

**Holley**  
**Fourth Quarter and Fiscal Year '24 Earnings Call**  
**March 11, 2025**

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**Presenters**

**Anthony Rozmus, IR**  
**Matt Stevenson, President and CEO**  
**Jesse Weaver, CFO**

**Q&A Participants**

**Christian Carlino – JP Morgan**  
**Joe Altobello – Raymond James**  
**Brian McNamara – Canaccord Genuity**  
**Bret Jordan – Jefferies**  
**Phillip Blee – William Blair**

**Operator**

Good morning, ladies and gentlemen, and welcome to the conference call to discuss Holley's fourth quarter and full year 2024 earnings results. At this time, all participants are in a listen-only mode. Later, we will conduct the question-and-answer session. Instructions for asking questions will be provided at that time. We ask that participants limit themselves to one question and one related follow up question during the Q&A period. Please be advised that reproduction of this call in whole or in part is not permitted without written authorization of Holley. 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 fourth quarter and full year 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 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 fourth quarter and full year 2024 and share our guidance for the full year 2025. At the conclusion of the prepared remarks, we will open the call up to questions. With that, I'll turn the call over to our CEO, Matt Stevenson.

**Matt Stevenson**

Thank you, Anthony, and good morning, everyone. As we look back on the fourth quarter and present the final results for 2024, I'm excited to share the significant strides we've made in the

Holley's transformation. Your unwavering support has been crucial as we've navigated a challenging consumer environment. Yet despite these hurdles, we achieved remarkable milestones, and I'm eager to highlight our success. Today, we'll continue to provide concrete evidence of our transformation even in a market environment that often obscures the extraordinary work happening within our company. We have assembled an exceptional leadership team and infused talent at various levels, creating a powerhouse organization poised to propel us toward becoming a \$1 billion enthusiast platform. Over the past year, we have consistently demonstrated that placing the right leaders in key positions has driven significant progress within our business. A prime example was the stellar performance of our digital and consumer experience teams where our direct-to-consumer business experienced substantial year-over-year growth. This success was fueled by our ability to capture market share from other manufacturers through creating captivating consumer experiences, expertly merchandising, and promoting our products and leveraging best in class digital capabilities.

We've also dedicated an immense energy to supporting our loyal distribution partners with the goal of driving their growth alongside ours and seizing market share by being the ultimate partner. Balancing channels is paramount. We aim to meet consumers where they prefer to shop in this omni-channel environment. This includes our distributors, third party marketplaces, installers, national retailers, and our own e-commerce platform. Each of these channels presents abundant opportunities for growth and further synergies. Throughout the year, we have demonstrated our commitment to building fundamental growth capabilities while maintaining rigorous financial discipline and making meaningful operational improvements. These efforts have included debt reduction, credit upgrades, a covenant like credit agreement, and management of our interest rate exposure. We have also achieved significant operational improvements by eliminating non-value added costs, reducing past dues and improving in stock rates. These improvements have enabled us to reinvest in the business while maintaining margins despite decreased market demand.

Before we get into the specific highlights for Q4 and the full year 2024 on slide five, I want to touch on what we are seeing regarding overall demand trends in our space. We remain cautious about consumer spending. During our last call, we noted significant optimism surrounding the election results and the new administration. However, as new policies were discussed post-election and eventually introduced in 2025, we have observed consumers holding back due to uncertainty, confusion, and most importantly, the continued high prices of household necessities. These high prices continue to plague middle income consumers and make up a large part of our target demographic. Generally, our market has reverted to the sentiment of summer of 2024 following a brief period of optimism in the late fall. We are hopeful this is a temporary situation and that the market will improve once the new policies from Washington are fully understood and assimilated by consumers and businesses. The trends we have seen early this year in 2025 have also been marked by colder weather that extended well into the Deep South. When it's that cold in normally tempered places that time of year, people work on their project cars a lot less. We are taking all this into consideration regarding our guidance for 2025, which Jesse will share later in the call.

Now turning to slide five, which includes some highlights for the fourth quarter and full year 2024. Now, despite the challenging market, we continue to make substantial strides in our transformation, resulting in increased out the door share. This progress highlights the strength of our brands among consumers, the effectiveness of our marketing initiatives to continue to support distribution partners, and in our enhanced direct to consumer marketing capabilities, combined of course with the elements of our transformation to drive growth. Extensive modifications, enhancements, and new capabilities to optimize our consumer journey have strengthened our brands and consumer engagement. These efforts have not only resulted in year-over-year direct to consumer growth of 8% but have also driven progress across all our channels. This is evident with the growth of a significant portion of our portfolio of brands. We have seen year-over-year growth in 17 of our brands across all channels with strong performance in both the direct-to-consumer and business-to-business segments, where we grew 32 and 16 brands respectively. The growth of a significant number of brands in the B2B channel is also a direct result of our increased sales support, which now covers nearly 80% of our B2B volume, ensuring comprehensive coverage for all our major B2B accounts. This enhanced support is a testament to our commitment to our partners.

