celebrities and brand ambassadors to join us for this three day event. Collectively, these influencers have a social following of over 29 million, enabling Holley to digitally reach more enthusiasts and share the experience of our events.

Now, I'd like to turn it over to Jesse to discuss our financial priorities, our Q2 financials in more detail and our updated guidance.

Jesse Weaver
Thank you, Matt, and good morning, everyone. Our second quarter results were encouraging as we continued to see sequential improvement in our financials. Despite the year-over-year decline in sales, we did see an improvement in sales and EBITDA from the decline seen in the first quarter. Improvement was driven by normalizing order growth, past due fulfillment and a continued realization of our cost savings initiatives that were implemented at the end of 2022. Results from these initiatives generated approximately $11 million in savings for the quarter.

As a reminder, on slide nine, our key financial priorities for the year are restoring profitability, improving free cash flow, optimizing working capital and deleveraging our balance sheet. And through the incredible efforts of the team, we were able to drive profitability in line with our long-term targets this quarter. With an organization focused on improving operations and capitalizing on go-to-market opportunities, we are on the right track to delivering these priorities for the year.

On page 10, we've laid out a summary of key income statement line items. I will cover the key drivers of our financial performance in the subsequent slides. However, as is highlighted on this slide, Holley delivered improved adjusted EBITDA and adjusted net income year-over-year despite the declines in net sales and gross margin. And as Matt already alluded to, our financial performance continues to be propelled by our team's tenacity and dedication to optimizing our operations while also remaining focused on engaging and inspiring our enthusiast customer base. These fundamental improvements over time will deliver market-leading results and lay the foundation for sustainable long-term growth.

Turning to slide 11, you'll see that we're comparing our second quarter net sales results to comparable net sales in 2019. We believe comparisons versus '19 are important for us as we focus on long-term growth trends outside of COVID-related stimulus and consumer stay-at-home spending. Net sales of $175 million in the second quarter represent a 15% compound annual growth rate versus the second quarter of 2019. In addition, second quarter net sales from legacy businesses owned prior to 2019, ended the quarter at $133 million, which when compared to the second quarter of 2019, represents a 7% CAGR and is slightly above the long-term SEMA growth trends for the industry of roughly 6%.

When compared to the second quarter of the prior year, you'll see on page 12, net sales decreased $4 million or 2.3%. While net sales decreased year-over-year, we think it's important to highlight that the magnitude of the decline was much less than the year-over-year declines in Q1 and that these improvements have been largely driven by improving order trends, which you can find in the appendix on slide 25. Net sales in the quarter benefited from $4 million in the reduction of past dues, across both electronics and nonelectronic categories, which can be found on page 13. And ending the quarter with $22 million marks the sixth consecutive quarter of past due reduction since the peak of $56 million in the fourth quarter of 2021.

Turning to gross margin on page 14, you can see that we were down 220 basis points from 42% last year, to 39.8% in the second quarter of '23. Decreases in margin were primarily driven by headwinds from sales mix and the flow-through of higher input costs from prior periods being partially offset by current year lower cost in production and distribution operations, which continues to benefit meaningfully from inbound freight cost savings.

Page 15 lays out SG&A on a quarterly basis. And as you can see in the second quarter, SG&A was down $7 million to $29 million, from $36 million in the second quarter of 2022. R&D expense was down $2 million year-over-year for a combined reduction of $9 million versus the second quarter of '22. The $9 million reduction has been through a combination of around $2 million for lower equity compensation, with $7 million coming from a combination of reduced outbound freight, headcount and facilities consolidations.

Despite sales headwinds for the year, SG&A, excluding equity compensation at 16% of sales remains in line with historical trends, which reinforces the team's original commitment to cost containment coming into the year. The results noted in the previous slides can be seen in the adjusted EBITDA results for the quarter on page 16. Adjusted EBITDA increased to $37.9 million in the second quarter, up from $37.2 million in the second quarter of '22. It's important to note that we had an offset of $800,000 from a partial reversal of the product rationalization add-back from the Q4 '22 SKU rationalization efforts.

And as can be seen on page 17, the EBITDA results for the quarter, combined with cash generation from improvements in inventory management, resulted in free cash flow of $29 million for the second quarter versus negative free cash flow of $1 million in the prior year. And I'd like to call out that in the second quarter of '22, inventory investments were a $24 million

headwind to cash flow, versus a $10 million tailwind in the second quarter of this year. This further demonstrates the free cash flow generation potential of Holley and the great efforts of this team.

