

**Holley, Inc.**  
**Second Quarter 2024 Earnings Results Conference Call**  
**August 7, 2024**

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**Presenters**

**Anthony Rozmus, Investor Relations**  
**Matt Stevenson, President and Chief Executive Officer**  
**Jesse Weaver, Chief Financial Officer**

**Q&A Participants**

**Christian Carlino - JPMorgan**  
**Joe Altobello - Raymond James**  
**Mike Swartz - Truist Securities**  
**Bret Jordan - Jefferies**  
**Phillip Blee - William Blair**  
**Joe Feldman - Telsey Advisory Group**  
**Brian McNamara - Canaccord Genuity**  
**John Lawrence - The Benchmark Company**  
**Michael Baker - D.A. Davidson**

**Operator**

Good morning, ladies and gentlemen, and welcome to the conference call to discuss Holley's second quarter 2024 earnings results.

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 part, is 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, Anthony Rozmus, with Investor Relations. Please go ahead.

**Anthony Rozmus**

Good morning, and welcome to Holley's second quarter 2024 earnings conference call. On the call with me, today, are President and Chief Executive Officer, Matt Stevenson, and Chief Financial Officer, Jesse Weaver. This webcast and the presentation of materials, including non-GAAP reconciliations, are available on our Investor Relations website.

Our discussion, today, includes forward-looking statements that are based on our best view of the world and our businesses as we see them today and are subject to risks and uncertainties, including the ones described in our SEC filings.

This morning, we will review our financial results for the second quarter and share our guidance for the third quarter and full year 2024. At the conclusion of the prepared remarks, we will open the call up for questions.

With that, I'll turn the call over to our CEO, Matt Stevenson.

**Matt Stevenson**

Thank you, Anthony. I extend a warm welcome to everyone joining us on the call. Today, I am eager to convey the advancements we've made in activating Holley's growth engine. Your steadfast support and interest are crucial as we navigate our transformation journey, even amidst a market that often conceals our significant progress.

We've also made considerable strides in streamlining operations, cutting non-value-added costs and improving inventory management, all of which are key to strengthening our cash flow and ensuring predictable financial performance.

As we have stated in the past, a pivotal aspect of our transformation is our dedication to elevating and enhancing the organizational capabilities at Holley. Central to this endeavor has been recruiting top-tier talent to spearhead various functions. Our approach of strategically hiring the right individuals has, consistently, led to measurable performance improvements in their respective areas.

We are pleased to announce that the final leadership appointments have been made to complete an exceptionally dynamic team, poised to drive Holley toward our ambition of becoming a multi-billion-dollar enterprise.

Further details on the enhancements in our key transformation areas, as well as insights into the innovative products emerging from our leading brands, will be discussed later in the call. However, let's touch on some of the key highlights for the second quarter of 2024 on Slide 5.

The overall performance aftermarket continues to be soft, driven by the slowdown in consumer spending attributed to the persistently high price of goods, services and housing, plus the higher-for-longer interest rates, all culminating to a reduction in growth of real disposable income. Plus, economic uncertainty, combined with an election year and a cooling labor market, is contributing to restrained spending habits.

In a market that's showing signs of slowing, we remain confident in our ability to gain market share, anchored by the pillars of our ongoing transformation. Our road map to increasing share

is built on the strength of our esteemed brands, bolstering our digital capabilities, refining our promotional strategies, launching innovative new products and optimizing our pricing.

We've already seen promising growth, specifically in our direct-to-consumer channel, which has experienced significant sales growth year-over-year, driven by the progress in these essential facets of our transformation.

We aim to mirror this success with our distribution partners by fostering stronger collaboration. Working closely with distributors is key to expanding our market presence. And by enhancing their involvement in our promotions and product launches, we strive to achieve comparable growth in all our channels.

Through operational improvements and the implementation of various cost reduction programs, we have maintained margins and provided healthy free cash flow, even as industry sales volume has declined.

Our multiple cost reduction programs, alone, have yielded more than \$6 million, year-to-date. We have reduced inventory levels by \$44 million, year-over-year, and improved turns from 1.9x to 2.2x, a testament to the hard work and sacrifice of our teammates. We ended the quarter in a strong liquidity position with over \$53 million in cash, after proactively paying down another \$10 million in debt.

Our operational improvements and solid financial performance have not gone unnoticed. In June, S&P upgraded our credit rating, reaffirming our company's financial well-being and stability. This collective progress, coupled with significant advancements in pivotal aspects of our transformation, has been instrumental in igniting our growth engine and propelling our organization forward with momentum.

Let's turn to Slide 6, which features the quantitative highlights for the second quarter. Net sales decreased 3.3%. This is a significant improvement, compared to the nearly 8% sales decline in the first quarter. Despite the modest dip in sales, our adjusted gross margins are up 170 basis points year-over-year at 41%, and adjusted EBITDA margins are up 50 basis points versus the prior year at 22.1%. Free cash flow remained robust for the quarter at \$24.4 million, and year-to-date, we are \$10 million better than prior year.

Last quarter, we initiated the launch of 30 key products, expanding our brand portfolio and our 4 principal consumer verticals. I will delve into more detail regarding some of these notable innovations, later in the presentation.