Another example of our renewed strategic partnerships is a 12% growth in the national retailer channel, driven by SKU [sp] expansion and adoption at the customer level. This growth underscores the strength of our collaborations and our ability to meet evolving demands of our retail partners. Operational improvements have also been a key focus area, resulting in past due reductions every quarter in 2024. Most recently, we achieved a 22% year-over-year reduction, reflecting commitment to operational efficiency and excellence. We realized cost of service savings of 7.8 million in 2024, which has supported our gross margin expansion year-over-year. These savings are a direct result of our continuous efforts to optimize our operations and reduce costs. Another highlight we wanted to mention is our successful expansion into Mexico through the launch of our direct-to-distributor relationships. This expansion represents a significant milestone in our growth strategy and opens up new opportunities for us in the important Mexican market.

Let's turn to slide six, which features some of the quantitative highlights from the fourth quarter and full year 2024. Net sales decreased roughly 10% to 140.1 million for Q4. Despite these declines in sales, our margins improved significantly, up 690 basis points year-over-year to 45.6%, showcasing our efforts around continuous improvement in our operations. That flowed through to our EBITDA margins, which were 20.8% for the quarter, up 250 basis points year-over-year. Free cash flow for the quarter was 1.8 million, a decrease of 28.1 compared to the prior year. However, this result was driven by a combination of factors, including lower volume, but the major contributor was a significant reduction of inventory levels in 2023 from the highly inflated levels of '22, which generated a significant improvement in free cash flow during the fourth quarter of 2023. On the product side, we launched several key products spanning our brand portfolio and divisions in the fourth quarter. Some highlights included expanding our solution selling approach around engine swaps and new offerings from our

safety portfolio. We'll also discuss later in the call some of the exciting products that are already launching in Q1 of this year.

As I mentioned previously, the continuous improvement of our operations is reflected in multiple key performance indicators for the full year. Our cost to serve savings, which included improvements in our inbound and outbound logistics, generated 7.8 million in savings for 2024. By continuing to refine our forecasting and demand planning processes, we achieved a 1.5% increase in the in-stock rates of our top 2,500 products, reduced past dues by 22.3% year-over-year, and improved inventory turns by 0.1 times. Plus, we are making incredible strides in engaging with more consumers and promoting our fantastic products. In 2024, we hit a major milestone in our direct-to-consumer business, surpassing \$100 million in sales on our e-Commerce platform. This achievement is a testament to our relentless efforts and the passion and trust enthusiasts have in our brands.

Now, before our transformation, public relations wasn't a focus. But last year alone, we generated 23 press releases that garnered an outstanding 2,904 articles about our company, our brands, and our products. This resulted in an impressive 3.1 billion media impressions, showcasing the widespread recognition and interest in our offerings. Our stellar enthusiast events combined with our extensive presence on social media platforms generated nearly 10 million in media value in 2024. These efforts have proven to be a highly cost effective and authentic way to reach enthusiasts and spread the word about our amazing portfolio of brands and products. We're excited about the momentum we built, and we look forward to continuing this journey of growth and engagement with our enthusiast community.

Slide seven is one we've been sharing with you in previous calls to highlight the great progress occurring in the transformation around key growth levers. First, let's touch on the work we did in 2024 to develop a high performing team. We are a completely different organization than we were a year ago. The enhanced professionalism, experience, processes, and accountability we operate with now are on par with a Fortune 1000 company. We've added over 40 new leaders, completed the hiring of all critical Level 1 and Level 2 positions, and established a 4-division structure with Centers of Excellence. We've excelled at bringing in new talent and seamlessly integrating them with the high performers already on the Holley team. Additionally, we are committed to creating a great place to work for -- environment for our employees, which includes enhancing the look and feel of our facilities. As part of this, we opened new offices in Bowling Green, Nashville, Tucson, and in Italy.

Next, let's talk about digital modernization and consumer experience optimization. We've seen an impressive 8% year-over-year increase in our direct-to-consumer sales. We successfully launched a product master data warehouse and activated our HubSpot CRM platform, both critical elements for driving organic growth through improved product adoption by our B2B partners and enhanced cross-marketing abilities to our consumers. Additionally, we've rolled out an annual marketing calendar targeting key buying periods and continue to bolster our Holley enthusiasts and trade show events.