Free cash flow has been a significant contributor to the results we're seeing on page 18, with our net leverage ratio for the quarter coming down from 5.67x in the first quarter to 5.58x in the second quarter. Both quarters have remained meaningfully lower than the covenant that was outlined in our amended credit agreement of 7.25x. And as you'll see in the guidance, we expect leverage to continue to improve throughout the year.

Turning to our outlook for '23 on page 19. Given our strong year-to-date results, we are raising and narrowing our full-year guidance. For the full year, we are now projecting net sales in the range of $635 million to $675 million and adjusted EBITDA between $118 million to $128 million. Our guidance does imply a back half step down in EBITDA margins, which is consistent with the normal seasonality of the business. We expect these results to include capital expenditures between $5 million and $10 million, and our CapEx expectations have been adjusted as we re-evaluate overall CapEx priorities to ensure that we are focused on the highest returning projects for our shareholders.

Our depreciation and amortization guidance is unchanged between $23 million and $25 million. And our interest expense expectations are now in a range of $58 million to $62 million, and this is based on the benefits we're seeing with the interest rate collar, which is in effect until '26, and it also includes higher interest on cash balances. This range excludes the impact of any noncash interest rate hedge revaluation. Our revised guidance ranges and outlook continue to be supported by the strength of our brands, a constantly evolving product portfolio, as well as many operational and cost savings initiatives that are directly tied to driving both top and bottom line growth.

This concludes our prepared remarks, and we would now like to open up the line for questions.

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

Operator
Ladies and gentlemen, at this time, you may register your desire to ask a question by pressing star, one, on your phone. 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. Once you've been called upon, please make sure you are not on mute and proceed with your question. One moment, please.

Thank you. Our first question comes from Brian McNamara with Canaccord Genuity. Please proceed with your question.

Brian McNamara
Good morning, everyone. Thanks for taking the question and congrats on the strong quarter and the progress you guys are making. I guess we want to know about the early reception to Sniper 2, both with your customers and dealers and the like in the channel, and how we should think about revenue contribution from this product launch in the back half? Thanks.

Matthew Stevenson
Hey, Brian, this is Matt Stevenson. I appreciate the question. I mean we're just seeing a tremendous amount of interest in the new Sniper 2. And as I mentioned in my prepared remarks, we already saw $1.5 million of sales out through the end of July, which was pretty early because we just launched that at the end of the quarter, and we're also seeing some great stock orders by our major distribution partners. So overall, a lot of great excitement around this product for us.

Brian McNamara
And then, just a quick follow-up on kind of your 40/20 margin algorithm, but maybe for Jesse. It seems like you guys got back here pretty quickly, at least faster than maybe we had expected. And this is with sales down considerably. How should we think about that evolving when you guys actually start growing sales again? Thanks.

Jesse Weaver
Hey, Brian, it's a good question. And I think just to kind of clarify on the 40/20 for us, I mean, the way we think about it for our internal goals is that 40/20, we need to deliver on a full year. And certainly, we've come out of the gate this year, moving in the right direction, I think, hopefully, re-instilling confidence that that is achievable. And as we go into the back half, as I've noted in the prepared remarks, typically, you'll see a step down in margins. And so I don't see at this moment, us necessarily being able to fully commit to that this year, but going into next year, it is a focus of the team.

Brian McNamara
Understood. Thanks, guys. Congrats. Thank you.

Jesse Weaver
Thanks, Brian.

Matthew Stevenson
Thank you.

Operator
Thank you. Our next question comes from Mike Swartz with Truist Securities. Please proceed with your question.

Michael Swartz
Hey, good morning, guys. I think you made the comment in your preamble around you're now seeing normalizing order growth. So I just wanted to dig into that a little more. I guess, what exactly does that mean? And I guess, how much more visibility do you have into distributor and retailer orders for the back half of the year?

Jesse Weaver
Hey, Michael, it's Jesse. Good question. And the normalization of order growth, just to kind of remind the group, is the concept that we came into the year as we were guiding for the year and just coming off of '22 and the stimulus coming from '21 and '22. When we were seeing the decline in orders, we anticipated that the front half from an order growth perspective would be soft but improving throughout the year. And so the declines we're seeing are sort of the anticipated declines, but the trend is what we're looking for, which is an improvement.

I think orders were down about 13% in Q1. We were running down 1.6% in Q2. And our guidance implies that in the back half, we start to see orders be positive. And so we're headed in the right direction there. And so that's the normalization, so just getting back to what we would call a pre-COVID normal rate.