We continue to elevate our efforts to engage with enthusiasts and promote our fantastic products. Our famed LS events continue to gain recognition. And our LS Fest West, held at the end of April in Las Vegas, was named one of the 10 best auto races in the country by USA TODAY. At LS Fest West, we hosted over 30,000 enthusiasts from nearly all 50 states for a

thrilling lineup of events, including a sold-out grand champion competition and the largest off-road race participation in the Fest's history.

We also hosted LS Fest Texas in May. Between the two events, we directly engaged with nearly 50,000 enthusiasts in just two months. These types of events, coupled with our focused public relations campaigns, generated over 1.7 billion media impressions for the quarter.

As we touched on last quarter, we have improved the precision of our promotional planning and execution to focus on periods of heightened consumer spending. In collaboration with our distributors, we have engaged in highly synchronized promotions that have significantly elevated our overall sales. Notably, our Memorial Day promotion resulted in year-over-year sales increase that exceeded 100%, through our direct-to-consumer channel.

The results of our operational improvements can be seen in many of our key performance indicators. Through our dedicated cost to serve continuous improvement program, we have realized savings of \$4.2 million, thus far in 2024. Furthermore, by refining our forecasting and demand planning processes, we have achieved a 2% increase in the in-stock rates of our top 2,500 products, alongside a 0.3x improvement in inventory turns, year-over-year.

On Slide 7, to the left, we outline our organization's three fundamental steering principles. These tenets form the bedrock that directs our concentration on our four primary areas, which are illustrated to the right. The first one is our pledge to our team members to ensure Holley is synonymous with an outstanding work environment. The secondary is the refinement of our operations, which aims not only to eliminate non-value-added costs, but also to enhance product availability and drive inventory levels that are in sync with market demand.

Furthermore, it's an imperative that our operations offer enthusiast consumers and distribution partners a premier omni-channel customer experience in our industry.

The third area is the optimization of our acquisitions. Holley has acquired several distinguished brands and businesses in recent years, each possessing unique characteristics. Nurturing these unique traits is vital for their success in their respective categories.

Lastly, is our unwavering focus on prioritizing all our customers, encompassing both our value consumer base and our devoted distribution partners. We are actively working to expand and enhance our sales channels, aiming to connect with and serve a broader spectrum of enthusiasts.

Slide 8 highlights the areas of our transformation that catalyze growth, which we have discussed during prior calls. These areas include the development of a high-performing team, the modernization of our digital strategy and the optimization of our customer experience marketing initiatives. They also include the enhancement of our B2B sales capabilities, the

pursuit of best-in-class product management and innovation, and the implementation of strategic pricing.

Nearly a year ago, we embarked on a challenging journey of creating and instituting a high-performance leadership team. I'm delighted to announce that we have completed this mission. The final pieces of the puzzle were the appointments of a seasoned Head of Operations and Supply Chain with an extensive background in automotive and a Head of Pricing with vast experience in the automotive aftermarket. We are, indeed, fortunate to have incredible leaders now in these crucial roles.

Alex Buccilli is the newly appointed Head of Operations and Supply Chain. He brings a wealth of experience from Genie, the industrial equipment manufacturer, coupled with an impressive 17-year stint at PACCAR. Alex has a proven track record of leveraging Fortune 500 experience to improve operations, elevate quality, reduce costs and improve product availability.

Victor Aguilera is the new leader of Holley's pricing team. Victor joins us from MANN+HUMMEL, where he played a key role in shaping their pricing strategies for the automotive aftermarket. He is skilled at optimizing pricing structures to drive growth and profitability, particularly with a complex product range that includes a vast array of SKUs.

At the heart of any successful digital strategy lies the quality of data. It's not an area which Holley has traditionally excelled. And historical data quality issues have hindered the adoption and expansion of our product lines with our distribution partners, particularly in the national retail channel. However, we have made a concerted effort across the company to enhance our data quality, and we are making significant progress on this initiative.

A major milestone in this project is set for the end of the third quarter, where we are targeting a step function change in our data quality, and we'll introduce a cloud-hosted solution that will feed both our digital properties and those of our distribution partners, ensuring seamless integration.

We are propelling growth by launching new digital platforms that offer an enhanced consumer experience. A prime example is our newly unveiled Stilo website. Stilo is a premium brand within our portfolio and is renowned for delivering the utmost style and safety in automotive racing helmets. The introduction of this fresh digital platform has led to a remarkable surge in direct-to-consumer sales for the brand, which were up over 150% for the quarter, year-over-year.

As previously mentioned, we are improving our execution of key quarterly promotions and increasing distributor engagement. We're also directing our marketing efforts to bolster the efficiency of our B2B sales team during major product launches to improve distributor adoption.

Concurrently, we're enhancing our B2B expertise through targeted training and initiatives aimed at augmenting the team's skill set. The strategic enhancement of talent is enabling us to tailor partnerships with key distributors, representing a substantial advancement in strengthening our relationships.

We are not only enhancing engagement with our distribution partners through promotions, we are also collaborating with key distributors on launching new products via our Jumpstart program. This initiative boosts awareness and accelerates the adoption of new product offerings.

Beyond the strides we've made in the B2B channel, we are also discovering new customers and markets eager to partner with us and represent the Holley Performance Brands portfolio. This expansion is a testament to our appeal and the potential for even greater market penetration.

