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**Holley Second Quarter 2021 Earnings Call**      **Wednesday, 11 August 2021**

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**Ross Collins**            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 of Holley. After their prepared remarks, we will open the call for questions.

Now, I will reference the safe harbour 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 risk 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 expectations. 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 S4 and S1 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 US GAAP is 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. Thank you for joining us today. As you saw in our press release, Holley delivered another quarter of strong growth. Our net sales grew by 54% in the second quarter. This is on top of 24% growth we achieved in the second quarter of 2020 versus 2019. Organic growth drove 25% year-over-year growth this year, and the remaining 29% came from the acquisitions we made in the fourth quarter of last year, and this April.

Our organic growth was driven by strong consumer demand across our categories, with electronic products performing particularly well. We continued to see exceptional levels of enthusiast engagement, and excellent growth in our direct to consumer channel.

Following the close of our second quarter, we completed another milestone event in our company's history, and we're now a public company. Today, we're stewards of many of the most iconic brands in our industry. These are brands that resonate deeply with our enthusiast consumers, brands they know, love, and trust. We are enthusiasts, and we built this business for enthusiasts.

Before we hand the call over to Dominic to discuss our second quarter results in greater detail, I'd like to ask Vinny to provide more colour regarding our recent merger with Empower. Vinny?

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**Vinny Nimmagadda** Thank you, Tom, and good morning to everyone on the call. As Tom mentioned, we completed the merger with Empower on July 16th. It's a major mile marker in our company's 118 year journey, and we look forward to the road ahead as a publicly traded company.

As disclosed in the recent FCC filings, over 57% of our outstanding shares are held by Holley Parent Holdings, a limited liability corporation, controlled by our historical partner, Sentinel Capital Partners. An additional 10.47% are held by MidOcean Partners, and the rest are held by our new public investors. Both of those larger positions are subject to lockup restrictions, so we do not expect any significant changes in ownership for the balance of the year.

During the transaction, Holley received approximately \$108 million in cash. We immediately paid \$100 million of that cash to reduce our most expensive second lien debts. We will continue to evaluate our credit needs and expect to refinance the remaining credit facility this year, enabling improved terms and greater flexibility to pursue acquisitions.

Before I close, I'd like to double click on a core component of our strategy, M&A, and highlight a recent transaction. On April 14th, Holley closed the acquisition of AEM Performance Electronics, a leading developer and supplier of electronic control and monitoring systems for performance automotive applications. The AEM transaction is both strategic and accretive, adding another strong brand to the Holley family, well known and trusted across the import and sports compact car segment.

We welcome our AEM teammates to Holley, who share our passion for accelerating development in innovative products our consumers love. A great example here would be AEM's electronic control solutions for enthusiasts of EV, which is electric vehicle conversions.

We are managing an active pipeline of acquisition opportunities going forward, and we continue to target opportunities that will enhance profitability, cash flow, and shareholder value. Now, I'd like to hand the call over to Dominic who will discuss our second quarter results in greater detail. Dominic?

**Dominic Bardos** Thank you, Vinny, and good morning, everyone. Holley delivered net sales of \$193 million in Q2, an increase of \$67.7 million or 54% from the second quarter of 2020. Acquisitions provided \$37 million of that growth, with the remainder of the net sales growth being organic in nature. Adjusting the 2020 baseline on a pro forma basis for our acquisitions, the total comparable organic growth across the entire Holley portfolio was 25% in the quarter.

Strong organic growth was once again supported by strong growth in our DTC channel, but was also driven by growth to our resale channel's quarter. Some of our resellers reduced purchases in the second quarter of 2020 due to the economic uncertainty created by the COVID-19 pandemic. This year's higher growth in the quarter reflects more normalised purchasing activity associated with high consumer demand.

Gross margin decreased from 43.8% last year to 42.1% in the second quarter of 2021. The reduction in gross margin reflects some shift in product mix, but was also impacted by inflationary pressure on certain input costs. We continue to monitor global supply chain and raw material costs closely, and have factored these current economic realities into our recent pricing actions.