Moving on to B2B sales capabilities. We reorganized our sales organization and partnered with R&R to strengthen our distributor relationships resulting in the growth of many brands in the B2B channel. Sales with national retailers surged by 12% driven by renewed strategic partnerships and SKU expansion. Additionally, our enhanced safety sales group traveled to over 80 events and forged new partnerships in 2024, including those with NASCAR, IndyCar, and AMR Safety. In the area of product management innovation, we've implemented a phase gate system that has driven a remarkable 75% increase in new product revenue per SKU. We launched over 88 products in the year with six achieving run rates of over \$1 million in first year sales. Additionally, we streamlined our product portfolio by removing another 12,000 underperforming SKUs. Lastly, our strategic pricing initiatives have been robust. We developed a framework to automate monthly competitive pricing feeds for our Top 500 SKUs and built in-house capabilities to monitor additional SKUs. We've begun the process of adjusting retail pricing to maximize elasticity for approximately 1,500 high volume SKUs and effectively implemented a precision pricing model in July. Plus, we partnered with a third party to expand MAP SKU monitoring and strengthen policy enforcement. In 2024, we made dramatic progress across all key areas to unlock transformative growth for Holley.

Now going forward, on slide eight, you can see a new framework we will be providing that tracks our progress against eight critical areas of our three year plan developed late last year. Our steering principles are at the foundation of this framework. The first of these principles is fueling our teammates, which naturally leads to the goal of making Holley a designated great place to work by creating an engagement workplace where employees have a voice, opportunities for growth, and working environment they are excited to come to every day. The second steering principle is supercharging our customer relationships, whether it's with our B2B partners or our consumer enthusiasts. This includes the following three areas of the strategic framework: first, designing and implementing the premier consumer journey in our space, second, being a trailblazing trusted partner for our B2B customers by delivering new and exciting ways to drive mutual growth, and third, launching innovative new products for all our customers that are the envy of their categories. All of this is done while actively managing and merchandising our entire portfolio with clear differentiation. The final steering principle, accelerating profitable growth, encompasses strategic areas such as expanding into new global and adjacent markets, transformational M&A, and funding our growth through improvements in our operations. All of these efforts, along with the others that I mentioned, culminate in our ultimate goal of delivering superior financial results. We will report back in future quarters on our progress in these key areas.

Until then, slide nine provides a sneak peek at some of the exciting product innovations occurring in the first quarter of 2025 across our four divisions. This includes our solutions-focused approach with new modern truck and off-road performance packages. What sets us apart in the market is our ability to address more aspects of the vehicle than any other performance focused company. These packages give us a unique opportunity to present customers with solutions designed to work together across many product categories.

Customers want simplicity. Whether they wish to purchase the whole package now or have a road map for future upgrades, we are launching these solutions across our portfolio. In our Euro division, we are launching an all-new proprietary in-line tuning module. Certain enthusiasts prefer a plug-and-play tuning solution over reprogramming their ECU for added performance. Our new solution for the popular S58 engine, which powers BMW M2, M3, and M4 is already hit with enthusiasts. In our safety division, we also offer what many consider to be the gold standard in head and neck restraints, the HANS Device, which helps reduce life-threatening injuries. We recently introduced the fourth generation of this product, which is significantly more comfortable for racers to wear. In domestic muscle, we continue our solutions approach by expanding our bundled product offerings around our Sniper 2 product line with the HyperSpark bundle. This now includes the fuel injection system, display, distributor, ignition coil box, Bluetooth module, and other necessary hardware. Additionally, we're excited about expanding our chemical line starting with an Octane Booster for racing applications under our legendary NOS brand. The initial feedback from national retailers has been outstanding on this product. We look forward to providing you continued updates on our strategic framework during future earnings calls. Now I'd like to hand the presentation over to Jesse, who has a lot of topics to cover during this morning's call, including the details on our fourth quarter and full year 2024 results and our outlook for 2025. Jesse?

### **Jesse Weaver**

Thank you, Matt, and good morning, everyone. I'd like to start by providing an overview of the fourth quarter and full year '24 financial results. On slide 11, I will also share an update on the progress we have made on our four financial priorities in '24, which, as a reminder, include restoring historical profitability, improving free cash flow, optimizing working capital, and reducing debt. While sales were challenged throughout the year by a combination of reseller destocking, industry demand headwinds, and the significant past due burn down from '23, the team was able to protect margins and sustain meaningful free cash flow by remaining focused on these critical priorities. Through strategic identification of savings opportunities and maniacal focus on execution, we've been able to deliver nearly \$8 million in year-over-year savings from the cost to serve program in '25, which was above our original target of just over 5 million that we communicated at the beginning of the year. Cost to serve combined with year-over-year inventory turn improvements largely coming from the strategic product rationalization of nearly 45% of our SKUs historically accounting for only 3% of total sales helped with continued inventory optimization efforts and played pivotal roles in helping us achieve approximately 42 million in free cash flow. By using the free cash flow to prepay 25 million on our term loan and successfully exiting the covenant relief period, we were able to receive upgrades from both Moody's and S&P during the year. I'm proud of the incredible business optimization work this team has been able to achieve over the past two years that supported these financial priorities. Consider that in 2022 Holley was essentially free cash flow neutral on a much higher revenue base. Now this team over the past two years has been able to generate more than \$125 million in free cash flow and prepay 75 million in debt on considerably lower volume due to the overall decrease in market demand.