As we continue to broaden our customer base and explore new opportunities, we are also enhancing our product development and pricing capabilities to drive profitable growth.

Through the first half of 2024, our new product revenue was up over 25%, compared to 2023. This is a direct result of the product management innovation processes we have implemented. We now have coordinated launch groups that work closely with our distribution partners to plan and drive mutual engagement and adoption of our new products. We are also improving the volume of consumer insights to drive the right innovations and line extensions.

Now, pricing strategy is crucial to any consumer-oriented business, blending analytical rigor with market intuition. With the appointment of our new Head of Pricing, we are leveraging enhanced data and insights to fuel growth. We are revising and reinforcing essential policies, including our minimum advertised price and dropship program. Furthermore, we are undertaking initiatives to position our products strategically, ensuring they reflect their total value, while optimizing overall profitability.

Slide 9 serves as a strategic map, illustrating the alignment of our growth initiatives with our principal consumer segments: Domestic Muscle, Modern Truck & Off-Road, Euro & Import, and Safety & Racing.

While the Holley name is a dominant force in the Domestic Muscle arena, our product portfolio has been significantly enriched with outstanding brands and product lines, many of which were integrated through recent acquisitions. These strategic acquisitions have both strengthened our foundation and positioned us for substantial growth in markets not traditionally dominated by the Holley brand.

On Slide 10, I am thrilled to present a suite of product advancements that underscore our commitment to innovation and market expansion. In Domestic Muscle, we begin with Baer

Classic Brakes, a seamless integration for early GM, Ford and Mopar monitors, which enable the modernization of brakes, while maintaining the classic aesthetic of the original 13-inch wheel.

Next, Baer EradiSpeed+ Rotors represent a leap forward for Domestic Muscle platforms, offering upgraded 2-piece rotors and enhanced cooling, reduced weight and elevated appearance. Also, the Holley EFI TerminatorX 2 marks the evolution of our class leading EFI system, boosting enhanced features and improved customer interface, and setting a new standard for the industry.

For the Modern Truck segment, the Flowmaster F150 expansion extends our exhaust solutions to the F150 hybrid and other premium F150 trims, further solidifying our presence in this growing market.

Next up, the Arizona Desert Shocks Mesa Shocks deliver unparalleled ride, handling and performance, leveraging race-proven U.S.-made technology in a bolt-on 2.5-inch shock for popular truck applications. And enhancing braking power for modern trucks, the Baer BIG Claw brakes offers a straightforward installation using OE calipers with a relocation bracket to accommodate larger rotors.

Our important EV brand, AEM, now has an EV vehicle controller unit that integrates EV systems and unifies the tuning experience with features ready for motorsports and conversions, all through a modern customizable interface.

Expanding into the tuning realm in the Euro segment, DinanConnect provides BMW drivers with an OBD2 tuning solution that allows for convenient at-home tuning, without the need for a dealership visit.

Our Volkswagen chassis solutions bring brake kits and coilover suspension systems to popular Volkswagen Audi platform, ensuring comprehensive support with APR components.

We are extremely excited about the growth prospects of our Safety & Racing vertical with the amazing brands and products that we have in our portfolio.

As an example, in helmet innovation, the Simpson Devil Ray helmets are the next evolution of Simpson's trusted motorsports helmets, while the Simpson adventure motorcycle helmets breaks new ground for us, the first dedicated helmets for the adventure segment, tapping into this \$4 billion plus motorcycle safety space.

Now, the HANS IV introduces a revised design as a global leader in frontal, head and neck restraints, enhancing driver comfort, without compromising safety. Together, these products reflect our dedication to quality and performance, as well as our strategy to diversify and lead in key market segments.

Now, I would like to turn the presentation over to Jesse, who will discuss our Q2 results in more detail and our revised outlook and guidance for the remainder of 2024.

**Jesse Weaver**

Thank you, Matt, and good morning, everyone. Turning to Slide 12, I'd like to begin by providing an update on the progress we've made on our four financial priorities for the year, which include restoring historical profitability, improving free cash flow, optimizing working capital and reducing debt.

First, we've made excellent progress restoring Holley profitability and working towards our long-term goal of consistently delivering 40% gross margin and at least 20% EBITDA margin on an annualized basis.

For both metrics, Holley achieved those levels in the second quarter of '24. After realizing another \$500,000 from our cost to serve efforts in the quarter, our cost savings now total \$4.2 million, year-to-date. We now expect to deliver at least \$6.5 million in savings, which is in the range of our initial guidance of \$5 million to \$10 million for the year.

As Matt previously mentioned, the performance aftermarket continues to be soft. So we are taking a cautious approach in order to actively manage our cash. After observing these trends in the market during this past quarter, we promptly implemented temporary cost-cutting actions with a furlough, which contributed about \$2 million in savings for the quarter.

The furloughs extended into July, and we expect additional savings from the suspension of the 401(k) match for the last two quarters of the year. Combined, these temporary cost cuts are expected to contribute about \$1.2 million in savings during the quarter, which I will address in more detail in the Q3 guidance.