In terms of what we're seeing, out-the-door sales is our best barometer in terms of consumer pull-through, through some of our key resellers. We get about 50% of their data on what our out-the-door sales are. And I think they're seeing relatively stable out-the-door sales on their end despite our year-over-year sales. And I think we've communicated that that's just due to they were heavily overstocked coming into the year. And the back couple of months that we've looked at have been pretty encouraging, reinforcing the guidance that we have in place.

Michael Swartz
Okay. Great. And maybe just sticking on the topic of retailer and consumer demand. I guess, how did the direct-to-consumer business perform during the quarter? And what was the percentage of sales from that business?

Jesse Weaver
Yeah, it's a good question. And I'm going to start, and I'll let Matt kind of finish this as we kind of refocus our efforts as a team on what the overall best way to grow the business as a whole is. But as it relates to D2C, D2C as a percentage of gross sales was 21% for the quarter, which is about 100 basis points better than it was in Q2 last year. And on a growth rate perspective, we are seeing improving trends sequentially with D2C, where D2C was actually about flat, where our business as a whole was down 2.3%, versus Q1 where D2C was down 6% versus the overall business at 13%.

And I will point out that, that down 6% in Q1 is an updated number based on a more direct-to-consumer sales comparable for the prior year. But on a year-over-year basis as a percentage of the overall business, we are seeing improving trends there. But I will say that D2C as Matt's

come in and recognize that 80% of our business is reseller business, and I think as we've talked about before, when you look at the gross margin on D2C versus resellers, certainly accretive D2C, but you have to look at the full P&L there and sales between the two is relatively flat.

And so we need to optimize, I think, the overall go-to-market channel that has the highest profit potential based across the categories. And certainly, the partnerships with the resellers as an opportunity to grow. So in terms of D2C long term, I think we're still evaluating where that needs to be, but it's still an important part of our business.

Michael Swartz
Okay. Thank you.

Operator
Thank you. Our next question comes from Christian Carlino with JPMorgan. Please proceed with your question.

Christian Carlino
Hi. Good morning. Could you just help us bucket out some of the changes in the guidance at a high level, just how much was it versus the internal plan in the first half versus an updated look at the second half? And any color on the cadence of DTC through the quarter and quarter-to-date that helped inform your updated view.

Jesse Weaver
Yeah. It's a good question, Christian. And what I'll say is we've raised the guidance on the top end, I think, modestly from raising the bottom end because of the trends that we started to see in the order growth and a lot of the coming into the year, the question mark was, how are orders going to actually trend coming through the first half? And so as we've raised that guidance, we've gotten, I would say, better at understanding where our past due balance is going to end up. And so what you're seeing in that back half guidance is some mid-single digit, mid- to high single-digit growth on orders with some continued improvement in past dues. I would say getting to the top end of the range would mean higher order growth, closer to double-digit order growth and then getting into the bottom end of the range, it would be closer to low single-digit order growth. So hopefully, that helps you understand what the key drivers are.

We also include in that, is this is based on the visibility that we have on a risk-adjusted basis and chip availability, and I'll reinforce, the team did a really good job coming into this quarter. And I think we mentioned it in the last call in securing chips on the spot market, but we're still taking a cautiously optimistic approach as it comes to setting guidance there. And if they're able to exceed what we've seen historically, we've been able to do there, that could be another tailwind on the revenue side.

Christian Carlino

Got it. That's helpful. And then, I guess, how are you thinking about gross margin in the updated guidance? Yes, there's a step down in sales, but you should also benefit from the lower manufacturing costs to a greater degree as you turn through the inventory, plus you have the lag pricing in electronic mix benefits. So I guess, is there anything else we're missing in those big buckets? And how should we think about gross margin exiting the year?

Jesse Weaver
Yeah. So the key thing to remember is we have a fixed cost base in our gross margin that when sales comes down, there's a bit of deleveraging that happens there. We have pricing that kind of helps offset some of that. And then the other thing that we're kind of working through in the back half is just based upon our accounting method with manufacturing accounting, there are some costs on a year-over-year basis that are from previous periods that roll through at a higher rate. And so we think that the gross margin back half is something that we should probably see kind of be year-over-year positive on the gross margin line, but it could step down a little bit just given the sales leverage piece.

Christian Carlino
Got it. Thanks for all the help.

Operator
Thank you. Our next question comes from John Lawrence with Benchmark Company. Please proceed with your question.