On slide 12, we'll walk through our key financial metrics for the fourth quarter. Net sales for the fourth quarter were at the high end of our guidance and delivered 140 million versus 156 million in the same period a year ago. Similar to Q3 net sales declines, Q4 was lapping continued reseller destocking and past due burn down from the prior year as well as macro market decline offset by Holley's share growth. Given our improved working relationships with the distribution partners, we were able to work much more closely with our partners coming into the quarter and better align their order volumes in the fourth quarter with channel out-the-door sales. These efforts left channel inventory levels in a much better position going into '25 than we saw coming into 2024. Gross margin for the quarter was 45.6%, an increase of 690 basis points versus 38.7% in the prior year. Gross profit was \$63.9 million in the quarter compared to 60.3 million in the same period last year. This increase in margin was primarily due to benefits in purchasing price variance and cost to serve reductions and warranty returns with partial offset by unfavorable flow-through of lower volume.

SG&A including R&D expenses for the fourth quarter was 39.4 million versus 37.2 million in the same period for the prior year. The slight increase in SG&A was primarily due to incremental marketing and onetime transformative project expenses, partially offset by cost to serve efficiencies, proactive furlough activities, and lower equity and incentive compensation. Net loss for the fourth quarter was 37.8 million versus a net income of 1.2 million in the fourth quarter of '23. Net loss includes noncash goodwill and trademark impairment charges of 40.9 million and 7.7 million respectively. Adjusted net income in the fourth quarter was 12.6 million versus a loss of 543,000 in the same period of last year. Adjusted EBITDA for the fourth quarter was 29.1 million versus 28.5 million in the prior year. With the benefits coming from gross margin and partial offsets on SG&A, adjusted EBITDA margin was up 250 basis points to 20.8 million versus 18.3% in the fourth quarter of 2023.

Turning to slide 13, you'll see free cash flow in the quarter was 1.8 million versus 29.9 million a year ago. For 2024, free cash flow totaled \$42 million versus 88 million a year ago due to large inventory reductions in '23 that were not repeated in 2024. As we previously outlined on the Q3 call, the change to our accounts payable process created delayed payments from the first half of the year that generated a free cash flow drag in the back half. In Q4, these changes impacted free cash flow by approximately 7.9 million, but this was more of a timing issue within the year than an impact on the full year. Adding back the impact from AP, we would have generated over \$9 million of free cash flow for the quarter.

Slide 14 highlights our progress on leverage during the quarter. At the end of the fourth quarter, net leverage was 4.17 times versus 4.21 times a year ago. Leverage improvement quarter-over-quarter was a combination of improvements in adjusted EBITDA in Q4 of '24 versus Q4 of '23 and quarter-over-quarter improvements in net leverage from free cash flow improvements within the quarter. We remain diligent in addressing our leverage and proactively protecting the balance sheet, which is why in the fourth quarter we worked closely with our lenders to amend our senior secured revolving credit facility to a covenant-light structure that only test the covenant of 5 times net leverage when the revolver is drawn. The

amendment also extends the maturity date through November of '29 and updates available borrowing to \$100 million. In addition, we further hedged our interest rate exposure in this uncertain rate environment by entering into a second cashless collar that extends to the maturity date of our term loan of November of 2028. Details on collar position can be found in the appendix of this earnings presentation.

On slide 15, before discussing our full year results, I'd like to explain our adjusted EBITDA results on a like-for-like comparison basis to our full year guidance. Our prior adjusted EBITDA guidance for the full year was 115 million to 120 million and excluded the noncash impact of our strategic product rationalization efforts. In response to a letter from the SEC, we are no longer able to exclude the noncash impact of the strategic product rationalization from our reported adjusted EBITDA. What we are showing is how the full year guidance at the end of Q3 would look reflecting this change, which has resulted in an adjusted range of 106.8 million to 111.8 million, which includes the impact of \$8.2 million related to the product rationalization in the results. With that context, for the full year of '24 we delivered adjusted EBITDA of 110.5 million including the 8.2 million of strategic product rationalization and exceeding the midpoint of our adjusted guidance range. As our strategic product rationalization efforts concluded in the first quarter of '24, we will not experience the same impact on a go-forward basis.