Next, we continue to stay focused on generating significant free cash flow. Year-to-date, we delivered roughly \$42 million of free cash flow, a \$10 million improvement versus the first six months of '23. This improvement in free cash flow is through a combination of continued strong EBITDA and inventory management.

Inventory was reduced to \$174 million in the second quarter versus \$218 million at the end of Q2 in '23, an improvement of \$44 million. Inventory turns also improved to 2.2 turns at the end of the second quarter versus 1.9 turns a year ago, at the end of Q2 '23.

Finally, we are committed to decreasing our debt and strengthening our balance sheet. After repaying \$10 million of debt in the second quarter, our cash stood at \$53 million by the end of the period. Additionally, our net leverage ratio has continued to fall, reaching 4.02x, this quarter.

Though we've managed to continue making progress on our financial priorities, the health of the consumer is still struggling with numerous challenges in the current environment. In June, inflation eased slightly, but it's still an issue and not abating, as quickly as the Federal Reserve had anticipated. We anticipate that slow wage growth, coupled with increasing debt, will keep pressuring consumer spending for the rest of the year.

In the performance aftermarket, we believe we're gaining share, but the market is down, overall. Our estimates suggest a 5% overall market decline year-to-date, while our out-the-door, direct-to-consumer and B2B sales figures show a smaller decline of 2.8%. It's clear that there's a shift happening in consumer spending habits that we believe will continue throughout the balance of the year.

Given this trend and the end-of-the-quarter out-the-door sales, we've lowered our '24 guidance to account for a range of outcomes that are dependent on the overall macro consumer environment. With that backdrop, I'd now like to spend a few minutes discussing our financial results for the second quarter.

Turning to Slide 13, we've highlighted our second quarter '24 results and key financial metrics. Net sales in the second quarter of '24 were \$169.5 million, compared to \$175.3 million in the same period, a year ago. This result is in line with the guidance we provided previously and consistent with our previous expectations, as distribution partner inventory levels were elevated coming into the quarter.

Past due order balances remained low in the second quarter at \$9 million. The past due fulfillment couldn't provide the tailwind to sales like it did in Q2 of '23, when the team made meaningful progress on shipments related to EFI chip availability. Going into the back half, we historically see past due balances decline and anticipate leveling out, long term, around \$5 million by the end of the year.

Gross margin for the quarter was 41.5%, compared to 39.8% in the same period, a year ago. Adjusted gross margin for the quarter was 41%, compared to 39.3% in the same period, a year ago. Due to our continued efforts to improve operational efficiencies, we were able to protect margin compression downside on softer sales and experienced margin expansion of 170 basis points on an adjusted basis.

SG&A, including R&D expenses for the second quarter, was \$38.9 million versus \$35.3 million from the prior year. The increase in SG&A was predominantly driven by \$2.6 million in transformation-related onetime advisory costs to execute on the strategic initiatives.

Net income in Q2 of '24 was \$17.1 million, an increase of \$4.1 million from \$13 million in the second quarter of '23.

Similar to our past calls, our results discussed in this call will be on an adjusted non-GAAP basis in order to better focus on the operational performance of the company during the period. And despite the headwinds in sales due to market conditions, we delivered strong second quarter adjusted EBITDA at \$37.4 million, with adjusted EBITDA margin expanding by 50 basis points to 22.1%, versus a year ago.

As shown on Page 14, we once again delivered strong free cash flow of \$24.4 million in the quarter and roughly \$42 million year-to-date, compared to \$32 million a year ago. And as you can see on Slide 15, our remarkable cash flow has enabled us to continue reducing our leverage. We continued deleveraging during the quarter by proactively paying down an additional \$10 million of debt, which brings our total prepayments to \$75 million in principal against our first lien term loan, since September of '23. This has allowed Holley to recognize up to an estimated \$3 million in annualized net interest savings.

With these efforts and continued improvements in business performance, we ended the quarter with a net leverage ratio of 4.02x, which continues to be meaningfully below our original covenant of 5x. And I'm proud to announce that after 18 months, we have successfully exited our amended covenant relief period.

Now, I'd like to turn to Slide 16 to discuss our outlook for Q3 and the full year. We've consistently prioritized meeting our commitments over the past year. Given the uncertain consumer outlook for the remainder of the year, we will continue to adhere to this philosophy of transparency and accountability and are, therefore, adjusting our guidance to align with market conditions.

For the full year '24, we are reducing our guidance for net sales to be in the range of \$605 million to \$645 million and modifying our adjusted EBITDA to be in a range of \$117 million to \$132 million.

As we work to manage cash flow, we now expect '24 results to include capital expenditures of \$6 million to \$8 million, depreciation and amortization between \$24 million and \$26 million, and interest expense, excluding the mark-to-market on the collar, in a range of \$50 million to \$55 million.

And as noted earlier, we remain committed to deleverage, but given the revision to the guide, we anticipate year-end leverage to be slightly higher than previously discussed and in the range of 3.75x and 4.25x, by the end of the year.

Moving on to our outlook for the third quarter, inventory levels remained elevated at our distribution partners at the end of Q2, due to lower-than-expected out-the-door sales. Therefore, we are expecting net sales in the range of \$133 million to \$153 million and adjusted EBITDA in the range of \$20 million to \$30 million. The midpoint on revenue for Q3 does imply

year-over-year growth deceleration, in part, due to substantial progress on past dues in the third quarter of last year.