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Total selling, general, and administrative expenses increased 61% in the second quarter. The increase reflects approximately \$5 million of acquired SG&A expense from those new companies that we've purchased, and just under \$2 million of additional shipping costs tied to higher sales and global supply chain conditions. There's also additional costs associated with the Empower merger. Interest expense was relatively flat at \$11.2 million, versus \$11 million for the second quarter of 2020.

Net income increased 85% to \$23.1 million in the second quarter of 2021, driven primarily by the higher level of sales. Adjusted EBITDA increased 49% to \$54.1 million in the second quarter, driven by the higher sales level, but slightly offset by the higher cost of sales and SG&A expense.

As we turn to the projections for the balance of the year, we reiterate the guidance provided last quarter. You may recall that we raised our annual guidance at that time to reflect the AEM acquisition, and the higher sales volume trends we were experiencing at that time. As we indicated in our press released this morning, we do believe the high sales growth rates achieved in the first half of the year will moderate in the second half, as we've lapped stronger comp sales periods from 2020 and the acquisitions we completed in the fourth quarter of last year.

We are projecting 2021 annual net sales in the range of \$648 million to \$663 million, pro forma net sales of \$655 million to \$670 million, and resulting pro forma adjusted EBITDA in the range of \$165 million to \$170 million. That concludes our prepared remarks, so, Ross, we can open up the call for questions at this time.

**Ross Collins**                      Absolutely, Dominic. As a reminder, we ask that you please limit yourself to one question with one related follow up, as needed. Lauren, 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 telephone keypad. Once you have been called upon, please make sure you are not on mute, and proceed with your question. Our first question comes from John Lawrence from Benchmark. John, your line is now open.

**John Lawrence**                      Thanks, good morning. Congratulations, guys. Dominic, would you start off a little bit by just giving a little further clarification about the supply chain? How do you see the products, and how far out are you looking? It looks like you've taken a little pricing increase. Could you give a little more detail on that situation, please?

**Dominic Bardos**                      Sure, I'll start that, and then, Tom might add some additional colour. It is no surprise that there are supply chain pressures right now. Containers from China are probably 400% higher than they were at this time a year ago. So, there's definitely some backlog going on from supply chain, some cost increases, and there's also some component parts, some of our input parts, facing inflationary pressures.

In particular, I would call out that we did have some higher costs of electronic components going into some of the things that drove our sales. So, in the quarter, when I referenced there are some higher input costs, as well as some supply chain, that really reflects both of those items.

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As I mentioned, we did have a pricing action, and we've adjusted. We do look out for the balance of the year. We forecast our components out months in advance, because we have to. It's just the nature of the business. Tom, would you like to add some additional colour?

**Tom Tomlinson**      Sure. I would say in the second quarter our team effectively handled the challenges associated with the global supply chain situation that we currently see. It is dynamic, and that's one of the reasons that we're talking about it. We expect them to continue to handle those challenges well. And with respect to the price increase, that became effective actually in the third quarter, so it will be some time before we see the benefits of that show up in the numbers because we have to work through our backlog.

So, John, I think that's how we would respond at this point. Please let us know if you have a follow up.

**John Lawrence**      Great. A follow up for Vinny, with that situation and the dynamic activity going on in the marketplace, what's the response from suitors or possible candidates that you're looking at, at this point?

**Vinny Nimmagadda**      It's a great question, John. There are a number of opportunities that we're evaluating. Frankly, supply chain impacts and things like that are impacting our whole industry. It makes it an opportunity for Holley to add strategic value to a number of those targets, but we are being disciplined in what we're looking at right now, and how we're prioritising.