John Lawrence
Congratulations on the quarter. Jesse, could you talk a little bit about maybe when you look at the slides with the business, slide seven and you talk about the new products launched in Q2. Where would that sit as you look sequentially over the past few quarters? I mean, is this a major step-up in development as cash was tighter, etcetera, or where would that sit in that progression?

Jesse Weaver
Good question, John. And I mean this is pretty consistent with what the team has been doing. I would say that with Matt coming on board, we're going to continue to make sure that innovation is one of the key product drivers of our consumers' purchase intent. And so that as we continue to release new products, we want to highlight the great work that the team is doing, the awards that they're winning. And as we continue to shape the strategy around new product development, I think we'll be able to show more visibility into some of the areas that we're moving into that we haven't historically had focused on, but it's pretty consistent.

John Lawrence
Great. And Matt, the slide before, the optimizing acquisitions, that's been a part of the team's sort of strategy. As you moved around and visited these facilities, etcetera, where do you think you are in that category and aligning with that, the CapEx? Is it a return issue now that you

want to set that bar a little higher before and that maybe the pullback may be in CapEx for the rest of the year?

Matthew Stevenson
Yeah, John, I'll kind of break that into two there. So in my travel, just visiting all these great brands and companies that are part of the Holley family, there are just some tremendous opportunities there. So at the same time, they do have their nuances relative to, do they have a retail component, a service component, the D2C component? So we're really going through and making sure we're preparing those business units for optimal growth going forward. And so really, over the next six months, we're going to spend time making sure we're providing those businesses the resources for that growth going forward.

In terms of the CapEx spend, just really, as I've come in, just want to make sure we're preparing the organization relative to the scope of some of our CapEx spend, that is really going to take this company to the next level. So it's more just a pause, making sure we're looking at it with the full growth potential that we intend to make sure we're spending that capital appropriately.

John Lawrence
Great. Thanks. Good luck.

Matthew Stevenson
Thank you.

Operator
Thank you. Our next question comes from Joe Altobello with Raymond James. Please proceed with your question.

Martin Mitela
Good morning. This is Martin Mitela on for Joe Altobello. We were just wondering, in terms of capital allocation, is your first priority beyond investing in the business still debt reduction?

Jesse Weaver
Sorry, Joe, can you say that again?

Matthew Stevenson
Martin.

Martin Mitela
Yeah.

Jesse Weaver
Or Martin.

Martin Mitela
Yeah. In terms of capital allocation, is your first priority beyond investing in the business, build debt reduction?

Jesse Weaver
Yeah, and I think that's a good question. I mean, you can see we generated a lot of cash in the quarter and sitting at $42 million, a lot of questions probably coming up on capital allocation at this point. And it's a great place to be when you can start to have those discussions. And it's one of the things that we internally are really focused on. But I would say that understanding, we got to understand a few more pieces of what we need to do for the business here in the next six to 12 months. But deleveraging the balance sheet continues to be a focus, but we're not in a position at this point to kind of give you any specifics on that.

Martin Mitela
Got it. And when you talk about the COVID-driven demand bump, what do you think it will take to lap that demand bump?

Jesse Weaver
Well, based on the work that I had done kind of coming into the year and what we've shown in the appendix on normalization, my estimation is the back half, we should be lapping a period when there's probably a lot less stimulus tailwind and largely in Q4 is whenever I view that the number is relatively small. And then obviously, going into next year, that should be behind us unless there is some new stimulus that has been not in print thus far.

Martin Mitela
Got it. Thank you, and great quarter.

Operator
Thank you. Our next question comes from Alex Perry with Bank of America. Please proceed with your question.

Alex Perry
Hi. Thanks for taking my questions. I guess just first, how should we be thinking about sort of 3Q versus 4Q sales cadence? Should we be thinking outsized growth in the fourth quarter, given the easier comp from last year? Thanks.

Jesse Weaver
Good question, Alex. And I mean, obviously, we're just giving full year guidance, so I don't want to be too prescriptive on it. But I think if you look at kind of what we've been seeing historically, pre-COVID time frame, you would see roughly 50/50 split between the two. Now that said, pre-COVID, D2C wasn't where it is today, and I think what we generally internally anticipate is a slight uptick in Q4 versus Q3. And largely, that's just driven to what we do with Holley Days and a B2C penetration. And typically, at that point, our distribution partners have less inventory in

stock, and we have it available. So we often find ourselves in a position to fulfill what the consumer needs at that moment. But typically around 50/50, but you would see probably something more like 50% to 52% in Q4 on the back half split.