We continue to believe that our sales and marketing initiatives, including distribution partner participation and quarterly promotions, along with efforts around clearance and overstock inventory and improvements in our ability to launch innovative new products, will continue helping us offset headwinds in the market, allowing us to gain share.

And based on our latest guidance, while our second half seems to be softer than originally expected due to the challenged consumer, we are confident in the resilience of this enthusiast-based industry, long term, and have made excellent progress on our organizational transformation to incubate our organic growth while, simultaneously, generating strong free cash flow and paying down our debt.

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

**Operator**

Thank you. We will now be conducting a question-and-answer session. If you would like to ask a question, please press “\*”, “1” on your telephone keypad. A confirmation tone will indicate your line is in the question queue. You may press “\*”, “2” 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.

One moment, please, while we pull for questions.

The first question is from Christian Carlino from JPMorgan. Please go ahead.

**Christian Carlino**

Hi, thanks for taking our question. You had previously talked about, I think, 3% to 4% price realization this year after--I think it was 2% in the first quarter. So could you speak to what it was in 2Q and if you're thinking about that number any differently for the year?

**Jesse Weaver**

Yeah, in Q2, it was about the same in Q1 with that roughly 3%. And going into the back half, we're continuing to do price increases because we're lapping a price increase, last year. It's just--what's great is, we've started that process of being more strategic about it. And so, same pricing, but just on a different approach on products that are lower-volume products that higher cost to serve and we feel will not impact the consumer as much, given that our high runners, we don't feel like can sustain a price increase, at this time.

**Christian Carlino**

Got it. It makes sense. And could you help us bucket out, I guess, the drivers of the gross margin expansion in the second quarter? Was it pricing, product or channel mix? Is it the fixed cost leverage, and just how you're thinking about gross margin for the year?

**Jesse Weaver**

Yeah, I think there's certainly some fixed cost deleverage on the lower sales. Pricing was a part of it because we did some price taking in Q1 that flowed into Q2, over last year. And then, just our cost to serve initiatives certainly have been really helpful when it comes to the freight piece. Freight returns and allowances and warranty that all impact that have really helped, and then a bit of the furlough that we called out as well because the furlough impacts both ops and SG&A.

**Christian Carlino**

Got it. Thank you very much. Pass it on.

**Matt Stevenson**

Sure

**Operator**

The next question is from Joe Altobello from Raymond James. Please go ahead.

**Matt Stevenson**

Hey, good morning, Joe.

**Joe Altobello**

Good morning, guys. So I guess, first question, if you look at the second quarter, it was in line with guidance and expectations, generally. And it looks like order trends also got better. So, is there something that you're seeing here in July and August that's getting worse? Is it the consumer slowing down, or is it distributors getting a little bit more conservative on inventory?

**Matt Stevenson**

I think, Joe, a little bit of both, to your point there. And we follow the out-the-door trends very closely, not only of our products, but the overall out-the-door sales of our distribution partners and, of course, watch our D2C business. And so, after Memorial Day, we saw really that beginning to slow relative to consumer demand, and we saw that in June and also saw it in July. So we're just being prudent on the guidance for the back half of the year, but we're still confident in our initiatives that are critical to our transformation to take share.

**Joe Altobello**

Got it. Okay. Just a follow-up on that. It looks like R&D spending, at least in the first half, is down significantly from where it was last year. Is that going to pick up in the second half? And how should we sort of interpret that, since innovation is a big part of the story here?

**Jesse Weaver**

Yeah, I'll answer that in two parts. So, the way we like to look at the SG&A is, I would look at both the R&D spending and the SG&A, combined. It really is partly just a classification of the different roles that people are classified, internally, that would move one to the other. As we did the initial reallocation of resources in the first half, some of that came from R&D. But what we talked about is we're seeing much more efficient launch of products coming into the year, and we're seeing 3x the revenue per SKU.

And so, a lot of those efforts we did on SKU rationalization, phase gate, determination of what products we launch, they really are playing out the way that we would expect. And so, that R&D bucket should not necessarily grow, and there should be no impact on that as we're actually seeing new product revenue up about 25%, year-over-year.

**Joe Altobello**

Okay, got it. Thank you.

**Operator**

The next question is from Mike Swartz from Truist Securities. Please go ahead.

**Matt Stevenson**

Good morning, Mike.

**Mike Swartz**

Hey, guys. Hey, good morning. Just maybe a question on guidance. It's a pretty wide range of outcomes you've laid out for us for the full year. Could you give us a sense, Jesse, maybe a little bit of what's predicated in the high end of the guidance versus what's predicated in the low end of guidance?

**Jesse Weaver**

Sure. And I think that the range of the guidance does capture the fact that it is a bit broad at this moment still, a bit of the range of kind of what we're seeing in the macroeconomic impact, the impact on our consumer health. And the bottom end and the top end really largely depend upon just overall industry trends because I think, as Matt and I pointed out, we feel confident that we're gaining share.

And so, the initiatives that we're launching here in the back half, we think, will continue to help us in that regard. So, it really does come down to our trends in the consumer environment. And our distribution partners, frankly, their response to it, with destocking and prepping for the following year are going to impact us in some way. And it's still too early to tell one way or the other. So hopefully, that range--we feel pretty confident that range will capture the range of outcomes in the back half.