**John Lawrence**      Great, thanks. Congratulations.

**John Lawrence**      Thank you.

**Tom Tomlinson**      Thanks, John, appreciate your call.

**Operator**      Our next question comes from Michael Baker from D.A. Davidson. Michael, your line is now open.

**Michael Baker**      Thank you. I just wanted to ask about the top line. I think, if I did my math right, and maybe I'm a little bit off, the guidance implies back half sales down about 6% versus the back half of last year. If that is right, can you break that down by third and fourth quarter? Will one quarter see more pressure than another? It sounds like maybe the fourth quarter will see a little bit more pressure because of the cycle of the acquisitions?

And then, related to that, is that indicative of what you're seeing now, in other words the pace through the second quarter, and you already have five weeks under your belt here in the third quarter? Or is that just the expectation as to what you think could happen?

**Dominic Bardos**      Michael, let me take a run at that first, and then we'll see if anyone wants to add some colour. The guidance, we look at the guidance as there's a lot of the year left in front of us. We're halfway through the year. We do have July under our belt, and we did want to be very mindful of some of the global economic conditions going on right now.

So, mathematically, we do see a declining growth rate of sales in the back half. The third quarter should have higher growth rate than the fourth quarter, to your point, because our acquisitions were made in the fourth quarter of last  
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year. So, we're just being very mindful. As Tom mentioned, we do have a relatively high backlog at this point in time. We want to make sure that our supply chain doesn't get in the way of us fulfilling all that demand.

And so, we've given the guidance that we believe is achievable in spite of all the uncertainty going on with the global economic conditions. Tom, did you want to add anything else to that?

**Tom Tomlinson**      I don't think so, Dominic. I think that sums it up.

**Michael Baker**      As a follow up to that, in the same line of questioning, has your outlook changed? Or have the trends changed at all since you previously gave this guidance? In other words, you're maintaining the same guidance, but it was a big beat in the second quarter versus my model. Was that a beat versus your expectations in the second quarter? And, if so, that would imply, just on the math, and maybe you're being conservative, a less robust outlook for the back half.

In other words, you don't necessarily flow through the beat because the back half isn't as strong as you thought. Or, is it that the second quarter was more in line with your expectations? It's a long way of asking, has your back half outlook changed at all in the last couple weeks, or is it progressing as you had always thought?

**Dominic Bardos**      Michael, a few things on that. Number one, our sales, our enthusiast consumers are definitely engaged and we're seeing good interest in all of our products. Our markets are very strong. The ability to fulfil all that right now is what we're being a little bit mindful of, considering all the potential disruptions from global supply chain, from our ability to get the right products to the consumers at the right time.

In addition to that, we did have a guidance that we issued for the last quarter, but we had seen very strong sales trends in Q2. So, our guidance, if you recall, reflected the AEM transaction, but also we lifted the sales at that point in time for the trends that we saw in the first half.

So, we are being very mindful, as we look forward, of something that we believe we can achieve, and we want to make sure that we don't overreach at this point in time, with the uncertainties.

**Michael Baker**      Okay, that makes sense, thank you.

**Dominic Bardos**      Thanks a lot, appreciate your time.

**Operator**      As a reminder, to ask any further questions, please press start followed by one on your telephone keypad. We now have a question from Joe Feldman from Telsey Advisory Group. Joe, your line is now open.

**Joe Feldman**      Great, thanks, and good morning guys. Congrats on the quarter. Where does the latest penetration of DTC stand now? Are you hearing any pushback from the retail partners you have about them being frustrated with the shift towards DTC?

**Dominic Bardos**      With respect to the channel conflict question that you're referring to, we've been selling direct to consumer now for many, many years, and it really got started because our consumers came to us and told us they wanted to buy directly from us. So, we've worked through that with our reseller partners and part and parcel

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to that is that we have let them know very clearly how we intend to create value for them, and we have been delivering on those promises year-over-year.

It goes back largely to our strategy of creating demand through our compelling marketing and consumer engagement, which draws product their organisations. And then, also, our innovation strategy, and they recognise the value of new product and how that excites consumers about brands. So, the relationships are strong and solid.