Now moving on to financial results for full year '24, which is on slide 16. Net sales for 2024 were 602.2 million versus 659.7 million a year ago. The decline in net sales year-over-year was primarily driven by a combination of weaker demand from the soft market backdrop, reseller destocking throughout the year, and the net lap of meaningful past due burn down in 2023. Gross margin for '24 was 39.6%, an expansion of 80 basis points versus last year. The improvement in gross margin was largely driven by our cost to serve efforts related to lower freight cost and improved warranty performance as well as reduced write-downs for excess and obsolescence inventory partially offset by 8.2 million related to the strategic product rationalization charge. SG&A including R&D for '24 was 150.9 million versus 144.1 million from the prior year. The net increase in selling, general, and administrative costs was predominantly driven by an increase in marketing and advertising to support growth, reserves related to litigation settlements, and incremental spend related to strategic advisory services supporting the transformative initiatives. Net loss for '24 was 23.2 million, which includes the noncash goodwill and trademark impairment charges of 40.9 million and 7.7 million versus a net income of 19.2 million in '23. On an adjusted net income basis, '24 was roughly flat year-over-year delivering 24.8 million versus 25 million in 2023. Adjusted EBITDA for 2024 was 110.5 million which, as I've said before, includes the 8.2 million impact from the strategic product rationalization versus 130.9 million in the prior year. Adjusted EBITDA margin was 18.3%, which includes 135 basis points of impact from the strategic product rationalization versus 19.8% in 2023.

As Matt discussed earlier, consumer confidence has softened since our last call. As we considered our outlook for 2025, it was important for us to be mindful of the broader consumer environment. So, we've laid out a few important consumer indicators for this discussion on

slide 17. Inflation increased again in January, making the fourth consecutive month of rising prices. No doubt this is negatively impacting consumer confidence and discretionary spending. Despite these consumer headwinds with distribution inventory levels in a better position compared to last year and no headwinds from past due normalization expected in 2025, we anticipate our transformative growth initiatives will drive core business growth enabling us to gain share despite the potential softness in the market.

Slide 18 provides a direct year-over-year comparison for revenue and EBITDA guidance for '25 excluding divested businesses and discontinued product lines through strategic product rationalization as well as items of a onetime nature. Starting with revenue on the left side of the page, there will be a \$13 million year-over-year reduction in revenue in '25 from the divestiture of noncore businesses. In addition, discontinued products from our strategic product rationalization efforts will reduce the revenue base by another 14 million in 2025. With these adjustments to the base, we are arriving at a continuing core business revenue for '24 of roughly 575 million as a baseline. Based on the transformative growth initiatives we have been developing over the last 18 months, we expect organic growth on the core business to be 0.8% to 4.3% with a midpoint of approximately 2.5%. To help further guide you on these impacts on a year-over-year core business growth throughout the year, we've provided quarterly details of the divested businesses and clearance SKUs net sales contribution in the appendix. For adjusted EBITDA, there are several notable items built into our full year '25 guidance. As we previously communicated, we took proactive steps to protect cash flow when we started to face lower-than-expected demand in the back half of '24. These efforts included furloughs and the suspension of the 401(k) match, which we are not planning to repeat in '25 and will have an approximately \$3 million impact on the year.

In addition, given that adjusted EBITDA results fell below plan for the year, incentive compensation was impacted by approximately \$2 million that is built back into the guidance for '25. And lastly, in 2025 our SOX controls will be audited by our external auditors, and given the historically lean nature of our operating staff, we are investing approximately \$2 million in SOX-related investments to further enhance the maintenance and documentation of our control environment for external auditor review. Combined, these investments equate to roughly \$7 million in additional expense in 2025. In addition to the flow-through on growth in core business revenue, there are multiple notable offsets to these investments that are supporting year-over-year growth in adjusted EBITDA for the year. The first offset is the net benefit of not repeating the strategic product rationalization effort that we concluded in '24. This benefit includes the add-back of \$8.2 million related to the onetime noncash write-down offset of \$2 million from the standard margin benefit coming from the clearance sales of related SKUs. The second notable item is coming from continued efforts from our operations team to deliver an additional \$8 million to \$10 million in year-over-year savings, which we've illustrated here would be offset by another 4 million to 5 million in related inflation cost.

Moving to slide 19, you'll find our complete guidance ranges for the full year. We expect 2025 revenue of 580 million to 600 million, which, as I noted before, implies a 2.5% growth at the

midpoint over the core business base. The expectation based on current trends is that we will see most of the growth in the back half of the year, and our full year guidance implies a 51.5% to 52.5% first half sales trend with the balance coming in the back half. We expect 2025 adjusted EBITDA between 113 million and 130 million. Capital expenditures this year will be towards the top end of historical ranges as we make business-enhancing ERP and WMS improvements to allow for ongoing business scalability, digital enhancements, and drive operational efficiency.

As mentioned previously, we are facing a challenging backdrop for the consumer, but inherent in our guidance is our ability to continue to take share and grow the core business. Any further deterioration in the consumer may have an impact on our outlook as we continue to assess throughout the year. We acknowledge tariff situation is fluid and its impact on our business, our customers, and suppliers. Our teams are monitoring the situation daily and have numerous alternative strategies available that we can execute. We've been working to remediate tariffs for over a year given our cost to serve efforts and have elevated efforts in the past few months. Given widespread nature of the continuously evolving tariff environment, current guidance does not factor in potential impacts related to tariffs that we could not mitigate. As a reminder, the majority of our costs related to product production is US based with moderate overall exposure to tariffs. We believe that through careful planning and proactive strategies, we can effectively navigate incremental tariff actions through a combination of continued sourcing optimization and modest price increases when necessary, which is not reflected in our full year '25 guidance.