**Mike Swartz**

Okay. Great. And I think you did just reference, in response to Joe's question, some softening in consumer DTC or out-the-door sales that you track in June and July. Is there any way to frame maybe what that looked like relative to--I think you said in the first half of the year, you're kind of--at least the business you have visibility into was down about 3%. Any quantification of maybe what that looked like in June or July?

**Jesse Weaver**

Yeah, I think as it relates to D2C, Michael, we're trying not to get back into the world of reporting on the specific D2C numbers, but we saw some continued strength in D2C going into May and June. And then, in the more recent time period, we've seen a bit of softness on that growth, but it's still been in the positive territory relative to what we're seeing in the B2B business and their relative out-the-door sales. That's the way--that's the number to compare out-the-door versus D2C.

**Mike Swartz**

Okay, great. Thank you.

**Operator**

The next question is from Bret Jordan from Jefferies. Please go ahead.

**Bret Jordan**

Good morning, guys.

**Matt Stevenson**

Good morning.

**Bret Jordan**

Could you talk about the distribution partner health? I guess, given the sustained slowdown, do you see any substantial shrinkage in door count out there, the speed shops? Or is that channel largely down but healthy?

**Jesse Weaver**

Yeah, I'll take that, Bret. I would say that, overall, the industry, with our top customer, in particular, and the national retailers, the ones that you're very familiar with, they seem to be pretty strong. We continue to monitor our receivables and make sure that we're in good standing or they're in good standing with us, when it comes to payments.

Certainly, the industry is a bit soft in some pockets, and we're staying very close to those customers to make sure that we're not in a position to where our receivables are at risk. I think in some areas, if there is any softness, it's likely that those sales will just kind of shift over to a stronger, less levered customer, frankly, because we work with a lot of--all of the top ones, and I think that they're just taking share from each other in some ways.

**Bret Jordan**

Okay. Great. And I guess, within the verticals, are there any relative outperformers? Is the Euro consumer higher socioeconomic than a Domestic Muscle? Are there sectors that are doing relatively better or worse, within your verticals?

**Matt Stevenson**

Yeah, Bret, relative to the verticals, when we look across kind of those four that we called out, we're really seeing that strength in safety and racing. And I think that is just such a lifestyle for those people out on the track every weekend, as well as we support professional teams within that, but also, it's a testament to our product innovations. The great products we have, Simpson, Stilo, HANS, RaceQuip, continue to lead the market, and it shows in those year-over-year sales trends.

**Bret Jordan**

Okay, great. Thank you.

**Operator**

The next question is from Phillip Blee from William Blair. Please go ahead.

**Matt Stevenson**

Hey, good morning, Phillip.

**Phillip Blee**

Hey, Matt. Good morning, Jesse. Thanks for the question. So, I just want to talk about--a little bit about how potential interest rates coming in the near term could impact the business, including directly on the financials, but then also from a consumer sensitivity standpoint, what your business has seen historically there, that would be great. Thanks.

**Jesse Weaver**

Sure. It's a great question. And I think, obviously, directly on our financials, with our debt level, a 100 basis point decline in interest rates generally would impact our business \$5 million to \$6 million in free cash flow benefit. The good news, though, for us overall, in the past years, we've had a collar in place, so we won't feel the full benefit of that. We'd probably feel about 50 basis points of it as the rate floats below our collar ceiling of 5%. And then, anything below that will participate in the benefits all the way down to 2.8% in the base rate. So we should be benefiting pretty soon on that.

As it relates to the consumer specifically, certainly, the things that we've outlined in consumer health related to credit card balances, interest rates, slowing wage growth and higher unemployment, those are putting pressure on the consumer. And we would anticipate that a lowering of the interest rates would help take some of that pressure off. But in terms of exactly how that would flow through to consumer confidence and how they think about their pocket

books, we don't have good intel on exactly how long that takes to flow through the industry. I can just tell you that it will help.

**Phillip Blee**

Okay. Great. That's great color. And then, you recently hired the new Head of Operations and Supply Chain. Can you just talk a bit more about what the biggest opportunities are there to professionalize the business? And then, can you remind us around your sourcing structure and then whether or not you have much exposure to the recent increase in ocean freight costs? Thanks.

**Matt Stevenson**

Yeah, appreciate that question. So yeah, Alex is really focused on, kind of in the short term, increasing our in-stock rates of our top 2,500, as well as reducing past dues that still hang around, that \$8 million to \$10 million. So really focused on improving our SIOP processes and ensuring we have our fast movers in stock at all time.

Then longer term, Alex will look at our operational footprint, how we continue to make products better at a lower cost and outline that future, relative to our manufacturing and sourcing strategy.

Currently, sourcing, we kind of make about 50%, purchase about 50% ,relative to our product mix. And we've done a great job locking in long-term rates on containers with our logistics partner. So we've been able to navigate the ups and downs of that as those Middle East conflicts have driven some, I'd say, short-term ups and downs of container rates. Nothing sustainable, nothing like we saw back post-pandemic.

**Phillip Blee**

Thanks again. I appreciate it. Best of luck.