Then, the other part of your question is just penetration. We see good consumer interest across all of our brands.

**Joe Feldman**                      That's good. Presumably it's going up, then. Can you talk a little bit about your innovation pipeline? And I'm also thinking with regard to electric vehicles. We get asked that a lot from investors, how you're positioning. Maybe you can share some of the latest trends that are happening there.

**Tom Tomlinson**                Sure. The pipeline is very robust. We've actually grown our engineering team from about 135 in 2020 now to just a little over 150. It is a very important part of our strategy and one of our core beliefs that this is what drives organic growth. So, we've continued to develop, continued to launch products. We launch products, really, in a very continuous stream, rather than on a periodic or digital basis like some of our competitors.

And then, from the EV side, we continue to be charged up about that. We're continuing to evaluate, dedicating more and more resources to it. It is an emerging opportunity, but it is an opportunity that we intend to be on top of.

**Vinny Nimmagadda**        Absolutely, and just to add in there, Joe, there's opportunities on both the factory, battery electric vehicle side, and on the electric vehicle conversions, so we're very excited about all this. It is just really white space for us.

**Joe Feldman**                      That's great, thanks, guys. Good luck with the quarter.

**Tom Tomlinson**                Thank you.

**Dominic Bardos**                Thanks, Joe, appreciate it.

**Operator**                              Our next question comes from Ryan Sundby from William Blair. Ryan, your line is now open.

**Ryan Sundby**                      Thanks for taking my questions, and congrats on a great quarter there. Just a follow up on the EV question there. With Biden's announcement last week around a target of 50% of new vehicles sold by 2030, I think it was, was that consistent with where you thought the market was headed? Has that changed your view on your own portfolio or maybe rearranged where targets sit in your acquisition pipeline at all?

**Dominic Bardos**                We are and have been very interested in EV acquisition targets. We've looked at a number of them. They tend to be much smaller today, but we're continuing to pursue acquisitions in that space. Again, we're excited about this as an opportunity. As performance oriented EVs are launched, it gives us more platforms to work on. And, like Vinny said, we see the opportunity in really two pieces, modification of OE vehicles, as well as helping consumers convert their older vehicles to electric power trains.

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The other interesting opportunity that this will create for us is there will be consumers that will continue to be extremely passionate, for decades, about internal combustion engine vehicles. So, we're uniquely positioned, really, to serve consumers, whether they're passionate about gasoline or diesel or electrons.

**Ryan Sundby**                      That makes sense to have both sides there. When you look at the 25% organic growth through the first half of this year, and more than 30% last year, can you talk a little bit more about who it is that's driving this growth? Is it new consumers to the category? Is it more of your existing consumers digging in deeper here? And if you are seeing new people enter the category, what can you do to retain them and make them bigger enthusiasts down the road?

**Tom Tomlinson**                  When we look at the categories that are really driving a lot of the growth, it really is electronic categories. We feel that those appeal more to young people, electronic fuel injection, electronic tuning products. So, we do think new consumers and younger consumers prefer those products to some of the older school ways that we used to modify cars.

In terms of how we keep them, our marketing team has been working diligently to put the building blocks in place to allow us to do that. We've made great progress. We're really poised to increase the level of consumer engagement to highly target our marketing efforts. Those would be, initially, how we plan to retain those consumers.

**Ryan Sundby**                      Great, thank you.

**Dominic Bardos**                  Thanks for your questions.

**Operator**                              We now have a follow up question from Michael Baker from D.A. Davidson. Michael, your line is now open.

**Michael Baker**                      Thanks. I figured I'd jump back in because no one asked about the gross margin outlook for the back half. We have your implied sales guidance and EBITDA guidance, but how should we think about gross margin? Should it be better or worse than the 166 basis point decline in the second quarter? Maybe one way to think about that is how much of that decline was because of mix, and how much of that was because of the acquisitions?