Alex Perry
That's really helpful. And then could you maybe just help us think through the margin implications of the launch of your newer generation products like Sniper 2.0 versus prior generation products? Are these products generally higher margin for you guys? Thanks.

Jesse Weaver
The way it's been priced and the work that the team has done is we're offering, I think, a great product out there that's got all the features that consumers have been asking for on newer technology, and we've priced it at a way that we're able to be margin neutral to prior generation, so shouldn't expect any meaningful margin bump from those products.

Alex Perry
Perfect. That's very helpful. Best of luck going forward.

Jesse Weaver
Thank you.

Operator
Our next question comes from Bret Jordan with Jefferies. Please proceed with your question.

Bret Jordan
Hey. Good morning, guys.

Matthew Stevenson
Good morning, Bret.

Bret Jordan
Could you give us a little more color on your comment about evaluating the direct-to-consumer longer term? Is the cost associated with that business, maybe something that you'd focus more on the reseller market, or I guess, a little color there?

Matthew Stevenson
Yeah, Brett. It's Matt. For us, being a leading consumer platform for automotive enthusiasts direct-to-consumer is absolutely core to our strategy, right? At the same time, we need to look at cost to serve, but also too, we see tremendous potential in this business in a variety of sales channel, whether it's international, OE as well as a lot of growth with our distribution partners. So kind of when we think about pegging an arbitrary number around D2C, we don't think it's the best barometer of the level of engagement we're driving with our consumers.

Bret Jordan
Okay. And then I guess, last quarter, we talked a bit about sort of applications related to electric vehicles. Have you made, I guess, any more internal progress there or anything to discuss?

Matthew Stevenson
Yeah. Nothing to discuss specifically today, Bret. But yeah, progress continues and there's really two focuses for EV for us. One is providing aftermarket performance parts for EV vehicles that come out of the factory, OE, as well as looking at some retrofit applications for EV components for classic and modern cars. So some exciting things we're looking at, and I'd just say more to come in the future.

Bret Jordan
Okay. And then one real quick question. I think somebody asked earlier, but just, do you have any color on the cadence of retail POS as the quarter progressed?

Jesse Weaver
Yeah. I mean we haven't given, Bret, historically the month-by-month or quarter-to-quarter, but I'll say the last couple of months that we've gotten, and we just got the July numbers, we've seen positive growth on the out-the-door sales from our resellers. So it's headed in the right direction here as we go into the back half.

Bret Jordan
Okay. Great. Thank you.

Matthew Stevenson
Thanks, Bret.

Operator
Thank you. Our next question comes from Michael Baker with D.A. Davidson. Please proceed with your question.

(Audio Gap)

Excuse me. Your line may be muted.

Michael Baker
Yeah. Sorry. I was on mute. I wanted to ask Matt just about, well, some long-term top line growth algorithm and how you think about organic growth, I assume you think it'll grow at or above that 6% industry growth, but how do you think about acquisitions? Has that changed at all in terms of the benefit of acquisitions for the long-term top line strategy?

Matthew Stevenson

Yeah. Thanks for the question, Michael. Has it changed, absolutely not. I mean we definitely remain opportunistic around acquisitions. It's key to our strategy going forward.

Michael Baker
So based on the commentary previously on some acquisitions, should we expect the pace of acquisitions to be similar, less, more, than what we've seen in the last few years?

Matthew Stevenson
Yeah, relative to that pace, except for the next six months or so, we're really focused on optimizing the great brands and businesses that have become part of our portfolio. But again, we remain opportunistic and looking at acquisitions that are part of our long-term strategy. In terms of the relative pace, we have to just look at that as part of our capital allocation strategy going forward.

Michael Baker
Okay. Fair enough. A couple more questions, if I could, follow-ups. It's been asked a couple of times, but I'm going to ask also. The direct-to-customer business, it does seem like a big change in tone, like when you demerged relative to the SPAC and the last few years, this has been, DTC has been the focus. This is a good. Even though it was only 20% of the business, the growth is all about direct to customer.

Now, it's like you've barely mentioned it in the script, and it came up a couple of times in Q&A. So it seems like a pretty big change to me, which I get. I get why you're doing it. But I guess my question is, what do you need to change to do anything differently internally, different people, different focuses, whatever, or is it just as easy as saying, hey, this is going to be less of a focus going forward and that's that?