**Matt Stevenson**

Alright, thank you.

**Operator**

The next question is from Joe Feldman from Telsey Advisory Group. Please go ahead.

**Joe Feldman**

Yeah, guys, thanks for taking the questions. I wanted to go back to kind of the demand in the industry, and I'm just a little curious because it seems like your DTC business was quite strong. You get--it sounds like the enthusiasm that the LS Fest remains very high. And then, the largest resellers seem to be holding up okay. So like, I guess I'm curious what--where is it down the line that you're seeing the pressure, and does it mean maybe rethinking the reseller network that you have?

**Matt Stevenson**

Joe, appreciate that question. I think just to double down our D2C business, we brought in Philip Dobbs over--really over a year ago now, to really drive our performance relative to kind of the critical parts of our consumer marketing experience. And that's everything from our consumer engagement events and different initiatives to our digital strategy, SEM, SEO. We talked about the performance of our new digital properties.

So what you're seeing in that D2C business is really us just getting better about--with what we do. And so, that's driving some meaningful share growth from our competitive manufacturers.

Now, our distributors are still a critical part of our long-term strategy. And that softness they're seeing in their out-the-door sales is really what's going on in the macro consumer environment. So I think you got to kind of separate us getting better with what we do versus kind of the--what's going on in the macro consumer market.

**Joe Feldman**

Got it. That's helpful. Thank you. And then, just a sort of separate topic, but on the inventory side of things, you guys have done a great job trimming inventory and improving turns. I guess, do you guys have a turn target in mind? Or how should we think about maybe inventory levels in the second half of the year as we kind of go through this environment?

**Matt Stevenson**

Yeah, Joe, I think we don't want to call out a specific turn number, but we definitely see opportunities as we refined our product mix. Just as a reminder, we took out 45% of our SKUs that were less than 3% of our sales, over the last 18 months. And so, some of that inventory is still moving out. And as we really focus on products the consumers want and continue to bring out great innovations that have high adoption, we feel that there's just definitely a lot of room for improvement on the turn side.

**Joe Feldman**

Got it. That's good to hear. Thanks, and good luck this quarter, guys.

**Matt Stevenson**

Alright, thank you.

**Operator**

The next question is from Brian McNamara from Canaccord Genuity. Please go ahead.

**Matt Stevenson**

Hey, good morning, Brian.

**Brian McNamara**

Hey, good morning, guys. Thanks for taking the question. So, turnarounds are always difficult to time, but it sounds like there are some good things happening under the surface there, but not yet showing up in results. DTC sales sound pretty good. New product sales are up. So, are your distributor partners like the weakest link? Or is it just continue to repair and kind of nurture those relationships? You had mentioned strengths with your Memorial Day promotion. Thanks.

**Matt Stevenson**

Yeah, I'd say, Brian, it's just our distribution partners relative to feeling that kind of macro impact of the consumer. And really, that's a main focus for us is, as you say, continue to nurture and take those partnerships to the next level. The things we're implementing with our distribution partners in terms of promotional planning, launch planning and just closer collaboration were things that never existed before. So we're really optimistic about our ability to win share in our distributors by really professionalizing our approach and being better partners.

**Brian McNamara**

That's helpful. I guess, a big debate for investors that we speak to on the stock is if or when sustainable growth will return. And I know guidance this year was hardly a layup, but with H2 now expected to decline roughly 5% versus your prior expectation of up 6%, what has changed, I guess, in your view, over the last 90 days, outside of the macro? Presumably, a return to growth has now pushed out at least two quarters. But any thoughts there would be helpful.

**Matt Stevenson**

Brian, it really centers on what Jesse commented on, really that macro health of the consumer, what the Feds do with interest rates. There's a tight correlation to credit card balances and interest rates, and how does that play out relative to the macroeconomic position in the back half of the year.

We're really focused, internally, on outperformance, meaning we want to outperform the market. And so, as the market stabilizes and starts to grow, we want to be growing above market rates. And so really, that's where we're focused is continue to take share, if this market continues to remain soft, and continue to focus on the key elements of our transformation, which are yielding results, as you indicated, in some of the areas that we called out in our prepared remarks.

**Brian McNamara**

Great. And then, just if I could squeeze one last one in here. You mentioned you're confident in the resilience of the auto enthusiasts, long term. With macro cited today, that turns that on its head, a little. Is there a historical precedent here with maybe folks pulling back early in a downturn and adjusting their spending and perhaps cutting other discretionary areas, later? Is there any historical precedent?

**Matt Stevenson**

Brian, the best data the industry has is relative to the indicator CEMA outlines. And this industry has fared very well through all the economic cycles. And so, I think just right now, there's a lot of things culminating with geopolitical, election year, the interest rates. There's just a lot I don't think we've seen for a long time. So we'll get past this, and we're still confident in the resiliency of this industry. It's a lifestyle. It's a passion for folks. And this is how people unwind. They spend time on their vehicles or they race them on the track. And we're really confident how this lifestyle industry performs.

**Brian McNamara**

Great. Thanks very much, guys.

**Matt Stevenson**

Thank you.

**Operator**

The next question is from John Lawrence from The Benchmark Company. Please go ahead.

**John Lawrence**

Good morning, guys.