And in closing, the progress made in the fourth quarter underscores our ability to drive meaningful change even if it is more visible in our bottom line than in the top line. Furthermore, we remain committed to leveraging the free cash flow generation power of our business to either reduce leverage or to drive strategic profitable growth through acquisitions, reinforcing our confidence in achieving at least 40% gross profit and 20% EBITDA margin targets. By maintaining a strategic approach, we are poised to unlock significant long-term value and deliver sustainable growth for our investors. This concludes our prepared remarks. We'd 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 star one on your telephone keypad. A confirmation tone will indicate your line is in the question queue. You may press star two if you would like to remove your question from the queue. For participants using speaker equipment, it may be necessary to pick up the handset before pressing the star keys. We ask that participants limit themselves to one question and one related follow up question. One moment while we poll for questions. Our first question is from Christian Carlino with JP Morgan. Please proceed.

### **Christian Carlino**

Hey, guys. Thanks for taking our question. Could you talk about the Mexico opportunity and just what excites you about that market in general? Like how big is the market and how does the car park differ from the US? I think it's an older car park, so does that play well into your assortment? And just any other color there on the distribution relationship with AutoZone.

**Matt Stevenson**

Yeah. Good morning, Christian. Thank you for the question. Yeah. So, let's touch base on Mexico. Mexico is a market that obviously has a lot of interest in our products, but it was not something we were approaching directly. And so now with this new relationship with key distributors in Mexico, we're providing our products and communicating directly with those key distributors down there. And that market has some older car park, which is great for our carburetor and fuel injection lines in domestic muscle. But also just given the nature of the train there, they're seeing a lot of modifications in jeeps, Broncos, and other trucks. So, it's also a great vertical relative to our modern truck and off-road division. In terms of market size, we think that market is somewhere between 3 billion and 5 billion in Mexico, the enthusiast market. And then related to AutoZone, Christian, was your comment for the domestic market or the Mexican market or all the above?

**Christian Carlino**

It was about the Mexican market, but I guess you could speak to all of the above.

**Matt Stevenson**

Okay. Yeah. I mean, national retailers has been a focus of our B2B team. A lot of interest from the various national retailers to get our products and performance planograms on their shelves. And so, we've been working with folks like AutoZone both in the US and their team in Mexico to make that happen and are seeing that growth within the channel. So, it's a great opportunity for future growth both domestically and in the Mexican market.

**Christian Carlino**

Got it. That's really helpful and appreciate the margin bridge in the presentation. But I guess could you sort of peel back the gross margin performance in the fourth quarter? Like how much of it is onetime if at all? And how should we think about the cadence over '25 just given you had some pretty wide variance in '24? Obviously, part of that is the strategic product rationalization. But just any color there on how we should think about it going forward.

**Jesse Weaver**

Yeah, Christian. I mean, we haven't broken out sort of the details on the pieces of contribution on the gross margin front. But I think just based on the commentary, you can see that it's a combination of things. Obviously, our cost to serve efforts actually impact gross margin, which is a piece of it. That should continue. I think the purchasing price variance piece, which is just kind of lapping last year, we had some pretty meaningful headwinds, I think just as a reminder, related to some of the things that we had experienced on the chip side. So, just from a onetime increase year-over-year, that's some of it. And then I think continued improvements that we've

seen in D2C is part of the mix piece here. But I would say, when you look at our gross margin on an annualized basis, you're probably not going to see as much in Q4 as we saw this time. It's going to be a bit more balanced throughout the year. So, that should help you on phasing.

**Christian Carlino**

Got it. That's very helpful. Thanks a lot.

**Jesse Weaver**

Thanks, Christian.

**Operator**

Our next question is from Joe Altobello with Raymond James. Please proceed.

**Joe Altobello**

Thanks. Hey, guys. Good morning. First question on the guidance. You mentioned that consumer confidence took a little bit of a dip here in Q1. I'm just curious, does your guidance for the year assume that gets better or are you assuming that we kind of remain at these levels for the balance of the year?

**Jesse Weaver**

Hey, Joe. It's Jesse. I think that part of the guidance would assume that things don't get worse. Things getting better would probably put us towards the top end on the growth range. As you can tell in our guidance and in my commentary, most of this growth will be back half loaded partly because we're lapping in Q3, Q4 of last year the destocking as well as just giving our transformative initiatives a bit more time to take root. And then we called out sort of pulling out some of these SKU rationalization things even. A lot of that was front-end loaded. But even pulling that out, it still would probably be a flat first half just at the midpoint of the guidance with mid-single digits in the back half.