And then, as we cycle up against the acquisitions in the fourth quarter, how does that impact the mix gross margin pressure? Thanks.

**Tom Tomlinson**                  Good follow up. There's a couple things that were loaded in there that we're not really giving specific guidance on. What we're looking at, though, is in Q2 there was a balance between some of the product mix and channel mix that we experienced in the quarter, as well as some of the cost pressures.

We are expecting some of those cost pressures to remain in the back half. As you know, everyone is dealing with supply chain and potential inflationary pressures. But we also recently took a pricing action that has not manifested itself in the numbers yet. So, our intent is that the margin decline that you saw in Q2 is not going to worsen, and we want to keep it above 40%, as we've said all year.

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**Dominic Bardos**      The pricing increase that we recently made effective is the normal cycle that we've selected for our price increases. And our preference is always to try to capture the pricing that we need once a year. However, we are not bound to that. We've often done off-cycle increases. We have done that during periods of extraordinary increases on the cost side for us, and we are watching the situation closely. Depending on what we see, we could decide to do additional price increases in the short term.

**Michael Baker**      How long do those usually take to flow through to the gross margins?

**Tom Tomlinson**      It is a little bit complex. Obviously, we would need to work through the backlog. We don't price the backlog. Most of our resellers, we have the ability to take price increases very quickly. We have a few in the traditional retailer category where supply arrangements result in that taking a little bit longer, but it's a small additional period, I would say. So, we can generally move them through pretty quickly, but not instantly.

**Dominic Bardos**      Tom mentioned our backlog. It's a good and bad news situation. It's higher than we want, right now, which shows the incredible demand that has sustained. But it is something that will take a little bit of time for us to work through this quarter.

**Michael Baker**      Okay. One more, and then I'll let you go. I'm just curious. You have, I think, on your calendar three festivals in September planned. How does the delta variant and rise of COVID impact that, if at all?

**Tom Tomlinson**      We don't expect any impact. Last year, during COVID, we worked with our governor's office here in Kentucky. We held all of the Kentucky events last year. We saw fantastic interest, nice increases in overall participants and spectators. The preregistrations we're seeing this year are already showing nice increases, so we expect it to be a good show season for us.

**Michael Baker**      Okay, thank you very much for the time.

**Tom Tomlinson**      You're welcome. Thanks for the questions.

**Operator**      As a final reminder, to ask any further questions, please press star followed by one on your telephone keypad. We now have a follow up question from John Lawrence from Benchmark. John, your line is now open.

**John Lawrence**      Thank you. Tom when you look at the backlog situation and you look at some of the acquisitions, as you move forward to integrate, say, AEM and some of those on the direct model, does that help profitability on that gross margin line over time?

**Tom Tomlinson**      Yes, John, it does. We see a nice pickup in gross margin when we can convert a sale through a reseller to a direct to consumer sale.

**John Lawrence**      So, those acquisitions, fourth quarter of 20, and then AEM, maybe by the first of 22, we start to see that product move online?



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**Tom Tomlinson** We are working diligently to integrate those businesses. Obviously we haven't completed those efforts at this time. There is a lot that goes into it. But I would expect early in 22 to begin to see the effects of really pushing forward with the direct to consumer strategy at those acquired businesses.

**Dominic Bardos** And one point I would follow up on that is that Simpson does have a fair amount of direct to consumer presence already. It's just in a different infrastructure, so we do want to have the full consolidated view.

**John Lawrence** Great, thank you, good luck.

**Tom Tomlinson** Thanks, so much. Lauren, were there any more questions?

**Operator** No, we currently have no further questions, so I will now hand you back over to your host for any closing remarks.

**Ross Collins** Thank you, everyone, for your time today. We appreciate your interest in Holley. Have a great day.

**Tom Tomlinson** Thanks, everybody.

**Dominic Bardos** Thank you.

**Vinny Nimmagadda** Thank you, take care.