**Matt Stevenson**

Good morning, John.

**John Lawrence**

Would you comment just a little bit--I mean, obviously, tough top line environment. We've looked at the model for several years, and we've talked about 40% gross, 20% adjusted EBITDA, and you're making real strides and beating some of those numbers. Can you talk a little bit about that idea of--as you get some revenue increases over the next several quarters, what could that bandwidth look like as you continue to get some leverage on the top line and some of these productive--some of the initiatives that you've got? I don't know you're willing to commit today, but what could that bandwidth--can we see that adjusted EBITDA number in the 25% zone?

**Jesse Weaver**

John, you're putting out a big target out there for me at 25%. I would say that you can see-- appreciate the challenge. Hopefully, you can see in the guide that, even in spite of the headwinds on the top line, that we've been able to maintain something close to 20% on the EBITDA. And that really is a testament to the work the team is doing on driving efficiencies and getting more efficient, frankly, on the SKUs that we put out so that we're not eating as much in E&O and optimizing the distribution and supply chain all the way through. But I think that until we start to see growth, it'll be tough to kind of see that expand.

And what that expands to, I think, is just going to be a function of where we see investments might need to be made in order to drive growth sustainably higher than that mid-single digits that we're targeting. I think it's one of those things where you would expect to see some leverage on the fixed cost, and we'll do everything we can to reap the benefits of that.

But if we need to make some additional investments in key areas to help drive sustainable growth, we'll be looking at that and making those business cases, accordingly, because we anticipate growing this business for a long time. But I think as you're modeling, I think that 40%, 20% is the right way to think about the long-term model of this.

**John Lawrence**

Great. Thanks. And as you continue to pay down, another initiative, obviously, is looking at companies. With this slowdown across the board, I assume a lot of the companies you might be interested in, at some point, obviously, they're having lower EBITDA at these prices--I mean, environment as well.

**Jesse Weaver**

Absolutely--absolutely.

**John Lawrence**

Great, thanks, guys. Good luck.

**Matt Stevenson**

Thanks, John.

**Jesse Weaver**

Alright, thanks, John.

**Operator**

The next question is from Michael Baker from D.A. Davidson. Please go ahead.

**Michael Baker**

Okay. Great. Thanks. Two questions real quick. Can you talk about the--your distribution partner's inventory? Where does it stand? How heavy is it today versus where it was, three months ago?

And then, a second question. I'm just curious, on the impact of the election, looking back on your data, historically, have you seen election years have an impact on sales before, or is this election may be more contentious and, therefore, unique? Because I don't really see it in macro data, and companies are citing it, but I'm just wondering if you see that, internally. And then, does that come back, therefore, after elections?

**Jesse Weaver**

Yeah, great question, Michael. I would say on the inventory levels, they've tended to hang in to where they were at the end of Q4, quite frankly. It's almost like a replenishment of what the out-the-door was. And so, I think part of our guide here, obviously, is just based on what we're seeing and what we're seeing in out-the-door.

Distribution partners really destocking quite a bit here in the back half, as they prepare themselves for really trying to get a read on what the consumer is going to do. So, I think we've quoted in the past, \$10 million to \$15 million above where they were at the prior year same time, and that's kind of where we were sitting at the end of June.

In terms of the election, the impact on the consumer, it's a really tough thing to kind of tease out in the data. I think the main thing that we're seeing just is all those other things impacting the consumer, an uncertain election with a lot of uncertainty, in general, just impacting consumer confidence. And when consumers need to make large spend decisions, they'll often kind of wait on some of the things that would be impacting their lives to make those decisions.

**Michael Baker**

Okay, fair enough. Thank you.

**Matt Stevenson**

Thanks, Michael.

**Operator**

There are no further questions at this time. I would like to turn the floor back over to Matthew Stevenson for closing comments.

**Matt Stevenson**

All right. Thank you, Saji (Ph), and we appreciate all the questions. Now, turning to Slide 19, it underscores why we believe there is a compelling investment narrative surrounding Holley. This market, propelled by automotive enthusiasts, extends beyond a mere pastime. It's a passion. It's a way of life for our customers. We command a vast addressable market, approaching \$40 billion, and Holley is at the forefront of the industry with a collection of storied brands that have a legacy of innovation.

Additionally, our history is marked by successful acquisitions and value creation, through strategic integrations. Plus, we are presented with a unique opportunity to forge new digital frontiers that'll transform how our consumers and our distribution partners engage with our brands, providing us with competitive edge and fostering growth.

When we emerge from this transformation, we have a clear commitment. We will deliver stable organic top line growth of at least 6%. We will maintain 40% gross margins and greater than 20% adjusted EBITDA margins. We will generate sustainable free cash flow, and we will establish a platform that facilitates the unlocking of value in strategic acquisitions. The

combination of the allure of our automotive enthusiast marketplace and Holley's distinguished brand portfolio presents an exceptional investment opportunity.

In closing, I wish to express my sincere appreciation to our teammates for their dedication to serving our customers, daily, to our remarkable consumers who support our brands, and as well as to our distribution partners, many of whom have been integral to our success for decades. I also thank you for your attention, today, and look forward to providing updates on our progress in subsequent quarters.

Thank you, and have a great rest of the day.

**Operator**

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