**Joe Altobello**

Okay. Very helpful. And maybe second question. It sounds like inventories in the channel are much healthier than they were a year ago. I guess first, would you assume sell-in and sell-through are sort of in alignment this year? And second, how would you assess the health of your distributors at this point?

**Jesse Weaver**

So, on the first question, we're working much more closely with our distribution partners, Joe, as I commented as it relates to Q4 just to make sure that we don't get in an over-inventoried or under inventoried position with them. So, it should marry up much more closely with the out-the-doors. And then remind me of the second question. Just more as it relates to their health overall?

**Joe Altobello**

Yeah, exactly.

**Jesse Weaver**

Yeah. I would say that our key distribution partners are continuing to make investments in their business, seeing growth in the areas and partnering with us in ways that we've never seen before. I think obviously you've kind of got some shifting in the lower ranks. But one of the things that we've started to do is actually even focus on some of those -- that next tier down that had not been shown the investment from Holley that we are showing now. So, we expect to see B2B overall continue to show strength, which is the next sort of shoe to drop for us when it comes to driving growth because I think the team has done a great job on D2C, and rebuilding the relationships with B2B takes a bit more time. It's like you lose that trust quickly, and it takes a lot more time to get it back. So, I think we're in a much better place there.

**Joe Altobello**

Got it. Thank you.

**Jesse Weaver**

Thank you.

**Operator**

Our next question is from Brian McNamara with Canaccord Genuity. Please proceed.

**Brian McNamara**

Hi. Good morning, guys. Thanks for taking the questions.

**Jesse Weaver**

Hey. Good morning, Brian.

**Brian McNamara**

So, how should we think about Q1 sales? I know, Jesse, you just mentioned flat H1 and kind of mid-single H2. But reading between the lines in your prepared remarks, it sounds like you're expecting Q1 to be down. But a little more color there would be helpful.

**Matt Stevenson**

As we sit here today, we're trending flat for Q1 on that core business, which excludes that divested businesses in '24 as well as the discontinued product lines that Jesse mentioned in his prepared remarks. But three weeks left to go. It's probably going to be plus or minus 1% to 2% with the weeks left, and the team continues to push as hard on the growth initiatives.

**Brian McNamara**

Got it. And then you guys said in your prepared remarks like you kind of -- I remember when you guys reported in November, we were at SEMA and like you can just feel the buzz in the air.

How much of like that mood changing is kind of factoring into your guidance today, and I guess how temporary do you think this will be?

**Matt Stevenson**

Yeah, Brian. As you said, in our prepared remarks we commented on that. There was definitely a lot of optimism coming out of SEMA, and I think you heard that from us in our call when we spoke shortly thereafter in November. And yeah, that momentum has definitely died down, and that is a factor in how we look at our guidance for 2025. And we're just hopeful -- as the policy settles down and people get more clarity, there's just a lot of unknown right now, and of course you're seeing that uncertainty ripple through the consumer stocks out there. But we're optimistic in terms of the growth initiatives that we have going to be able to take share. We offered a lot of proof points in the discussion today to build that confidence of the work the team is doing and the success that we are having.

**Brian McNamara**

And just one last quick one. Do we have an idea of what the actual market did overall last year? I think it was down like 5%ish through Q3 or something like that?

**Matt Stevenson**

Yeah, Brian. The way we look at the market, our gauge on it was down somewhere between 5% to 7%. And of course our results were more than that based on the distributors normalizing their inventories levels to market demand in that back half, which we talked about on the call last time. So, that's why you saw that decline more than the market last year. But as Jesse just referenced, our sell-in and sell-out is in a much better position, and it is starting to mirror each other at a number of key distributors.

**Brian McNamara**

Great. Thank you very much.

**Matt Stevenson**

Thanks, Brian.

**Operator**

Our next question is from Bret Jordan with Jefferies. Please proceed.

**Bret Jordan**

Hey. Good morning, guys.

**Matt Stevenson**

Good morning, Bret.

**Bret Jordan**

Could you talk a little bit about the Cataclean acquisition? And I guess you're doing the Octane Boost with NOS. So, is that sort of a category that you're getting further into on additives and sort of the economic profile of that business? And obviously buying a UK based additive company, does that expand the opportunities over there?

**Matt Stevenson**

Yeah, Bret. We see chemicals as a growth opportunity for us, and we're continuing to expand our portfolio around chemicals focused with a performance aspect to it. So, that new NOS is proprietary development that we're doing. That's not with any partner. But relative to Cataclean, we've had an amazing partnership with the team in the UK that is behind Cataclean, and this was an opportunity just to extend our relationship in perpetuity. And that's a great product for us, and that product really allows us to build a beachhead to continue to grow our chemical expansion in national retailers and in other distributors.