Matthew Stevenson
Yeah. I think, Michael, just to be clear, it' is not a change of focus. Like I mentioned in response to the previous question, we're a leading consumer platform for automotive enthusiasts and direct-to-consumer is part of our core strategy. But pegging this percentage of our business relative to D2C, I just give you a hypothetical example, if we grow OE international by x number of millions and then we're looking at the same percentage, the overall growth of the business keeps going up, but D2C may slightly go down quarter-over-quarter. So that's why we just don't want to get hung up on the percentage. We want to look at meaningful growth across all of our channels, especially D2C.

Michael Baker
Yeah. No, that makes perfect sense. It just seemed like a little bit of a different messaging to me, but maybe not. Last one, if I could. Your back half, my math says the back half implied sales guidance at the midpoint is flat, even down slightly. To me, that seems a little conservative seeing the momentum that you saw in the second quarter and just a commentary in the back

half. Is it fair to call the back half sales, implied sales guidance conservative at the midpoint being down about 50 basis points, I think?

Jesse Weaver
Well, I think the guidance that we've provided is well--based on what we know today, we feel like it is a good range that it kind of takes into account what we're seeing in order of trends, what we have to do on the past dues. And I think it's important as investors start to really understand and learn this business, to understand this dynamic between orders and past dues and how those flow through to net sales. And if you look at last year, I want to say that we burned down about $20 million in past dues that really helped the order sort of declines year-over-year that we have to lap that this year. We don't have as much dry powder in the past due bucket right now to make that sort of up.

So for our guidance here, we talked about mid-to-high single digits on order growth. I mean, that's necessary. And while we're headed in the right direction, I feel like the guidance here sort of captures a risk-adjusted view as to what that could be. But that past due lap is a big part of this back half as to why you're not seeing as much on the net sales line as you might have expected.

Michael Baker
Well, then if I could ask one more follow-up, sorry to hog the mic, but the past dues has definitely come down at $22 million, but still above where it was pre-COVID. I guess the question is, do we expect that past due number to continue to fall? In other words, that $22 million go to now million, $18 million in the coming quarters, or have you sort of hit the right level now or does it eventually just go to zero?

Jesse Weaver
Well, it won't go to zero. I think we provide that 2019 view in there pre-COVID to give you a benchmark for what it was prior to all of the--

Michael Baker
Well, I guess it was 2%, so close to zero, but okay.

Jesse Weaver
Not zero, but close to zero. Zero is the goal, but practically hasn't been done. So given where we are, you can see that we do have a lot of work to do there. I think, slide 13 in the presentation, you can see the work that's been done over the past several quarters is largely outside of electronics. So in our guidance, we assume that the past dues continue to improve outside of electronics. And then as we go into next year, the intent is to kind of work that down even further on the electronics side.

Michael Baker
Got it. Okay. Fair enough. Thanks for all the time. I appreciate it.

Matthew Stevenson
Thank you, Michael.

Operator
Thank you. There are no further questions at this time. I'll now pass the call back to Mike for a few closing remarks.

Matthew Stevenson
All right. Thank you, Alishia. Now, slide 22 highlights the compelling thesis around Holley. This is an incredibly attractive market, driven by automotive enthusiasts. This is not just a hobby for our customers. It's their passion and it's a lifestyle, and we are focused on being the leading consumer branded company for these automotive enthusiasts. And because it's more than just a hobby or a trend, this industry weathers the economic cycles extremely well. Plus, we have a massive addressable market, nearly $40 billion, that has offered decades of uninterrupted growth.

Holley continues to lead this industry through a powerhouse of iconic brands with a history of innovation. Plus, we have a track record of successfully integrating acquisitions where we have captured synergies while also unlocking growth. We have a unique opportunity to create a transformational digital experience that will redefine the way our consumers and distribution partners interact with brands. This will create a competitive advantage and drive growth.

All this leads to an attractive investment thesis with a business focused on delivering consistent organic growth of at least 6%, 40% gross margins and 20% plus EBITDA margins and sustainable free cash flow, all within a platform that enables value to be unlocked with strategic acquisitions. The combination of the attractiveness of our automotive enthusiast marketplace and the great portfolio of Holley brands offers a fantastic investment opportunity.

Today, I hope you got a sense of my passion for this great company, the industry and the bright future ahead of this organization. I thank you for your time today on the call and look forward to continuing to update you on the progress in future quarters. I wish you all the best until we speak again. Thank you and have a great morning.

Operator
This concludes today's teleconference. You may disconnect your lines at this time. Thank you for your participation.