**Bret Jordan**

And then I guess, as you talk about the consumer trends recently I guess in the last couple of months specifically, is there a piece of the market that's more or less resilient in this backdrop of softening consumer sentiment? Is modern truck outperforming some of the maybe more discretionary upfitting of American muscle. or is it all pretty much soft in line?

**Matt Stevenson**

No, there's definitely variations within the portfolio. On the modern truck and off-road vertical - of course 80% of the vehicles sold in the US are either trucks, CVs, and SUVs, right? So, that just has a natural push on it. Now when we look across our portfolio, of course we're seeing gains in some of the categories there, but also our safety portfolio showed great growth year-over-year, great growth in motorcycle. So, it's a combination of the verticals but also product innovation that we're driving in those sectors. But in general, the market on what we call the four-digit items in hire is where we're seeing the most softness.

**Bret Jordan**

Okay. Great. Thank you.

**Operator**

As a reminder, it is star one on your telephone keypad if you would like to ask a question. Our next question is from Phillip Blee with William Blair. Please proceed.

**Phillip Blee**

Good morning, Matt, Jesse. Thanks for the question. Can you provide maybe a bit more color on your core customer? Any detail on regional concentrations or spread by income demographic and maybe how these key cohorts have trended in the first quarter to date amidst some of this noise compared to any bumps that you saw in the fourth quarter?

**Jesse Weaver**

Hey, Phillip. It's Jesse. I would say just generally the demographic data we have shows that our consumers are modestly higher income, so just think 100,000 and above. In terms of like the level of depth in the demo of research and things that you're talking about, that's something that we would be able to do as we get more mature in our CRM database to start to slice it that way. But at this moment, we're not able to kind of give that type of color. What I'll say is, as we pointed to consumer confidence in particular, expectations of new car purchases in the near term 6 to 12 months in this demo. I mean that's one of the metrics that we look at that is showing a little bit of hesitancy just overall given the uncertainty in the market. But I don't think that's unexpected given all the news that we're reading right now. So, all of that is kind of baked into our guide. And I think as Joe had asked previously, assuming things don't get worse, we feel good that our initiatives will continue to exceed market expectations and gain share to help drive growth. And this is something we're watching pretty regularly, and obviously we'll update you as we know more in the coming quarters.

**Phillip Blee**

Okay. Great. And then you spoke a bit about the strength in new product demand over the past year. Can you maybe quantify how much of a lift did that have to the total top line in 2024 and then how we should think about that level or impact of newness going into 2025? Thank you.

**Matt Stevenson**

Yeah, Phillip. I think as it relates to new product lift, I mean the team obviously demonstrated an ability to gain more efficiency on the new products that we were launching. We had multiple products that were \$1 million a year in annual run rate out the gate. Now, the maturation on these things obviously is two to three years, and we're bringing it closer to two with our improved launching. But I would say continued efforts on that, that's going to be one of those things that's a flywheel that builds on itself over time. And I think going into this year, we're expecting some continued modest improvement in that area as the pipeline now has been refined over the past year. But I wouldn't say that it's the primary driver of the growth here in this moment. It will be long term. The bigger driver in the near term is just continuing to repair these B2B relationships, gain share, and improve our strength with launching these new products.

**Phillip Blee**

Excellent. Thank you, guys. Best of luck.

**Matt Stevenson**

Thank you.

**Jesse Weaver**

Thanks, Phillip.

**Operator**

With no further questions in the queue, I would like to turn the floor back over to Matthew Stevenson for closing remarks.

**Matt Stevenson**

Okay. Thank you, Cheryl [sp]. Turning to slide 21, it highlights the compelling investment narrative we see surrounding Holley performance brands. This market driven by automotive enthusiasts is more than just a hobby. It's a passion and it's a way of life for our customers. We have a vast addressable market nearing 40 billion, and Holley leads the industry with a collection of stored brands known for their legacy of innovation. Our history is also marked by successful acquisitions and value creation through strategic integrations. Additionally, we have a unique opportunity to create a new digital frontier that will transform how our consumers and distribution partners engage with our brands, giving us a competitive edge of fostering growth. As we emerge from this transformation, our commitment is to deliver stable organic top line growth of at least 6%, maintain 40% gross margin targets, and achieve greater than 20% adjusted EBITDA margin targets. We aim to generate sustainable free cash flow and establish a platform that unlocks value in strategic acquisitions. The combination of our automotive enthusiast marketplace and Holley's distinguished brand portfolio presents an exceptional investment opportunity. In closing, I want to express my sincere appreciation to our team members for their dedication to serving our customers, to our remarkable consumers who support our brands, and to our distribution partners, many of whom have been integral to our success for many decades. Thank you for your attendance this morning and have a great day.

**Operator**

Thank you. This will conclude today's conference. You may disconnect your lines at this time and thank you for your participation.